



Fifth Technical Workshop on Afghanistan's
Accession to the WTO
New Delhi, 1-3 December 2014

Afghanistan: Strengthening Regional Integration and Linkages with Central Asia

Preliminary Findings for Discussion

Adam Heal
Trade and Investment Division
United Nations ESCAP





Agenda

1. Background: ESCAP project on regional integration
2. Afghanistan: recent economic and trade performance
3. State of economic linkages with Central Asia
4. Investigating barriers to regional economic integration
5. Discussion: identifying barriers and policy priorities





Agenda

1. Background: ESCAP project on regional integration
2. Afghanistan: recent economic and trade performance
3. State of economic linkages with Central Asia
4. Investigating barriers to regional economic integration
5. Discussion: identifying barriers and policy priorities




Regional economic integration can deliver important benefits

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.





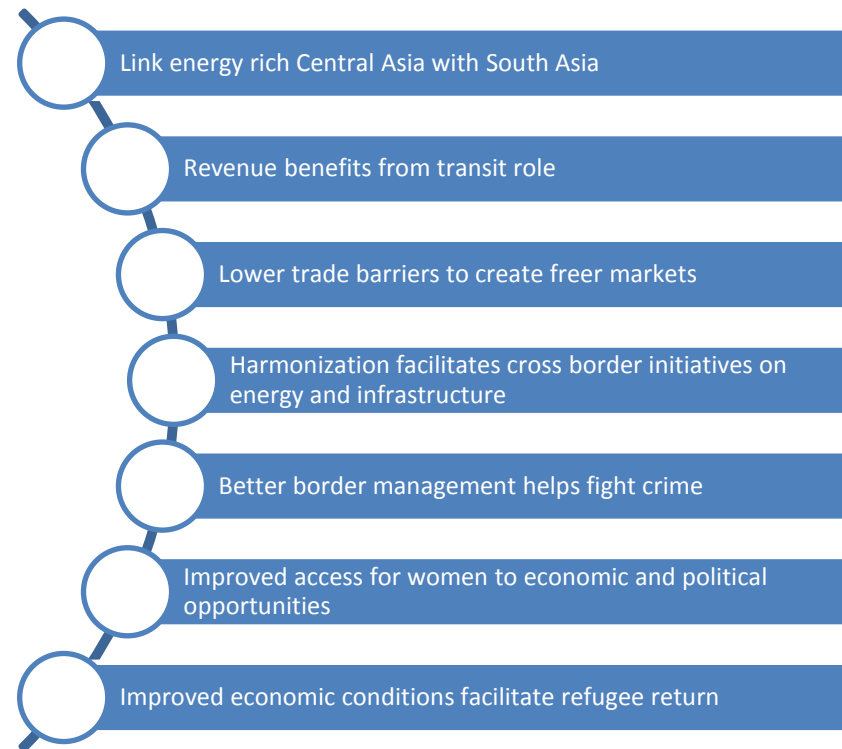
Regional integration has an important role in Afghanistan's National Development Strategy

Vision of Regional Integration

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.

- Afghanistan
National Development Strategy

Strategic Outcomes





ESCAP project is considering how to strengthen Afghanistan's economic linkages with Central Asia

Overview

- **Objective:** To strengthen the level of current economic ties between Afghanistan and neighbouring countries in Central Asia
- **Lead Offices:** ESCAP Trade and Investment Division; ESCAP Subregional Office for North and Central Asia (SONCA)
- **Timeframe:** Results to be shared alongside SPECA Economic Forum, 10-11 March 2015

Principal Tasks

- **Evaluate:** current status of trade and economic links:
 - Trade in Goods and Services
 - FDI
 - Labour Mobility
 - Cross-border collaboration
- **Identify** key barriers
 - Tariff and Non-tariff barriers
 - Infrastructure constraints
 - Business sector capacity
- **Recommend:** policy priorities






Agenda

1. Background: ESCAP project on regional integration
2. Afghanistan: recent economic and trade performance
3. State of economic linkages with Central Asia
4. Investigating barriers to regional economic integration
5. Discussion: identifying barriers and policy priorities

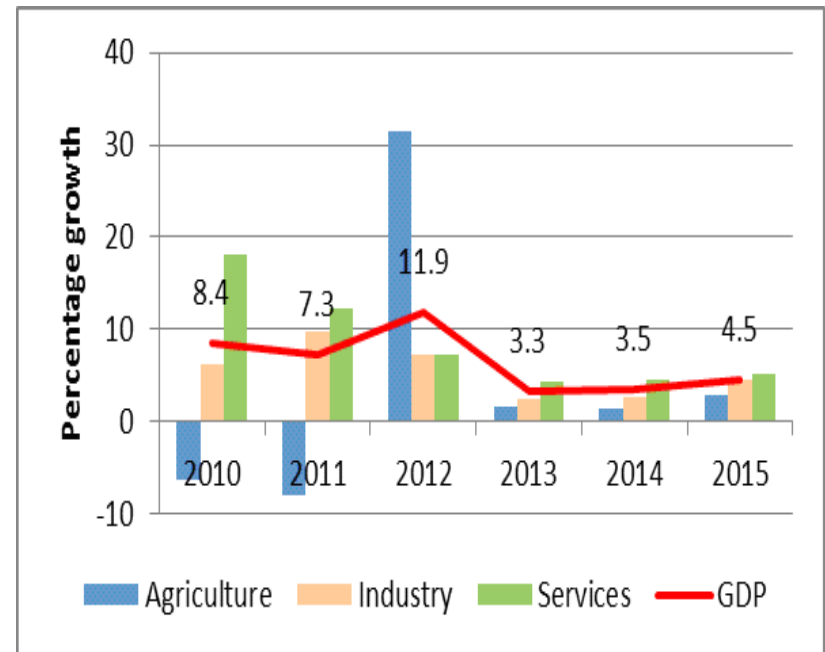




Recent growth has been weakening and is strongly influenced by agricultural performance

- GDP per capita increased by 342% from \$198 to \$678 in 2003-2013
- Economic growth in 2013 was estimated at 3.3% having fallen from 11.9% in 2012
- For 2014 and 2015 GDP growth is expected by ADB to be 3.5% and 4.5%, respectively.
- Overall growth strongly correlated to agricultural performance: Output volatile and may be close to current capacity
- Inflation rate: 7.3%, largely affected by persistent growth of food prices

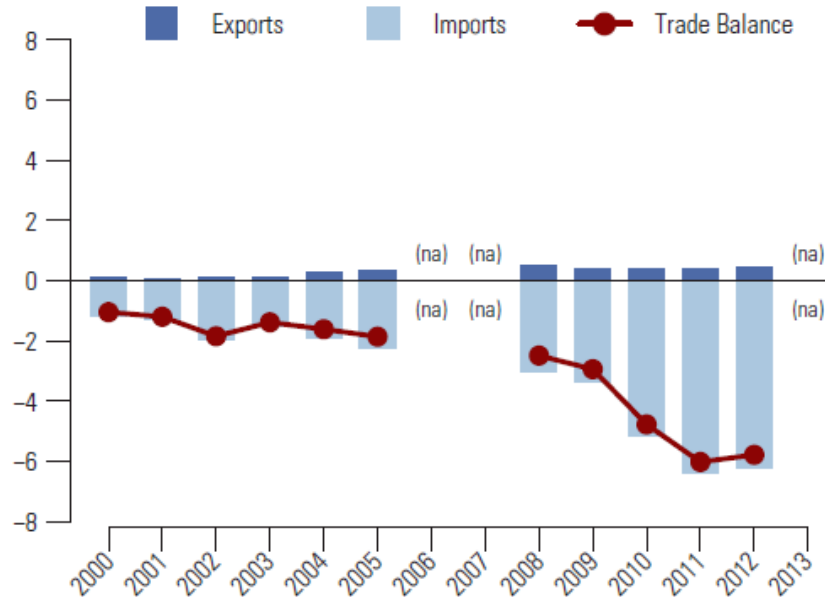
Trends in GDP growth by sector



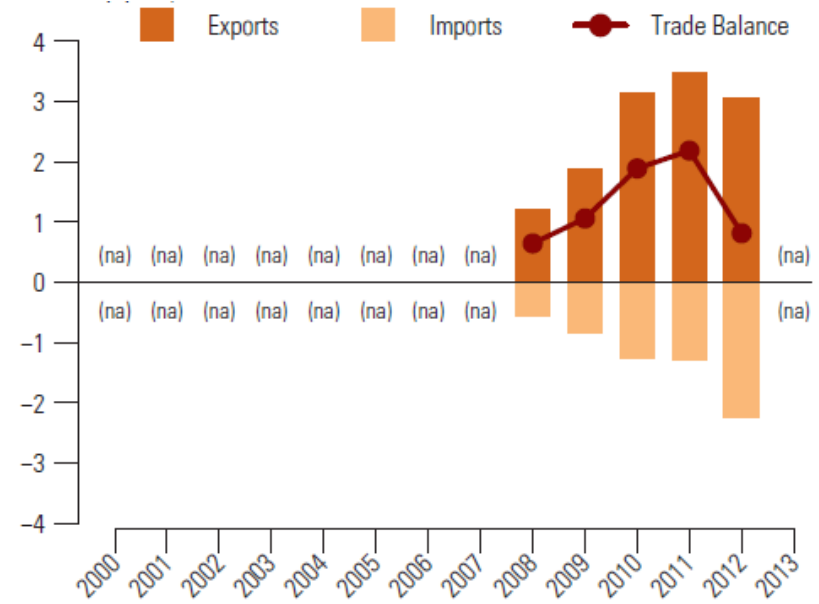



A large deficit in merchandise trade
contributes to current account deficits

Merchandise Trade (\$bn)



Services Trade (\$bn)





Afghani exports are heavily concentrated by products and partners (2012)

Top 5 partners (share of total)

| Country | Value (\$) | Share |
|---------------|------------|--------|
| Pakistan | 219327747 | 47.03% |
| India | 103463030 | 22.18% |
| Not specified | 24601991 | 5.28% |
| Iran | 20188642 | 4.33% |
| Finland | 12734740 | 2.73% |

Top 5 exports (share of total)

| HS Code | Product | Value (\$) | Share |
|---------|-----------------|------------|--------|
| 5201 | Raw Cotton | 67725753 | 14.52% |
| 2701 | Coal Briquettes | 50441462 | 10.82% |
| 806 | Grapes | 45317420 | 9.72% |
| 7204 | Scrap Iron | 42810146 | 9.18% |
| 1301 | Insect Resins | 33573659 | 7.20% |

Source: UN Comtrade





Imports less concentrated than exports; but South Asia still key partner(2012)

Top 5 partners (share of total)

| Country | Value (\$) | Share |
|----------------|------------|--------|
| Pakistan | 2238481624 | 26.04% |
| Not identified | 1297312781 | 15.09% |
| Russia | 697831556 | 8.12% |
| China | 593316653 | 6.90% |
| United States | 577070246 | 6.71% |

Top 5 imports (share of total)

| HS Code | Product | Value (\$) | Share |
|---------|----------------------|------------|--------|
| 2703 | Peat | 1335093275 | 15.53% |
| 2710 | Refined Petroleum | 1190325582 | 13.85% |
| 1101 | Wheat Flours | 399496199 | 4.65% |
| 2523 | Cement | 320136010 | 3.72% |
| 1516 | Other Vegetable Oils | 219596617 | 2.56% |

Source: UN Comtrade





Agenda

1. Background: ESCAP project on regional integration
2. Afghanistan: recent economic and trade performance
3. State of economic linkages with Central Asia
4. Investigating barriers to regional economic integration
5. Discussion: identifying barriers and policy priorities






Current economic relationship with Central Asia is limited but has considerable potential

Afghanistan and Central Asia: Key Features

| TRADE | FDI | LABOUR MOBILITY | INFRASTRUCTURE | INSTITUTIONAL |
|---|--|---|--|--|
| <ul style="list-style-type: none">• Current trade relationship limited especially as export market• Data is patchy; may not capture informal trade• Common challenges from landlockedness and lack of diversification | <ul style="list-style-type: none">• Intra-regional FDI flows largely insignificant | <ul style="list-style-type: none">• Many Afghan's working outside country• Little data on presence in Central Asia | <ul style="list-style-type: none">• Cross border energy trade important• Some progress in transport links through CAREC corridors | <ul style="list-style-type: none">• Numerous mechanisms for regional co-operation• No single trade agreement for region |





In general Central Asian markets are relatively small

| 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 |



Afghan trade with Central Asia is currently limited; though reliable data is hard to find

Exports to Central Asia by product (2011)

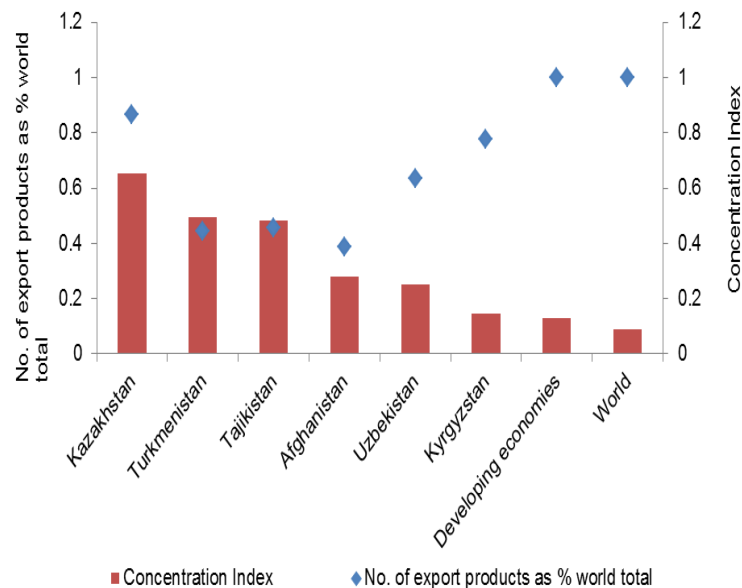
| | KAZAKHSTAN | | | KYRGYZSTAN | | | TAJIKISTAN | | | TURKMENISTAN | | | UZBEKISTAN | | |
|-------------|-----------------|-------------|-------|-----------------------|----------|-------|----------------------------------|-------------|-------|--------------|--|--|------------|--|--|
| | PRODUCT | Value | share | PRODUCT | Value | share | PRODUCT | Value | share | no data | | | no data | | |
| 1 | Potatoes | \$2,851,489 | 80% | Potatoes | \$36,139 | 57% | Curbs tones | \$3,915,048 | 99.9% | | | | | | |
| 2 | Grapes | \$585,523 | 16% | Other Hides and Skins | \$11,233 | 18% | Marble, Travertine and Alabaster | \$2,500 | 0.1% | | | | | | |
| 3 | Citrus | \$72,846 | 2% | Aircraft Parts | \$8,847 | 14% | | | | | | | | | |
| 4 | Onions | \$46,224 | 1% | Citrus | \$6,416 | 10% | | | | | | | | | |
| 5 | Root Vegetables | \$7,064 | 0% | Electric Batteries | \$1,172 | 2% | | | | | | | | | |
| Top 5 share | | | 100% | | | 100% | | | 100% | | | | | | |

Imports from Central Asia by product (2011)

| KAZAKHSTAN | | | | KYRGYZSTAN | | | TAJIKISTAN | | | TURKMENISTAN | | | UZBEKISTAN | | |
|-------------|-------------------|---------------|-------|--|--------------|-------|-------------------------|--------------|---------|---------------------------|---------------|-------|-------------------|---------------|-------|
| | 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 | \$60,843,828 | 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% |

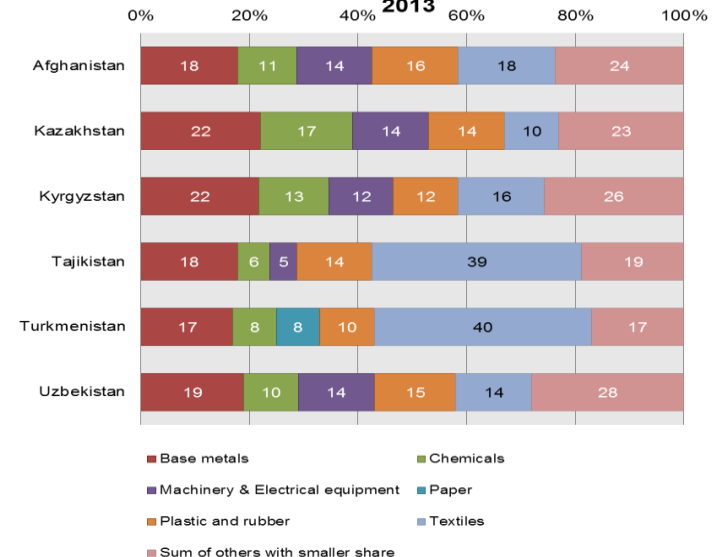
Afghanistan and Central Asia face common challenges from low levels of diversification

Diversification Indices



Diversification potential

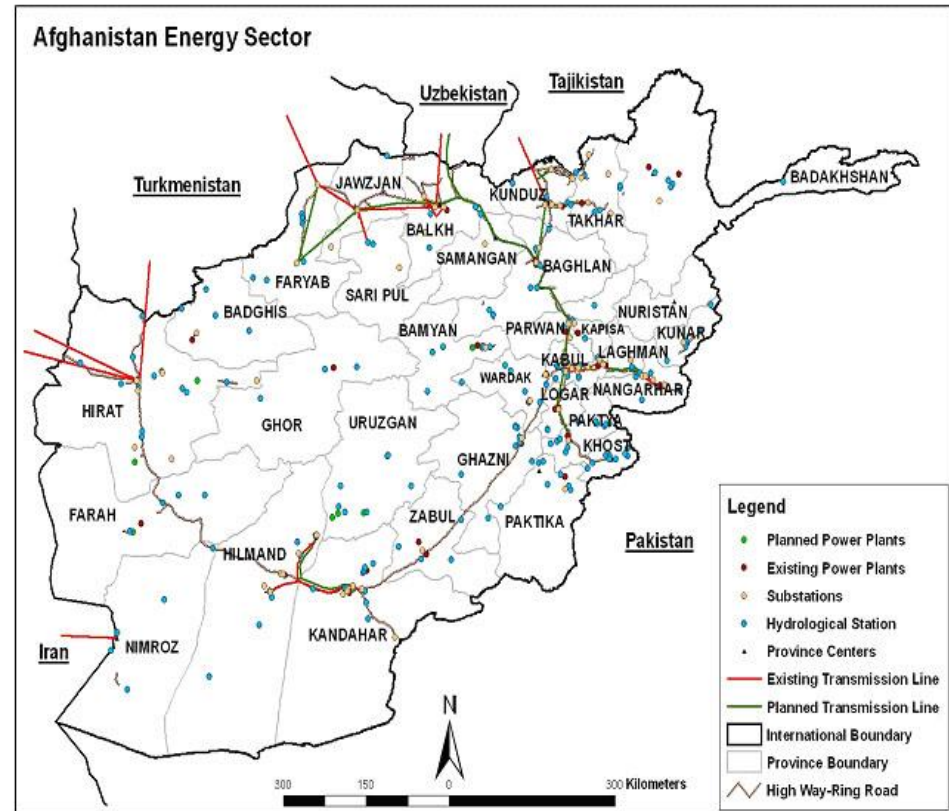
Top five industries with highest percentages of potential new products, Asian landlocked developing countries, 2013



Source: ESCAP (2014)

Central Asia is a critical supplier of energy to Afghanistan

- In 2011 Afghanistan produced 0.8 GWh and consumed 3 GWh of electricity
- 70% of the population of Afghanistan have no access to electricity
- Net electricity demand in Afghanistan is set to increase to 7.5 GWh by 2020
- Central Asia (excl. Turkmenistan) had 25,338 GWh of annual surplus electricity available for trade in 2010
- Afghanistan can be self-sufficient, but imported electricity is much cheaper
- Price range for electricity in Central Asia is 1.9-3.8 US cents/kWh; in Afghanistan electricity is largely oil- and diesel-generated (35-40 US cents/kWh)
- Joint energetics projects following RECCA-V: TAPI Pipeline; CASAREM (transmission lines from Kyrgyzstan and Tajikistan) 1.3 GWh supply; Afghanistan Regional Electric Grid






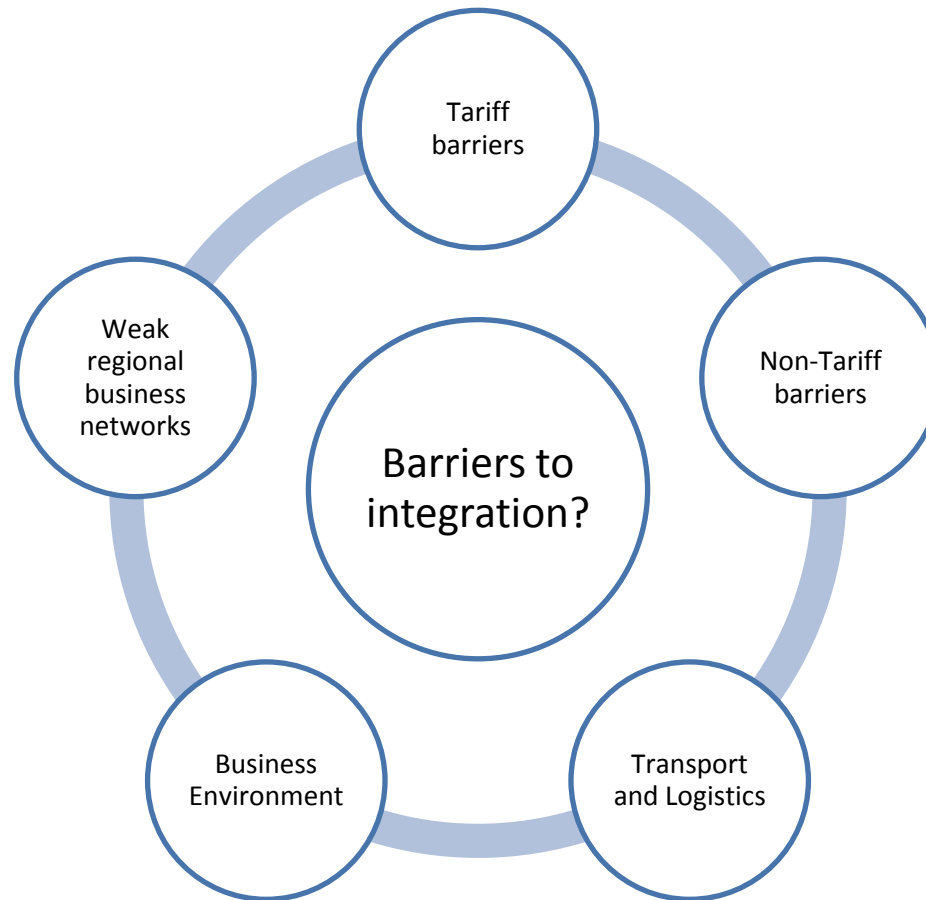
Agenda

1. Background: ESCAP project on regional integration
2. Afghanistan: recent economic and trade performance
3. State of economic linkages with Central Asia
4. Investigating barriers to regional economic integration
5. Discussion: identifying barriers and policy priorities





ESCAP is seeking to identify critical barriers to deeper regional integration

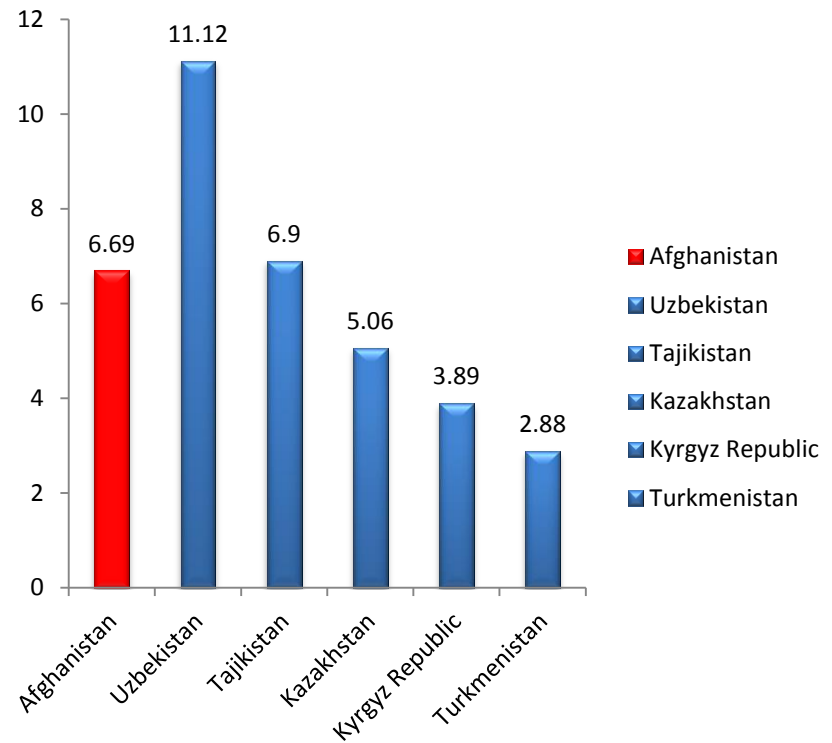




Tariffs are fairly low across the region on average

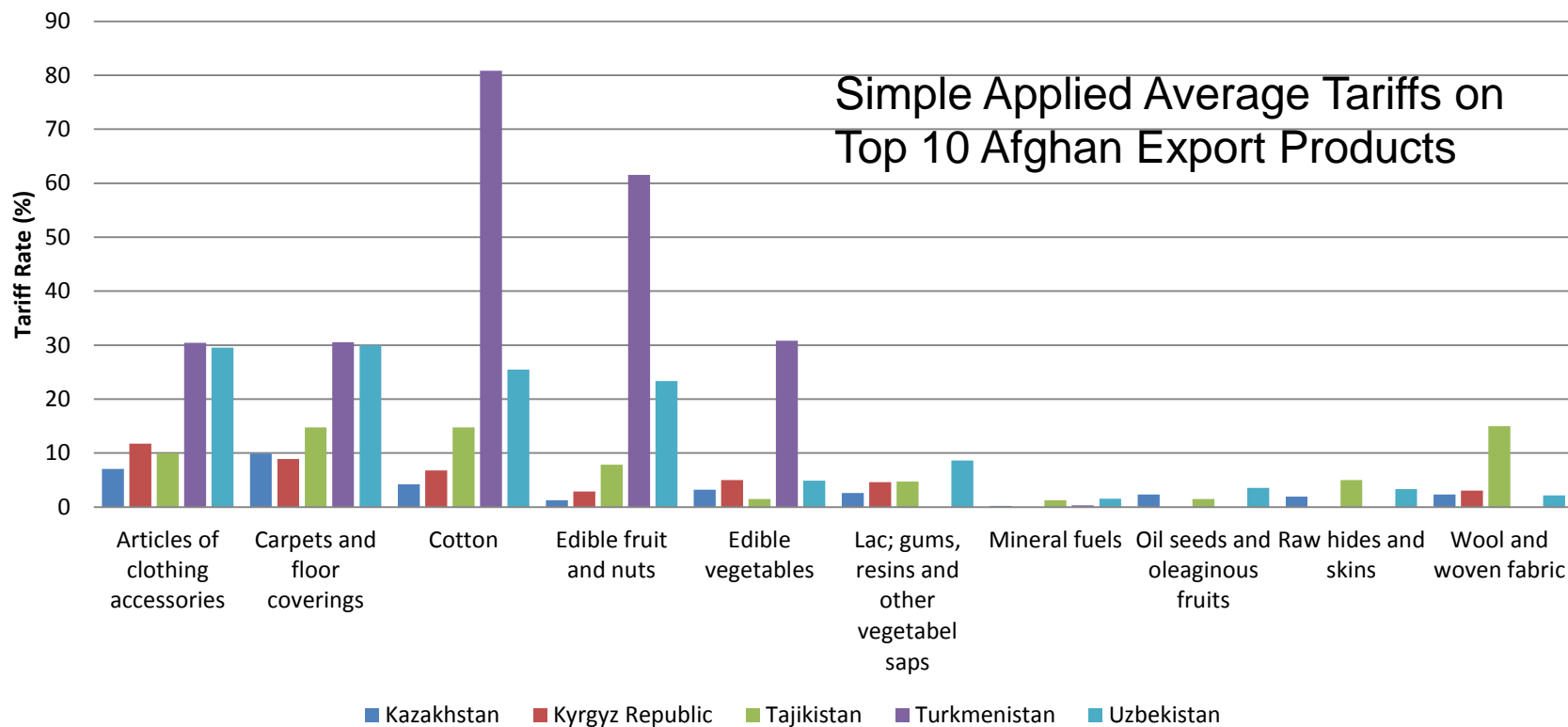
- Afghanistan's tariff rates are among the lowest rates applied by LDCs anywhere in the world
- However, some of Afghanistan's top export products are facing higher than average tariffs in Central Asia (next slide)
- Notably, cotton; fruit; vegetables; and carpets
- Highest product specific tariffs in Turkmenistan and Uzbekistan

Average MFN applied tariffs





However, some of Afghanistan's top export products face significant tariff barriers



Source: WITS



Non-tariff barriers may be inhibiting trade in agricultural products


- Non-tariff Barriers include wide range of policies, regulations and standards impacting trade
- Harder to identify and measure than tariffs; lack of comprehensive data on regional economies
- Some evidence that Afghan agricultural exports struggling to meet SPS standards of Central Asia countries
- This undermines the ability of export-oriented agriculture industries to supply their produce to the region



Logistics performance continues to be weak, need for accelerated regional linkages

- Improved transport connectivity of Afghanistan with Central Asia could boost trade by up to \$12 billion, increasing regional trade by 160% and transit through Afghanistan by 110%, while Afghanistan's GDP would grow by 9-13%
- Logistics Performance Index: Afghanistan ranks 158/160, main issues: lack of infrastructure, slow processing of goods at borders, poor systems of tracking and tracing
- Afghanistan, Kyrgyzstan and Tajikistan have signed the Cross-Border Transportation Agreement to facilitate transit of goods
- 1450 km of railroad consisting of 4 corridors is proposed to be built in Afghanistan in RECCA-V, creating railroad links between Afghanistan, Iran, Tajikistan and Turkmenistan. Afghanistan relies on support of its partners to finance the project
- CAREC Economic Corridors improving linkages across region







An enabling business environment is a prerequisite to strong cross-border links

- SMEs 75% of employment and contribute 50% to the GDP of Afghanistan
- Challenges in business environment prevent effective cross-border interaction of enterprises
- Access to finance is critical issue for many business
- Delays in permits (e.g. for construction) also frequently highlighted

Afghanistan DBI Profile, 2015

| TOPICS | DB 2015 Rank (out of 189) |
|---|---------------------------|
| Starting a Business  | 24 |
| Dealing with Construction Permits | 185 |
| Getting Electricity | 141 |
| Registering Property | 183 |
| Getting Credit | 89 |
| Protecting Minority Investors | 189 |
| Paying Taxes | 79 |
| Trading Across Borders | 184 |
| Enforcing Contracts | 183 |
| Resolving Insolvency | 159 |





Building connections amongst regional businesses can facilitate trade

- Connections amongst businesses and traders play an important role in facilitating trade alongside formal policies
- Informal trader networks are strong between Afghanistan and Iran and Pakistan due to strong social networks and linguistic proximity as well as lower cost of products and transportation.
- Since 1990s there are few trader networks between Afghanistan and Central Asia and they mostly deliver goods produced outside of Central Asia (especially Russia, whose exports to Afghanistan have decreased since 1991)
- Study of Afghan imports in key household sectors (Pharmaceuticals, cooking oil, salt, baby food and petrol) showed lack of trader networks with Central Asia led to imports being sourced from South Asia instead
- Labelling of products in Afghan languages (especially pharmaceuticals would help)
- Trade fairs between Central Asia, Russia and Afghanistan are needed to reinvigorate regional trader networks
- Travel restrictions for Afghani businessmen in Central Asia remain an obstacle



Numerous regional co-operation mechanisms offer scope for further integration



CAREC

- Developing Critical Economic Corridors
- Supported by six international partners



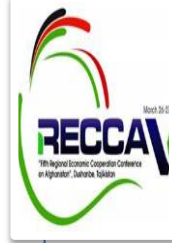
SAARC/SAFTA

- Regional Trade Integration
- Currently excluding Central Asia



SPECA

- Joint ESCAP and UNECE
- Six Project Working Groups: Transport, Water and Energy, Trade, Statistics, ICT for Development and Gender and Economy



RECCA

- Dedicated to advance Afghan stabilization and South and Central Asian regional economic integration



ECO

- ECO Trade Agreement (ECOTA), establishment of ECO Trade and Development Bank (ECOTDB), reactivation of ECO Chamber of Commerce and Industry (ECO-CCI) and cooperation in Customs matters



APTTA

- APTTA guarantees freedom of transit between Afghanistan and Pakistan.
- Potential for extension to other countries?



Agenda

1. Background: ESCAP project on regional integration
2. Afghanistan: recent economic and trade performance
3. State of economic linkages with Central Asia
4. Investigating barriers to regional economic integration
5. Discussion: identifying barriers and policy priorities





ESCAP is seeking inputs from stakeholders to improve the study's evidence base and recommendations

Evaluating current linkages

- Given lack of data, what is missing from the picture of current linkages?
- Are there particular sectors showing promise?

Assessing barriers

- What explains current low levels of trade and investment?
- Which non-tariff barriers are the most important?

Institutional structures

- How effective are current mechanisms for regional collaboration?
- What could be done to strengthen them?

Recommendations

- What issues should be prioritized?
- What are short-term and long-term goals?





Thank you.

www.unescap.org

Email: heal@un.org

