ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

AFGHANISTAN AND CENTRAL ASIA:
Strengthening Trade and Economic Ties

UNITED NATIONS
ESCAP
Economic and Social Commission for Asia and the Pacific

TABLE OF CONTENTS

Acknowledgements

Preparation of this report was led by Adam Heal, Associate Economic Affairs Officer, Trade and Investment Division, United Nations ESCAP. The report was initially prepared as a background paper for the ESCAP Regional Dialogue on “Strengthening Trade and Economic Ties between Afghanistan and Central Asia" held in Almaty, Kazakhstan on 10-11th March 2015 and organized by the ESCAP subregional office for North and Central Asia in partnership with the Russian Federation and hosted by the Government of Kazakhstan. The authors are grateful to all the participants at the dialogue for sharing their views and providing valuable feedback on the report. Many others also contributed towards the report and thanks are extended to: Angel Versetti and Gwydion Ashdown for their general research assistance; Ahmad Mobariz for his contributions on Afghanistan’s trade policy and business environment; Clovis Friere for providing advice, data and analysis on Afghanistan’s potential for export diversification; and Matthew Perkins for inputs on regional connectivity. The report was prepared under the overall guidance of Mia Mikic, Chief, ESCAP Trade Policy and Analysis Section and Nikolay Pomoshchnikov, Head, ESCAP subregional office for North and Central Asia.

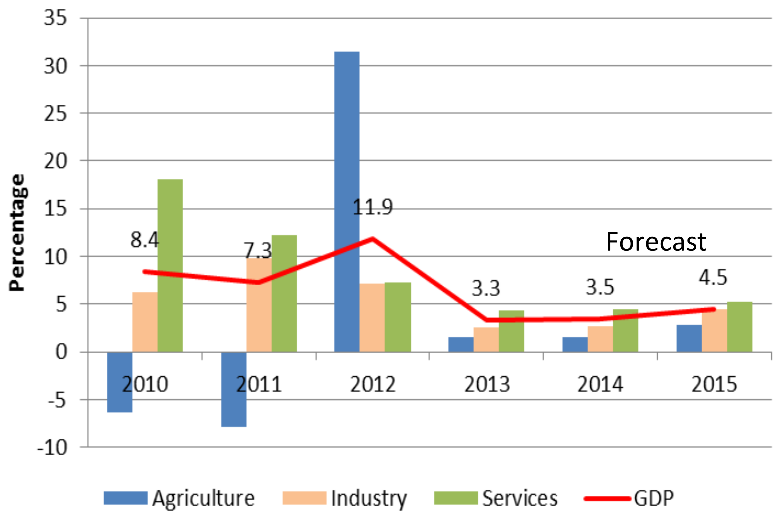
1. EXECUTIVE SUMMARY

A. AFGHANISTAN'S ECONOMIC PROSPECTS AND THE NEED FOR REGIONAL INTEGRATION

Afghanistan is facing a difficult period of economic and political transition; further regional integration, including with the countries of Central Asia, will be an essential element of any future development strategy.

- Afghanistan has made significant developmental gains over the past decade. For instance, per capita income increased more than threefold between 2003 and 2013, rising from $198 to $678 (World Bank Development Indicators, 2014).
- However, Afghanistan remains among the poorest countries in the Asia-Pacific region with wide ranging social and economic challenges. Further, the country is now facing a difficult period of economic and political transition. The withdrawal of foreign security forces, alongside reductions in the volume of donor assistance, is already having direct impacts on economic growth.
- Economic growth in 2013 was estimated at 3.3% having fallen from 11.9% in 2012. For 2014 and 2015 GDP growth is expected to be 3.5% and 4.5%, respectively (figure 1.1) (ADB, 2014). The recent formation of a new government should remove some of the political uncertainties and support further expansion in industrial and services outputs.
- However, the World Bank estimates that growth—after the transition towards Afghan control of security—will be around 5% a year under the baseline scenario in the period 2015-2018. This is a significant drop from the 9.4% average growth seen from, 2003-2012 which was supported by donor assistance and security spending (World Bank Global Economic Prospects, 2014).

Figure 1.1: Afghanistan's GDP growth, 2000-2015



Source: ADB 2014

- To succeed in the coming years, Afghanistan should take advantage of its unique geographical position as a 'land bridge' linking Central and South Asia, as well as making use of its substantial natural resources. Considerable long-term benefits to employment, revenues and economic

growth are available, both to Afghanistan and its Central Asian neighbours, if a successful regional framework can deliver on the region's trade, transport, and transit potentials.

- Regional co-operation can bring specific benefits in terms of: economies of scale to increase local supply capacity and improve access to markets; integrated or harmonized treatment of trans-boundary issues such as trade, regulatory frameworks and policies, and regional infrastructure; and management of shared natural resources.
- For Afghanistan and Central Asia, particular opportunities exist in energy trade, transit trade, and border trade among populations close to crossing-points. Regional integration is thus a vital component in managing a successful transition in Afghanistan. The Russian Federation and South Asian countries are also integral to successful integration efforts.
- Indeed, for landlocked countries such as Afghanistan and the Central Asian Republics, regional integration is especially imperative: increasing regional integration not only encourages increased trade and connectivity within the region, but also, by creating links across the region to external markets, enables broader integration with large regional markets and the global economy more broadly.

Afghanistan continues to run large trade deficits as exports are limited and trade remains highly concentrated by both partners and products. Levels of foreign direct investment are low despite considerable opportunities in the natural resources sector.

- Afghanistan runs large and longstanding trade deficits. Afghanistan's total merchandise exports were $515 million in 2013, whereas imports were $8,724 million. Afghanistan depends heavily on imports of fuels, food staples, processed materials, and manufactured goods, largely due to a lack of domestic infrastructure for production and processing. Total imports have been generally rising since 2008 when they stood at $3,019 million.
- Exports, though low in overall volume, have grown in recent years. Indeed, merchandise exports grew 20% in 2013 whereas imports contracted by 4%. This indicates weak links between imports and exports which is symptomatic of a lack of capacity to engage in many value-adding activities. The largest exported categories of goods included vegetable products; textiles; mineral products; briquettes; metals (10%) consisting almost exclusively of scrap iron. However, due to weaknesses in Afghanistan's border security and customs, an estimated 40% of total trade goes unrecorded (World Bank, 2013).
- In terms of partners, Afghanistan's trade in merchandise goods is heavily concentrated (table 1.1). Pakistan is by far the largest trading partner for Afghanistan, accounting for 47% of exports and 14% of imports in 2013 according to WTO figures. However, Pakistan's likely true share of both is higher as much trade is not adequately recorded. As Afghanistan's major transit route to the sea, it is natural for Pakistan to play an important role in the country's trade but it also makes transit issues through Pakistan of critical importance.
- While not currently among Afghanistan's top 5 trading partners, the Russian Federation is also a potentially important partner. In 2013, the Russian Federation imported only $14 million from Afghanistan. Over $13 million of which were fruits and vegetables. In contrast, Afghanistan imported $418 million from the Russia Federation. Over $300 million of imports were for mineral fuels, other categories of significance were wood articles ($55 million) and animal and vegetable fats ($20 million).

- Afghanistan at present receives relatively small amounts of foreign direct investment (FDI). Total greenfield FDI inflows for the period 2009-2013 were recorded at around $4.4 billion (FDi Markets, 2014). By comparison, Myanmar received over $9 billion over that period.
- China was the largest source of inward FDI accounting for over three quarters of this total inflow. Chinese investment was primarily concentrated in natural resources, such as copper and gold. However, uncertainties over the legal regime governing resource extraction, as well as security concerns, appear to be delaying planned investments.

Table 1.1: Afghanistan's exports and imports by major partner, 2013

Exports				Imports			
WTO data		Government of Afghanistan data		WTO data		Government of Afghanistan data	
Country	Share in %	Country	Share in %	Country	Share in %	Country	Share in %
Pakistan	47	Pakistan	30.7	Pakistan	14.2	Pakistan	21.2
India	16.3	India	19.4	China	11.5	Iran, I.R.	15.2
Iran, I. R.	6.2	UAE	13.2	Japan	9.7	China	14.1
China	1.1	Iran, I.R.	7.8	Iran, I.R.	8	Turkmenistan	9.3
Saudi Arabia	0.4	Iraq	6.2	European Union	4.7	Uzbekistan	4.8
Unspecified	28.7	China	3.6	Unspecified	50	Japan	4.8

Source: WTO Trade Profiles, 2014; Government of Afghanistan, 2014

B. ECONOMIC LINKAGES BETWEEN AFGHANISTAN AND CENTRAL ASIA AND REGIONAL COOPERATION

Existing trade linkages between Afghanistan and Central Asian countries are weak, but potential exists for further development in a number of sectors, notably: energy trade, transit trade and informal border trade.

- Afghanistan and the Central Asian countries all face common challenges related to their landlocked geographic position and need for greater economic diversification. The region is far from major economic centres, and has relatively small populations and market sizes, underdeveloped infrastructure and political and security challenges that pose risks for human development (Mogilevskii, 2012).
- Despite the long common border linking Afghanistan and three of the five Central Asian states (Turkmenistan, Uzbekistan and Tajikistan) trade linkages remain extremely limited. Likewise, in terms of cross-border investment projects, current international data does not record any flows between Central Asia and Afghanistan.
- Overall, Afghanistan imports considerably more from Central Asia than it exports in return. In 2011, the last year for which comprehensive bilateral data is available, less than 3% of Afghanistan's exports (worth $13.2 million) went to Central Asia with Tajikistan and Turkmenistan being the only economies to see imports of notable size. In contrast, roughly a

quarter of Afghanistan's imports came from Central Asia, principally Uzbekistan (worth $1.67 billion).

Table 1.2: Afghanistan's exports to Central Asia (2011)

	Kazakhstan	Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
$ millions	3.83	0.07	5.31	3.85	0.15
% total	0.70%	0.01%	0.97%	0.70%	0.03%

Table 1.3: Afghanistan's imports from Central Asia (2011)

	Kazakhstan	Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
$ millions	333.31	23.54	226.89	352.98	732.45
% total	5.22%	0.37%	3.55%	5.52%	11.46%

Source: UN COMTRADE

- In terms of imported products, energy tends to dominate. Afghanistan's largest import from four of the five Central Asian economies is refined petroleum. Petroleum gas is another major import category from Central Asia. Uzbekistan is the largest source of imports among the Central Asian countries, with total imports worth ($732 million) in 2011. Next is Turkmenistan ($353 million), followed by Kazakhstan ($333 million), and Tajikistan ($226 million). Imports from the Kyrgyz Republic were valued at $24 million.
- As noted, Afghanistan's exports to Central Asia are highly limited in terms of value and composition in comparison with imports. Official trade data is also not widely available. However, WTO figures suggest that agricultural products such as potatoes, grapes, and citrus fruits account for the bulk of exports, alongside other products such as curbstones. Tajikistan has the highest recorded imports from Afghanistan in 2011, followed by Kazakhstan and Kyrgyzstan.
- In addition to 'standard' trade—in which data on the type of good, its origin, quantity, and price are recorded by border authorities—'non-standard' border trade, in which small merchants and traders cross borders to buy or sell generally small volumes of products, is also common in Central Asia and between Afghanistan and its neighbours. Such trade can have major positive effects on the livelihood of communities living near the border areas. Because of its nature, however, data is scarce. Some estimates are that around 40% of Afghanistan's total trade by value is unrecorded (World Bank, 2012).
- A study of Afghanistan's non-standard border trade with its Central Asian neighbours found that the bulk of trade with Uzbekistan and Tajikistan passes through only two crossing points: at Hairatan and Sher Khan Bandar respectively. In general, border trading was found to be underdeveloped on account of several obstacles to the free flow of people and goods.
- Regional energy trade also has considerable potential and can help both: (i) provide Afghanistan with electricity to meet acute domestic shortages and (ii) deliver benefits from Afghanistan's role as a 'bridge' linking the energy reserves of Central Asia with the growing demand of South Asia. Major energy projects like the Turkmenistan, Afghanistan, Pakistan and India Natural Gas Pipeline (TAPI) and the Central Asia – South Asia Electricity Transmission and Trade Project (CASA-1000) will help build regional connectivity in this area.

A number of major regional frameworks currently support regional cooperation between Afghanistan and Central Asia. These include: SPECA (the UN Special Program for Economies of Central Asia); RECCA (Regional Economic Cooperation Conference on Afghanistan), and CAREC (Central Asia Regional Economic Cooperation Program).

- SPECA was launched in 1998 in order to strengthen subregional cooperation amongst countries in Central Asia and to integration the subregion into the world economy. Current members of SPECA are: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. SPECA is supported by both UNECE and ESCAP, in recognition of the sub-region's importance as a transport and connectivity hub between Europe and Asia. SPECA strengths have been especially marked in the improvement of border-crossing procedures and transport data harmonization in the region. In December 2014, the SPECA Economic Forum took place in Ashgabat under the chairmanship of the Representative of Afghanistan. The theme of the conference was "Improving Connectivity: a key contribution of SPECA to the success of the Transformation Decade of Afghanistan."
- RECCA serves as the coordination body for economic activities related to Afghanistan. The first RECCA took place in Kabul in 2005 and since then has been followed by four further conferences. The aim of RECCA is to achieve regional cooperation in the promotion of shared economic interests as well as better coordination of political and security initiatives in the region. Within the framework of RECCA, Afghanistan completed a range of joint development projects with the governments of countries of Central Asia. In its objectives, RECCA acts as an extension of Afghanistan National Development Strategy and has channelled capital to facilitate the expansion of railroad networks, economic corridors and electricity transmission lines, connecting Afghanistan with Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. RECCA V, the latest conference that took place in 2012, laid down foundations for the "transformation decade" (2015-2024).
- CAREC was established in 1997, with China, Kazakhstan, Kyrgyzstan and Uzbekistan being the founding members, and since then has expanded its membership to 10 countries to also include Afghanistan, Azerbaijan, Mongolia, Pakistan, Tajikistan and Turkmenistan. CAREC is additionally supported by six multilateral development institutions (ADB, EBRD, IMF, IDB, UNDP, and WB). The purpose of the initiative is to promote cooperation in economic activities in Central Asia. 146 CAREC-related projects have been implemented so far in the areas of transport, trade facilitation, trade policy and energy, within the total budget of $22.4 billion. Since Afghanistan joined CAREC in 2005, it has received $2.6 billion in investment into 25 projects in the areas of trade, transport and energy, with 17 CAREC projects still ongoing.

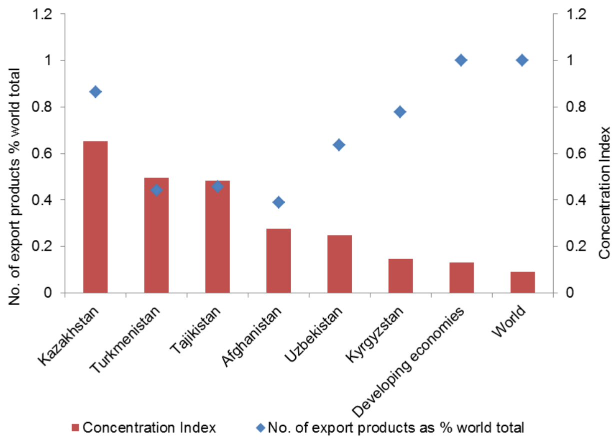
C. IDENTIFYING AFGHANISTAN'S EXPORT POTENTIAL

Afghanistan and Central Asian economies are highly dependent on the export of a few commodities. Export diversification into a wider—and more complex—number of products can help deliver more balanced growth. Diversification is, however, path dependent and will be influenced by existing capabilities as well as external circumstances.

- The exports Afghanistan and the economies of Central Asia are highly dependent on a few key commodities, generally with low domestic value added. The commodity concentration index, which reflects how both exports and imports are concentrated on a few products, is

considerably higher in Afghanistan and the Central Asian economies than the global developing country average (figure 1.2).

Figure 1.2: Diversification indices of merchandise exports and imports (2013)



Source: ESCAP (2014)

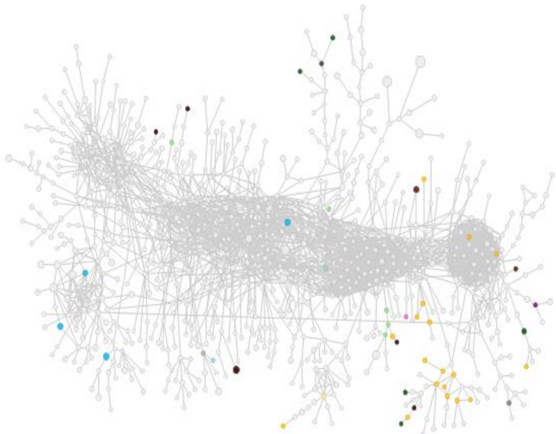
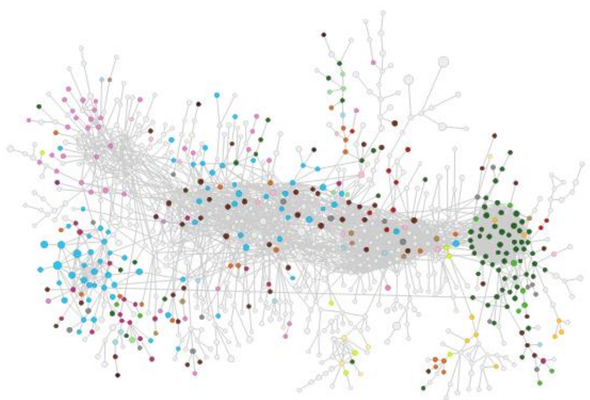
- Countries dependent on earnings from primary commodities can suffer particular disadvantages. For instance, the low income elasticity of world demand for primary commodities can lead to falling export revenues which can be exacerbated by historically downward trends in primary commodities' prices relative to manufactures. Further, primary commodity production for export often has weak backward and forward linkages to other sectors leading to little in the way of technological spillovers or learning.
- Diversification does not occur at random. Instead, countries are encouraged to diversify into sectors that are related with their existing production base and product mix. In other words, diversification is 'path dependent.' In general, private firms are best placed to spot export opportunities and make decisions on whether to expand into new products. However, analysis of a country's competitiveness can help understand the blockages that may be preventing exports and prompt public intervention where there are public, market or information failures.

ESCAP analysis can help identify sectors where there may be opportunities based on patterns of production observed elsewhere; key sectors with the largest number of potential products for Afghanistan appear to be in textiles, and base metals, and plastic and rubber.

- ESCAP research has produced a global 'product space' which can help countries identify products that may be suitable for production given their existing capabilities (ESCAP, 2014). In other words, given an existing set of products it is possible to estimate which new products could emerge through diversification with a high degree of probability (given the relationships observed in other countries).
- Afghanistan's product space shows that production is limited to a few products and that these are generally to the periphery of the global product space (figure 1.3). This means that there are fewer 'nearby' products than in the dense centre of the product space; future diversification is thus harder. For contrast, the product space of China shows—as would be expected—a much

wider range of product types and more production of products which are closely linked with numerous other products.

Figure 1.3: The 'product space' of Afghanistan and China compared (2012)

Afghanistan	**China**
	
Source: MIT Atlas of economic complexity (2014)	

- While diversification is important *per se*, countries should also seek to diversify into products which have greater complexity than existing production. 'Complex' products are defined as those produced by more diversified (generally higher income) economies; it can thus be assumed that they embody a more sophisticated set of production capabilities. Because learning to produce these products entails the acquisition of new capabilities it opens the possibility of further new product production and diversification.
- Applying this analysis to Afghanistan reveals those products of above average complexity (compared to existing production in Afghanistan) in which Afghanistan has production and export potential. This is based on a mapping of Afghanistan's current export profile and then comparing it with similar countries' export profiles and a mapping of global import demand.
- Opportunities across 220 products at the HS code six-digit level have been identified with the full list given at Annex A. The top five sectors in which Afghanistan has opportunities in and their shares among the total are identified in table 1.2, with similar results for the Central Asian economies included for comparison.
- Textiles, Base Metals, and Plastic and Rubber are the two sectors with the largest number of potential products. Examples of specific products with identified export potential include various garments and apparel items like coats and gloves; certain items of plastics; cereals based processed foods like waffles; and paper-based items like paperboards.

Table 1.4: Top five industries with highest percentages of potential new products with above average complexity, 2013

Sector	Afghanistan	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Base metals	18	22	22	18	17	19
Chemicals	11	17	13	6	8	10
Machinery & Electrical equipment	14	14	12	5		14
Paper					8	
Plastic and rubber	16	14	12	14	10	15
Textiles	18	10	16	39	40	14
Others	23	23	25	18	17	28
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: ESCAP (2014)

- The agriculture sector does not feature among the top five sectors identified, however, given its importance for employment in the region, it is essential to also consider opportunities for export diversification in that sector. Table 1.3 shows the share of agricultural export opportunities across different commodities. For Afghanistan, the most products with export potential were in the categories of cereal, flour, starch milk preparations and products.

Table 1.5: Percentage of total export opportunities of agriculture and agro-industries

Sector	Afghanistan	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Animal,vegetable fats and oils, cleavage products, etc		35	16			24
Cereal, flour, starch, milk preparations and products	52	44	16	31	25	17
Cocoa and cocoa preparations			43		54	21
Coffee, tea, mate and spices				19		
Edible fruit, nuts, peel of citrus fruit, melons				50		
Lac, gums, resins, vegetable saps and extracts nes	7					
Milling products, malt, starches, inulin, wheat gluten		9				
Miscellaneous edible preparations	14		4		21	
Sugars and sugar confectionery	27	3				22
Sum of others with smaller share			6			4
Vegetable, fruit, nut, etc food preparations		9	14			12

Source: ESCAP (2014)

By linking the identified promising products of Afghanistan with the production and import structure of Central Asia, one can get better insights of potential Afghan exports to the subregion.

- Refining the analysis to consider only Central Asian markets, it is possible to derive a shortened list of potential products that Afghanistan could produce where import demand is also growing in Central Asia. The size of the growth in import demand in the previous year (in this case 2012-13) is then understood as the size of the export potential for that product in that market.
- Given the small size of the Central Asian economies, it is unsurprising that the total export potential for identified products is considerably less than in the top 5 markets globally. Of the Central Asian economies Uzbekistan is deemed to have the highest total potential for new Afghan products with an export potential value of $71 million. Although the total size of the

Central Asian markets is small, Afghanistan may be better placed to gain market share in these markets if the right policies are put in place so that it can benefit from its proximity.

- In terms of the specific products identified with export potential for Central Asia, the most promising by value are shown in table 1.4 (the full list is included in Annex B). Products identified include iron and steel based items such as flat rolled metals and wires; wood or paper based items like fibreboard and sacks; and some apparel items like gloves.

Table 1.6: Top 10 products of above average complexity for export to Central Asia by size of export opportunity ($ USD million)

Partner	HS Code	Category	Sub-Category	Export opportunity ($USD million)
Uzbekistan	721070	Iron and steel	Flat-rolled prods. Of iron/non-alloy steel, of a width of 600mm/more	25.6
Uzbekistan	841790	Nuclear reactors, boilers, machinery and mechanical appliances	Parts of the industrial/labouratory furnaces & ovens of 8417.10-8417.80	12.9
Uzbekistan	721710	Iron and steel	Wire of iron/non-alloy steel, not plated/coated, whether or not polished	9.2
Turkmenistan	441119	Wood and articles of wood	Fibreboard of wood/oth. Ligneous mats., whether or not bonded with resins	6.9
Turkmenistan	721240	Iron and steel	Flat-rolled prods. Of iron/non-alloy steel, of a width of <600mm	6.7
Tajikistan	611692	Articles of apparel and clothing accessories	Gloves, mittens & mitts, knitted or crocheted, other than those impregnated	5.6
Turkmenistan	680790	Articles of stone, plaster, cement, asbestos, mice or similar materials	Articles of asphalt/sim. Mat. (e.g., petroleum bitumen/coal tar pitch)	4.2
Uzbekistan	390330	Plastics and articles thereof	Acrylonitrile-butadiene-styrene (ABS) copolymers, in primary forms	4.0
Uzbekistan	481930	Paper and paperboard; articles of paper pulp	Sacks & bags, having a base of a width of 40cm/more	3.9
Uzbekistan	600634	Knitted or crocheted fabrics	Knitted/crocheted fabrics, n.e.s. in Ch.60, of synth. Fibres, printed	2.9

Source: ESCAP analysis 2014 (mimeograph)

- The analysis also considers Afghanistan's trade potential with the Russian Federation. The overall export opportunity for the identified products was $345 million. Top potential products included acrylics, iron and gloves.
- The analytical techniques described above can provide a useful starting point for countries that are seeking to pursue strategic policies of economic diversification. Implementing a strategy of this nature requires "the selective promotion of new economic activities over traditional ones

through the use of targeted industrial, infrastructure, trade, investment and private sector development policies" (ESCAP, 2014, p37).

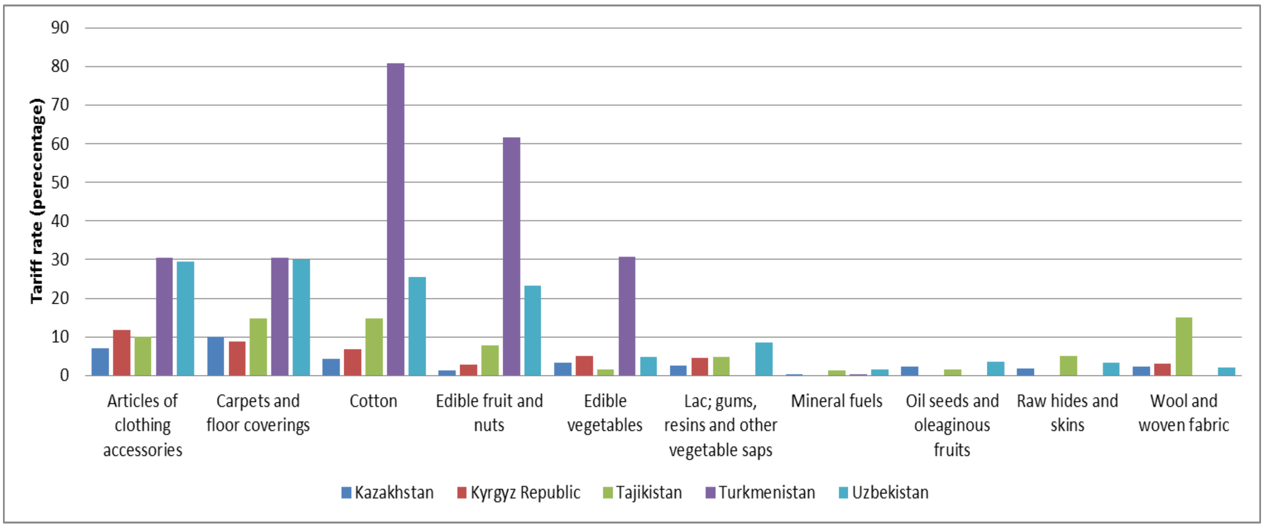
- A few caveats should be noted. Firstly, this analysis relies on export data as a proxy for production data. As Afghanistan's trade data is not comprehensive there may be gaps: in the case of countries with low overall trade volumes like Afghanistan, exports may not be a good proxy for total productive capacities. In relation to this, areas where there is large potential but virtually no production at present—such as many minerals in the case of Afghanistan—will not be captured by the methodology.
- Second, the results identified—in terms of specific products—by these analytical methods should be considered as a starting point for further detailed sectoral analysis and identification of directions for diversification. In this sense, this type of information has the qualities of a public good in that it "reduces the cost of discovery of potential successful new economic activities by informing entrepreneurs of the new products that require productive capacities similar to those already available in the country" (Ibid).

D. TARIFF AND NON-TARIFF BARRIERS TO TRADE

Average applied tariffs are fairly low across Afghanistan and Central Asia; however, in Central Asia high tariffs are applied on some key Afghan export items with potential deterrent effects on trade. As an LDC, Afghanistan can benefit from preferential tariffs in developed and some developing country markets.

- Average applied tariff rates are generally low in most Central Asian economies. Only Uzbekistan has an average applied tariff rate above 10%. However, some of Afghanistan's top export products do face higher than average tariffs in some Central Asian economies (figure 1.4). Notably, cotton; fruit; vegetables; and carpets all face tariffs between 20% and 80% in Turkmenistan and Uzbekistan. Preferential access for Afghan traders to these markets might help encourage trade in these product sectors which are of considerable potential.
- Afghanistan could benefit from the preferential market access that the Russia Federation offers to LDCs through its Generalized System of Preferences, launched in 2012. This offers Duty-Free Quota-Free access to a range of products from LDCs. At present the scheme covers 38.1% of tariff lines and excludes some products of interest to Afghanistan, including petroleum products, copper, iron ores, articles of leather, articles of apparel and clothing. There is scope for thus considering expanding the scheme to cover an even wider range of relevant products.

Figure 1.4: Average Applied Tariffs imposed on Afghanistan's major export items by Central Asian partners



Source: WITS

Non-tariff measures are also an obstacle to intra-regional trade; in particular Sanitary and Phytosanitary Standards are problematic because of inefficient or inadequate inspection regimes and facilities at borders

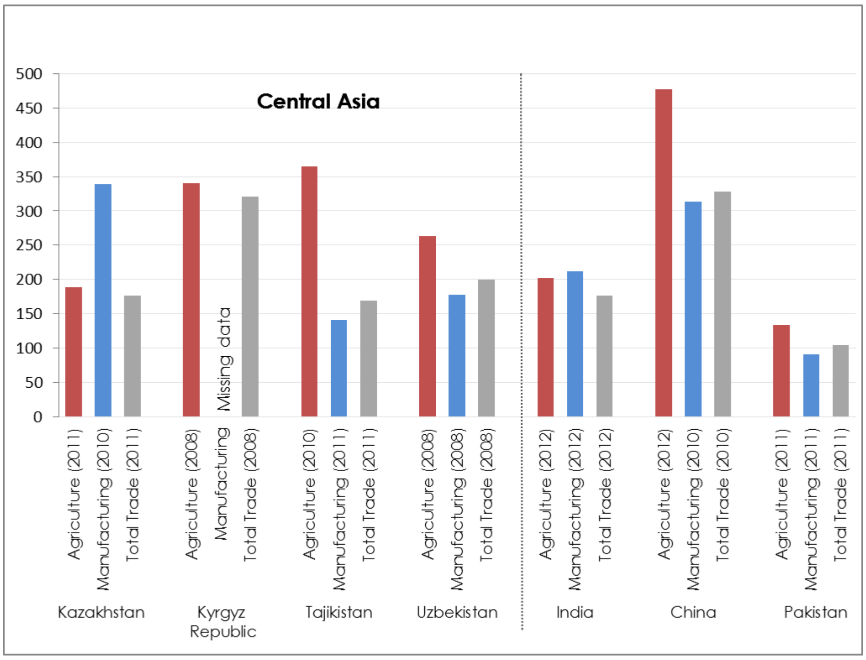
- Non-tariff measures (NTMs) include a wide range of policies, regulations and standards impacting trade. Data on the existence and impact of non-tariff measures on trade is harder to obtain than in the case of tariffs but their consequences can often be greater.
- 'Technical' non-tariff measures such as Technical Barriers to Trade (TBTs) and Sanitary and Phytosanitary (SPS) Standards can be particularly disadvantageous for developing economies in general, and least developed countries like Afghanistan in particular.
- NTMs are also frequently applied to those products which are of particular importance for developing economies like Afghanistan. For instance, food and agricultural goods—often sectors where developing countries have a comparative advantage—are some of the areas where NTMs, especially SPS measures—are the most prevalent.
- There is evidence that Afghan agricultural exports have been struggling to meet SPS standards abroad, including those of the Central Asia countries, or are suffering delays at the border caused by inefficient or inadequate inspection regimes and facilities. This undermines the ability of export-oriented agriculture industries to supply their produce to the region. Indeed, trade across the region as a whole suffers from a number of impediments resulting from inefficient, out-dated or uncoordinated SPS systems.

E. INFRASTRUCTURE AND TRADE FACILITATION

Infrastructure constraints, in particular the lack of road and rail connections linking Afghanistan with neighbouring countries continue to be a major obstacle to trade and contribute to existing high trade costs.

- As a landlocked country, Afghanistan is being prevented from reaching its trade potential by the lack of infrastructure, in particular road and rail links with neighbouring countries which are also its transit routes in reaching other export markets. The mountainous nature of the country makes rail connectivity costly and difficult; and road connectivity between large business centres and consumers and producers of raw materials at the towns and villages yet to establish, remains a major challenge to doing business in Afghanistan. Around 30% of firms in Afghanistan consider transportation as a major constraint (World Bank, 2014).
- As a result, trade costs between Afghanistan and Central Asia, are extremely high: costs are estimated as estimated as tariff ('ad valorem') equivalents are over 150% for all Central Asian partners for which data is available (figure 1.5).

Figure 1.5: Trade Costs between Afghanistan and Central Asia in comparison with regional partners (Ad Valorem Equivalents)



Source: ESCAP-World Bank Trade Costs Database. (Note: No data available for Turkmenistan)

- Afghanistan currently has a road network of approximately 135,000 km (AIMS, 2014). Data suggests that around 70% of the interprovincial and interdistrict roads remain in a poor state (ADB, 2014). Given the country's topography, a circular road network close to the borders is a priority for linking the country internally – this has been improved in recent years. Radial branches from this highway then link to neighbouring countries. With the completion of the stretch between Herat and Qaiser (300 km), the road circle will be fully in place. The recently completed road radial from Zaranj-Delaram links the circular road with Iran and its port at Chabahar.
- Given that the biggest share of Afghan trade is with Pakistan, transit links are crucial both for port access and to provide access to the Indian market. Afghanistan and Pakistan have concluded a transit agreement (APTTA). However, a major Afghan concern remains that

implementation is lagging; cargo is often delayed at Karachi; and access to India is not permitted.

- Land transit for trucks from India seeking to reach Afghanistan is a topic of discussion between Pakistan and India, at present though Indian trucks are not able to reach Afghanistan via Pakistan. Afghanistan also has trade and transit with Uzbekistan and Turkmenistan. A transit and motor vehicle agreement, CBTA, was signed in early 2013, between Afghanistan, Tajikistan and Kyrgyzstan, in the same period a motor vehicle and tanker movement agreement was signed with Iran.
- Historically, Afghanistan never developed a railway network of any scale. Prior to 1990, two railway lines from Central Asia (one from Turkmenistan and one from Uzbekistan) reached the Afghan border but did not extend beyond. Afghanistan was not one of the countries that negotiated and adopted the Intergovernmental Agreement on the Trans-Asian Railway Network. Currently, several initiatives are gradually changing the situation; future rail development could play a significant role in linking Afghanistan with other landlocked countries in Central Asia. One link has already been completed: in 2010 a 75-km single-track rail link was completed from Khairaton at the border with Uzbekistan to Mazar-i-Sharif. The Islamic Republic of Iran is also now constructing a 205-km link between Sangan in Eastern Iran to Herat.

Trade facilitation, including more efficient border processes, is also needed

- Facilitating trade at border crossing points is as important as the physical infrastructure that connects border crossings with cities and hinterlands. At present Afghanistan has relatively few sizeable border crossing points with Central Asian neighbours.
- One of the most important crossings is Hairatan located at the Uzbek border as it is the only border crossing with efficient transport links with much of Central Asia and modern customs facilities. Before completion of the bridge at Sher Khan Bandar, Tajikistan, in 2007, Hairatan was the only major route to Central Asia. The Uzbek city of Termez, located a few kilometres from Hairatan, has railroad connections with both Dushanbe, the capital of Tajikistan, and Tashkent, the capital of Uzbekistan. Goods moving through the Hairatan BCP are mainly industrial raw materials (for example, fuels, glass, and iron bars), shipped to Afghanistan, and limited quantities of raisins shipped to Uzbekistan.

F. BUSINESS SECTOR ENVIRONMENT AND CAPACITY

The overall business environment needs substantial improvement

- World Bank placed Afghanistan as the 183rd out of 189 countries for 2015 in its Ease of Doing Business rankings, which is the lowest position in Asia-Pacific region. The business environment in Afghanistan thus requires significant development and introduction of suitable legislation, particularly aiming at promotion of SMEs. Despite, employing 75% of Afghanistan's workforce and contributing around 50% to the country's GDP (Asia Foundation, 2013), SMEs in Afghanistan are facing various challenges.
- While starting an enterprise in Afghanistan is very easy (it is the 24th easiest country to start a business out of 189) and access to credit (at least for larger enterprises) is much better than in

other countries at the similar stage of development (89th out of 189), in many other aspects, sustaining and operating a firm in Afghanistan is challenging. The most onerous issues for Afghanistan's business environment are: poor enforcement of contracts, no protection of minority investors, lack of functioning property registration system at a national level and difficulties in obtaining construction permits. Access to finance for SMES is also a major constraint; not least as many SMEs lack access to require collateral.

- Women-owned businesses can play a role, not only in empowering women but also in raising productivity more broadly. Gender-based asset inequality affects resource allocation within the household and labour productivity. Women's entrepreneurship can make a particularly strong contribution to the economic well-being of the family and communities, poverty reduction and women's empowerment, thus contributing to the resources of the household, the pattern of consumption tends to be more child-focused and oriented to meeting basic needs.
- The One Village One Product movement, which promotes rural production of products embodying traditional knowledge—for instance, handicrafts—for national and international sale could potentially be applied to Afghanistan. The movement has had considerable success in other countries including Thailand, where it is better known as OTOP.

G. RECOMMENDATIONS AND PRIORITIES FOR REFORM

Realizing the potential for regional trade and integration requires action on: improving trade policies; facilitating trade and transit; investing in infrastructure and connectivity; creating the right regional business environment; and strengthening regional economic institutions.

- This report has documented the limited scale of existing trade, investment and infrastructure linkages between Afghanistan and Central Asia. However, there is also considerable potential for greater trade in certain sectors, identified by ESCAP analysis. Expanded intra-regional exports can thus play a role in Afghanistan's wider strategy of economic development and diversification. Realizing this potential will require action across a number of areas and requires political commitment across the region. Our recommendations, based on the analysis in the report, and summarized in the table below, suggest five priority themes: improving trade policies; facilitating trade and transit; investing in infrastructure and connectivity; creating the right regional business environment; strengthening regional economic cooperation

Table 1.7: Summary of recommendations

Theme	Areas for focus	Priorities for Afghanistan	Priorities for Regional Partners
IMPROVING TRADE POLICIES	**Tackling tariff barriers to current trade and export diversification**	- Identify tariff barriers on existing products and products with export potential as identified by ESCAP analysis - Open discussions with regional partners on mechanisms for reducing tariff barriers	- Enter discussions on means of improving Afghanistan's market access, including tariff liberalization on key products of interest - Russian Federation to consider expanding GSP scheme on products on interest to Afghanistan
	Streamline non-tariff barriers, especially SPS	- Survey business to uncover critical NTM measures in partner countries which are impeding trade, in particular for agricultural products	- Improve NTM systems with risk-based approaches and modernize processes in line with WTO guidelines - Work with Afghanistan on improving labouratory infrastructure for product

			testing
	Deepen and expand existing regional trade agreements	- Identify priority products that would benefits from preferential access	- Consider whether expanded or deepened new regional trade agreements, for instance SAARC, would boost regional trade and economic prospects
FACILITATING TRADE AND TRANSIT	**Improve and expand APTTA**	- Work with Pakistan to improve APTTA including thorough addressing issues such as illegal smuggling	- Work with Afghanistan and Pakistan on the potential expansion of APTTA to Central Asia
	Improve efficiency of border processes	- Invest in training and facilities, including single window systems	- Consider cross-border ID cards, and risk-management systems, to ease flows at border crossing points
	Encourage border trade	- Establish joint task-forces with partners focused on easing problems related to non-standard border trade	- Work with Afghanistan including on simplifying visa processes for same day returns and easing movement of small traders
INVESTING IN INFRASTRUCTURE AND CONNECTIVITY	**Road and Rail**	- Prioritize investment in rail and road links to key center - Develop network of dry ports at key crossings	- Continue to engage in regional efforts, e.g. CAREC, to bring links to the Afghan border
	Energy	- Complete existing proposals on TAPI and CASA-1000 and build momentum towards further projects	- Review impediments to further energy linkages with Afghanistan and South Asia
CREATING THE RIGHT REGIONAL BUSINESS ENVIRONMENT	**Improving the business and investment climate and access to finance**	- Prioritize reforms to the business and investment climate, especially clarifying rules governing resource investments - Boost access to finance, particularly for SMEs	- Organize regional 'matchmaking' services for Central Asian and Afghan businesses - Consider regional approaches to capacity building for the private sector, for instance on how to meet standards and regulations
	Building regional business linkages	- Link Afghan Chambers of Commerce and other private sector representatives with counterparts elsewhere	- Establish regional private sector forum to feed in business perspectives to regional gatherings i.e. RECCA and SPECA
	Support Women-owned businesses	- Remove legal and financial restrictions on female entrepreneurs and women owned business - Use online platforms to help women-owned businesses connect with each other	- Create regional women's business network to share contacts and provide mutual support
	Develop local production capacity utilizing traditional knowledge	- Launch OVOP-style programme to develop rural productive capacity based on traditional skills	- Share experiences of rural development and production capacity building
STRENGTHENING REGIONAL ECONOMIC COOPERATION	**Accelerate existing areas of cooperation and jointly develop a single regional economic strategy**	- Give higher priority to regional integration efforts on promoting trade and identify areas that can most effectively be tackled through regional cooperation	- Work on a joint regional economic strategy for Afghanistan and Central Asia targeted at improving trade flows, informed by the views of the private sector and other stakeholders

2. INTRODUCTION: TRADE AND REGIONAL INTEGRATION AS DRIVERS OF AFGHANISTAN'S DEVELOPMENT

Afghanistan is now facing a critical period that will determine the success of its future development efforts. The new Afghan administration needs to maintain and enhance the social and economic gains of the past decade, while facing financial and political challenges resulting from the withdrawal of foreign troops and a projected decline in total donor assistance.

Increasing trade and regional integration will be vital components in managing a successful transition in Afghanistan. Regional integration encompasses action across a broad range of policies but normally includes efforts to facilitate the movements of goods, services, capital and people. In general terms, the benefits from pursuing regional integration are numerous and include:

- Reaping economies of scale or other efficiencies to increase local supply capacity and improve access to markets
- Integrated or harmonized treatment of trans-boundary issues such as: trade: regulatory frameworks and policies; and regional infrastructure
- Management of shared natural resources.

Thus, substantial long-term benefits to employment, revenues and economic growth are available, both to Afghanistan and its Central Asian neighbours, if a successful regional framework can deliver on the region's trade, transport, and transit potentials. This must take advantage of Afghanistan's unique geographical position as a 'land bridge' linking Central and South Asia and its substantial natural resources. Particular opportunities exist in energy trade, transit trade and border trade among populations close to crossing-points.

Indeed, for landlocked countries such as Afghanistan and the Central Asian Republics, regional integration is especially imperative: increasing regional integration not only encourages increased trade and connectivity within the region, but also, by creating links across the region to external markets, enables broader integration with large regional markets and the global economy more broadly. Further regional integration between Afghanistan and Central Asia is thus not a substitute for integration with the rest of the world. Rather, it must be buttressed with broader economic integration that makes the most of the region's comparative advantages.

Although the size of the markets in Afghanistan and Central Asia are very small when considered individually, pooling markets through regional economic integration can generate economies of scale and the potential for regional production sharing. As smaller markets can be vulnerable to monopoly capture, market widening can increase competition and offer higher productivity gains (ITCSD, 2011).

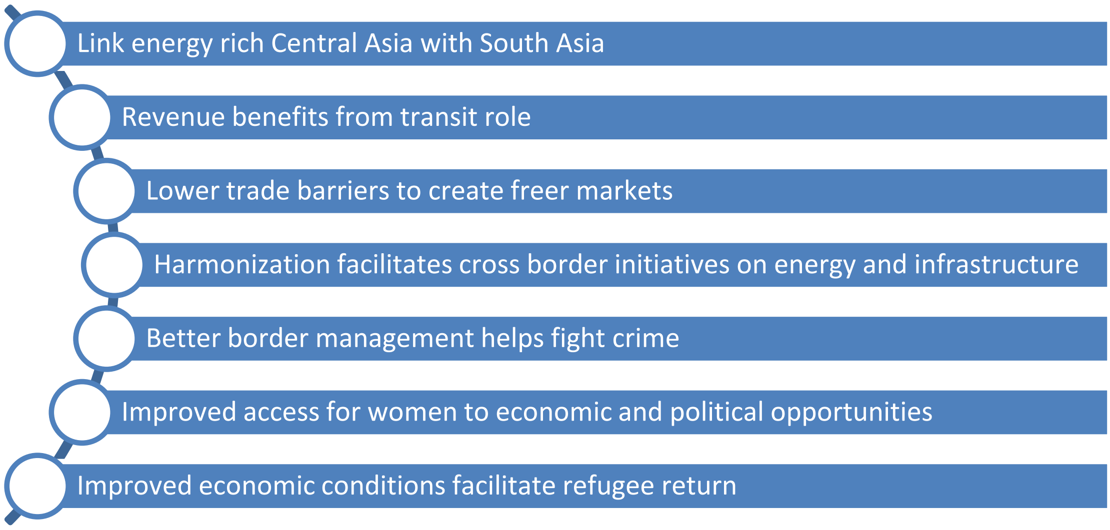
Further, in the context where a large share of trade is informal and unrecorded, substantial economic activity is not captured by official statistics and may thus suffer from poorly designed policies based on the incorrect assumption that the informal economy is unproductive. Regional trade facilitation measures can raise the level of formality and the volume of trade.

Moreover, regional provision of public goods, for instance in the areas of policy and provision of connectivity infrastructure (e.g. energy, finance, telecommunications, transport) can make an

important contribution to addressing development challenges. This is especially the case when connectivity improvements are made within an agreed regional trade facilitation strategy.

The role of regional co-operation is thus explicitly recognized in Afghanistan's National Development Strategy (ANDS, 2008) which notes that: "The central goal of the Regional Cooperation issue is to contribute to regional stability and prosperity, and to enhance the conditions for Afghanistan to resume its central role as a land bridge between Central Asia and South Asia, and the Middle East and the Far East, as the best way of benefiting from increased trade and export opportunities." The ANDS anticipates that regional integration will yield significant strategic benefits including to economic growth, social wellbeing and security (figure 2.1).

Figure 2.1: Strategic outcomes from regional integration: Afghanistan's National Development Strategy



Source: Afghanistan National Development Strategy, 2008

However, despite widespread recognition of the their importance for regional security and prosperity, trade and economic exchanges between Afghanistan and Central Asia remain below their potential. At present, Afghanistan and Central Asia countries trade mainly with other partners: Pakistan in the case of Afghanistan or the Russian Federation, the European Union, and China in the case of Central Asia. The bulk of extra-regional exports are commodities, and as such are generally not incorporated in regional supply-chains, not least because of the serious underdevelopment of a regional manufacturing base. Therefore, combined with the regions difficult geography and weak transport links, it is not surprising that total levels of intra-regional trade are amongst the lowest in the world.

A number of initiatives, including substantial investment projects, are helping improve this situation. Forums like SPECA and CAREC, as well as SAARC and others, are all actively engaged in fostering trade and transport throughout the Greater Central Asia region. Major projects like the TAPI pipeline and the CASA-1000 energy link have the potential to transform the regional dynamics and can also serve as building blocks for further efforts. But accelerating and going beyond existing initiatives will be essential if regional integration and trade are to fulfill their potential as sustainers of Afghanistan's successful transition.

This paper reviews the current state of Afghanistan's trade and economic linkages with the Central Asian Republics. It is structured as follows: Section 3 reviews Afghanistan's broader economic and development context; Section 4 describes the current scale and scope of linkages between Afghanistan and Central Asia; Section 5 examines the sectors with the most export potential; Section 6 covers the major trade policy barriers impeding further trade flows in the region[1]; Section 7 considers the need for trade facilitation and infrastructure; Section 8 considers problems in the business environment; Section 9 makes suggestions for reform to tackle the identified impediments. Finally, Section 10 outlines the role that ESCAP can play in facilitating further regional integration.

[1] This paper does not address intra-regional investment. At present no data could be found on investment in Afghanistan from Central Asia. While addressing barriers to FDI is crucial for Afghanistan, the obstacles are general in nature and do not specifically relate to Central Asia. They are thus already addressed through, for instance, the work of the World Bank on the business environment in Afghanistan (see World Bank, 2014).

3. AFGHANISTAN: ECONOMIC OVERVIEW AND CHALLENGES

Afghanistan's economic outlook

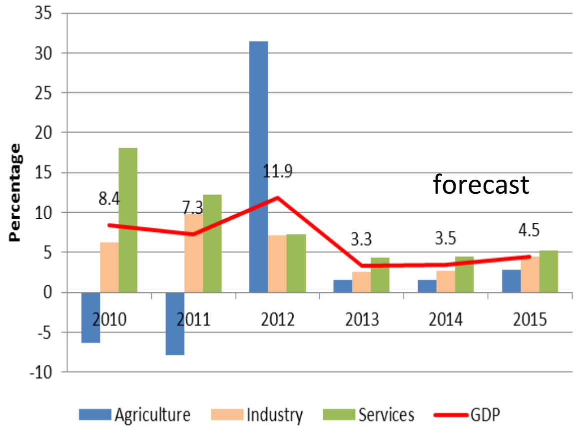
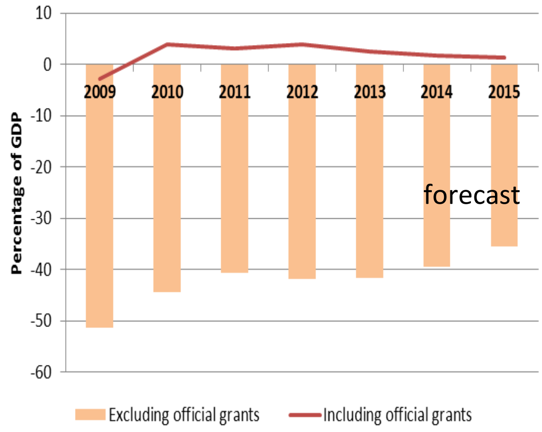
Afghanistan has made significant progress over the past decade despite ongoing security challenges: GDP per capita increased more than threefold between 2003 and 2013, rising from $198 to $678 (World Bank Development Indicators, 2014). However, Afghanistan remains among the poorest countries in the Asia-Pacific region and its Human Development Index score (0.448) remains one of the lowest in the world. Poverty remains widespread, with limited access to public utilities. Half the population has no adequate access to drinking water, with 10% of population still using surface water as their source of drinking water (UNICEF, 2012). Furthermore, 60% of the population does not have access to sanitation and 70% had no access to electricity in 2010. Much needs to be done to help Afghanistan reach its development potential and capitalize on its natural resources and pivotal geographical location.

The withdrawal of most foreign security forces by 2014 is having significant direct economic effects, alongside falls in donor assistance. In addition to requiring security and political adjustments, Afghanistan is thus facing a potentially difficult period of economic retrenchment. Economic growth in 2013 was estimated at 3.3% having fallen from 11.9% in 2012 (ADB, 2014). Increased savings and the drawdown of foreign military forces weighed on spending and incomes leading to lower growth. A slowdown was registered across agriculture, industry and services (figure 3.1).

Reflecting diminished consumer and investor confidence, private investment is estimated to have fallen to 3.6% of GDP in 2013 from 4.9% in 2012. Industry saw growth decline from 7.2% in 2012 to 2.5% in 2013 and services growth fell from 7.3% to 2.5% over the same period (ADB, 2014). Headline inflation rose to 7.3% in the year to December 2013 from 5.8% a year earlier, driven largely by food price rises which reached 9.7% in December 2013 because of steep increases in the prices of vegetables, fresh fruit, and dried nuts.

For 2014 and 2015 GDP growth is expected to be 3.5% and 4.5%, respectively (ADB, 2014). The recent formation of a new government should remove some of the political uncertainties and support further expansion in industrial and services outputs. However, the World Bank estimates that growth—after the transition towards Afghan control of security—will be around 5% a year under the baseline scenario in the period 2015-2018. This is a significant drop from the 9.4% average growth seen from, 2003-2012 which was supported by donor assistance and security spending (World Bank Global Economic Prospects, 2014).

In terms of sectoral contributions to GDP, currently 21% of value added is by industry, 24% by agriculture and 55% from services (World Bank, 2013). Looking forward the sectors most dependent on foreign aid and military spending—construction and transport—may be hardest hit by the withdrawal of foreign security forces. The performance of Afghanistan's economy is also strongly affected by the agricultural sector, which provides a livelihood for 76% of the labour force. Agriculture—notably wheat, potatoes, and fruits—is of particular importance for food security, given the country's geo-climatic conditions. Between 2003 and 2012 there has been strong correlation between agricultural output and overall economic performance. This has led to volatility in growth as—given Afghanistan's arid environment—year-to-year harvests have varied according to rain patterns.

Figure 3.1: GDP growth	Figure 3.2: Current Account Balance
	
Source: ADB 2014	*Source: ADB 2014*

Agricultural output may be close to current capacity, meaning that expanding production much further may be difficult (ADB, 2014). Total agricultural production was marginally higher in 2013 than in 2012, as the country enjoyed benign growing conditions. Wheat is the most important legal crop in Afghanistan; in 2013 Afghanistan was able to meet 93% of its domestic demand for cereals, which was a large improvement from 55% in 2012. But output growth of 31.5% growth in 2012 had established a high base line meaning that the strong 2013 performance only produced 1.6% annual growth.

While the mining sector has arguably the greatest long-term potential for Afghanistan, its current contribution to GDP is limited. US Geological Survey estimates are that Afghanistan's untapped mineral resource base is worth $1-$3 trillion, including deposits of copper, gold, iron, cobalt and lithium (EWI, 2014). However, the total share of mining in aggregate output was only an estimated 1.8% in 2012. Employment potential is also limited by the capital intensity of the sector. Progress will depend on getting the right legal framework to attract foreign investment while also improving infrastructure links so that resources can be brought to market.

Box: Regional variations in Afghanistan's economic outlook

The presence of foreign troops in Afghanistan has had significant economic, as well as security, implications. However, the economic benefits from foreign security forces have not been uniform across the country. Overall, more substantial positive impacts have been observed in the northern and western areas of the country. Efforts to address these regional imbalances will need to be part of any wider trade and development strategy.

Northern Afghanistan is where agricultural activity is most developed and is also home to the trade in precious stones. Trade with Central Asia is, naturally, most important here especially imports of gas and oil from Turkmenistan through Jozjan province. The economic potential for transit trade, as well as mining and natural resource exploitation is the most pronounced in the Northern areas. Southern and Eastern Afghanistan, bordering Pakistan and Iran, sees the highest levels of activity in

the informal sector. Procurement and transport related to ISAF troops have also been big drivers of regional business. Trade with Pakistan, including that coming through Karachi port, are especially important. Development prospects are crucially linked to the improvement of trade facilitation efforts and transit trade through Pakistan. Industrial production is more concentrated in Western Afghanistan, notably around Herat. The West is also more closely integrated with Iran which will be crucial for future growth prospects.

Source: EWI, 2014

Afghanistan's trade performance

Afghanistan runs large and longstanding trade deficits and current account deficits (figure 3.2). Afghanistan's total merchandise exports were worth $515 million in 2013, whereas imports were worth $8,724 million. Afghanistan depends heavily on imports of fuels, food staples, processed materials, and manufactured goods, largely due to a lack of domestic infrastructure and processing facilities. Afghanistan's largest categories for imported goods in 2012 included mineral products (34%) largely consisting of equal parts of peat and refined petroleum; machines (12%), including phones, computers and other electric appliances; vegetable products (11%) such as wheat flours, rice, tea, citrus and potatoes; transportation equipment (9%), such as trucks, tractors, motorcycles, specialized vehicles and passenger cars; and textiles (6%).

Exports, though low in overall volume, have grown in recent years. Indeed, merchandise exports grew 20% in 2013 whereas imports contracted by 4%. This indicates weak linkages between imports and exports which is indicative of low capacities to engage in value-adding activities. The largest exported categories of goods included vegetable products (44%) such as grapes, insect resins, spice and oily seeds and nuts; textiles (22%) such as raw cotton, knotted carpets and animal hair; mineral products (12%) consisting almost exclusively of coal briquettes; metals (10%) consisting almost exclusively of scrap iron; and animal hides (4%) consisting of raw fur skins and sheep and bovine hides. However, due to weaknesses in Afghanistan's border security and customs, an estimated 40% of total trade goes unrecorded (World Bank, 2013).

In terms of commercial services trade, exports in 2012—the latest year for which data is available — show a value of $2,998 million and imports were valued at $2,185 million. Of these commercial services exports, 11.4% were transportation services, 1.9% travel services and 86.7% other commercial services. On the import side, transportation was more significant at 48.1% of the total with other commercial services making up 48.5% (WTO, 2014). Services imported by Afghanistan in 2012 increased in value by 73.8% and included transport ($1 billion), miscellaneous business services ($0.67 billion) and communication ($0.17 billion).

In terms of partners, Afghanistan's trade in merchandise goods is heavily concentrated (table 3.1). Pakistan is by far the largest trading partner for Afghanistan, accounting for 47% of exports and 14.2% of imports according to WTO figures. However, Pakistan's likely true share of both is higher as large shares of trade are not adequately recorded. As Afghanistan's major transit route to the sea, it is natural for Pakistan to play an important role in the country's trade but it also makes transit issues through Pakistan of critical importance.

Inter-governmental co-operation under the auspices of the Pakistan-Afghanistan Joint Economic Commission (JEC), which was established in 2003, has helped improve bilateral economic co–operation. Notably, the updated version of the Afghanistan-Pakistan Transit Trade Agreement (APTTA) signed in 2010, allows Afghanistan to transit duty-free goods overland through Pakistan and via Pakistani ports for export and import to other countries. However, ongoing problems with implementation of the APTTA as well as corruption and concerns about future security prospects and the risks of businessmen facing extortion have raised concerns over future trade prospects (EIU, 2014).

While not currently among Afghanistan's top 5 trading partners, the Russian Federation is also an important partner. In 2013, the Russian Federation imported only $14.3 million from Afghanistan. Over $13 million of which were fruits and vegetables. In contrast, Afghanistan imported $418 million from the Russia Federation. Over $300 million of imports were for mineral fuels, other categories of significance were wood articles ($55 million) and animal and vegetable fats ($20 million). In addition to this formal trade, some Russian consumer products also enter Afghanistan via informal re-exports from Central Asia. As transport linkages across Central Asia help connect Afghanistan with markets in the Russian federation, the prospects for further trade will improve. If Kyrgyzstan joins Kazakhstan in the Eurasian Customs Union then this could potentially further improve Afghanistan's access to the markets of the Russian Federation via Central Asia.

Table 3.1: Afghanistan's exports and imports by major partner, 2013

Exports				Imports			
WTO data		Government of Afghanistan		WTO data		Government of Afghanistan	
Country	Share in %	Country	Share in %	Country	Share in %	Country	Share in %
Pakistan	47	Pakistan	30.7	Pakistan	14.2	Pakistan	21.2
India	16.3	India	19.4	China	11.5	Iran, I.R.	15.2
Iran, I. R.	6.2	UAE	13.2	Japan	9.7	China	14.1
China	1.1	Iran, I.R.	7.8	Iran, I.R.	8	Turkmenistan	9.3
Saudi Arabia	0.4	Iraq	6.2	European Union	4.7	Uzbekistan	4.8
Unspecified	28.7	China	3.6	Unspecified	50	Japan	4.8

Source: WTO Trade Profiles, 2014; Government of Afghanistan, 2014
Note: Where data is unrecorded or undeclared, the WTO specifies the origin or destination country as 'unspecified'.

Afghanistan has nearly completed its negotiation for the accession to the WTO which is expected to be finalized in 2015. Negotiations have been ongoing since Afghanistan's application in 2004. WTO membership will bring a variety of benefits to Afghanistan including more stable and predictable access for Afghan exports to the 160 or more foreign markets of other WTO members. Afghanistan is

also a member of the South Asian Association of Regional Co-operation (SAARC) and the Economic Co-operation Organization Trade Agreement (ECOTA).

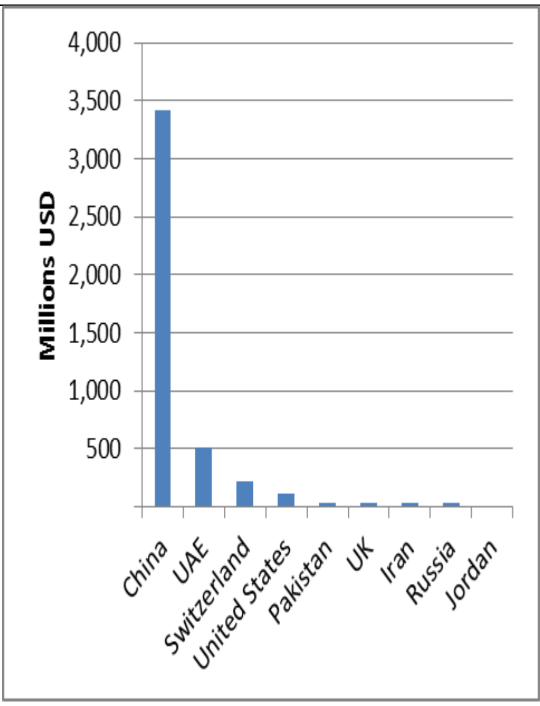
Foreign Direct Investment

Afghanistan at present receives relatively small amounts of foreign direct investment. Total greenfield FDI inflows for the period 2009-2013 were recorded at around $4.4 billion (FDi Markets, 2014). China was the largest source of inward FDI (figure 3.4) accounting for over three quarters of this total figure. Chinese investment was primarily concentrated in natural resources, such as copper and gold. Central Asian economies were not recorded as providing any inward greenfield FDI to Afghanistan over this period.

While mining sector projects have been delayed by security concerns, as well as legal uncertainties, major current mining agreements include the Aynak Copper Tender, a contract awarded to a Chinese firm for exploration and production of copper located in Logar province and worth an estimated minimum of $1.3 billion. However, recent falls in copper prices have caused rights holder Metallurgical Corporation of China (MCC) to attempt to reduce its prior commitments to invest in local infrastructure as part of the investment deal (The National, 2015).

Another notable project is the Qara-Zaghan goldmine which has an initial investment value of $71 million after which the Afghan government is assured a 26% royalty. This project significance also lies in the origins of the investors taking stakes in the project—the United States, Turkey and Britain—and is hoped that it will act as successful example to spur further investment from these sources.

Figure 3.3: Total Greenfield FDI flows by source (2009-2013)



Source: FDi markets, 2014

Table 3.2: Aid for Trade disbursements by sector (million USD)

Sector	2005	2010
Trade related adjustment	0	0
Tourism	5	1
Mineral Resources and Mining	2	7
Industry	11	51
Agriculture, Forestry and Fishing	149	573
Banking and Financial Services	40	32
Business and other services	61	100
Energy Generation and Supply	89	219
Communications	26	6
Transport and Storage	477	733
Trade policy and regulations	13	29
Total	**873**	**1751**

Source: WTO, OECD, 2013

The Hajigak mine, one of the largest iron ore deposits in the world, is being considered for further investment. According to the Ministry of Mines, Afghanistan could earn $300 million in annual revenue from the Hajigak project, which will also generate significant employment (Pajhwok News, 2014). Oil fields along the Amu Darya River have also been developed and now produce an estimated 4000 barrels per day. Yet many other resource bases and mines have not been explored or prospected. Further, the downscaling of proposed investments in the Hajigak project and the Aynak mine in early 2014 are not encouraging signs. Dealing with corruption while delivering on crucial legislation like the mining law will be needed to attract significant private international investment going forward.

In addition to FDI, donor assistance makes a major contribution to total capital inflows, as noted above. Aid for Trade spending which supports Afghanistan's export potential is a significant category within total assistance. According to the most recent available data from the WTO, Aid for Trade spending rose sharply between 2005 and 2010 with total disbursements rising from $873 million to $1,571 million with particularly notable increases in totals going to the agriculture, forestry and fishing sector (table 3.2).

4. TRADE AND INVESTMENT FLOWS BETWEEN AFGHANISTAN AND CENTRAL ASIA

Afghanistan's trade with Central Asian partners

Afghanistan and Central Asia share a long common history and have significant ethnic, cultural and linguistic links. Three of the five Central Asian states (Turkmenistan, Uzbekistan and Tajikistan) share a common border with Afghanistan which in total stretches over 2,000km. Transport and connectivity, however, is limited (see chapter 7) though northern Afghanistan is connected to the Central Asian republics through some roads, rail links, and bridges.

Afghanistan and the Central Asian countries all face common challenges related to their landlocked geographic position and need for greater economic diversification (see chapter 5). The region is far from major economic centres, and has relatively small populations and market sizes, underdeveloped infrastructure and political and security challenges that pose risks for human development (Mogilevskii, 2012). The region is also characterized by significant divergences in economic and social indicators (table 4.1). Notably, Afghanistan has a larger population than any of the Central Asian states, but has a considerably lower level of urbanization. GDP is lower in Afghanistan than the average across Central Asia which itself displays considerable variation.

Table 4.1: Demographic and socioeconomic indicators, Afghanistan and Central Asia, 2013

Countries	Population size (1 000)	GDP in current prices (million $)	GDP per capita ($ 2005 PPP)	Urban population (% total)	Life expectancy at birth (years)	Adult literacy rate (% of population aged 15 and above)	Under-5 mortality rate (Deaths per 1 000 live births)
Afghanistan	30 552	20 364	1 367	24	61		98
Kazakhstan	16 441	202 656	12 360	53	67	99.7	19
Kyrgyzstan	5 548	6 475	2 118	36	68	99.2	27
Tajikistan	8 208	7 633	1 920	27	67	99.7	58
Turkmenistan	5 240	33 466	9 121	49	66	99.6	53
Uzbekistan	28 934	51 414	3 229	36	68	99.4	40

Source: ESCAP Online Statistical Database.

Trade is growing across the region. As with other Central Asian countries, Afghanistan has seen notable trade growth since 2004. Trade growth, however, has also been volatile, particularly in Afghanistan (table 4.2). Partly this was explained by the generalized trade contraction in the aftermath of the global financial crisis, but has also been driven by country-specific factors in particular in relation to weather-induced fluctuations in agricultural output.

Table 4.2: Percentage annual export growth, 2004-2013

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Volatility (variance)
Afghanistan	112	26	8	9	19	-25	-4	-3	14	20	0.13
Kazakhstan	55	39	37	25	49	-39	39	41	3	-5	0.09
Kyrgyzstan	24	-7	33	48	40	-10	5	13	-4	-5	0.05
Tajikistan	15	-1	54	5	-4	-28	18	5	8	-14	0.05
Turkmenistan	7	28	45	25	34	-58	30	100	27	9	0.15
Uzbekistan	34	11	18	43	28	4	9	13	-15	13	0.03

Source: ESCAP (2014)

Nevertheless, officially recorded trade between Afghanistan and its Central Asian partners remains very limited (tables 4.3 and 4.4). Overall, Afghanistan imports considerably more from Central Asia than it exports in return. In 2011, the last year for which comprehensive bilateral data is available, less than 3% of Afghanistan's exports (worth $13.2 million) went to Central Asia with Tajikistan and Turkmenistan being the only economies to see imports of notable size. In contrast, roughly a quarter of Afghanistan's imports came from Central Asia, principally Uzbekistan (worth $1.67 billion).

Table 4.3: Afghanistan's exports to Central Asia (2011)

	Kazakhstan	Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
$ millions	3.83	0.07	5.31	3.85	0.15
% total	0.70%	0.01%	0.97%	0.70%	0.03%

Table 4.4: Afghanistan's imports from Central Asia (2011)

	Kazakhstan	Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
$ millions	333.31	23.54	226.89	352.98	732.45
% total	5.22%	0.37%	3.55%	5.52%	11.46%

Source: UN COMTRADE

In terms of imported products, energy tends to dominate. Afghanistan's largest import from four of the five Central Asian economies is refined petroleum (table 4.5). Petroleum gas is also a major import category from Central Asia. Uzbekistan is the largest source of imports among the Central Asian countries, with total imports worth ($732 million) in 2011. Next is Turkmenistan ($353 million), followed by Kazakhstan ($333 million), and Tajikistan ($226 million). Imports from the Kyrgyz Republic were valued at $24 million.

Table 4.5: Afghanistan's imports from Central Asia, Top 5 products and value (2011)

	KAZAKHSTAN			KYRGYZSTAN			TAJIKISTAN			TURKMENISTAN			UZBEKISTAN		
	Product	Value	Share	Product	Value	Share	Product	Value	Share	Product	Value	Share	Product	Value	Share
1	Wheat Flours	$104,498,641	29.9%	Refined Petroleum	$21,013,294	89.3%	Refined Petroleum	$55,225,962	78.4%	Refined Petroleum	$278,019,884	85.3%	Refined Petroleum	$541,368,429	92.8%
2	Refined Petroleum	$81,945,118	23.4%	Raw Iron Bars	$530,580	2.3%	Leather Footwear	$3,262,660	4.6%	Petroleum Gas	$46,127,886	14.2%	Dried Legumes	$15,601,569	2.7%
3	Petroleum Gas	$60,843,826	17.4%	Vehicle Parts	$276,462	1.2%	Iron Blocks	$2,743,929	3.9%	Chocolate	$1,122,208	0.3%	Petroleum Gas	$12,197,290	2.1%
4	Wheat	$17,000,996	4.9%	Planes, Helicopters, and/or Spacecraft	$273,366	1.2%	Non-Knit Women's Shirts	$1,815,667	2.6%	Stone Processing Machines	$288,038	0.1%	Wheat Flours	$5,545,124	1.0%
5	Linseed	$12,576,805	3.6%	Soap	$260,761	1.1%	Chocolate	$1,521,050	2.2%	Wheat Flours	$148,647	0.1%	Chocolate	$3,926,627	0.7%
Top 5 share			79.1%			95.0%			91.6%			99.9%			99.2%

Source: UN COMTRADE Accessed via WITS

As noted, Afghanistan's exports to Central Asia are highly limited in comparison with imports. Official trade data is also not widely available. However, WTO figures suggest that agricultural products such as potatoes, grapes, and citrus fruits account for the bulk of exports, alongside other products such as curbstones (table 4.6). Tajikistan has the highest recorded imports from Afghanistan in 2011, followed by Kazakhstan and Kyrgyzstan.

Table 4.6: Afghanistan's exports to Central Asia, Top 5 products and value (2011)

	KAZAKHSTAN			KYRGYZSTAN			TAJIKISTAN			TURKMENISTAN			UZBEKISTAN		
	Product	Value	Share	Product	Value	Share	Product	Value	Share	Product	Value	Share	Product	Value	Share
1	Potatoes	$2,851,489	80%	Potatoes	$36,139	57%	Curbstones	$3,915,048	99.9%	Edible vegetables	$3,716,880	96.640%	Raw hides and skins and leather	$144,846	97.2%
2	Grapes	$585,523	16%	Other Hides and Skins	$11,233	18%	Marble, Travertine and Alabaster	$2,500	0.1%	Edible fruits and nuts, peel of citrus/melons	$72,000	1.870%	Edible fruits and nuts, peel of citrus/melons	$4,125	2.8%
3	Citrus	$72,846	2%	Aircraft Parts	$8,847	14%				Raw hides and skins and leather	$54,606	1.420%			
4	Onions	$46,224	1%	Citrus	$6,416	10%				Services (HS 99)	$2,248	0.058%			
5	Root Vegetables	$7,064	0%	Electric Batteries	$1,172	2%				Marble, travertine	$189	0.005%			
Top 5 share			100%			100%			100%			100%			100%

Source: UN COMTRADE Accessed via WITS

As infrastructure linkages improve, trade routes will become more accessible and attractive, placing Afghanistan at the centre of Central and South Asian trade routes. By providing landlocked Central Asian countries with access to trans-Afghan transport corridors that connect to seaports in Karachi, Pakistan, and Bandar-Abbas, Iran, Afghanistan will benefit from both direct and transit trade.

Box: Existing mechanisms for regional cooperation between Afghanistan and Central Asia

A number of major regional frameworks currently support regional cooperation between Afghanistan and Central Asia. These include: SPECA (the UN Special Program for Economies of Central Asia); RECCA (Regional Economic Cooperation Conference on Afghanistan), and CAREC (Central Asia Regional Economic Cooperation Program).

United Nations Special Programme for the Economies of Central Asia (SPECA)

SPECA was launched in 1998 in order to strengthen subregional cooperation amongst countries in Central Asia and to integration the subregion into the world economy. Current members of SPECA are: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. SPECA is supported by both UNECE and ESCAP, in recognition of the sub-region's importance as a transport hub between Europe and Asia. SPECA provides a platform for annual Economic Forums and Project Working Groups, in which multilateral development projects in Central Asia can be discussed, agreed upon and implemented. Afghanistan became SPECA's latest member in 2005 and has benefitted from SPECA's infrastructure development initiatives, such as the Almaty Declaration of Land-Locked and Transit Developing Countries of 2003. SPECA strengths have been especially marked in the improvement of border-crossing procedures and transport data harmonization in the region. In December 2014, the SPECA Economic Forum took place in Ashgabat under the chairmanship of the Representative of Afghanistan. The theme of the conference was "Improving Connectivity: a key contribution of SPECA to the success of the Transformation Decade of Afghanistan."

Regional Economic Cooperation Conference for Afghanistan (RECCA)

RECCA serves as the coordination body for economic activities related to Afghanistan. The first RECCA took place in Kabul in 2005 and since then has been followed by four further conferences. The aim of RECCA is to achieve regional cooperation in the promotion of shared economic interests as well as better coordination of political and security initiatives in the region. RECCA has focused on expansion of infrastructure (transport and energy), development of human resources (education and training) and advancement of regional economic linkages (trade and investment). Within the framework of RECCA, Afghanistan completed a range of joint development projects with the governments of countries of Central Asia as well as expounding priorities and strategies for further economic activity in the region. In its objectives, RECCA acts as an extension of Afghanistan National Development Strategy and has channeled capital to facilitate the expansion of railroad networks, economic corridors and electricity transmission lines, connecting Afghanistan with Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. RECCA V, the latest conference that took place in 2012, laid down foundations for the "transformation decade" (2015-2024), during which Afghanistan's fiscal sustainability and strengthened economic links with its neighbours will permit it to become a well-integrated part of Central Asia, primary destination for foreign direct investment and an export-oriented economy.

Central Asia Regional Economic Cooperation (CAREC)

CAREC was established in 1997, with China, Kazakhstan, Kyrgyzstan and Uzbekistan being the founding members, and since then has expanded its membership to 10 countries to include

Afghanistan, Azerbaijan, Mongolia, Pakistan, Tajikistan and Turkmenistan. CAREC is additionally supported by six multilateral development institutions (ADB, EBRD, IMF, IDB, UNDP, and WB). The purpose of the initiative is to promote cooperation on economic activities in Central Asia. 146 CAREC-related projects have been implemented so far in the areas of transport, trade facilitation, trade policy and energy, within the total budget of $22.4 billion. Since Afghanistan joined CAREC in 2005, it has received $2.6 billion in investment into 25 projects in the areas of trade, transport and energy, with 17 CAREC projects still ongoing. CAREC has achieved substantial progress in modernizing Afghanistan's customs processing, which resulted in faster transit of goods and services and strengthened capacity of customs institutions in Afghanistan. The organization was also instrumental in implementing the Regional Power Transmission Interconnection Project, whereby double-circuit transmission lines were developed between Afghanistan, Tajikistan and Turkmenistan. In 2013, the Trade Policy Strategic Action Plan for 2013-2017 was unveiled in Astana, in which plans for implementation of "Second Customs Reform and Trade Facilitation Project" for Afghanistan were outlined, which will result in development of automated customs information systems and integrated border management for Afghanistan and is expected to boost overland trade with its neighbours in Central Asia. CAREC is also providing knowledge support to Afghanistan's Working Group negotiating accession to the WTO.

'Non-standard' border trade between Afghanistan and Central Asia

In addition to 'standard' trade—in which data on the type of good, its origin, quantity, and price are recorded by border authorities—'non-standard' border trade, in which small merchants and traders cross borders to buy or sell generally small volumes of products, is also common in Central Asia and between Afghanistan and its neighbours. Border trade is defined as "the flow of goods and services across international land borders to destinations within 30 kilometres of the border" (World Bank, 2012). (Two other two types of non-standard trade are re-exports and transhipments).

In 'standard' trade goods are typically transported by railway or truck making it easy to track consignments. In contrast, for non-standard border trade goods are often carried by individuals on foot, on bicycle, or by light vehicle. Products traded can be either produced domestically, for example through household agricultural production, or they can be re-exports of previously imported products such as household goods. Such trade is often not recorded, and is thus not the subject of official statistics. It is therefore hard to make accurate assessments of the scale of 'non-standard' trade in the region. As noted above, some estimates are that around 40% of Afghanistan's total trade by value is unrecorded; other estimates for Central Asia as a whole put the value of this trade even higher, suggesting it may be roughly equal in magnitude to standard trade in the region (World Bank, 2012).

Border trade can be importance for the livelihood of communities living close to border trading points. Government policies facilitating or restricting the movement of people and vehicles across borders are vital for the success or failure of border trade (see next chapter). Border trade is often predominantly in consumer products but can also include wider product categories such as construction materials or automotive parts.

Border trade tends to cluster around major border crossing points. A World Bank study of Afghanistan's border trade with its Central Asian neighbours found that the bulk of trade with Uzbekistan and Tajikistan passes through only two crossing points: at Hairatan and Sher Khan Bandar respectively (table 4.7). In general, border trading was found to be underdeveloped on account of several obstacles to the free flow of people and goods (see Chapter 6). Approximately, 100 people use the Sher Khan Bandar BCP daily, more than twice the number at Hairatan. Of these a higher share are reported to be small shuttle traders. A study of the patterns of trade at the BCPs reports: "Almost everyone coming from Tajikistan goes through customs clearance, declaring transported goods exceeding the 55-kilogram threshold of items of everyday use that can be brought into Afghanistan free of border charges. At Hairatan, only about a fifth of those crossing the border from Uzbekistan declare customs. Those who do so usually represent large national joint-stock companies, known as "shirkats," involved in standard trade and not shuttle-bazaar type trading" (World Bank, 2012).

Table 4.7: Traffic at major border crossing points with Central Asia

Border Traffic	Hairatan, Uzbekistan	Sher Khan Bandar, Tajikistan
Number of people crossing daily	60	100
	% of people crossing	
Weekly	32	60
Monthly	66	25
Daily	2	15
	% of people crossing the border by:	
Car	45	5
Boat	17	60
Truck	15	35
Railway	20	-
On foot or bicycle	3	2
	Daily traffic in terms of mode of transportation (no. of vehicles)	
Cars	20	5
Trucks	2	50
Boats	1-2	6
Railway, weekly	1-2	-

Source: World Bank (2012)

Energy trade and linkages

Regional energy trade considerable potential and will have important development consequences in two major aspects:

- Afghanistan still has acute domestic energy shortages which can be partly met via energy imports from energy-rich Central Asian neighbours, at least until domestic sources of energy, including renewables, are more fully utilized
- As a 'bridge' linking the energy reserves of Central Asia with the growing demand of South Asia, Afghanistan has a large potential role as a transit country with attendant benefits to employment and infrastructure from the associated investment and construction

Rates of access to electricity in Afghanistan are still low, although the power supply almost tripled from 2006 to 2011. Some estimates are that only around 30% of the population has access to electricity though this rises to 70-75% in the capital, Kabul (EWI, 2014). Afghanistan has domestic energy resources which could be exploited to increase supply and self-sufficiency. For instance, some suggest that Afghanistan can meet up to 80% of demand for petroleum from domestic sources. Further, according to the United States Geological Survey (USGS, 2007), energy resources as yet undiscovered may include:

- 15.687 trillion cubic feet (tcf) of natural gas;
- 1,596 billion barrels (bbl) of oil;
- 0.562 bbl of natural gas liquids.

The Afghan-Tajik basin is the location of most of the undiscovered oil reserves, while the majority of the undiscovered natural gas is located in the Amu Darya basin. In terms of renewable energy prospects, wind energy in Western Afghanistan alone could reach 158,000 MW and national hydropower potential is in excess of 23,000 MW (EWI, 2014). ADB is investigating the potential to develop multiple interconnections and power generation possibilities (thermal-gas and hydro) on the northwestern borders of Afghanistan, calling it the TUTAP project (Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan).

However, prior to the development of indigenous resources, Afghanistan will continue to require imports of both electricity and petroleum products. As noted above, most current imports from Central Asia are for petroleum products. Central Asian energy resources are substantial (table 4.8). The region is expected to have potentially tradable electricity surpluses up to 2025 (with the exception of Kazakhstan). While the surplus energy generated by the region as a whole is expected to decrease from 25338 GWh in 2010 to 23178 GWh in 2025, the region will still have a surplus of 23178 GWh for export.

Table 4.8: Central Asia: regional electricity surpluses available for trade (GwH)

Country	Season	2015	2020	2025
Kazakhstan	Summer	6876	3745	-234
	Winter	-130	-5563	-12318
	Annual	6746	-1818	-12552
Kyrgyzstan	Summer	6863	6406	5991
	Winter	1517	5761	4753
	Annual	8381	12167	10744
Tajikistan	Summer	6767	12579	11697
	Winter	4287	8308	7431
	Annual	11055	20887	19128
Uzbekistan	Summer	7635	5088	2091
	Winter	9846	7058	3767
	Annual	17481	12147	5858

Total	Summer	28142	27819	19545
	Winter	15521	15564	3633
	Annual	43663	43383	23178

Source: World Bank (2004) Central Asia: Regional Electricity Export Potential Study

In addition to imports to meet internal demand, Afghanistan can also serve as an energy transit corridor for South Asia, which itself has substantial energy needs. Facilitating this trade will benefit Afghanistan in several ways. The construction projects will create large employment opportunities in the region. In addition, the spin-off benefits in other sectors will also likely boost the Afghan economy. Whereas the infrastructure will allow Afghanistan to impose transit fees and exploit the lines by importing electricity from Central Asia, enhancing the country's low access to electricity. In the post construction phase, the infrastructure will provide long-term employment opportunities for the operation and maintenance of the projects. Finally, upon successful completion, the power trade will establish Afghanistan as a reliable investment destination in other sectors. Several major projects are underway that would do more to provide regional energy linkages (see box below), notably the Turkmenistan, Afghanistan, Pakistan and India (TAPI) Natural Gas Pipeline**.**

BOX: Energy cooperation projects in Central and Southern Asia

Turkmenistan, Afghanistan, Pakistan and India Natural Gas Pipeline (TAPI)

The governments of Turkmenistan, Afghanistan, Pakistan and India have been discussing the possibility of a natural gas pipeline supplying fuel from Turkmenistan to Pakistan and India via Afghanistan since the 1990s. The route of the pipeline would link the South Yolotan gas field in Turkmenistan to Heart, Kandahar (Afghanistan); Chaman, Quetta, Multan (Pakistan) and Northern Indian city Fazilka. The TAPI pipeline is projected to be 1,775 km long with a capacity to deliver 33 billion cubic meters of gas per year. The pipeline will be constructed and operated by a group of national oil and gas companies. It is expected to become fully-operational by 2017. Users of the TAPI will pay transit fees, which are expected to bring between $200-500 million into the Afghan treasury annually and create 12,000 jobs, mainly in construction (EWI, 2014). The ADB estimates that the project will cost over $7.6 billion.

In 2010 the leaders of the four countries signed a preliminary agreement to proceed with the project. In 2011-12, there were several meetings of Working Groups on TAPI and further agreement was reached on the commercial terms of gas supply and transit as well as various public-private partnership proposals. It is expected that this project will also provide an impetus for further regional cooperation and stability. For instance, in order to enable steady supply of electricity to the regions where pipeline construction is due to take place, the government of Turkmenistan was actively involved in construction of 300-kilometer-long Mary-Atamyrat 500 kV transmission lines that supply electricity from Turkmenistan to Afghanistan for personal and industrial use. The government of Afghanistan has proposed Independent Power Producer and Build-Operate-Transfer agreements that would enable private contractors from its neighbouring countries to install and operate various components of infrastructure, spurring further links within the private sector.

Central Asia – South Asia Electricity Transmission and Trade Project (CASA-1000)

CASA-1000, is an initiative that was set up to create conditions for sustainable electricity trade

between the Central Asian countries of Tajikistan and Kyrgyzstan and the South Asian countries of Afghanistan and Pakistan over a 30-year span. This initiative has received strong support by the World Bank, the International Finance Corporation (IFC), the Islamic Bank and many bilateral donor agencies. The project is designed to transmit 1,300 MW of summer-surplus electricity from existing hydropower plants in Tajikistan and Kyrgyzstan, through Afghanistan to Pakistan, of which 300 MW will be drawn by Afghanistan while the remaining 1,000 MW will transit to Pakistan. Realizing the CASA-1000 will require the following:

- 500 kV line from Datka to Khudjand (477 kilometres)
- 1,300 megawatt AC-DC converter station at Sangtuda
- 750 kilometre high voltage DC line from Sangtuda to Kabul to Peshawar
- 300 megawatt converter station at Kabul (with import and export capability)
- 1,300 megawatt DC-AC converter station at Peshawar

Upon completion, the project will provide a functioning, affordable electricity system, enabling improved transportation, telecommunications, industry and social services. Given Afghanistan's location in the transmission system, imported electricity that is not used could be re-exported to Pakistan. Generating valuable income, which could be re-invested to enable the country's continued development. The transmission system is expected to foster closer regional cooperation on energy amongst the four participating countries, the evidence of which is the establishment of regular meetings between working groups for CARASEM to streamline the project's implementation. Some concerns have been raised, however, on the impact on downstream water users.

Source: ADB NGO Forum (2014); EWI (2014)

5. AFGHANISTAN'S EXPORT POTENTIAL

Production concentration and export diversification

In common with other landlocked developing counties, Afghanistan and the economies of Central Asia are highly trade dependent on exports of a few key commodities (table 5.1), generally with low domestic value added. The commodity concentration index, which reflects how both exports and imports are concentrated on a few products, is considerably higher in Afghanistan and the Central Asian economies than the developing country average (figure 5.1). Countries dependent on earnings from primary commodities can suffer particular disadvantages. For instance, the low income elasticity of world demand for primary commodities can lead to falling export revenues which can be exacerbated by historically downward trends in primary commodities' prices relative to manufactures. Further, primary commodity production for export often has weak backward and forward linkages to other sectors leading to little in the way of technological spillovers or learning.

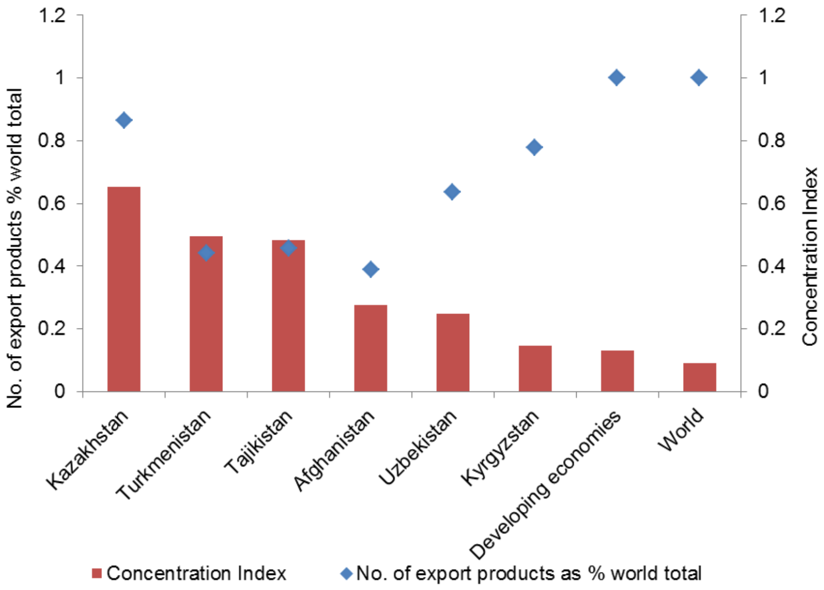
Table 5.1: The top three exports of Afghanistan and the Central Asian economies, 2013

Country	Share of top 3 exports in total exports (percentages)	Description and share in percentages
Afghanistan	40.4	Cotton, not carded/combed (20.5); figs, fresh/dried (10.8); coal other than anthracite and bituminous, whether or not pulverized (9.0).
Kazakhstan	67.8	Petroleum oils and oils obtained from bituminous minerals, crude (48.3); petroleum oils and oils obtained from bituminous minerals, crude (15.5); natural uranium and its components.; alloys, dispersions, ceramic (4.0).
Kyrgyzstan	12.6	Copper waste and scrap (4.8); natural uranium and its components.; alloys, dispersions, ceramic (4.7); float glass and surface ground/polished glass, non-wired (excl. of 7005.10) (3.1).
Tajikistan	64.2	Aluminium, not alloyed, unwrought (44.9); cotton, not carded/combed (11.5); lead ores and concentrates (7.7).
Turkmenistan	90.1	Natural gas, in gaseous state (79.3); petroleum oils and oils obtained from bituminous minerals (excl. crude) 8.3); cotton, not carded/combed (2.4).
Uzbekistan	36	Natural gas, in gaseous state (19.1); cotton, not carded/combed (9.6); cathodes and sections of cathodes, of refined copper, unwrought (7.3).

Source: ESCAP (2014) based on data from UN COMTRADE Database.

Economic diversification—generally measured by the range of goods a country exports—is thus a critical priority for Afghanistan and the region. Export diversification can be defined as the change in the composition of a country's existing export product mix or export destinations, or as the spread of production over many sectors. For many developing countries, and as part of an export led growth strategy, export diversification is conceived as the progression from traditional to non-traditional exports.

Figure 5.1: Diversification indices of merchandise exports and imports (2013)



Source: ESCAP (2014)

Diversification can lower instability in export earnings and expand export revenues (ESCAP, 2012). Diversification can also support upgrading of value-added activities and enhance growth through improved technological capabilities via broad scientific and technical training as well as learning by doing, facilitation of forward and backward linkages. This can lead to increased sophistication of markets, scale economies and externalities, and substitution of commodities with positive price trends for those with declining price trends. Reduced dependence on a limited number of countries and markets can also improve economic resilience.

In general, commodity-dependent countries are more diversified across markets than across products e.g. the share of the top three markets in total exports is lower than for the top three products. The importance of diversification as a protection against fluctuations in external demand has been brought home by the recent global crisis. For commodity producing countries, the concentration of exports may be more damaging than the dependence on natural resources *per se*. Indeed, as demand for commodities is likely to continue to rise over the medium-term, diversification into agricultural and mineral commodities is being considered in many low-income countries. Increasingly, services trade has also become an important source of export diversification.

This suggests that the usual focus on diversification into low-skills manufacturing is not the only option for resource exporting countries. Alternatives include combining resource based manufacturing and commodity processing. Other options involve expanding non-traditional primary exports by increasing efficiency of firms operating in the agriculture and natural resources sectors; building on recent technological advance in food packaging and transportation; producing new types of commodities such as off season specialty, fresh vegetables or cut flowers, as well as trade in services.

Identifying products with export potential for Afghanistan

Diversification does not occur at random. Instead, countries are encouraged to diversify into sectors that are related with their existing production base and product mix. In other words, diversification is 'path dependent.' In general, private firms are best placed to spot export opportunities and make decisions on whether to expand into new products. However, analysis of a country's competitiveness can help understand the blockages that may be preventing exports and prompt public intervention where there are public, market or information failures.

By mapping the probability that production of two products occurs together, ESCAP research has produced a global 'product space' which can help countries identify products that may be suitable for production given their existing capabilities (ESCAP, 2014). In other words, given an existing set of products it is possible to estimate which new products could emerge through diversification with a high degree of probability (given the relationships observed in other countries).

Afghanistan's product space shows that production is limited to a few products and that these are generally to the periphery of the global product space. This means that there are fewer 'nearby' products than in the dense center of the product space; future diversification is thus harder. For contrast, the product space of China shows—as would be expected—a much wider range of product types and more production of products which are closely linked with numerous other products.

While diversification is important *per se*, countries should also seek to diversify into products which have greater complexity than existing production. 'Complex' products are defined as those produced by more diversified (generally higher income) economies; it can thus be assumed that they embody a more sophisticated set of production capabilities. Because learning to produce these products entails the acquisition of new capabilities it opens the possibility of further new product production and diversification.

Applying this analysis to Afghanistan reveals those products of above average complexity (compared to existing production in Afghanistan) in which Afghanistan has export potential. Opportunities across 220 products at the HS code six-digit level have been identified with the full list given at Annex A. The top five sectors in which Afghanistan has opportunities in and their shares among the total are identified in table 5.2, with similar results for the Central Asian economies included for comparison. Textiles, base metals, and plastic and rubber are the two sectors with the largest number of potential products. Examples of specific products with identified export potential include various garments and apparel items like coats and gloves; certain items of plastics; cereals based processed foods like waffles; and paper-based items like paperboards.

Table 5.2: Top five industries with highest percentages of potential new products with above average complexity, 2013

Sector	Afghanistan	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Base metals	18	22	22	18	17	19
Chemicals	11	17	13	6	8	10
Machinery & Electrical equipment	14	14	12	5		14
Paper					8	
Plastic and rubber	16	14	12	14	10	15
Textiles	18	10	16	39	40	14
Others	23	23	25	18	17	28
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: ESCAP (2014)

Although the agriculture sector does not feature among the top five sectors identified, given its importance for employment in the region it is essential to also consider opportunities for export diversification in that sector. Table 5.3 shows the share of agricultural export opportunities across different commodities. For Afghanistan, the most products with export potential were in the categories of cereal, flour, starch milk preparations and products.

Table 5.3: Percentage of total new export opportunities of agriculture and agro-industries

Sector	Afghanistan	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Animal,vegetable fats and oils, cleavage products, etc		35	16			24
Cereal, flour, starch, milk preparations and products	52	44	16	31	25	17
Cocoa and cocoa preparations			43		54	21
Coffee, tea, mate and spices				19		
Edible fruit, nuts, peel of citrus fruit, melons				50		
Lac, gums, resins, vegetable saps and extracts nes	7					
Milling products, malt, starches, inulin, wheat gluten		9				
Miscellaneous edible preparations	14		4		21	
Sugars and sugar confectionery	27	3				22
Sum of others with smaller share			6			4
Vegetable, fruit, nut, etc food preparations		9	14			12

Source: ESCAP (2014)

Products with export potential to Central Asia and the Russian Federation

Refining the analysis to consider only Central Asian export markets, it is possible to derive a shortened list of potential products that Afghanistan could produce where import demand is also growing in Central Asia. The size of the growth in import demand in the previous year (in this case 2012-13) is then understood as the size of the *export potential* for that product in that market—although of course it would not be expected that Afghan exporters alone would be able to realize the entire opportunity themselves.

Given the small size of the Central Asian economies, it is unsurprising that the total export potential for identified products is considerably less than in the top 5 markets globally (table 5.4). Of the Central Asian economies Uzbekistan is deemed to have the highest total potential for new Afghan

products with an export potential value of $71 million. Although the total size of the Central Asian markets is small, Afghanistan may be better placed to gain market share in these markets if the right policies are put in place so that it can benefit from its proximity.

In terms of the specific products identified with export potential for Central Asia, the most promising by value are shown in Figure 5.5 (the full list is included in Annex B). Products identified include iron and steel based items such as flat rolled metals and wires; wood or paper based items like fibreboard and sacks; and some apparel items like gloves.

Table 5.4: Export potential for identified new products globally and in Central Asia

Size of export potential for identified products in top 5 markets globally		**Size of export potential for identified products in Central Asia**	
Country	Export opportunity ($ million)	Country	Export opportunity ($ million)
1. Germany	**2,856.9**	**1. Uzbekistan**	**70.9**
2. Malaysia	**1,406.6**	**2. Kazakhstan**	**25.0**
3. France	**1,247.9**	**3. Turkmenistan**	**20.2**
4. United States	**956.0**	**4. Tajikistan**	**7.6**
5. Netherlands	**911.6**	**5. Kyrgyzstan**	**2.0**

Source: ESCAP analysis 2014 (mimeograph)

Figure 5.5: Top 10 new products for export to Central Asia by size of export opportunity ($ USD million)

Partner	**HS Code**	**Category**	**Sub-Category**	**Export opportunity**
Uzbekistan	721070	Iron and steel	Flat-rolled prods. Of iron/non-alloy steel, of a width of 600mm/more	25.6
Uzbekistan	841790	Nuclear reactors, boilers, machinery and mechanical appliances	Parts of the industrial/labouratory furnaces & ovens of 8417.10-8417.80	12.9
Uzbekistan	721710	Iron and steel	Wire of iron/non-alloy steel, not plated/coated, whether or not polished	9.2
Turkmenistan	441119	Wood and articles of wood	Fibreboard of wood/oth. Ligneous mats., whether or not bonded with resins	6.9
Turkmenistan	721240	Iron and steel	Flat-rolled prods. Of iron/non-alloy steel, of a width of <600mm	6.7
Tajikistan	611692	Articles of apparel and clothing accessories	Gloves, mittens & mitts, knitted or crocheted, other than those impregnated	5.6

Turkmenistan	680790	Articles of stone, plaster, cement, asbestos, mice or similar materials	Articles of asphalt/sim. Mat. (e.g., petroleum bitumen/coal tar pitch)	4.2
Uzbekistan	390330	Plastics and articles thereof	Acrylonitrile-butadiene-styrene (ABS) copolymers, in primary forms	4.0
Uzbekistan	481930	Paper and paperboard; articles of paper pulp	Sacks & bags, having a base of a width of 40cm/more	3.9
Uzbekistan	600634	Knitted or crocheted fabrics	Knitted/crocheted fabrics, n.e.s. in Ch.60, of synth. Fibres, printed	2.9

Source: ESCAP analysis 2014 (mimeograph)

In addition to Central Asia, we also considered items of above average complexity with export potential to the Russian Federation. The total size of the export opportunity for the identified products was $345 million. In other words, that was the size of import growth in those sectors in 2012-13. The top ten identified products for export to the Russian Federation are shown in Figure 5.6.

Figure 5.6: Top 10 new products for export to Russian Federation by size of export opportunity ($ USD million)

HS Code	Product	Export opportunity ($ million)
390690	Acrylic polymers other than poly(methyl methacrylate), in primary forms, $0-2	80.2
721070	Flat-rolled prods. of iron/non-alloy steel, of a width of 600mm/more, paint ..., $1-1	48.1
611693	Gloves, mittens & mitts, knitted or crocheted, other than those impregnated ..., $18-55	24.2
350510	Dextrins & oth. modified starches, $0-3	23.2
293100	Organo-inorganic comps., n.e.s. in Ch.29, $3-19	18.5
848060	Moulds for min. mats., $4-18	17.4
390330	Acrylonitrile-butadiene-styrene (ABS) copolymers, in primary forms, $2-3	12.4
281122	Silicon dioxide, $1-8	12.3
560313	Nonwovens, whether or not impregnated/coated/covered/laminated, of man-made ..., $3-12	12.2
392062	Plates, sheets, film, foil & strip, of poly(ethylene terephthalate), non-ce ..., $2-9	11.1

The analytical techniques described above can provide a useful starting point for countries that are seeking to pursue strategic policies of economic diversification. Implementing a strategy of this nature requires "the selective promotion of new economic activities over traditional ones through the use of targeted industrial, infrastructure, trade, investment and private sector development policies" (ESCAP, 2014, p37).

A few caveats should be noted. Firstly, this analysis relies on export data as a proxy for production data. As Afghanistan's trade data is not comprehensive there may be gaps; in the case of countries with low overall trade volumes like Afghanistan, exports may not be a good proxy for total

productive capacities. In relation to this, areas where there is large potential but virtually no production at present—such as many minerals in the case of Afghanistan—will not be captured by the methodology. Second, the results identified—in terms of specific products—by these analytical methods should be considered as a starting point for further detailed sectoral analysis and identification of directions for diversification. In this sense, this type of information has the qualities of a public good in that it "reduces the cost of discovery of potential successful new economic activities by informing entrepreneurs of the new products that require productive capacities similar to those already available in the country" (Ibid).

In any case, alongside developing sectoral programmes to facilitate diversification, Afghanistan needs to create a general environment conducive to trade and investment, not least with regional partners in Central Asia. Strengthening national policies and institutions, alongside physical and soft infrastructures remains important. Major overarching barriers to further regional trade and investment are presented in the next section.

6. BARRIERS TO TRADE

Trade and investment linkages are currently extremely limited between Afghanistan and Central Asia, despite the opportunities outlined above. Policy barriers including tariffs and non-tariffs are partly responsible and are considered in this chapter; the subsequent chapter considers obstacles stemming from a lack of infrastructure and inefficient border and trade facilitation procedures.

Tariff barriers

As the productive capacity of Afghanistan is low or absent in most sectors, the country imports the majority of its requirements for intermediate and final consumption. Thus, in response to concerns over consumer welfare and price-stability in the immediate post-2003 period the government adopted a liberal trade regime, with low average tariffs. Indeed, Afghanistan's tariff rates are among the lowest rates applied by a least developed country anywhere in the world (figure 6.2). In 2010, the average tariff rate in Afghanistan was lower than the average tariff rate for similar LDCs in South Asia which was at that time 13.5% (World Bank, 2012). The tariff structure maintained by Afghanistan National Tariff Schedule is based on a Harmonized Commodity Description and Coding System (HS 2012), and the tariff rates consists of 14 tariff bands which ranges from zero to 50% (MoCI, 2013) as presented below (table 6.1).

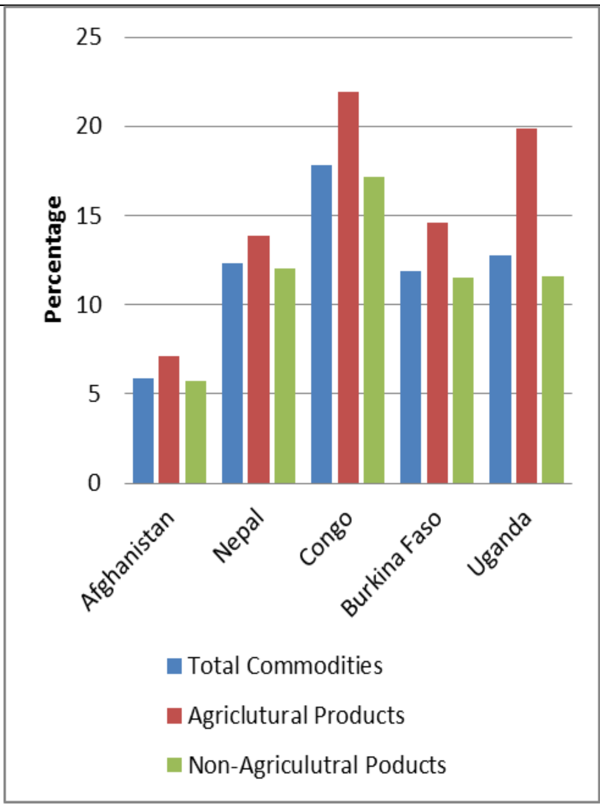
The majority of products have tariff rates at a level of 5% or lower, and only a small handful of tariff lines have rates over 10%. Vehicles and salt are the commodities with the highest tariff band (35%-50%), followed by furniture, fruits, nuts, processed marbles and carpets (25%). In addition to tariffs, a tax ranging from 2% to 3% is also levied on all imports. Prohibited goods include those goods which are illegal as per the constitution of the country, such as alcoholic drinks, pork, and illegal drugs. Tariffs remain a trade policy instrument for Afghanistan, but their usage as a protective measure is particularly used in relation to the sensitive agricultural sector. For instance, in the wheat sector tariffs have been increased in some years to promote domestic production but tariffs have also not been used in other years, such as 2011, when domestic production faltered on account of poor growing conditions.

Table 6.1: Tariff Structure of Afghanistan (2012)

Serial No	Tariff Band	No. of Tariff Lines	Share in Total (%)
1	0%	27	0.5
2	1%	83	1.55
3	3%	1510	28.11
4	4%	10	0.19
5	5%	2255	41.98
6	8%	28	0.52
7	10%	1123	20.91
8	12%	4	0.07
9	16%	207	3.85
10	20%	21	0.39
11	25%	38	0.71
12	35%	4	0.07
13	40%	9	0.17
14	50%	4	0.07
15	Prohibited	48	0.89
	Total	5471	100

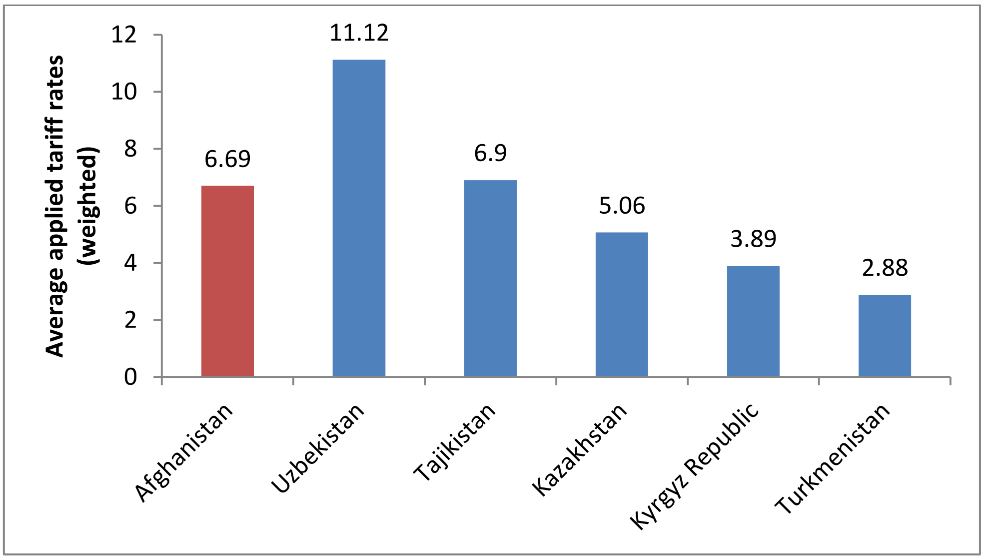
Source: WTO Working Party Report, 2012

Figure 6.2: Comparison of simple average MFN rate between five LDCs (2012)



Source: WTO, 2012

Figure 6.3: Average applied tariff rates in Afghanistan and Central Asia



Source: WTO, World Tariff Profiles 2013

The forms and types of tariffs and taxes currently applied for imports by the Afghan government are as following:

- Ad valorem tariffs;
- Specific duties, expressed as fixed amount of money per quantity;
- A combination of ad valorem tariffs and specific tariff rates;

Customs valuation is done on the basis of Article VII of GATT 1994. Valuation is based on the transaction value of the goods subject to adjustments due to the inclusion of the cost insurance and freight charges.

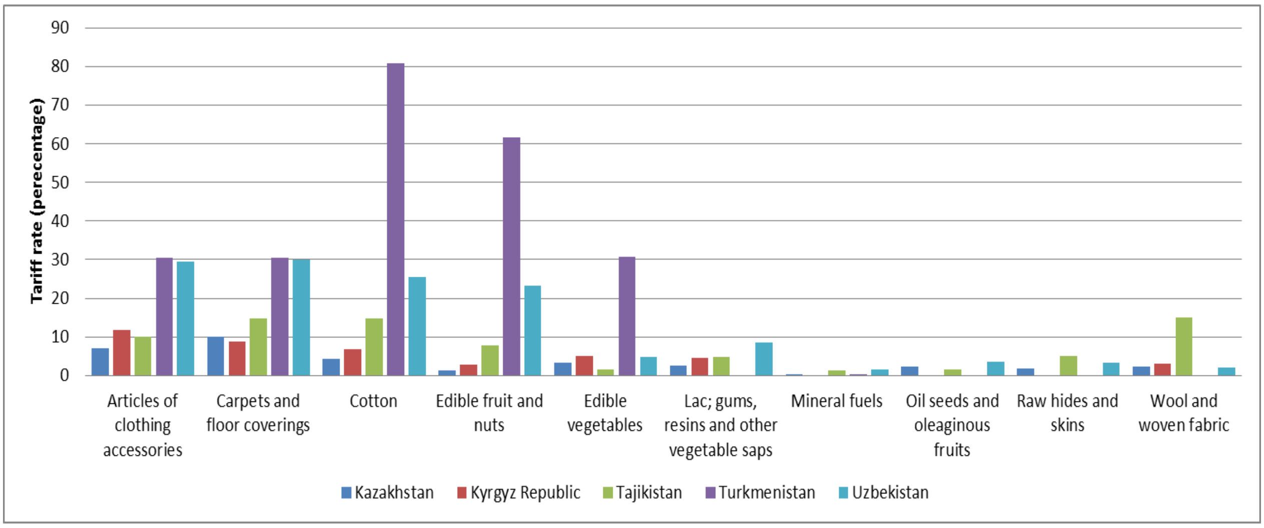
Table 6.2: Tariffs Applied by Afghanistan on Imports from Central Asian Partners

Partner Country	Raw Materials		Intermediate Goods		Consumer Goods		WTO HS Agricultural		WTO HS Industrial	
	Simple Average	Weighted Average	Simple Average	Weighted Average	Simple Average	Weighted Average	Simple Average	Weighted Average	Simple Average	Weighted Average
Uzbekistan	2.50	2.50	3.08	2.68	8.93	3.99	7.00	2.64	5.55	6.37
Kyrgyz Republic	3.89	6.37	2.20	2.51	6.25	3.83	5.00	3.18	9.25	8.36
Tajikistan			2.20	2.51	6.25	3.73	4.20	2.65	5.35	14.83
Turkmenistan			2.75	2.73	6.50	3.04	4.20	3.33	6.38	9.98
Kazakhstan	5.83	3.76	2.50	2.50	7.24	5.09	6.25	2.70	6.20	14.02

Source: WTO, COMTRADE, TRAINS; 2014

Average applied tariff rates are also generally low in most Central Asian economies. Only Uzbekistan has an average applied tariff rate above 10% (figure 6.3). However, some of Afghanistan's top export products do face higher than average tariffs in some Central Asian economies (figure 6.4). Notably, cotton; fruit; vegetables; and carpets all face tariffs between 20% and 80% in Turkmenistan and Uzbekistan. Preferential access for Afghan traders to these markets might help encourage trade in these product sectors which are of considerable potential.

Figure 6.4: Average AppliedTariffs imposed on Afghanistan's major export items



Source: WITS

In terms of access to the markets of the Russian Federation, Afghanistan can benefit from the preferential market access that the Russia Federation offers to LDCs through its Generalized System of Preferences, launched in 2012. This offers Duty-Free Quota-Free access to a range of products from LDCs. At present the scheme covers 38.1% of tariff lines or 6885 tariff lines (WTO, 2014). This can be of use to Afghan exports. However, the programme has narrower coverage than DFQF programmes offered by some other countries. Excluded products cover a wide range of tariff lines including petroleum products, copper, iron ores, articles of leather, articles of apparel and clothing. Some of these excluded sectors are of direct interest to Afghanistan so there is scope for considering expanding the scheme to cover an even wider range of relevant products.

Non-tariff measures

Non-tariff measures include wide range of policies, regulations and standards impacting trade. Data on the existence and impact of non-tariff measures on trade is harder to obtain than in the case of tariffs but their consequences can often be greater. 'Technical' non-tariff measures such as technical barriers to trade (TBTs) and sanitary and phytosantary (SPS) standards can be particularly disadvantageous for developing economies in general, and least developed countries like Afghanistan in particular. For instance, producers and traders in these economies may have weaker capacity to meet the requirements imposed by NTMs where they necessitate more advanced production processes or trade-related infrastructure, for example testing and certification facilities. Such producers can also suffer from shortages of information on the implications of the NTMs faced by their export products. Further, NTMs are also frequently applied to those products which are of particular importance for developing economies like Afghanistan. For instance, food and agricultural goods—often sectors where developing countries have a comparative advantage—are some of the areas where NTMs—especially SPS measures—are the most prevalent.

There is evidence that Afghan agricultural exports have been struggling to meet SPS standards abroad, including those of the Central Asia countries, or are suffering delays at the border caused by inefficient or inadequate inspection regimes and facilities. This undermines the ability of export-oriented agriculture industries to supply their produce to the region. Indeed, trade across the region as a whole suffers from a number of impediments resulting from inefficient, out-dated or uncoordinated SPS systems. An ADB review of SPS measures in the CAREC region concluded that: "Overall … none of the countries … is properly equipped to test for hazards in food, or for pests and diseases that might be present in plants, fruits, or vegetables. Moreover, the food tests that these labouratories are capable of carrying out are for the most part obsolete and quality based rather than being oriented to safety….The reality in border control operations in the CAREC countries is that inspection and testing procedures relating to perishable agricultural commodities cause significant delays" (ADB, 2012).

Notable border problems observed in the SPS assessment (which covered, among others, Kazakhstan, the Kyrgyz Republic, and Uzbekistan) were documented and the ADB report also identified a number of areas for improvement:

- The major obstacle to implementing smoothly functioning SPS systems in the CAREC countries is the continued use of the State Standards (GOST) inherited from the former Soviet Union. The fact that such standards are not WTO compliant means that they are not

recognized by most trading countries. New legal frameworks will be needed that adhere to SPS principles either via new legistlation or amending existing laws.

- Countries would benefit from adopting WTO-compliant measures, regardless of their WTO membership status. The accession of the Russian Federation to the WTO in 2012 should accelerate this process as other former Soviet Union countries will need to adopt WTO-compliant standards to retian access to the Russian market.
- There is a need to streamline the day-to-day administration of SPS controls at international entry and exit points. More specifically, single window facilities for processing goods through both entry and exit customs formalities, automated customs information systems, and coordinated management of border clearance procedures will be required to avoid duplication and overlap of customs control responsibilities among various agencies, along with the excessive inspection, conformity assessments, and permit issuance requirements that such duplication of effort entails.
- The border controls currently in place for ensuring the safety of food of either plant or animal origin in the CAREC countries are generally not based on risk avoidance. Also, the labouratories that provide diagnostic backup to the implementation of the current measures have significant deficiencies in capacity.

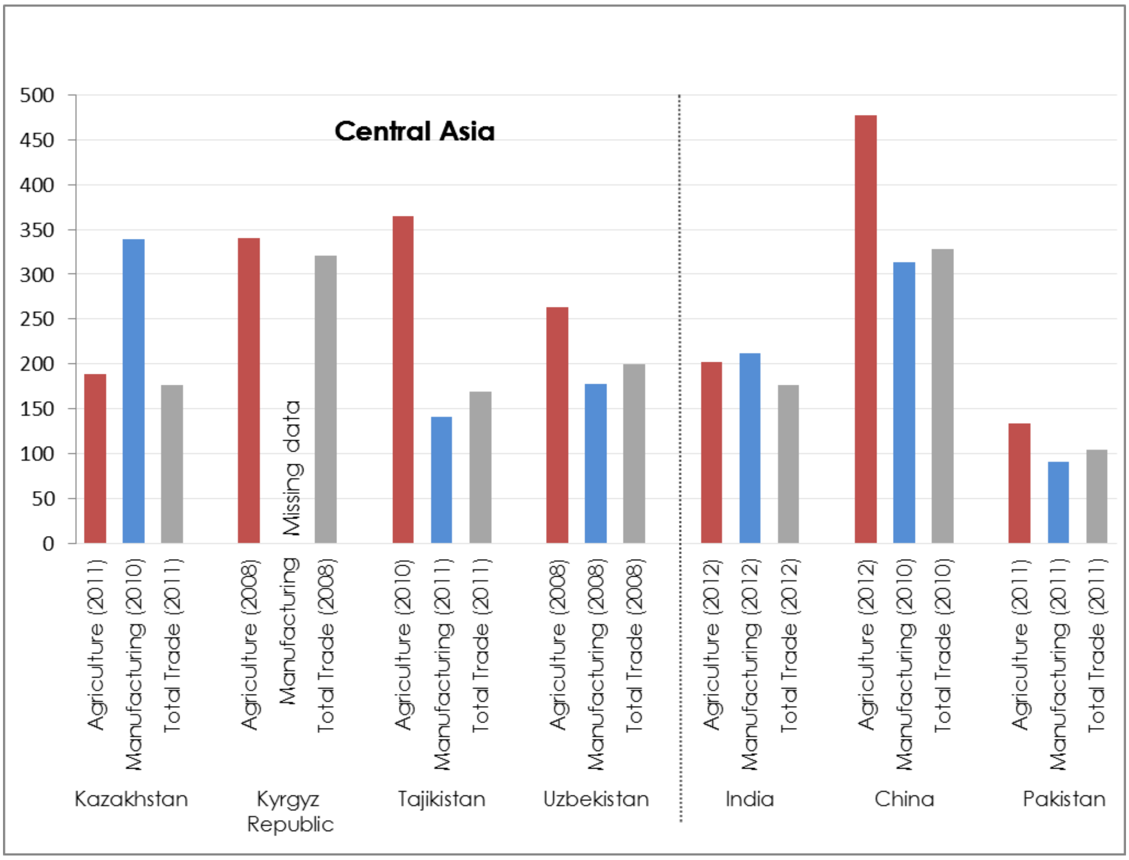
Beyond the border barriers and trade costs

As a landlocked country, Afghanistan is being prevented from reaching its trade potential by the lack of infrastructure, in particular road and rail links with neighbouring countries which are also its transit routes for reaching other export markets. The mountainous nature of the country makes rail connectivity costly and difficult; and road connectivity between large business centres and consumers and producers of raw materials at the towns and villages yet to establish, remains a major challenge to doing business in Afghanistan. Around 30% of firms in Afghanistan consider transportation as a major constraint (World Bank, 2014).

Afghanistan has hitherto been mainly dependent on the sea port of Karachi for its export and import trade. Newly developed ports at Bandar Abbas and Chabahar (Iran) and at Gawadar (Pakistan), are now opening alternate sea-land routes for accessing the country and beyond. However, while there is need for stronger linkages with all surrounding states, connectivity with Central Asia is weaker than with South and Southwest Asia. ESCAP estimates of total trade costs show that the costs of trade with Central Asia are often double the equivalent of trade with Pakistan and tend to be especially high in agricultural products (figure 6.5). For instance, total trade costs between Afghanistan and Uzbekistan have an ad-valorem (tariff) equivalent of around 200% (ESCAP, 2014). These trade costs include factors beyond simply transport costs but are a good indicator that transport and trade facilitation require prioritization. These weaknesses are reflected in Afghanistan's weak showing in the World Bank's (2014) logistics performance index (see table 6.4),

which rates countries based on six key dimensions[2], captures the poor logistics performance and trade facilitation using a cross-country comparison. Out of 160 participating countries Afghanistan ranked 158. There is thus large scope for improvement. According to ADB estimates, improving the transport connectivity of Afghanistan with Central Asia could boost trade by up to $12 billion annually, increase total regional trade by 160% and transit through Afghanistan by 110%, providing a boost to Afghanistan's GDP of 9-13% (ADB, 2012). Undoubtedly, Afghanistan's transportation infrastructure is underdeveloped, however even the existing infrastructure can support greatly the increased levels of trade. The road network in transit countries to Afghanistan has sufficient reserves of capacity to allow for the mass expansion of cargo shipments (IRU, 2009).

Figure 6.5: Trade Costs between Afghanistan and Central Asia (Ad-Valorem Equivalents)



Source: ESCAP-World Bank Trade Costs Database. (Note: No data available for Turkmenistan)

[2] The six key dimensions of the Logistics Performance Index are: 1. The efficiency of customs and border management clearance; 2. The quality of trade and transport infrastructure; 3.The ease of arranging competitively priced shipments; 4.The competence and quality of logistics services; 5.The ability to track and trace consignments; 6.The frequency with which shipments reach consignees within scheduled or expected delivery times.

Table 6.4: Logistics Performance Index Scores

Countries	2007	2010	2012	2014	Ranking for Infrastructure 2014
Afghanistan	1.10	1.87	2.00	1.82	158
Kazakhstan	1.86	2.66	2.60	2.38	106
Kyrgyzstan	2.06	2.09	2.45	2.02	147
Tajikistan	2.00	2.00	2.03	2.36	108
Turkmenistan	n.a.	2.24	n.a.	2.06	146
Uzbekistan	n.a.	2.54	2.25	2.01	148

Source: World Bank, 2014

7. INFRASTRUCTURE CONNECTIVITY AND TRADE FACILITATION

Road

Afghanistan currently has a road network of approximately 135,000 km (AIMS, 2014). Data suggests that around 70% of the interprovincial and inter-district roads remain in a poor state (ADB, 2014). Given the country's topography, a circular road network close to the borders is a priority for linking the country internally – this has been improved in recent years. Radial branches from this highway then link to neighboring countries. With the completion of the stretch between Herat and Qaiser (300 km), the road circle will be fully in place. The recently completed road radial from Zaranj-Delaram links the circular road with Iran and its port at Chabahar.

Given that the biggest share of Afghan trade is with Pakistan, transit links are crucial both for port access and to provide access to the Indian market. Afghanistan and Pakistan have concluded a transit agreement (APTTA). However, a major Afghan concern remains that implementation is lagging; cargo is often delayed at Karachi; and access to India is not permitted. Land transit for trucks from India seeking to reach Afghanistan is a topic of discussion between Pakistan and India, at present though Indian trucks are not able to reach Afghanistan via Pakistan. Afghanistan also has trade and transit with Uzbekistan and Turkmenistan. A transit and motor vehicle agreement, CBTA, was signed in early 2013, between Afghanistan, Tajikistan and Kyrgyzstan, in the same period a motor vehicle and tanker movement agreement was signed with Iran.

Rail

Historically, Afghanistan never developed a railway network of any scale. Pre-1990, two railway lines from Central Asia (one from Turkmenistan and one from Uzbekistan) reached the Afghan border but did not extend beyond. Afghanistan was not one of the countries that negotiated and adopted the Intergovernmental Agreement on the Trans-Asian Railway Network. Currently, several initiatives are gradually changing the situation; future rail development could play a significant role in linking Afghanistan with other landlocked countries in Central Asia. One link has already been completed: in 2010 a 75-km single-track rail link was completed from Khairaton at the border with Uzbekistan to Mazar-i-Sharif. The Islamic Republic of Iran is also now constructing a 205-km link between Sangan in Eastern Iran to Herat.

Other proposals being considered include:

- An eastern north-south corridor covering around 720 km and running between Mazar-i-Sharif and Jalalabad via Kabul. This would also support a branch line to the copper mine at Logar;
- A northern east-west corridor with a length of 1,250 km running from Kunduz to Herat via Mazar-i-Sharif. Additional branch lines will link this route to rail border points in Tajikistan and Turkmenistan. (EWI, 2014)
- Branch lines are also being discussed from Chaman and Torkham in Pakistan to Kandahar and Jalalabad, respectively. These links could give access to the ports of Karachi (Pakistan) and Mumbai (India), and later to the port of Gwadar when Pakistan Railways complete the 900-km to link the port facilities to the country's main rail network at Mastung (ESCAP, 2014).

Trade facilitation at border crossing points with Central Asia

Facilitating trade at border crossing points is as important as the physical infrastructure that connects border crossings with cities and hinterlands. At present Afghanistan has relatively few sizeable border crossing points with Central Asian neighbours. One of the most important crossings is Hairatan located at the Uzbek border as it is the only border crossing with efficient transport links with much of Central Asia and modern customs facilities. Before completion of the bridge at Sher Khan Bandar, Tajikistan, in 2007, Hairatan was the only major route to Central Asia. The Uzbek city of Termez, located a few kilometres from Hairatan, has railroad connections with both Dushanbe, the capital of Tajikistan, and Tashkent, the capital of Uzbekistan. Goods moving through the Hairatan BCP are mainly industrial raw materials (for example: fuels, glass, and iron bars), shipped to Afghanistan, and limited quantities of raisins shipped to Uzbekistan.

Hairatan's location is also significant because the infrastructure that could support small scale border trade, if the policy conditions were right for it (see box), is already developed on the Afghan side. A bazaar about 3–4 kilometres from Hairatan on the road to Mazar-i-Sharif has about 150 stalls carrying a wide range of goods: cold drinks, biscuits, chips, gums, toffees, phone cards, soap, hand towels, fruits, vegetables, and so on. Another bazaar, the largest in the region, is Mandai in Mazar-i-Sharif, which trades mainly in consumer goods from China and Pakistan (World Bank, 2012).

Sher Khan Bandar is another border crossing point linking Kunduz Province of Afghanistan with Tajikistan. With the construction of Tajikistan–Afghanistan Bridge at Panji Poyon in 2007 the daily trade between Afghanistan and Central Asia has increased on an average with as many as 400 shipping trucks coming to Sher Khan Bandar (MoCI). Aqina, the third most important crossing point with Central Asia through Afghanistan is located at the border with Turkmenistan. Given its location, Mazar-i-Sharif in northern Afghanistan has the potential to become the South Asia-Central Asia connecting node with links to all major crossing points to Central Asia and onward linkages to South Asia.

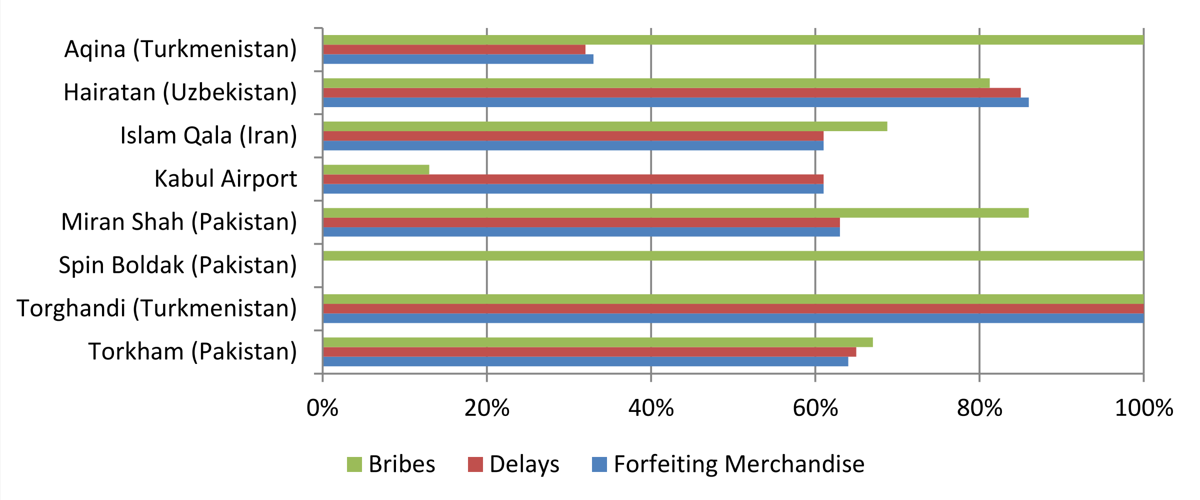
Many traders using border crossing points between Afghanistan and her neighbours continue to report a wide range of problems. Surveys of traders revealed significant problems wide spread and significant issues related to delays and corrupt officials requiring payments either in cash or in merchandise (figure 7.1). For instance, at the Hairatan crossing over 80% of traders reported having to pay bribes. This figure was 100% at crossings with Uzbekistan at Aqina and Torghandi.

In addition to bribes, numerous Afghan importers have reported difficulty in obtaining Afghan passports and visas for travelling to Central Asian countries. This is in contrast to the relative ease to which Afghan importers can move between Afghanistan and Pakistan, however running the risk of being harassed by Pakistani police. It is in part due to this that Afghan traders feel as if they are locked into trading with Pakistan and Iran, despite the strong interest among Afghan traders to explore the possibilities of trading with Central Asia (UCA, 2012).

Another key deterrent to importing from Central Asia is the marketing of products, in particular the labelling. Imports from Kyrgyzstan, Uzbekistan and Tajikistan are labelled in Russian and not in English or any other language accessible to consumers in Afghanistan. In terms of product familiarity, Afghan traders pointed to the lack of consumer familiarity with Central Asian products.

Coordinated efforts such as marketing, trade exhibitions, and product and produce fairs between Afghanistan and Central Asia could revive old linkages between the regions.

Figure 7.1: Percentage of traders reporting problems at different border crossing points



Source: Parto et al (2012)

Box: Barriers to border trade between Afghanistan and Central Asia

As noted previously, unrecorded border trade by small traders is important for many livelihoods in the region. But more could be done by governments to facilitate the trade. Border trade, possessing special characteristics, as opposed to 'standard trade' is more dependent on the free movement of people, vehicles, and goods. The quality of infrastructure at border crossing points (BCPs) is also vital. Without the free movement of goods, vehicles, and visa-free entry for individuals border trade will not flourish. A World Bank study of cross border trade describes the status of these freedoms at the two BCPs (between Afghanistan and Tajikistan and Uzbekistan) as follows:

Free Movement of People: *Notable barriers remain in place. Valid passports with visas and identification cards are required. Significant impediments prevent people from crossing at these BCPs. A valid passport with visa and identification card are required, and passports are stamped at every crossing. Rapidly filled pages discourage crossing, and visas are usually expensive (typically multiples of a local average monthly wage) and difficult to obtain due to distances. No facilitating regime exists for either frequent travellers or residents of border districts.*

Free Movement of Goods: *Free movement of goods is hampered by many restrictions, some due to regulations and others informal. Goods crossing the border into Afghanistan are mostly from Tajikistan and Uzbekistan and include fuel, liquefied petroleum gas, construction steel bars, timber, shoes, soap, glass sheets, and so on. Goods leaving Afghanistan are mostly part of the transit trade passing through Afghanistan and comprise cement, used clothing, and citrus fruits, among others. Afghan exports are mostly seasonal: raisins and potatoes. Traders drive this trade with wholesalers intermediating between them and retailers. Regulations are more restrictive in Uzbekistan than in Tajikistan and more relaxed for goods entering Afghanistan. Individuals going to Uzbekistan cannot bring more than $25 worth of goods from neighbouring countries. As noted, Tajikistan exempts 35*

products brought from Afghanistan from customs duties and other taxes, whereas Afghanistan places a 55-kilogram limit on goods brought into the country by an individual. Prohibiting the entry of trucks registered across the border further raises the transaction cost by expenditures associated with off-loading and loading cargo.

Movement of Vehicles: *Movement of vehicles is highly curtailed. Cars require special documentation, including a vehicle registration card and government permit. Trucks cannot cross these borders: their cargo must be off-loaded and then loaded onto importers' trucks after a customs inspection. The process is both time-consuming and costly.*

Infrastructure Quality: *Despite significant improvements in infrastructure in recent years, problems related to an erratic energy supply persist (this is particularly acute at Hairatan) and cause significant delays. In the absence of back-up generators for powering electrical equipment at the BCP, especially cranes to discharge and load cargo on rail cars at Hairatan and trucks at Sher Khan, frequent electricity outages lengthen border-crossing delays, sometimes for days. Furthermore, taxi drivers complained of the lack of boarding and lodging facilities especially needed when they must wait for days for offloading for inspection and reloading. Virtually no waiting time, thanks to light traffic at the BCPs, are ill founded. Interviews with traders and taxi and truck drivers reveal very long waiting times exacerbated by off-loading and reloading of goods and other time-consuming border procedures. In addition, frequent adages further increase waiting time at both BCPs.*

In summary, the regime governing movement of people and goods from Afghanistan is wanting on all counts. The current regime prevents people from moving in their vehicles and erects significant barriers to the development of commercial ties between adjacent regions. In contrast, Some CAREC members (Kazakhstan, the Kyrgyz Republic, and Tajikistan) that are also members of the Eurasian Economic Community have largely removed barriers to border trade, for example, at the Korgos BCP. No similar progress has been achieved in other neighbouring pairings, including Afghanistan–Tajikistan and Afghanistan–Uzbekistan. Positive welfare effects for populations in contiguous regions appear to have been quite significant where barriers have been removed, including increased availability of cheaper imports for consumers on both sides of a border.

Source: World Bank (2012)

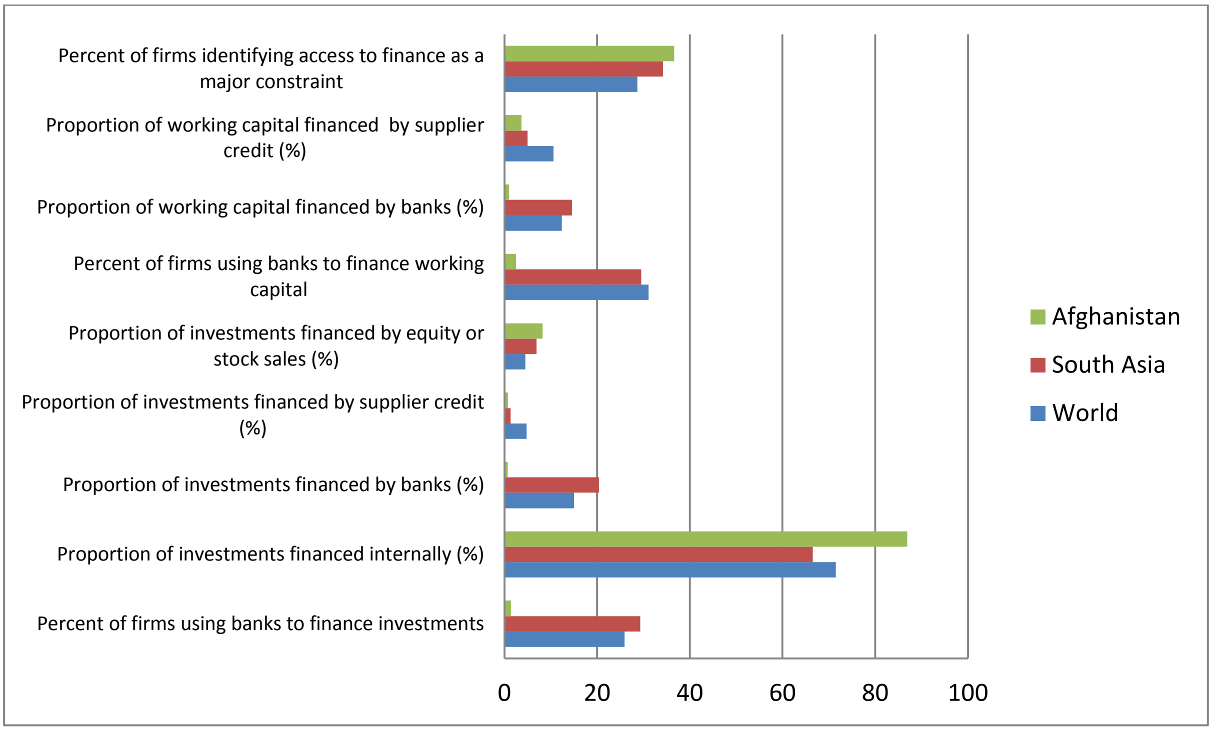
8. BUSINESS SECTOR CAPACITY

Business environment

The World Bank placed Afghanistan 183rd out of 189 countries in its 2015 Ease of Doing Business rankings: the lowest position in the Asia-Pacific region. The business environment in Afghanistan thus requires significant development in order to both allow domestic businesses to flourish and also to attract foreign direct investment. Attention should be focused on SMEs which employ 75% of Afghanistan's workforce and contribute around 50% to the country's GDP (Asia Foundation, 2013). SMEs in Afghanistan are facing various challenges. For instance, while starting an enterprise in Afghanistan is relatively easy (it ranks 24th on this metric) and access to credit is much better than in other countries at the similar stage of development (89th), in many other aspects, sustaining and operating a firm in Afghanistan is challenging. The most onerous issues for Afghanistan's businesses are: poor enforcement of contracts; no protection of minority investors; lack of a functioning property registration system at the national level; and difficulties in obtaining construction permits. Currently Afghanistan National Development Strategy (ANDS) aims to introduce simplified legislation, regulations and procedures related to investment. Amongst the chief objectives of these initiatives is to divest, corporatize and privatize existing state-owned enterprises and to create enabling environment for private sector through strengthening business institutions, commercial courts and enforcement of business law. Attention to clarifying rules governing FDI in the extractive sectors will be important.

Access to finance is recurrently mentioned as a problem for Afghan businesses. Local financial institutions remain underdeveloped, domestic savings is not sufficient to respond to the growing demand for capital and there is no stock market to raise capital. Currently, out of 535 firms surveyed (in the production and services sectors) 73.1% have a bank account (savings or current) but only 3.4% of them are holding a bank loan (World Bank, 2014). Collateral requirements are another challenge for businesses seeking to acquire loan capital in Afghanistan. 77.8% of loans in Afghanistan require collateral; this can be especially difficult for small SMEs to acquire. The following figures highlight finance bottlenecks faced by the business firms in Afghanistan (figure 8.1).

Figure 8.1. Access to Finance and Finance Restrictions in Afghanistan



Source: World Bank Doing Business (2014)

Female Entrepreneurs

Women-owned businesses can play a role, not only in empowering women but also in raising productivity more broadly. Gender-based asset inequality affects resource allocation within the household and labour productivity. Women's entrepreneurship can make a particularly strong contribution to the economic well-being of the family and communities, poverty reduction and women's empowerment, thus contributing to the resources of the household, the pattern of consumption tends to be more child-focused and oriented to meeting basic needs.

Afghanistan has made progress in gender inclusion in education and business. Almost 20 percent of Afghans enrolled in higher education are women and there are over 3,000 women-owned businesses and associations (USAID, 2014). Women have moved beyond traditional participation in sectors such as carpet-weaving, artisanal crafts and agriculture. Afghan women now have leading roles in formal businesses like international trade, construction, manufacturing, transportation and business consultancy. However, according to a survey done by UN Women in 2010, only 5% of the total businesses in the country are owned by women (UNDP, 2012).

Women face multiple non-financial barriers to establishing or expanding their businesses in Afghanistan. These can include: legal environments with limited rights to access and control property; cultural environments in which the pursuit of opportunities is discouraged; restrictions on mobility; and a lack of investment in education and human capital formation for women and girls; lower measures of human capital. Networks among women-owned businesses also need strengthening. Some informal networks of women entrepreneurs participating in small roundtables and business conferences or attending various trade shows exist but they lack mechanisms to

follow-up on proposals and coordinate actions. Online fora could be one way of linking women-owned businesses both within Afghanistan and also with other groups internationally. The profile of women businesses also needs raising with lawmakers as at present there are no lobby groups concerned with the rights of women in business (Dunne, 2013).

Box: The One Village One Product (OVOP) movement as a template for Afghanistan

The One Village One Product movement offers a potential valuable template for Afghanistan as it seeks to (i) diversify production of export products; (ii) support rural livelihoods; (iii) encourage SMEs and (iii) empower women entrepreneurs. The OVOP movement is a rural development programme that seeks methods for communities in non-urban areas to bolster their income by exploiting the benefits of traditional and local knowledge. In practical terms the OVOP movement helps identify local products and industries which are unique to the given area and which have the potential to become nationally, if not internationally, competitive. This is achieved through a combination of financial and technical assistance and through human resources development.

The OVOP movement was begun in Oita, Japan, and its success in that country has attracted the attention of many governments from around the world. In recent times the Japan International Cooperation Agency (JICA) and the Ministry of Economy, Trade and Industry has supported the OVOP program with technical assistance in many African and Asian countries as part of their Official Development Assistance efforts (figure 8.2).

Figure 8.2: Map of countries with OVOP-type programmes

Source: ESCAP compilation, 2014

The objectives of the OVOP movement in countries which have adopted the programme include enhanced GDP growth, poverty alleviation increased productive capacity, higher employment, human resource development, and retention of traditional culture and knowledge.

Studies of the impact on the movement in Thailand (called OTOP) found that it was supporting large numbers of SMEs; indeed the movement has an estimated 1.3 million members and employees in that country. Particular benefits were observed among housewives and the elderly who benefited from the additional income. More recent statistics places the sales value of OTOP products at THB76 billion ($2.3 billion) a year with over 30,000 OTOP producers. Small-scale surveys conducted by ODI show that OTOP–based activities account for 23.1 -28.6 per cent of the income of families in which one or more members take part in the OTOP programme (ODI, 2010). Further, these surveys show that the majority of the beneficiaries are women of 50 years of age or more.

Thailand has also been eyeing the overseas markets; the current 5 star system demarcates products worthy of being promoted nationally (3 stars) and internationally (5 stars). The stars are awarded according to a 'Product Champion' contest which rates the products based on several criteria including stability and sustainability of production and quality. Products which are awarded higher stars receive greater support in the form of loans, marketing and capital acquisition in order to enhance their chances of success. Currently however only a small portion of OTOP goods are graded at 5 stars; the export value of OTOP products is placed at THB10 billion ($306 million).

Challenges faced by many OTOP producers include a lack of formal business skills which hinder their ability to access formal financing opportunities; many also would benefit from exposure to intellectual property right laws in order to protect their products. The marriage of traditional knowledge and intellectual property rights with access to capital and other business skills would allow the OTOP project to become an even more powerful force for rural development.

An OVOP-style project in Afghanistan holds considerable potential: it promises development of small and medium enterprises, the driving force behind the growth of many economies; the rural-focused nature of developing traditional goods fits in well with the post-2015 sustainable development agenda, and lastly coupled with the Bali package which deals with trade facilitation provides another long term avenue for growth through export diversification.

Source: ESCAP, forthcoming 2015.

9. RECOMMENDATIONS AND PRIORITIES FOR REFORM

Given the economic context of a potentially difficult transition period, it is imperative to integrate Afghanistan into regional economic networks. Actions are needed to realize the potential for increased domestic production and trade with Central Asia. Simultaneously, the country's unique role as a land bridge between Central and Southern Asia means that Afghanistan will be integral to any successful regional development strategy encompassing transit trade, transport and energy.

This report has documented the limited scale of existing trade, investment and infrastructure linkages between Afghanistan and Central Asia. However, there is also considerable potential for greater trade in certain sectors, identified by ESCAP analysis. Expanded intra-regional exports can thus play a role in Afghanistan's wider strategy of economic development and diversification. Realizing this potential will require action across a number of areas. Our recommendations, based on the analysis in the report, and summarized in table 9.1 below, suggest five priority themes:

- Improving trade policies
- Facilitating trade and transit
- Investing in infrastructure and connectivity
- Creating the right regional business environment
- Strengthening regional economic cooperation

Under each theme we suggest some areas for focus and identify priorities for Afghanistan and its regional partners in Central Asia. Further detail on each proposal is elabourated below.

Table 9.1: Summary of recommendations

Theme	Areas for focus	Priorities for Afghanistan	Priorities for Regional Partners
IMPROVING TRADE POLICIES	**Tackling tariff barriers to current trade and export diversification**	- Identify tariff barriers on existing products and products with export potential as identified by ESCAP analysis - Open discussions with regional partners on mechanisms for reducing tariff barriers	- Enter discussions on means of improving Afghanistan's market access, including tariff liberalization on key products of interest
	Streamline non-tariff barriers, especially SPS	- Survey business to uncover critical NTM measures in partner countries which are impeding trade, in particular for agricultural products	- Improve NTM systems with risk-based approaches and modernize processes in line with WTO guidelines - Work with Afghanistan on improving labouratory infrastructure for product testing
	Deepen and expand existing regional trade agreements	- Identify priority products that would benefits from preferential access	- Consider whether expanded or deepened new regional trade agreements, for instance SAARC, would boost regional trade and economic prospects

FACILITATING TRADE AND TRANSIT	**Improve and expand APTTA**	- Work with Pakistan to improve APTTA including thorough addressing issues such as illegal smuggling	- Work with Afghanistan and Pakistan on the potential expansion of APTTA to Central Asia
	Improve efficiency of border processes	- Invest in training and facilities, including single window systems	- Consider cross-border ID cards, and risk-management systems, to ease flows at border crossing points
	Encourage border trade	- Establish joint task-forces with partners focused on easing problems related to non-standard border trade	- Work with Afghanistan including on simplifying visa processes for same day returns and easing movement of small traders
INVESTING IN INFRASTRUCTURE AND CONNECTIVITY	**Road and Rail**	- Prioritize investment in rail and road links to key center - Develop network of dry ports at key crossings	- Continue to engage in regional efforts, e.g. CAREC, to bring links to the Afghan border
	Energy	- Complete existing proposals on TAPI and CASA-1000 and build momentum towards further projects	- Review impediments to further energy linkages with Afghanistan and South Asia
CREATING THE RIGHT REGIONAL BUSINESS ENVIRONMENT	**Improving the business and investment climate and access to finance**	- Prioritize reforms to the business and investment climate, especially clarifying rules governing resource investments - Boost access to finance, particularly for SMEs	- Organize regional 'matchmaking' services for Central Asian and Afghan businesses - Consider regional approaches to capacity building for the private sector, for instance on how to meet standards and regulations
	Building regional business linkages	- Link Afghan Chambers of Commerce and other private sector representatives with counterparts elsewhere	- Establish regional private sector forum to feed in business perspectives to regional gatherings i.e. RECCA and SPECA
	Support Women-owned businesses	- Remove legal and financial restrictions on female entrepreneurs and women owned business - Use online platforms to help women-owned businesses connect with each other	- Create regional women's business network to share contacts and provide mutual support
	Develop local production capacity utilizing traditional knowledge	- Launch OVOP-style programme to develop rural productive capacity based on traditional skills	- Share experiences of rural development and production capacity building
STRENGTHENING REGIONAL ECONOMIC COOPERATION	**Accelerate existing areas of cooperation and jointly develop a single regional economic strategy**	- Give higher priority to regional integration efforts on promoting trade and identify areas that can most effectively be tackled through regional cooperation	- Work on a joint regional economic strategy for Afghanistan and Central Asia targeted at improving trade flows, informed by the views of the private sector and other stakeholders

Improving trade policies

A. Open discussions on tariff barriers to regional trade

Actions for Afghanistan:

- While tariff barriers are on average fairly low in Afghanistan and Central Asia, tariff peaks in some Central Asian economies do exist on several products that are of export interest for Afghanistan, notably cotton and some fruits and vegetables. On this basis, Afghanistan should open discussions with partners about whether existing or new trade agreements can be used to expand market access for existing Afghan export products in key sectors.
- Using the identified products with export potential to Central Asia described in Section 5, further investigation is needed as to whether tariff barriers are likely to be a substantial hindrance to export diversification and Afghan production and export for the Central Asian market. Afghanistan, with assistance from ESCAP and others, can share this analysis with partners as the basis for further discussion.

Actions for regional partners:

- On the basis of information shared by Afghanistan, regional partners should consider whether more can be done to facilitate Afghan access to their markets including through tariff liberalization on areas of particular export potential.

B. Co-ordinate improvement of Non-Tariff Measures

Actions for Afghanistan:

- While anecdotal evidence suggests that Afghan exporters, mainly of agricultural products, face significant delays and problems arising from difficulties with complying with Central Asian economies' NTMs (specifically SPS measures), more evidence from the private sector needs to be gathered to understand in more details where barriers to trade are particularly problematic. Afghanistan, with international assistance where appropriate, should survey businesses that trade or could potentially trade with Central Asia to pinpoint existing obstacles. These can then feed into joint-dialogue on how reformed NTMs could improve cross-border trade.

Actions for regional partners:

- If they have not already done so, countries should recognize the WTO SPS and TBT agreements, regardless of their WTO accession status. Actions can be taken quickly to reduce or eliminate unnecessary inspections and reduce inspection-related and testing-related delays by adopting international food standards (Codex) to replace complex and outdated GOST requirements
- Other reforms that need to be pursued, especially in Central Asian countries, with regards to SPS, include the adoption of single window systems for imports and exports.

- In addition, Central Asian countries need to replace the regulatory infrastructure inherited from the Soviet system with risk-based controls and coordination of risk-based controls with customs risk management systems. This should be alongside an automated information system with access to all agencies.
- As labouratory infrastructure for testing and certification is often lacking, a regional strategy for rationalization should be adopted.
- Regional fora should be used for greater awareness raising on NTM issues in the context of regional trade. This needs to involve Governments and private sector participants, among others. Inputs should be sought on areas where action is needed, for instance by replacing or redrafting outdated laws. Technical training on NTM streamlining may also be appropriate.

C. Open discussions on deepening or extending regional trade agreements
Actions for Afghanistan and regional partners:

- Afghanistan is currently linked to regional neighbours through various trade agreements including SAARC and ECOTA. However, no single agreement provides for integration with between Afghanistan, Central Asia and South Asia. Governments could explore widening membership of SAARC to Central Asian economies which would help realize the potential of the cross-Afghanistan transit routes.
- A first step might be for Afghanistan and regional partners to jointly commission a study on the options for expanding or deepening regional trade agreements, incorporating full cost benefit analyses of different scenarios.
- Strengthen data and reporting efforts to provide more timely and accurate trade data following international standards. Regional approaches to capacity building are one option.

Facilitating trade and transit

A. Improve and expand the Afghanistan–Pakistan Trade and Transit Agreement
Actions for Afghanistan:

- As an early priority, efforts must be made to better capitalize on existing transit agreements. Given the dominant role of Pakistan in Afghanistan's trade, a clear priority is the full implementation of the Afghanistan–Pakistan Trade and Transit Agreement (APTTA). Given the problems and delays experienced to-date, full implementation will need efforts to obtain buy-in from the Pakistani trucking industry; on the Afghan side addressing the illegal re-exports of goods to Pakistan will be necessary, alongside improved border management and a reduction of smuggling. If the APTTA is effectively implemented this will provide Afghan transport businesses with better access to the ports of Karachi, Qasim and Gwadar. APTTA requires procedural and regulatory reform to discourage unauthorized trade and introduces mechanisms that reduce transit cargo dwell time.
- Other measures to facilitate trade on major cross-regional corridors could include the provision for Afghan traders of credit card, insurance and banking services—in particular for those in the trucking industry. This would help trader meet requirements in Pakistan for

deposits and guarantees which sometimes slow trade and limit access to ports in Karachi and elsewhere.

Actions

Actions for regional partners:

- Implementation of the APTTA should be the first step towards the longer term goal of expanding the APTAA agreement. At present, Pakistan and Afghanistan have decided, in principle, to include Tajikistan in the APTTA. However, to realize the full benefits of the agreement other Central Asian countries – particularly Turkmenistan and Uzbekistan should be brought into the arrangement. In the longer-term it will also be necessary for India to be included and for traffic to be allowed in both directions. If Central Asia and India can be incorporated in an efficient and expanded APTTA, the region can capitalize on the emerging Eurasian Economic Union space within a few years.

B. Improve the efficiency of border processes

Actions for Afghanistan:

- To meet its ambitions as a 'land bridge,' Afghanistan needs to achieve pipeline and transmission security, stable transit fees, faster customs clearance, and efficient facilitation at borders. Afghanistan should thus simplify border operation process and enhance border co-operation at identified priority crossing points with Central Asia. This could involve the full implementation of single window systems and information exchange between border and customs officials.
- Over the longer-term, all border crossings to Pakistan, Tajikistan, Turkmenistan, Uzbekistan, Iran and China need modernization in the form of education and training, including English language training for border and custom officials.
- Physical investment in border crossing facilities and associated amenities will also be needed. One highlighted need is for the construction of cold storages in Afghanistan and in the border regions necessary for the transport of perishable commodities.

Actions for regional partners:

- Systems to speed up border processes could include the introduction of cross-border ID cards for traders, businessmen, logisticians and transporters covering trade between India, Pakistan, Afghanistan and Central Asia countries. These would replace costly and time consuming visa applications, for pre-approved and regular exporters.

C. Encourage legal trade among border communities

Actions for Afghanistan and regional partners:

- Co-operation and joint approaches are key to facilitating border trade. Afghanistan should set up joint task forces with each country that it shares a crossing point with. These would be charged with removing obstacles to easy border trade amongst communities.

- At one or two priority border crossing points, cross-border zones should be established in which people, goods and vehicles can move more freely. Visa requirements for same-day cross-border small traders should be waived and high thresholds by value maintained for passage without duties or other formalities.
- These measures would help improve employment prospects in border areas and would also help separate informal trade in goods from narcotics or other illegal activities by incentivizing the declaration of products by informal traders. Further this would free up resources for border guards and customs officials to dedicate time to the prevention of proscribed activities.

Investing in infrastructure and connectivity

A. Developing internal and cross-regional road and rail connections

Actions for Afghanistan:

- Afghanistan first needs credible systems to maintain both existing and future infrastructure. A specific infrastructure investment fund which could incorporate both donor contributions and funding from mineral revenues would be one option.
- Improved road and rail links are needed to facilitate transit trade and also support investment in extractive industries. In the short term, the rail line to Mazar-i-Sharif should be extended to the east and south as well as to Herat in the west. In addition to this, it is necessary to initiate the Kandahar rail line and link it with the Pakistani rail system via Spin Boldak and its extension to the port of Karachi. The final rail segment would connect the port of Gwadar via Quetta to Kandahar, thus opening Central Asia states to the world by the region's most promising port. Railways should be extended so that they reach important seaports such as Chabahar (Iran), Bandar Abbas (Iran), and Gwadar (Pakistan).
- To boost investment into new infrastructure ventures, Public-Private partnerships should be encouraged. Encourage public-private partnerships to build and operate new road transport corridors and construct and extend new rail lines that will help better integrate Afghanistan into the Middle East and South, East and Central Asia.
- Dry Ports can be constructed at vital points for transit trade such as Kandahar, Nangarhar, Kabul, Heart, Mazar- e-Sharif and Nimroz.

Actions for regional partners:

- In terms of the road network, to reduce the time and costs of border crossings, adoption of the Model Highway Initiative (MHI) developed by the International Road Transport Union (IRU) could be a means of encouraging regional cooperation. Three model cross-border highways are being considered by international donors.

B. Developing cross-border energy links

Actions for Afghanistan and regional partners:

- There is considerable potential for cross-border energy trade. Afghanistan can benefit as a direct recipient of electricity and other forms of energy form Central Asia and as a transit country for energy going to South Asia. To realize this potential priority should be given to rapidly completing identified projects.
- In particular, delivery is needed of the Turkmenistan, Afghanistan, Pakistan, India (TAPI) pipe line Central Asia and the Caucasus Kyrgyzstan Central Asia South Asia Electricity Trade and Transmission Project (CASA-1000)

Creating the right regional business environment

A. Improving the business and investment climate and access to finance

Actions for Afghanistan:

- Afghanistan needs to improve the general business and investment climate. Priorities should be: reforming investment laws to encourage foreign participation in extractive industry ventures; improving access to finance by broadening access to finance
- Private sector actors need to be heavily engaged in the planning and delivery of trade facilitation, transit and infrastructure projects. Cross-border regional consultations with businesses—involving exporters, producers, private transport operators, freight forwarders, insurance companies and chambers of commerce—should provide inputs for policy solutions for streamlining border controls and reducing entry barriers for private investors, as well as on.

Actions for regional partners:

- A dedicated business forum—linked to existing regional co-operation mechanisms--for Afghanistan and Central Asia should bring together relevant businesses representatives for these purposes. This forum could also serve as a 'matchmaking' event for regional businesses.
- Cross-border business and industrial parks at improved transport nodes can help facilitate investment.
- Where private sector capacity is lacking—for instance where exporters need training on relevant standards of certification for exports—assistance should be provided. This could be done on a regional basis with input from donors and international organizations.

B. Support Women-owned businesses

Actions for Afghanistan:

- Women-owned businesses can play a role, not only in empowering women but also in raising productivity more broadly. Many small traders and producers in Afghanistan and Central Asia are women running household businesses. However, gender-based asset inequality affects resource allocation within the household and labour productivity. Women's entrepreneurship can make a particularly strong contribution to the economic well-being of the family and communities, poverty reduction and women's empowerment, thus contributing to the resources of the household, the pattern of consumption tends to be more child-focused and oriented to meeting basic needs.

- Women face multiple non-financial barriers to establishing or expanding their businesses. To tackle these multiple reforms are needed including: (i) introducing legal frameworks based on equal rights; (ii) fiscal policies based on equal rights and integration of reproductive work; (iii) favourable industrial and trade policies focused on promotion of women's enterprises; (iv) human development and infrastructure policies to integrate reproductive work and promote women's enterprises; (v) organizational gender mainstreaming: equal opportunities policies, mission statements and gender training in all concerned institutions.[3]
- Successful promotion of women-owned business involves co-ordination of policy reforms across numerous areas. Therefore it is recommended that: regional governments create or designate an office or agency with the oversight responsibility for programs and initiatives to foster women's business development.

Actions for regional partners:

- Develop online fora for women-owned businesses where contacts can be made and shared concerns raised. This could be connected with other regional or international platforms.

Strengthening regional economic institutions

- There is no single primary regional economic forum bringing together Afghanistan and Central Asia. In terms of engagement with Afghanistan, engagement is currently more on a bilateral or trilateral basis, rather than through a common Central Asian approach. However, given the common recognition of the importance of Afghan stability and prosperity for Central Asia, there is the need for a wider regional strategy. If Afghanistan is more engaged with Central Asia through trade and transport links, prospects for foreign investment will brighten across the region.

[3] For more detail see: Jobs, Gender and Small Enterprises: Getting the Policy Environment Right ILO, Seed Working Paper, 2001

10. PLANNED ESCAP CAPACITY BUILDING PROGRAMMES FOR AFGHANISTAN IN THE CONTEXT OF DEVELOPING REGIONAL COOPERATION

Given the importance of trade and investment for sustainable development, ESCAP recognizes a pressing need to assist least developed countries and landlocked developing countries better integrate into global and regional trade and value chains. Increasing integration can bring numerous benefits starting with better employment opportunities and greater household purchasing power. Broader linkages with trading partners can also play a role in facilitating economic diversification, thereby enhancing resilience to shocks. Put simply, trade and investment policy is a crucial element in strategies for inclusive growth for a majority of, if not all, least developed countries and landlocked developing countries. In view of these needs, ESCAP has designed a special programme of capacity building activities, entitled Bridging the Gap, to assist least developed countries and landlocked developing countries.

ESCAP is seeking partnerships with other international organizations, and potentially other regional country partners, to help deliver on this programme. In particular there is a need for additional external funding to help support a full programme of activities.

Three characteristics distinguish our approach. Our activities are:

- **Demand driven** - Our actions are planned in response to specific requests for assistance from members.
- **Individually tailored** - Recognizing that no countries face exactly the same challenges, or face the same set of institutional, regulatory, economic and social circumstances, we tailor our advice, training and assistance to the unique needs of each country in order to enhance its participation in regional integration and cooperation initiatives.
- **Broadly based** - ESCAP's areas of assistance cover the full range of trade and investment policies including: development of analytical tools; trade negotiations; trade facilitation; SME development; and improving the business environment.

For Afghanistan, recognizing the need for technical support in relation to WTO accession (both pre- and post-accession) and other trade related issues, the Ministry of Commerce and Industry (MoCI), requested the assistance of ESCAP in initiating and organizing training programs in trade and economic analysis for MoCI employees[4] to cover trade policymaking, research and analysis. MoCI[5] followed up with a further request for broader ESCAP training and advice to: broaden understanding of WTO accession commitments' implementation and other post-accession issues among MoCI's technical staff; assist in the development of an effective national trade strategy; and provide training and information on tools relevant for ongoing trade policymaking and implementation. In particular assistance was sought in relation to:

[4] Letter from Deputy Minister for Trade, MoCI, 4 November 2013
[5] Letter from Deputy Minister for Trade, MoCI, 17 May 2014

- Analysis of the opportunities and benefits from WTO accession; in this regard there is scope for learning from the experiences of other regional economies.
- Issues relating to trade negotiations in relevant sectors for example, SPS, TBT, NAMA, and trade remedies;
- Tools for trade policy analysis, including statistical and economic models;
- The conduct of a business survey in order to capture a comprehensive picture of the current business environment in Afghanistan; and
- The establishment of an economic think tank institute.

ESCAP has responded positively to both these requests and will offer capacity building programmes conducted by ESCAP and national experts, subject to available resources. This conforms to ESCAP's approach of providing demand-driven support, tailored to individual country circumstances. ESCAP followed up the above requests, giving initial priority to identifying specific needs (see below), in consultation with MoCI. MoCI's internal review made very clear that across all these areas tailored training for staff to help them meet day-to-day analytical and functional requirements is a high priority. To date, ESCAP has delivered the following:

- An advisory study on the potential benefits to Afghanistan available through preferential trade schemes such as the Generalized System of Preferences and Duty Free Quote Free schemes available for LDCs
- Guidance on international best practice in trade promotion as inputs into Afghanistan's 2014 Trade Promotion Strategy
- A successful Fellowship placement with ESCAP – A nominated official from MoCI spent two weeks with ESCAP during which time he received bespoke training and worked closely with ESCAP experts to identify critical issues for Afghanistan around WTO accession.
- ESCAP's sub-regional office for South and South-West Asia (ESCAP-SSWA) has delivered a series of Technical Capacity Building (TCB) workshops to support Afghanistan's accession to the WTO, with the latest delivered in December 2014[6]. In total, over 100 officials both from the public and private sector have participated in this programme.
- ESCAP-SSWA prepared a study on 'Doing Business with Afghanistan: Harnessing Afghanistan's Economic Potential,' which provides an overview of the business environment in Afghanistan. It was produced in collabouration with the Federation of Indian Chambers of Commerce (FICCI) in New Delhi.

Future activities will proceed throughout 2015 and beyond depending on available resources. Current planned activities are given in the table on the next page.

---

[6] This programme began in 2012 and is being delivered in partnership with the International Trade Centre, Geneva

PLANNED ACTIVITIES			
Research	Policy Formulation	Business Development	**Trade Facilitation**
Training sessions on: **Trade statistics in policymaking including analysis of trade flows and tariff based protection; and** **The basics of empirical research on preferential trade including for bilateral and regional trade agreements.**	**Providing ongoing advice and resources to help Afghanistan take the final steps towards WTO accession and realize the advantages thereof.**	**Conducting an initial study on the status of and institutional framework for the private sector in Afghanistan.** **Organizing training sessions on the private sector development in Afghanistan** **Develop a plan for the business survey in Afghanistan**	**Afghanistan to be invited to participate in the 2014 Asia-Pacific Trade Facilitation Forum to share regional experiences and best practice.**

11. ANNEX A: AFGHANISTAN: IDENTIFIED PRODUCTS WITH EXPORT POTENTIAL AND ABOVE AVERAGE COMPLEXITY

Category	HS Code	Sub-Category	Export potential ($ million)
Lac, gums, resins, and other vegetable saps and extracts	130239	Mucilages & thickeners (excl. of 1302.31 & 1301.32), whether or not modified	68.2
Sugars and sugar confectionary	170230	Glucose & glucose syrup, not cont. fructose/cont. in the dry state	274.3
Preparations of cereals, flour , starch or milk, pastry cooks' products	190120	Mixes & doughs for the preparation of bakers' wares of 19.05	175.5
	190420	Prepared foods obt. from unroasted cereal flakes/mixts. of unroasted cereal	80.6
	190532	Waffles & wafers	246.5
	190540	Rusks, toasted bread & sim. toasted products	37.2
Miscellaneous edible preperations	210112	Preparations with a basis of extracts/essences/concs. of coffee	148.9
Inorganic chemicals, organic or inorganic compounds of precious metals, or radioactive elements or of isotopes	281122	Silicon dioxide	161.3
	281700	Zinc oxide; zinc peroxide	136.3
	283329	Sulphates (excl. of 2833.21-2833.27)	40.8
	283539	Polyphosphates other than sodium triphosphate (sodium tripolyphosphate)	52.2
Organic chemicals	290539	Diols other than ethylene glycol (ethanediol) & propylene glycol	49.2
	291719	Acyclic polycarboxylic acids, their anhydrides, halides, peroxides, peroxya	46.4
	292520	Imines & their derivs.; salts thereof	46.5
	293100	Organo-inorganic comps., n.e.s. in Ch.29	1265.1
	293339	Heterocyclic comps. cont. an unfused pyridine ring	728.9
	293627	Vitamin C & its derivatives	44.2
Fertilisers	310590	Mineral/chem. fertilisers cont. 2/3 of the fertilising elements nitrogen	126.4
Tanning or Dyeing extracts, tannins and their derivatives;	320414	Direct dyes & preps. based thereon	19.7
	320500	Colour lakes; preps. as spec. in Note 3 to Ch.32 based on colour lakes	11.9
	320649	Colouring matter & oth. preps. as spec. in Note 3 to Ch.32, n.e.s. in Ch.32	170.2
	321210	Stamping foils	69.5
Essential oils and resinoids, perfumery, cosmetic/ toilet preperations	330530	Hair lacquers	63.1
Soap, organic	340211	Anionic surface-active agents, whether or not PURS	161.8

surface-active agents, waching preperations, lubricating preperations, artificial waxes, prepared waxes, polishing scouring preperations, candles and similar articles	340213	Non-ionic surface-active agents, whether or not PURS	364.9
	340510	Polishes, creams & sim. preps. for footwear/leather	5.7
	340530	Polishes & sim. preps. for coachwork (excl. metal polishes)	42.6
Explosives, pyrothechnic products, matches, pyrophoric allows, certain combustible preperations	350300	Gelatin, incl. gelatin in rect. (incl. square) sheets	191.3
	350510	Dextrins & oth. modified starches	489.3
Photographic or cinematographic goods	370130	Photographic plates & film in the flat (excl. film for X-rays	221.9
Miscellaneous chemical products	381230	Anti-oxidising preps. & oth. compound stabilisers for rubber/plastics	123.1
Plastics and articles thereof	390130	Ethylene-vinyl acetate copolymers, in primary forms	141.7
	390330	Acrylonitrile-butadiene-styrene (ABS) copolymers, in primary forms	155.2
	390410	Poly(vinyl chloride), not mixed with any oth. subs., in primary forms	1167.1
	390422	Poly(vinyl chloride), plasticised, in primary forms (excl. of 3904.10)	185.3
	390512	Poly(vinyl acetate), in aqueous dispersion, in primary forms	19.1
	390599	Polymers of vinyl acetate/of oth. vinyl esters, in primary forms	115.7
	390610	Poly(methyl methacrylate), in primary forms	70.1
	390690	Acrylic polymers other than poly(methyl methacrylate), in primary forms	517.6
	390720	Polyethers other than polyacetals, in primary forms	757.9
	390791	Polyesters (excl. of 3907.10-3907.60), unsaturated, in primary forms	197.4
	390920	Melamine resins, in primary forms	37.7
	390950	Polyurethanes, in primary forms	314.9
	391400	Ion-exchangers based on polymers of 39.01-39.13, in primary forms	113.6
	391610	Monofilament of which any cross-sectional dim. exceeds 1mm	17.3
	391620	Monofilament of which any cross-sectional dim. exceeds 1mm	12.3
	391620	Monofilament of which any cross-sectional dim. exceeds 1mm	364.1
	391722	Tubes, pipes & hoses, rigid, of polymers of propylene	55.6
	391729	Tubes, pipes & hoses, rigid, of plastics	42.0
	391810	Floor coverings of polymers of vinyl chloride	19.2

	391890	Floor coverings of plastics other than polymers of vinyl chloride	143.8
	392030	Plates, sheets, film, foil & strip, of polymers of styrene	178.7
	392043	Plates,sheets,film,foil&strip,of polymers of vinyl chloride	163.9
	392061	Plates, sheets, film, foil & strip, of polycarbonates	64.5
	392062	Plates, sheets, film, foil & strip, of poly(ethylene terephthalate)	406.3
	392092	Plates, sheets, film, foil & strip, of polyamides	27.0
	392111	Plates, sheets, film, foil & strip, cellular, of polymers of styrene	147.8
	392112	Plates, sheets, film, foil & strip, cellular, of polymers of vinyl chloride	136.7
	392220	Lavatory seats & covers, of plastics	21.4
Rubber and articles thereof	400270	Ethylene-propylene-non-conjugated diene rubber (EPDM), in primary forms	28.1
	400299	Synthetic rubber & factice derived from oils, other than latex	86.8
	400520	Solutions of compounded rubber, unvulcanised	9.5
	400591	Compounded rubber (excl. of 4005.10 & 4005.20), unvulcanised,	45.5
	400690	Forms (e.g., rods, tubes & profile shapes) & arts. (e.g., discs & rings)	52.1
	400811	Plates, sheets & strip, of cellular vulcanised rubber other than hard rubber	97.7
	401036	Endless synchronous belts, of an outside circumference >150cm	17.7
	401192	New pneumatic tyres, of rubber (excl. those with herring-bone/sim.tread)	28.5
Wood and articles of wood, wood charcoal	441119	Fibreboard of wood/oth. ligneous mats., whether or not bonded with resins	338.4
Cork and articles of cork	450410	Blocks, plates, sheets & strip, of agglom. cork; tiles of any shape	38.0
Paper and paperboard, articles of papers pulp	480262	Paper & paperboard, of which >10% by wt. of the total fibre	53.8
	480300	Toilet/facial tissue stock, towel/napkin stock & sim. paper of a kind used	521.2
	480431	Kraft paper (excl. kraftliner & sack kraft paper) & paperboard, uncoated	75.2
	480439	Kraft paper (excl. kraftliner & sack craft paper) & paperboard, uncoated	86.2
	480591	Uncoated paper & paperboard (excl. of 4801.00-4805.50), in rolls/sheets	143.1
	481110	Tarred/bituminised/asphalted paper, paperboard...in rolls/rect.	10.9
	481159	Paper & paperboard, coated/impregnated/covered with plastics	278.1
	481159	Paper & paperboard, coated/impregnated/covered with plastics	410.3
	481160	Paper & paperboard, coated/impregnated/covered with wax/paraffin	51.3
	481930	Sacks & bags, having a base of a width of 40cm/more	120.5
	482290	Bobbins, spools, cops & sim. supports of paper pulp/paper/paperboard	33.7
	482312	Gummed/adhesive paper, in strips/rolls, self-adhesive	193.4
	482319	Gummed/adhesive paper, in strips/rolls, other than self-adhesive,	54.6

Cotton	520839	Woven fabrics of cotton (excl. of 5208.31-5208.33)	76.5
Sewing thread of man-made filaments, whether or not to put up for retail sale	540490	Strip and the like (e.g., art. straw) of synth. textile materials	37.1
	540610	Synthetic filament yarn other than sewing thread, put up for RS	12.3
	540720	Woven fabrics obt. from strip or the like	91.9
	540772	Woven fabrics (excl. of 5407.10-5407.30), cont. 85%/more by wt. of synth. F	97.3
	540783	Woven fabrics (excl. of 5407.10-5407.30), cont. <85% by wt. of synth. Filam	22.7
	540792	Woven fabrics of synth. filament yarn (excl. of 5407.10-5407.84)	32.1
Wadding, felt and nonwovens, special yarns, twine, cordage, ropes and cables and articles thereof	560210	Needleloom felt & stitch-bonded fibre fabrics, whether or not impregnated	68.7
	560312	Nonwovens, whether or not impregnated/coated/covered/laminated, of man-made	213.2
	560313	Nonwovens, whether or not impregnated/coated/covered/laminated, of man-made	181.1
	560393	Nonwovens, whether or not impregnated/coated/covered/laminated	76.2
	560741	Binder/baler twine, cordage, ropes & cables of polyethylene/polypropylene	66.9
Special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, embroidery	580620	Narrow woven fabrics (excl. of 5806.10)	60.2
	580810	Braids in the piece	15.0
	581092	Embroidery in the piece (excl. embroidery without visible ground)	13.3
	581100	Quilted textile prods. in the piece, composed of one/more layers of textile	37.3
Impregnated, coated, covered of laminated textile fabircs, textile articles of a kind suitable for industrial use	590610	Adhesive tape of a width not >20cm	10.9
	590699	Rubberised textile fabrics (excl. of 59.02, 5906.10 & 5906.91)	48.9
	591120	Bolting cloth, whether or not made up	22.6
Knitted and crocheted fabrics	600490	Knitted/crocheted fabrics of a width >30cm	26.7
	600632	Knitted/crocheted fabrics, n.e.s. in Ch.60, of synth. fibres, dyed	98.8
	600633	Knitted/crocheted fabrics, n.e.s. in Ch.60, of synth. Fibres	44.6
	600634	Knitted/crocheted fabrics, n.e.s. in Ch.60, of synth. fibres, printed	21.3
Articles of apparel and clothing accessories, knitted or crocheted	610130	Men's/boys' overcoats, car-coats, capes, cloaks, anoraks	19.7
	610220	Women's/girls' overcoats, car-coats, capes, cloaks, anoraks	7.7
	610290	Women's/girls' overcoats, car-coats, capes, cloaks, anoraks	22.5
	610811	Women's/girls' slips & petticoats, knitted or crocheted, of man-made fibres	35.1
	611511	Panty hose & tights, knitted or crocheted, of synth. Fibres	233.8
	611692	Gloves, mittens & mitts, knitted or crocheted, other than those impregnated	43.6
	611693	Gloves, mittens & mitts, knitted or crocheted, other than those impregnated	172.7
	611699	Gloves, mittens & mitts, knitted or crocheted, other than those impregnated	2.9
Articles of	620291	Women's/girls' anoraks (incl. ski-jackets), wind-cheaters, wind-jackets	58.6

apparel and clothing accessories, not knitted or crocheted	620341	Men's/boys' trousers, bib & brace overalls, breeches & shorts	22.5
	621040	Men's/boys' garments made up of fabrics of 59.03/59.06/59.07, n.e.s.	30.3
	621420	Shawls, scarves, mufflers, mantillas, veils and the like	16.6
	621520	Ties, bow ties & cravats (excl. knitted or crocheted), of man-made fibres	26.1
Other made up textile articles, sets, worn clothing and worn textile articles, rags	630240	Table linen, knitted or crocheted	6.9
	630493	Textile furnishing arts. other than bedspreads (excl. of 94.04)	25.8
	630539	Sacks & bags, of a kind used for the packing of goods	39.4
Articles of stone, plaster, cement, asbestos, mica or similar meterials	680410	Millstones & grindstones for milling/grinding/pulping, without frameworks	4.2
	680421	Millstones, grindstones, grinding wheels and the like (excl. of 6804.10)	98.3
	680423	Millstones, grindstones, grinding wheels and the like (excl. of 6804.10)	13.4
	680520	Natural/art. abrasive powder/grain, on a base of paper/paperboard only	61.5
	680620	Exfoliated vermiculite, expanded clays, foamed slag	17.7
	680790	Articles of asphalt/sim. mat. (e.g., petroleum bitumen/coal tar pitch)	57.3
	681310	Brake linings & pads with a basis of asbestos/oth. min. subs./cellulose	5.1
Ceramic products	690390	Refractory ceramic gds. other than bricks/blocks/tiles	59.9
Glass and glassware	701400	Signalling glassware & optical elements of glass (excl. of 70.15)	109.3
	701690	Paving blocks, slabs, bricks, squares, tiles & oth. arts. of...glass	76.2
	701820	Glass microspheres not >1mm in diameter	48.3
	701931	Mats of glass fibres,	53.9
	701951	Woven fabrics of glass fibres (excl. of 7019.40), of a width not >30cm	10.6
Iron and steel	720916	Flat-rolled prods. of iron/non-alloy steel, of a width of 600mm/more	435.5
	721070	Flat-rolled prods. of iron/non-alloy steel, of a width of 600mm/more	848.7
	721190	Flat-rolled prods. of iron/non-alloy steel, of a width of <600mm	89.4
	721220	Flat-rolled prods. of iron/non-alloy steel, of a width of <600mm	17.9
	721240	Flat-rolled prods. of iron/non-alloy steel, of a width of <600mm	50.4
	721550	Bars & rods of iron/non-alloy steel other than free-cutting steel	49.2
	721699	Angles, shapes & sections of iron/non-alloy steel, n.e.s. in 72.16	44.7
	721710	Wire of iron/non-alloy steel, not plated/coated, whether or not polished	94.3
	721790	Wire of iron/non-alloy steel, n.e.s. in 72.17	39.5
	722090	Flat-rolled prods. of stainless steel, of a width of <600mm, n.e.s. in 72.2	30.0
	722211	Bars & rods of stainless steel, not further worked than hot-rolled	50.9
	722830	Bars & rods of oth. alloy steel (excl. of 72.27, 7228.10 & 7228.20)	191.0

	722990	Wire of alloy steel other than stainless steel/high speed steel	78.9
Articles of iron and steel	730441	Tubes, pipes & hollow profiles (excl. of 7304.10-7304.39), seamless	106.2
	730451	Tubes, pipes & hollow profiles (excl. of 7304.10-7304.49), seamless	36.4
	730721	Flanges of stainless steel	85.8
	731290	Plaited bands, slings and the like, of iron/steel	3.7
	731414	Woven cloth (excl. endless bands for mach.), of stainless steel wire	37.6
	731419	Woven cloth (excl. endless bands for mach.) of iron/steel	19.6
	731519	Parts of articulated link chain of iron/steel	28.7
	731812	Wood screws other than coach screws, of iron/steel	43.1
	732020	Helical springs of iron/steel	16.6
Copper and articles thereof	740829	Wire of copper alloys (excl. of 7408.21 & 7408.22)	44.9
	740929	Copper plates, sheets & strip, of a thkns. >0.15mm, of copper-zinc base all	49.8
	741210	Copper tube/pipe fittings (e.g., couplings, elbows, sleeves), of ref. copper	60.0
	741510	Nails, tacks, drawing pins, staples (excl. of 83.05) & sim. arts., of copper	10.2
	741539	Threaded arts. of copper (excl. of 7415.33)	30.5
	741820	Sanitary ware & parts thereof , of copper	93.5
Aluminium and articles thereof	760519	Wire of aluminium, not alloyed (excl. of 7605.11)	32.7
	760692	Plates, sheets & strip other than rectangular (incl. square)	126.0
	760810	Tubes & pipes of aluminium, not alloyed	29.5
	761210	Collapsible tubular conts. for any mat. (other than compressed/liquiefied)	60.4
	761520	Sanitary ware & parts thereof , of aluminium	41.5
Tin and articles thereof	800300	Tin bars, rods, profiles & wire	155.9
Tools, implements, cutlerey, spoons and forks, of base material, parts thereof of base metal	820720	Dies for drawing/extruding metal, for hand tools	34.9
	820830	Knives & cutting blades, for machines/mech. appls., for kitchen appliances	7.1
	821000	Hand-operated mech. appls., weighing 10kg/less, used in the preparation	103.0
Miscelleneous articles of base metal	830220	Castors of base metal	7.6
	830520	Staples in strips (e.g., for offices, upholstery, packaging), of base metal	29.1
Nuclear reactors, boilers, machinery and mechanical appliances, parts thereof	840490	Parts of the auxiliary plant of 8404.10 & 8404.20	171.3
	841460	Ventilating/recycling hoods incorp. a fan	329.6
	841690	Parts of the furnace burners, mech. stokers & mech. ash dischargers & sim.	150.7
	841790	Parts of the industrial/labouratory furnaces & ovens of 8417.10-8417.80	307.2
	842710	Self-propelled fork-lift trucks & oth. works trucks	697.5

	843320	Mowers (excl. those for lawns/parks/sports-grounds)	230.1
	843610	Machinery for preparing animal feeding stuffs	370.2
	844820	Parts & accessories of the machines of 84.44	80.7
	845121	Drying machines other than of 84.50, each of a dry linen cap. not >10kg,	1137.3
	845190	Parts of the mach. of 84.51	84.5
	845290	Parts of the sewing machines of 84.52 (excl. of 8452.30 & 8452.40)	33.4
	845899	Lathes other than horizontal lathes (incl. turning centres)	26.2
	846019	Flat-surface grinding machines	15.4
	846239	Shearing machines for working metal	34.1
	846630	Dividing heads & oth. special attachments for machine-tools suit	8.3
	846691	Parts & accessories suit. for use solely/princ. with the machines of 84.64	18.1
	848041	Moulds (excl. ingot moulds) for metal/metal carbides, injection/compression	70.3
	848060	Moulds for min. mats.	231.5
	848420	Mechanical seals	55.6
Electrical machinery and equipment and parts thereof	850240	Electric rotary converters	12.8
	850410	Ballasts for discharge lamps/tubes	223.5
	850520	Electro-magnetic couplings, clutches & brakes	6.4
	850590	Electro-magnets n.e.s. in 85.05; electro-magnetic/permanent magnet chucks	60.3
	850680	Primary cells & primary batteries n.e.s. in 85.06	20.5
	850990	Parts of the electro.-mech. dom. appls. of 85.09	5.3
	851210	Lighting/visual signalling equip. of a kind used on bicycles	3.1
	851890	Parts of the app. & equip. of 85.18	38.7
	853932	Electric discharge lamps (excl. ultra-violet lamps), mercury/sodium vapour	147.5
	853990	Parts of the elec. lamps of 85.39	115.6
	854690	Electrical insulators of any mat. other than glass & ceramics	35.0
Railway or tramway locomotives, rolling-stock and parts thereof, railway or tramway track and fixtures,	860721	Air brakes & parts thereof , for railway/tramway locomotives/rolling-stock	128.7
Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	871493	Hubs (excl. coaster braking hubs & hub brakes) & free-wheel sprocket-wheels	45.5

Optical, photographic, cinematographic, measuring, medical or surgical instruments and apparatus,	901190	Parts & accessories of the compound optical microscopes of 90.11	84.5
	901790	Parts & accessories of the instr. of 90.17	6.5
Clocks and watches and parts thereof	910511	Alarm clocks, electrically operated	138.2
	910521	Wall clocks, electrically operated	17.0
	910521	Wall clocks, electrically operated	171.8
	910700	Time switches with clock/watch movement/with synchronous motor	88.1
Musical instruments, parts and accessories of such articles	920992	Parts & accessories of the musical instr. of 92.02	5.3
Furniture, bedding, mattresses, mattress support, cushions and similar stuffed furnishings, lamps and lighting fittings	940370	Furniture of plastics (excl. of 94.01)	17.7
	940592	Parts of the lamps & lighting fittings of 94.05, of plastics	44.3
Toys, games and sports requisites, parts and accessories thereof	950440JM1	Playing cards	358.2
	950661	Lawn-tennis balls	134.2
Miscellaneous manufactured articles	960310	Brooms & brushes, consisting of twigs/oth. veg. mats. bound together	4.1
	960610	Press-fasteners, snap-fasteners & press-studs & parts therefor	7.5
	960610	Press-fasteners, snap-fasteners & press-studs & parts therefor	27.8
	960711	Slide fasteners, fitted with chain scoops of base metal	22.8

12. ANNEX B: AFGHANISTAN: IDENTIFIED PRODUCTS WITH EXPORT POTENTIAL AND ABOVE AVERAGE COMPLEXITY FOR CENTRAL ASIA

Importer	HS Code	Category	Sub-Category	$ Million
Kyrgyzstan	560741	Wadding, felt and nonwovens, special yarns, cordage, ropes and cables and articles thereof	Binder/baler twine, cordage, ropes & cables of polyethylene/polypropylene,	2.0
Tajikistan	611692	Articles of apparel and clothing accessories	Gloves, mittens & mitts, knitted or crocheted, other than those impregnated	5.6
Tajikistan	680790	Articles of stone, plaster, cement, asbestos, mice or similar materials	Articles of asphalt/sim. mat. (e.g., petroleum bitumen/coal tar pitch), oth	2.0
Turkmenistan	441119	Wood and articles of wood	Fibreboard of wood/oth. ligneous mats., whether or not bonded with resins	6.9
Turkmenistan	621420	Articles of apparel and clothing accessories	Shawls, scarves, mufflers, mantillas, veils and the like	0.6
Turkmenistan	680423	Articles of stone, plaster, cement, asbestos, mice or similar materials	Millstones, grindstones, grinding wheels and the like (excl. of 6804.10)	0.3
Turkmenistan	680790	Articles of stone, plaster, cement, asbestos, mice or similar materials	Articles of asphalt/sim. mat. (e.g., petroleum bitumen/coal tar pitch)	4.2
Turkmenistan	721240	Iron and steel	Flat-rolled prods. of iron/non-alloy steel, of a width of <600mm	6.7
Turkmenistan	844820	Nuclear reactors, boilers, machinery and mechanical appliances	Parts & accessories of the machines of 84.44/of their auxiliary mach.	1.5
Uzbekistan	283329	Inorganic chemicals, organic or inorganic compounds of precious metals	Sulphates (excl. of 2833.21-2833.27)	2.3
Uzbekistan	330530	Essential oils and resinoids, perfumery, cosmetic or toilet preperations	Hair lacquers	2.1
Uzbekistan	390330	Plastics and articles thereof	Acrylonitrile-butadiene-styrene (ABS) copolymers, in primary forms	4.0
Uzbekistan	481930	Paper and paperboard; articles of paper pulp, of paper or of paperboard	Sacks & bags, having a base of a width of 40cm/more	3.9
Uzbekistan	540792	Sewing thread of man-made filaments, whether or not put up for retail sale	Woven fabrics of synth. filament yarn (excl. of 5407.10-5407.84)	2.0
Uzbekistan	590610	Impregnated, coated, covered or laminated textile fabrics	Adhesive tape of a width not >20cm	0.8
Uzbekistan	600634	Knitted or crocheted fabrics	Knitted/crocheted fabrics, n.e.s. in Ch.60, of synth. fibres, printed	2.9
Uzbekistan	721070	Iron and steel	Flat-rolled prods. of iron/non-alloy steel, of a width of 600mm/more	25.6
Uzbekistan	721550	Iron and steel	Bars & rods of iron/non-alloy steel other than free-cutting steel	1.4
Uzbekistan	721710	Iron and steel	Wire of iron/non-alloy steel, not plated/coated, whether or not polished	9.2
Uzbekistan	722830	Iron and steel	Bars & rods of oth. alloy steel (excl. of 72.27, 7228.10 & 7228.20)	1.8
Uzbekistan	841790	Nuclear reactors, boilers, machinery and mechanical appliances	Parts of the industrial/labouratory furnaces & ovens of 8417.10-8417.80	12.9
Uzbekistan	846239	Nuclear reactors, boilers, machinery and mechanical appliances	Shearing machines for working metal	2.0

13. REFERENCES

ADB (2012). Modernizing Sanitary and Phytosanitary Measures to Facilitate Trade in Agricultural and Food Products: Report on the Developmentof an SPS Plan for the CAREC Countries http://www.adb.org/publications/modernizing-sps-measures-facilitate-trade-agricultural-and-food-products

____ (2012). Asian Economic Integration Monitor - July 2012 http://www.adb.org/publications/asian-economic-integration-monitor-july-2012

____ (2014). Asian Development Outlook 2014: Fiscal Policy for Inclusive Growth http://www.adb.org/publications/asian-development-outlook-2014-fiscal-policy-inclusive-growth

____ (2014). Islamic Republic of Afghanistan: Transport Sector Master Plan Update http://www.adb.org/sites/default/files/project-document/81553/47210-001-tar.pdf

ADB NGO Forum (2014). Project CASAREM (CASA 1000) and Its Impact on Central Asian Countries http://www.forum-adb.org/docs/BW2009Q3-4.pdf

AIMS (2014). Afghanistan Information Management Services. Accessed November 2014. http://www.aims.org.af/

ANDS (2008). The Afghanistan National Development Strategy http://www.embassyofafghanistan.org/page/afghanistan-national-development-strategy

EWI: East-West Institute (2014). Afghanistan Reconnected: Regional Economic Security Beyond 2014 http://www.ewi.info/idea/afghanistan-reconnected-regional-economic-security-beyond-2014#sthash.6MIend3p.dpuf

Economist Intelligence Unit (2014). Poor outlook for Pakistan-Afghanistan bilateral trade, April 2014 http://country.eiu.com/article.aspx?articleid=1771757161&Country=Afghanistan&topic=Economy

ESCAP (2012). MPDD Working Paper on Building productive capacities: Challenges and opportunities for Least Developed Countries. http://www.unescap.org/resources/mpdd-working-paper-building-productive-capacities-challenges-and-opportunities-least

ESCAP (2014). Bridging Transport, ICT and Energy Infrastructure Gaps for Seamless Regional Connectivity http://www.unescap.org/resources/bridging-transport-ict-and-energy-infrastructure-gaps-seamless-regional-connectivity

ESCAP (2014). Economic Diversification in Asian Landlocked Developing Countries: Prospects and Challenges http://www.unescap.org/resources/economic-diversification-asian-landlocked-developing-countries-prospects-and-challenges

____ (2014). ESCAP-World Bank Trade Costs Database, accessed 1st December 2014. http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=ESCAP-World-Bank:-International-Trade-Costs

____ (2015). One Village One Product, *forthcoming*

FDi Markets (2014) Accessed on 1st December 2014 http://www.fdimarkets.com/

IRU (2009). International Road Transport Union, Recommendations Prepared by IRU for the First Session of the Working Party on Afghan Transit, October 2009

ITCSD (2011). A home-grown approach to regional economic integration in Africa: Thinking outside the European box. Trade negotiations insights. Volume 10 - Number 4. 14 June 2011 http://www.ictsd.org/bridges-news/trade-negotiations-insights/news/a-home-grown-approach-to-regional-economic-integration

McPherson, S (2015). "Women Entrepreneurs for Peace in Afghanistan." Harvard Business Review. Accessed January 16. https://hbr.org/2012/03/women-entrepreneurs-for-peace.

MoCI (2013). Ministry of Finance, Customs Tariff http://customs.mof.gov.af/Content/files/Afghanistan-HS-2012-English-version.pdf

Mogilevskii (2012). Trends and Patterns in Foreign Trade of Central Asian Countries, University of Central Asia http://www.ucentralasia.org/downloads/UCA-Trends&PatternsForeignTradeCA-Eng-May2012.pdf

Pajhwok (2014). Experts seek fresh bids on Hajigak Mine project http://www.pajhwok.com/en/2014/1210/experts-seek-fresh-bids-hajigak-mine-project

Parto (2012). Afghanistan Regional Trade: More, or Less, Imports from Central Asia, UCA http://www.ucentralasia.org/downloads/UCA-IPPA-WP-3-Afghanistan%20and%20Regional%20Trade.pdf

The National (2015). "Afghan Businesswomen Highlight Role of Entrepreneurship in Human Development | UNDP in Afghanistan." 2015. http://www.undp.org/content/afghanistan/en/home/presscenter/pressreleases/2013/11/05/afghan-women-entrepreneurship/.

UNICEF (2012). Progress on Drinking Water and Sanitation http://www.unicef.org/media/files/JMPreport2012.pdf

USAID (2014). Fact Sheet: USAID Engagement in Afghanistan – 2014 and Beyond http://www.usaid.gov/news-information/fact-sheets/usaid-engagement-afghanistan-2014-and-beyond

USGS (2007). Preliminary Non-Fuel Mineral Resource Assessment of Afghanistan 2007 http://pubs.usgs.gov/of/2007/1214/

World Bank (2004). Central Asia: Regional Electricity Export Potential Study http://siteresources.worldbank.org/INTUZBEKISTAN/Resources/REEPS_Main_Report_Final_English.pdf

____(2012). Borderless Bazaars and Regional Integration in Central Asia. Directions in Development - General. The World Bank. http://elibrary.worldbank.org/doi/abs/10.1596/978-0-8213-9471-7.

____ (2014). World Bank Global Economic Prospects 2014 http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:23578935~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html

World Bank Development Indicators (2014). Accessed 1st December 2014 http://data.worldbank.org/data-catalog/world-development-indicators

WTO (2012). Working Party Report on the Accession of Afghanistan, 2012http://www.wto.org/english/thewto_e/acc_e/a1_afghanistan_e.htm

____ (2013).World Tariff Profiles 2013 http://www.wto.org/english/res_e/booksp_e/tariff_profiles13_e.pdf

____ (2014). Duty-Free and Quota-Free Market Access For Least-Developed countries http://www.seatiniuganda.org/wp-content/uploads/2014/11/Duty-Free-Quarter-Free.pdf