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INSTITUTE



# Afghanistan Reconnected

Regional Economic Security  
Beyond 2014

# **Afghanistan Reconnected:** Regional Economic Security Beyond 2014

Report on the Abu Dhabi Process  
Consultations 2013-2014

May 2014



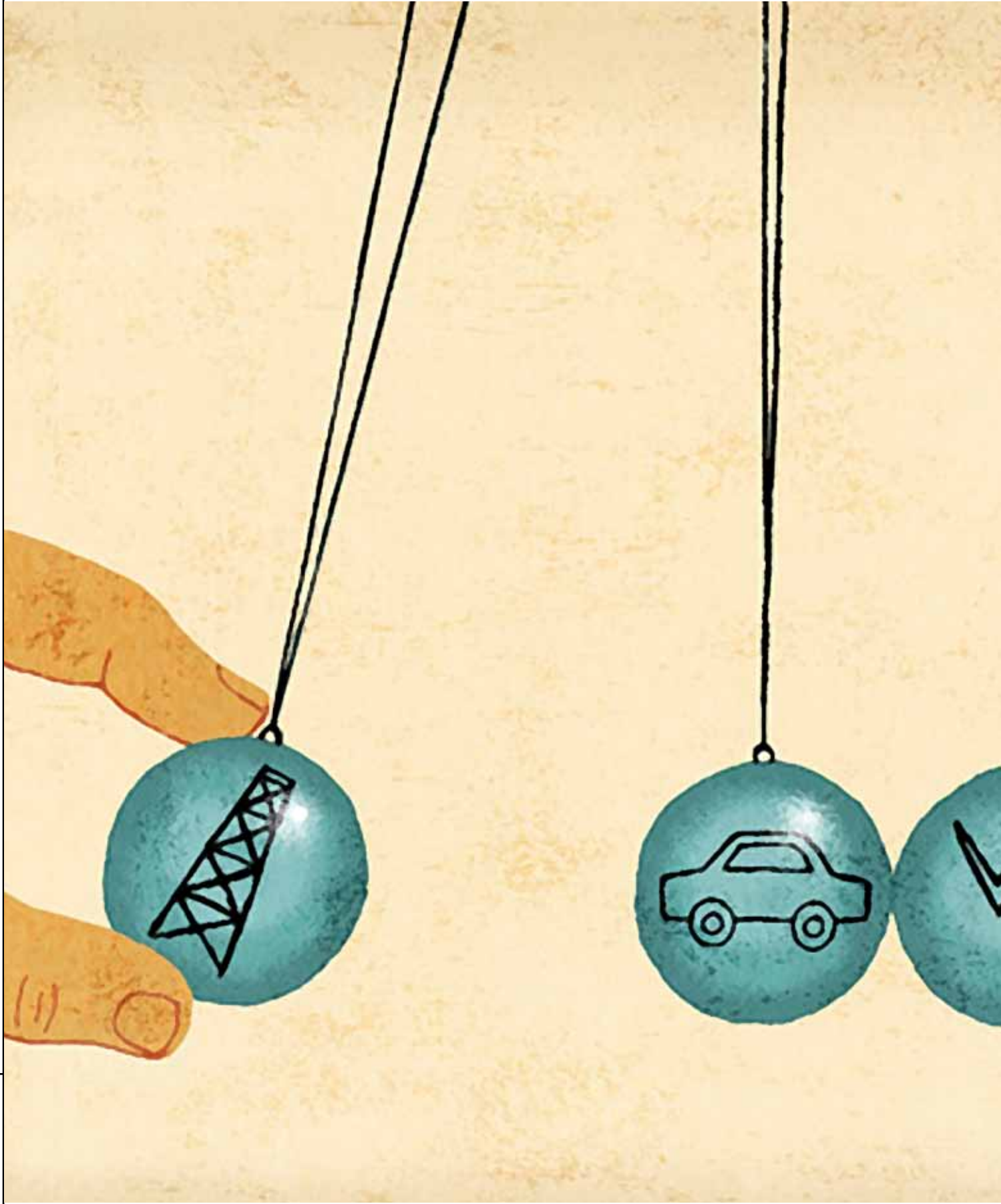


The EastWest Institute (EWI) in Brussels wishes to thank the governments of Abu Dhabi and of Germany for co-funding the Abu Dhabi Process consultation series “Afghanistan Reconnected” in 2013 and 2014.

The consultations held in Istanbul, Islamabad, New Delhi and Berlin would not have been possible without the invaluable diplomatic support of the governments of Turkey, Pakistan, India, Afghanistan and Germany.

We also would like to thank our partner organizations, in particular the Federation of Indian Chambers of Commerce and Industry (FICCI), New Delhi, the Sustainable Development Policy Institute (SDPI), Islamabad, as well as the German Council on Foreign Relations (DGAP), Berlin, for their cooperation.

The articles of this report were kindly provided by the participants of the “Afghanistan Reconnected” consultation series.



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# Introduction



**Ambassador  
Dr. Beate  
Maeder-Metcalf**

Vice-President  
and Director for  
Regional Security,  
EastWest Institute

**W**ith the end of the ISAF mandate, Afghanistan will enter the “decade of transformation” in late 2014, and assume security for and within the country. The challenges with regard to security and governance are obvious; they attract much political and public attention.<sup>1</sup>

In 2012, the EastWest Institute chose to focus on the economic and regional aspects of the transition. Afghanistan’s economy is an important factor in the future stabilization of the country, and so is the development of economic cooperation with her neighbors.

The departure of foreign troops by 2014 and a gradual medium-term decline in overall donor support are expected to lead to a considerable drop in economic growth in Afghanistan. After years of robust economic growth with GDP rates of around 10%, the growth is projected at 3.5 percent for 2014, according to the World Bank, before rising gradually to around 5 percent as the security situation stabilizes and mining projects come online.<sup>2</sup> Afghanistan’s economic policy needs to move away from the “security economy” and aid dependence, and exploit the country’s considerable potential which exists in agriculture, in mining and as a transit hub at the crossroads of Asia.

The EastWest Institute convened three meetings on cross-border economic chal-

lenges and opportunities in 2013—on infrastructure in Istanbul, on energy trade in Islamabad and on investment in New Delhi. In a fourth meeting, held in Berlin in April 2014, we reviewed progress and defined future activities. Our philosophy in this series of “Afghanistan Reconnected” consultations is similar to the Istanbul or Heart of Asia Process, with its regional confidence building measures. We engaged stakeholders from Afghanistan and from the region, including however not only governments, but also the business sector and parliaments. We wanted to generate knowledge and interest in the region in Afghanistan’s economic potential and highlight the win-win potential of economic cooperation. For this, we believe it is essential to engage also the private sector, which is attracted to new business opportunities. It has proven to be very helpful to have Members of Parliament at the table—mostly from Afghanistan and Pakistan—as they have a say on legislation, trade and mining laws for example. Governments, on the other hand, tend to be more “conservative” and remain mindful of old patterns of conflict and rivalry.

A World Bank Representative stated in one of our meetings that, while there is growing trade between the region of South Asia and the rest of the world, economic cooperation within the region has been stagnating. This is due to instability in Afghanistan, located in the center of Asia, as well as to long-lasting problems among neighbors. It goes, however, against the global trend towards greater connectivity in terms of infrastructure and exchange. And last year, the first intercontinental railway line was opened in Istanbul connecting Europe to Asia. Neither Afghanistan with her specific challenges in the “decade of transformation,” nor the region as a whole, can afford to be left out of global trends for growth. It is time to overcome the old zero-sum-game mindset.

1 This introduction is based on a speech delivered at the European Parliament, December 18, 2013, at the High Level Conference “Afghanistan and Central Asia: Prospects and Challenges after Withdrawal of NATO/ISAF Forces.”

2 World Bank (Jan. 2014) “Global Economic Prospects”, p. 79, URL: [http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2014a/GEP2014a\\_SAR.pdf](http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2014a/GEP2014a_SAR.pdf).





## General Findings from Our Consultations

One of the most frequent debates was about the link between security in Afghanistan and economic development: some argued there could be no economic development without a secure environment. Others argued that there was no time and perhaps no need to wait for more secure conditions, as long as local ownership and benefits were guaranteed in any major undertaking. While long-term investment would require confidence in the government and in the economy, short-term and medium-term measures were possible, if arrangements could be made. The economy can't wait, and quick gains may flow from improved logistics, reduction of tariffs and removal of impediments at border posts.

A second observation is on the regional nature of this economic vision: it will require long-term pro-active efforts by all stakeholders. It is not only about Afghanistan's impact on other countries, as it is often suggested. Afghanistan's neighbors are not only at the receiving end of developments in Afghanistan, as countries affected by drug trade and terrorism. They are neighbors and active stakeholders. Regional participation in our conferences was very encouraging; exchanges were frank and to the point. Participants from Turkmenistan and Tajikistan attended our consultations, while it was explained to us that Uzbekistan's policy is to deal with Afghanistan only bilaterally. Most active participants were from Pakistan, India, Turkey and the Middle East. Iran—like Pakistan—is a key economic partner for Afghanistan and joined the consultations in 2014.

Looking at the economic relationship between Afghanistan and her neighbors in the north, the EastWest Institute focused on the potential for trade in regional energy and electricity. Central Asia is endowed with considerable gas, oil, and water resources and seeks to diversify its supplies, while Afghanistan, and Pakistan and India need these resources to ensure sustainable economic growth.

The TAPI natural gas pipeline—a project of the 1990s, now moving towards completion in 2017—could be one of the most transformative economic projects of the region, linking Turkmenistan via Afghanistan to Pakistan and India. The pipeline could export up to 33 billion cubic meters

of natural gas per year from Turkmenistan over 30 years. The Asian Development Bank will advise on the establishment of the TAPI pipeline company owned by state gas firms of these four countries. The 1,800 kilometer gas pipeline will allow landlocked Turkmenistan to diversify its gas export markets to the southeast, provide a vital new fuel source for southern Afghanistan and help Pakistan tackle chronic fuel shortages. In India, it will allow the northern region to access a steady supply of gas to fuel its growth. The Asian Development Bank stressed the transformative potential of the project: "It will bring multiple benefits to the participants, including access to new markets, enhanced energy security and job opportunities and have transformational impact on regional cooperation."

Progress was also made in 2013 on another landmark regional energy project known as the "CASA-1000." This electricity transmission project will allow Tajikistan and the Kyrgyz Republic to sell surplus hydro-power to Afghanistan and Pakistan. Afghanistan would doubly benefit as a consumer and as a country of transit. Pakistan would add 1000MW to its national grid in peak demand periods.

Another issue for regional cooperation between the States of Central Asia and Afghanistan is regional infrastructure. The Asian Development Bank estimated already in 2005 that the construction of North-South corridors between Afghanistan and Central Asia could increase trade by as much as 15 percent or \$12 billion within 5 years. We now know that the northern Afghanistan holds the largest potential in the country for multi-billion dollar mining. Mineral resources are considered to be Afghanistan's largest economic asset with an estimated wealth of \$1-3 trillion in proven resources alone. Developing these resources in the long term is considered Afghanistan's route to prosperity and growth. For this to occur, a functional regional infrastructure is required.

Roads, of course, will not only serve for the transportation of apples, copper, iron, or gold. UNODC found that in 2013 opium poppy cultivation in Afghanistan rose by an alarming 36 percent. The illicit drug economy, originating mostly in the south of Afghanistan, is likely to grow with the predicted slowdown of the legal economy in 2014. Narcotrafficking via the Northern Route through Central Asia supplies the Russian market with opiates. Iran has also

Central Asia is endowed with considerable gas, oil, and water resources and seeks to diversify its supplies, while Afghanistan, Pakistan and India need these resources to ensure sustainable economic growth.



“First, it must be said that EWI identified a very significant issue and then proceeded to frame it in a correct and productive way. This subject demands a high level of serious attention, and EWI helped achieve that. And while India has increasingly come to appreciate the potential benefits to it of the so-called “Southern Corridor” extending from Hamburg to Hanoi through Turkey, the Caucasus, Afghanistan, Pakistan and India, it has been surprisingly passive in its pursuit of this objective. The EWI helped nudge them to action.

Second, my impression is that the Islamabad meeting was particularly valuable, in that it gave members of the new government a clear opportunity to express in public their understanding of the strategic and economic importance of the Southern Corridor and also to show some of the concrete steps being taken to open it through Pakistan. The fact that two former military officers attended the event and reported on their new transport firms was clear proof that (even) Pakistan is beginning to move.”

**Prof. S. Frederick Starr**

Senior Research Professor and Chairman,  
Central Asia – Caucasus Institute,  
Johns Hopkins University, U.S.

been widely affected, as well as Pakistan. There is no short-term, national or regional solution to this unwanted economy with its wider implications on public health and security. An April 2013 EWI assessment of Afghan Narcotrafficking has analyzed however, conditions allowing for a reduction of poppy cultivation. Apart from substitution strategies, it found that “on a national scale, general economic reconstruction and development, including the growth of industrial, resource, and services sectors, may provide a [...] viable alternative to the opium economy.” In other words, there is a need to invest in the real economic development in the country to reduce the drug economy. Afghanistan’s economy is diverse and will develop regionally.

As to Pakistan, there is great potential for enhancing bilateral trade. The 2010 Afghan-

istan-Pakistan Trade and Transit Agreement (APTTA) needs to be yet fully implemented. The agreement, if fully implemented, could connect South Asia to Central Asia via Afghanistan. Such progress will require political commitment and a shared vision within the region.

A stable Afghanistan would be able to respond to the energy shortages in Pakistan and provide avenues for business in Pakistan and India. In our 2013-14 consultations, we have managed to outline the opportunities that exist for regional cooperation between Afghanistan, Central Asia and South Asia. Our vision is one of Afghanistan in the center of Asia with a considerable economic potential of its own and as a transit hub. Developing this potential within the region will hold benefits for many, if not for all.

Top: Ambassador Yousef Al Otaiba U.A.E. Ambassador to U.S. and member of the Board of Directors, EastWest Institute, Ambassador Yousef Saif Al Ali, U.A.E. Ambassador to Afghanistan, interviewed during the first “Afghanistan Reconnected” meeting in Istanbul





Afghanistan  
Reconnected



# Afghanistan in the Heart of Asia

## Afghanistan in 2014

2014 is a challenging and important year in Afghanistan. The Afghan people are electing a new president. We will witness the first ever democratic transition in the history of modern Afghanistan. Unlike before, these elections and all security related issues will be handled by Afghan authorities and Afghan Security Forces, with the International Community and ISAF in a merely supporting role. Writing this in March, I can only hope that the elections will take place in as safe an environment as possible and as transparent and fair as can reasonably be expected under the given difficult circumstances. So far, preparations look better than any election before. According to the available data in nearly all districts of Afghanistan the security situation will allow people to cast their votes. And millions of men and women are keen on using their constitutional right to vote. Credibility of the election outcome in the eyes of Afghan citizens will be the main precondition for political stability during the transition.

What is more, Afghanistan's security forces are preparing to take over full responsibility for security from the International Security Assistance Force (ISAF) on December 31, 2014. The international community has stated its readiness to continue to assist the Afghan security forces after 2014 by providing training, advice and support within the framework of a "Resolute Support"

mission. Germany is prepared to shoulder responsibility within that new mission as well and has announced its intention to provide between 600- 800 troops for an initial period of two years if a number of necessary conditions are met.

Afghanistan will not be on its own after the wind down of ISAF. Germany will continue to provide up to 430 million euros each year until at least 2016. The international community will remain involved in civil reconstruction and development according to the rules set up with the Tokyo Mutual Accountability Framework in 2012. Afghanistan has made progress in meeting its commitments. However, the Afghan government has hitherto not shown sufficient resolve in fighting corruption and in some other fields. More progress in key fields such as governance, rule of law and the protection of human rights including women rights will be needed to further reconcile and stabilize the society and to foster economic growth.

Growth declined by 10 percent in 2013 according to the World Bank, which is expecting 3.5 percent of growth in 2014, down from 14.4 percent in 2012. News of significant downscaling of major investment plans such as the development of Hajigak and Aynak mines and complementary infrastructure are not good signs. Curtailing corruption while completing much needed legislation like the mining law are necessary to attract private international investment.



**Ambassador  
Dr. Michael Koch**

Special Representative of the Federal Government for Afghanistan and Pakistan, Foreign Office, Germany

Clockwise from left:  
Mozammil Shinwari,  
Deputy Minister  
of Commerce  
and Industry,  
Afghanistan; Naveed  
Qamar MNA,  
Former Minister  
of Petroleum and  
Natural Resources,  
Member of National  
Assembly, Pakistan;  
Wahidullah Waissi,  
Director General  
for Economic  
Cooperation,  
Ministry of Foreign  
Affairs, Afghanistan;  
Dr. Mostafa T.  
Zahrani, Director  
General, Institute  
for Political and  
International Studies  
(IPIS), Iran.





Afghanistan Reconnected Group in Berlin

## Afghanistan as a land bridge

Afghanistan is a landlocked country, not an easy position to be in, yet one that puts Afghanistan on ancient crossroads of trade and exchange of all kinds of commodities. Development of cross-border infrastructure and trade has enormous potential to create much needed jobs – in Afghanistan and all its neighbors.

Even if done on a small scale the impact of the development of cross-border infrastructure on ordinary citizens' lives can be huge. This is true for the projects implemented by the Pakistan-Afghanistan-Tajikistan Regional Integration Programme, or PATRIP, funded by the German Foreign Office. An example is the construction of the Vanj bridge on the Pyanj river between Afghanistan and Tajikistan and adjoining market facilities (stalls, etc.). The bridge is used by around 55.000 people from both sides

of the border and gives the population not only a new opportunity to sell their products but also provides access to doctors, schools and other services on the other side of the border.

And, of course, this is even more true for bigger efforts such as the CASA-1000 Regional Electricity Trade Project connecting South and Central Asia, the main elements of which now finally seem to be close to completion.

The countries of the region have a key role to play in the overall effort to rebuild Afghanistan. In my view, the Heart of Asia Process (or Istanbul Process) is proof that this simple truth has been understood by the governments involved. The growing willingness by so many different countries to take responsibility for their common neighborhood is very encouraging to watch. The fast establishment of this young process, established in Istanbul only in November 2011, in



spite of not always convergent interests and historical conflicts between some member states, shows the enormous potential.

The Istanbul Process is a government-led process. However, it envisages a key role for civil society actors, too. Civil society, alas, is often faster and more creative than officials. The Abu Dhabi Process inaugurated by the EastWest Institute is a high level civil society group, which has a similar agenda to the official process: to better link the people and economies of the heart of Asia.

The EastWest Institute has tapped into the rich potential of civil society from Afghanistan, Central Asia, China, India, Iran, Pakistan, the United Arab Emirates and others.

The institute has established a dialogue between parliamentarians, analysts, experts and policy makers. The recipe is easy: bring together smart people, put them into an inspiring environment, build trust among

them, develop and discuss solutions and cooperation.

The conferences of the Abu Dhabi Process have researched some very crucial elements of regional cooperation for the common good of Afghanistan and the region as a whole. The potential of Afghanistan to act as an economic land bridge in Asia, linking energy suppliers to consumers in Asia and unlocking investment potential in the region are key factors for boosting economic development and growth.

The work of the distinguished members of the Abu Dhabi Process is a good example of what can be achieved by joining forces. Trust-building and achieving common goals do not work over night, but the Abu Dhabi Process is living proof that it can work. It was therefore with great pleasure that the German Federal Foreign Office has co-funded this valuable process.

Top: Beate Maeder-Metcalf, Vice-President and Director for Regional Security Program, EastWest Institute; Saeid Khatibzadeh, Embassy of Iran in Berlin; Najam Abbas, Senior Research Fellow for Central and South Asia, EastWest Institute.  
Bottom: Michael Koch, Special Representative of the Federal Government for Afghanistan and Pakistan, Germany; S. Frederick Starr, Senior Research Professor and Chairman, Central Asia – Caucasus Institute, Johns Hopkins University, U.S.



# Afghanistan and the Region: Facts and Figures

The country will face two main challenges that will affect economic activity and growth in a major way.

## Transition and Economic Potential in Afghanistan

The transition to full Afghan security responsibility for all of Afghanistan's provinces is due to be completed at the end of 2014. The country will face two main challenges that will affect economic activity and growth in a major way: the departure of foreign troops by 2014 coupled with an increase of Afghan national security spending; and a gradual decline in overall donor support over the medium term with a larger share of remaining donor support possibly being channeled through the Afghan government's budget.

In light of these two developments, donors' contributions are expected to shrink gradually. The International Monetary Fund (IMF), the World Bank (WB) and the Asian Development Bank (ADB) all projected that Afghanistan's GDP growth has slowed considerably from about 14 percent in 2012 to an estimated 3.1 percent for 2013.<sup>3</sup> The decline in GDP is attributed to increasing uncertainty about the volatile political and security environment, lower agriculture

3 World Development Indicators, World Bank National Accounts Data; and OECD National Accounts, Data Files; and International Comparison Program Database, accessed on January 10, 2014; International Monetary Fund, World Economic Outlook Database, October 2013; World Bank (January 29, 2014) "Afghanistan: Transition to Transformation Update", JCMB Meeting, URL: <http://www.worldbank.org/content/dam/Worldbank/document/SAR/afghanistan/AF-JCMB-meeting-jan-29-2014-presentation-english.pdf> (accessed on March 3, 2014).

productivity and private investment. According to a World Bank projection, growth is projected to remain weak at 3.5 percent in 2014<sup>4</sup>, with any further increase in uncertainty likely to further dampen growth prospects and prolong the slowdown. Even the mining sector (Afghanistan's great economic potential) contributed only 1.0 percent to the overall GDP share in 2012. Raising revenues to the target of 14 percent of GDP by 2018 will require a concerted effort in strengthening enforcement, expediting introduction of the planned VAT and progress on legislative and regulatory framework for the mining sector. The World Bank estimates that post-transition growth is projected at about 5 percent per year during 2015-18 under the baseline scenario, which is considerably less than the 9.4 percent average growth in 2003-12 that was fueled by aid and security spending.<sup>5</sup>

Sectors such as transport and construction, which are dependent on a military presence, will be most affected by the withdrawal of foreign troops, and Afghanistan could suffer a severe economic depression when foreign troops leave in 2014. However, if the decline in aid is gradual and predictable, an economic crisis can be avoided. The Afghan government and the international

4 World Bank (Jan. 2014) "Global Economic Prospects", p. 79, URL: [http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2014a/GEP2014a\\_SAR.pdf](http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2014a/GEP2014a_SAR.pdf).

5 World Bank (January 29, 2014) "Afghanistan: Transition to Transformation Update", JCMB Meeting, URL: <http://www.worldbank.org/content/dam/Worldbank/document/SAR/afghanistan/AF-JCMB-meeting-jan-29-2014-presentation-english.pdf> (accessed on March 3, 2014).

community must ensure planning and effective fiscal sustainability measures in order to avoid an economic recession in 2014 and beyond.

The expected decrease in foreign aid could be worsened, if the government of Afghanistan does not meet conditions set by international donors at the Tokyo conference in 2012 when 16 billion USD were pledged. An economic crisis in Afghanistan puts all security achievements at risk, at both the local and regional levels. All of this underscores the importance of efforts to stimulate the economy, which will have an impact on both the domestic economy and Afghanistan's economic interaction with other countries in the region.

### Economic Growth Largely Externally Driven

Above all, Afghanistan will have to manage a transition from an economy supported by the presence of foreign troops to a more self-sustaining economy. The Afghan government must orchestrate an economic transition from a contract economy to a market economy.

The effects of the 2014 troop withdrawal are difficult to predict in detail, but they are bound to be very significant. While private consumption has been the primary driver of economic growth over the past half-decade (22.1 percentage points of 22.5 of real growth in 2009–10<sup>6</sup>), behind that consumption growth, the World Bank has noted, lies the “security economy” that generated demand for goods, services and equipment. Also important are donor spending and large off-budget contributions. Government spending is expected to increase mainly as a result of rising security spending on both operations and maintenance for the military and police, which have until now been funded off-budget by the donors.<sup>7</sup>

6 World Bank (Feb. 2011) “Growth in Afghanistan: Afghanistan’s Recent Economic Performance”, Macroeconomics and Economic Growth in South Asia, URL: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/EXTSARREGTOPMACECOGRO/0,,contentMDK:20592478~menuPK:579413~pagePK:34004173~piPK:34003707~theSitePK:579398~isCURL:Y,00.html> (accessed on February 26, 2014).

7 World Bank (April 2013) *Afghanistan Economic Update: Poverty, and Economic Management*, South Asia Region.

Afghanistan expects the dual challenges of increased spending and declining donor funds. While this scenario can lead to an economic crisis, the World Bank argues that “[t]he impact of declining aid on economic growth will be less than expected.”<sup>8</sup> An overemphasis on the occurrence of an economic crisis in 2014 has strong negative impact on the economic activity in Afghanistan. Fear of a possible economic crisis in the future is already affecting the confidence of private businesses, investors and consumers in the local economy. Pessimistic expectations will negatively influence the behavior of economic agents and will validate the initial expectations of a crisis. Maintaining the confidence of business owners and consumers is crucial to stimulate economic growth in 2014 and beyond.

### Afghanistan’s Economic Potential

Afghanistan has a considerable potential for economic growth within the country and—given its location in the center of Asia—within the region.

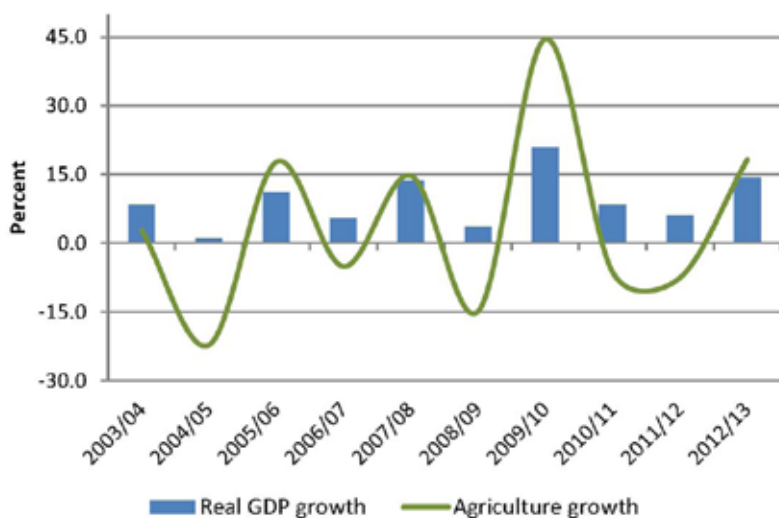
In general, the economic benefits resulting from the presence of foreign troops are more substantial in the northern and western parts of the country than in the southern and eastern regions. Various factors contribute to this situation, which has resulted in accusations that the mostly Pashtun population living in the south and east of Afghanistan are being marginalized. Any effort to achieve economic development and overall stability in Afghanistan will need to address these regional imbalances.

In narrow economic considerations, the northern areas are home to trade in precious stones (especially from Badakhshan and Panjsher provinces); agriculture and related activities; trade and transit with Central Asia (especially with Turkmenistan); hydropower trade with Tajikistan through Kunduz province; and gas and oil imports from Turkmenistan through Jozjan province. The north has the largest potential in the country for multi-billion dollar mining. The transit trade potential is considerable, as is the potential for agricultural development.

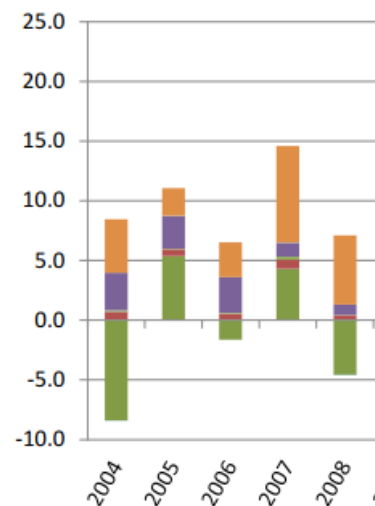
The west of Afghanistan profits from trade, transit and investment ties to Iran, notably in Herat and neighboring provinces. Herat

8 World Bank (May 2012) *Afghanistan in Transition: Looking beyond 2014*, Volume 2: Main Report, p. 109.

Above all, Afghanistan will have to manage a transition from an economy supported by the presence of foreign troops to a more self-sustaining economy. The Afghan government must orchestrate an economic transition from a contract economy to a market economy.



**Afghanistan's GDP Growth**



**Sector Contributions**

Sources:

Graph 1: World Bank (October 2013) Afghanistan Economic Update, Poverty Reduction, and Economic Management, South Asia Region, p. 21.

Graph 2: World Bank (October 2013) Afghanistan Economic Update, Poverty Reduction, and Economic Management, South Asia Region, p. 4.

Graph 3: World Bank (April 2013) Afghanistan Economic Update, Poverty Reduction, and Economic Management, South Asia Region, p. 4.

has by far the most developed industrial production in the country. Agriculture remains a major economic activity. The economic relationship with Iran will be without doubt of major importance for economic development post-2014.

The southern and eastern provinces of Afghanistan border Pakistan and Iran. Economic activity in the informal sector is particularly strong. The areas also depend in a major way on the war economy, notably the procurement needs of ISAF troops and respective transport business. In addition, trade and transit with Pakistan, notably through the Karachi port, constitute significant economic activity. This implies particular dependence on effective cross-border processing of transit, trade, and entry and exit procedures at the Karachi harbor.

### Domestic Growth Potentials

#### Agriculture

Afghanistan's agricultural potential is very considerable. The United Nations Food and Agriculture Organization has suggested that the country can become self-sufficient in food production.<sup>9</sup> Even under difficult security and overall economic conditions, Afghanistan almost reached self-sufficiency in cereal production in 2009 thanks to the

9 FAO (Jan. 2011) *Food and Agriculture Organization (FAO) in Afghanistan*, Kabul, Afghanistan, URL: [http://coin.fao.org/coin-static/cms/media/8/13103724862880/faoaf\\_brochure\\_2011.pdf](http://coin.fao.org/coin-static/cms/media/8/13103724862880/faoaf_brochure_2011.pdf).

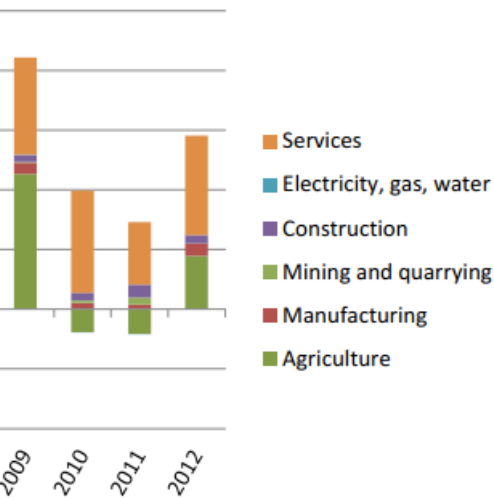
most bountiful rainfall in 32 years.<sup>10</sup> According to the World Bank, GDP growth reached an estimated 11.8 percent in 2012-2013, thanks to favorable weather conditions and an exceptional harvest. Typically, agriculture accounts for one-fourth to one-third of GDP, depending on annual output.<sup>11</sup> In the 1970s, before the Soviet invasion, Afghanistan produced 20 percent of the world's raisins<sup>12</sup> (compared to 3 percent in 2010-2011<sup>13</sup>) and was self-sufficient in the production of milk, meat and cereals. Afghanistan was a significant exporter of animal fiber and high-value processed animal products. While meat production decreased from 1996 to 2006, it has been increasing since 2006 with an annual growth rate of 4.32

10 AREU Afghanistan Research Newsletter, Number 28, January/February 2011, p. 2, URL: <http://www.areu.org.af/Uploads/EditionPdfs/1102E-Newsletter%2028.pdf>.

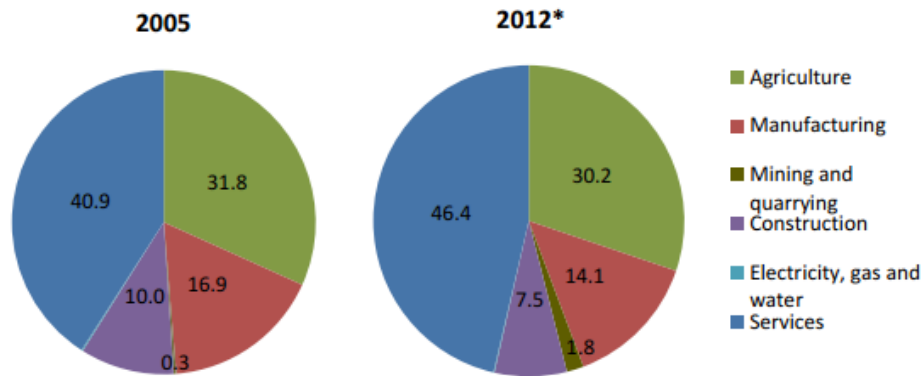
11 World Bank "Afghanistan Overview", URL: <http://www.worldbank.org/en/country/afghanistan/overview> (accessed on February 26, 2014).

12 The Afghan ministry of Agriculture quoted by The Global Partnership for Afghanistan, and the Council on Foreign Relations; *Nourishing Afghanistan's Agricultural Sector*, Greg Bruno, May 2009.

13 Global Agricultural Information Network GAIN (July 18, 2011) *2011 Raisin Annual Report*, GAIN Report Number AF-2011-11, p. 2.



to GDP Growth, 2003-2012 (in percent)



GDP Sector Shares (in Percent of GDP)

percent from 2006 to 2011.<sup>14</sup>

Experts point to the fact that Afghanistan has the potential of becoming the “bread basket” for the region with exports targeting Pakistan, India and the Middle East,<sup>15</sup> all of which face shortfalls in food production. At the same time, the development of the agricultural sector remains highly dependent on weather conditions. The development of agriculture as a major contributor for growth and employment in Afghanistan needs to be carefully considered in connection with irrigation for agriculture. Total irrigated area in the country prior to 1979 amounted to 3.2 million hectares, but in 2007 (a year with relatively high precipitation) only 1.8 million hectares were irrigated. Only 600,000 hectares of the areas irrigated prior to the Soviet invasion have so far been rehabilitated.<sup>16</sup>

14 FAO STAT (2014) Country Profile: Afghanistan, URL: [http://faostat.fao.org/CountryProfiles/Country\\_Profile/Direct.aspx?lang=en&area=2](http://faostat.fao.org/CountryProfiles/Country_Profile/Direct.aspx?lang=en&area=2) (accessed on February 26, 2014).

15 IRIN News (April 17, 2008) “Afghanistan: Tremendous potential for food self-sufficiency - FAO expert”, URL: <http://www.irinnews.org/report/77814/afghanistan-tremendous-potential-for-food-self-sufficiency-fao-expert> (accessed on February 26, 2014).

16 World Bank (April 14, 2009), Project Paper on a Proposed Third Additional Financing for the Emergency Irrigation Rehabilitation Project, Report No. 47594-AF, Washington D.C., p. 6.

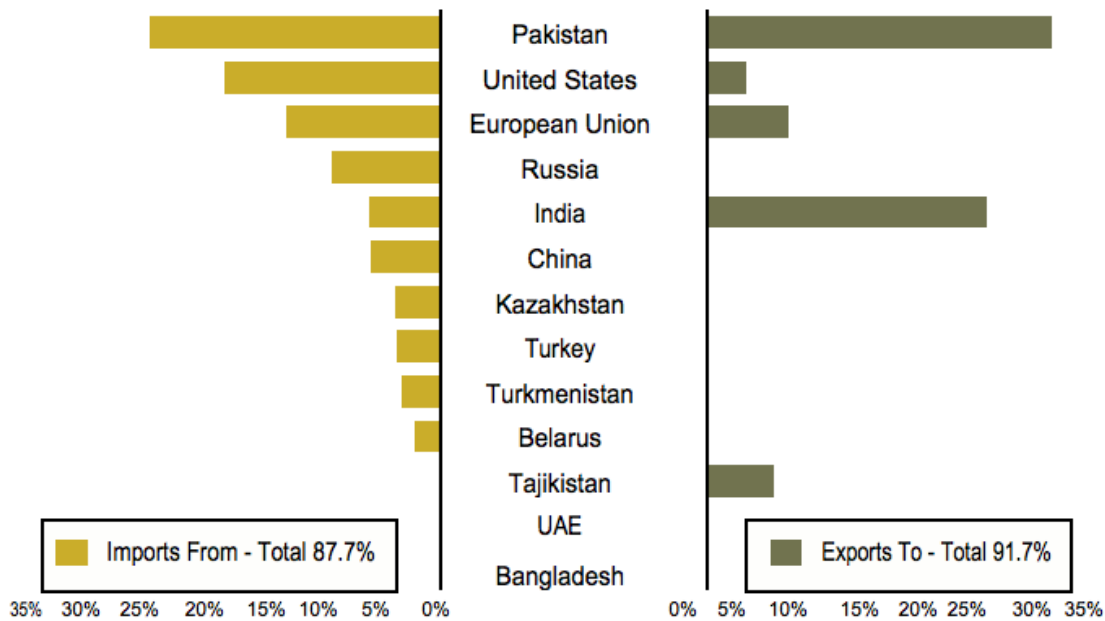
While Afghanistan has developed a national water policy to address this issue, there are questions about its sustainability, notably relating to Afghanistan’s downstream neighbors as well as domestic issues such as integrated water management and sustainable agriculture.

### Mining

Mining is probably Afghanistan’s largest economic asset. Official sources have estimated a wealth of \$1 trillion in proven mineral resources and the potential for an additional \$3 trillion. Developing Afghanistan’s mineral resources is considered Afghanistan’s gateway to prosperity and economic growth.

Major Current Mining Agreements are the Anyak Copper Tender, an award given to China for exploration and production of copper, a contract worth a minimum of \$1.3 billion (location: Logar province) and the Qara-Zaghan goldmine with an investment value of \$71 million plus a 26 percent royalty to the Afghan government. The contract is very significant, not only for its financial value but also because it is supported by several leading investors—the United States, Turkey and Britain—and is intended to set an example to encourage foreign investment in Afghanistan in the Baghlan province.

Despite its huge potential, mining currently represents a small contribution to economic growth in Afghanistan. In 2009–10 mining constituted 0.11 percent of GDP



**Afghanistan's Top Trading Partners (2012)**

Source: European Commission, Directorate-General for Trade (November 7, 2013) "European Union, Trade in Goods with Afghanistan"

growth.<sup>17</sup> While the share of mining in aggregate output was at 0.6 percent of GDP in 2010, it increased up to an estimated 1.8 percent in 2012.<sup>18</sup> Mining is also capital-intensive, and its impact on employment is limited. The large mining industry should be linked to smaller local businesses, and local capital investment be increased. Salt mines offer opportunity with 54,000 tons of salt, worth an estimated \$21.6 million, consumed in Afghanistan yearly. Salt can be obtained locally and replace imports. As to small scale mining of gemstones, the current production is estimated at \$2.8 million per year. If improved in production, cutting and finishing, the production can be raised exponentially to \$300 million per year, according to USAID. However, this will require government intervention and good governance. The government has not yet formalized laws and regulations that govern the majority of the mines, and the ma-

majority of the stones produced are sold in the informal sector. Private investment in this sector is largely deterred because of unclear processes of mining allocations, fees and royalties. The market is also flooded with fake stones and imitation stones, and most Afghan gemologists do not have the required capacity and equipment to fight fakes. Transportation of raw materials to markets is another serious problem.

**Other Activities**

There is potential for economic growth for the production of construction material (gravel, sand, crushed stones), for fired bricks and for marble. Under government-controlled production prices, the annual value of construction material production could increase from the present \$55 million to over \$90 million. It may also be possible to generate \$1.8 million per year in royalties from this production, assuming a 2 percent royalty. The construction of homes and the urban growth in Afghanistan will require very large amounts of fired bricks that can be locally produced. With specific pricing and safety regulations, the government can rehabilitate coal mines and boost small-scale local production.

Afghanistan's marble industry can become a major player given the right technological and governance support. USAID reports that in 10 years the industry could be close to producing \$700 million in exports, equal

17 World Bank (Feb. 2011) "Growth in Afghanistan: Afghanistan's Recent Economic Performance", Macroeconomics and Economic Growth in South Asia, URL: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/EXTSARREGTOPMACECOGRO/0,,contentMDK:20592478~menuPK:579413~pagePK:34004173~piPK:34003707~theSitePK:579398~isCURL:Y,00.html> (accessed on February 26, 2014).  
 18 World Bank (April 2013) *Afghanistan Economic Update: Poverty, and Economic Management*, South Asia Region, p. 6.



to more than 6 percent of current GDP. For example, Herat alone has a minimum of 20 marble factories and exports \$3 million of marble. It is expected that the number of factories will grow, employ more people and export more than \$10 million.

## Regional Economic Cooperation

Pakistan and Iran are the most relevant regional economic partners for Afghanistan, both in terms of connectivity and trade and investment proper. The economic relationship with both countries is also marked on the one side by the ethnic and language affinities between Pashtun in Afghanistan and Pakistan and on the other between Dari-speaking Hazaras and Tajiks who are culturally influenced by Iran.

Pakistan's exports to Afghanistan in FY 2012 stood at \$2.25 billion, while exports from Afghanistan to Pakistan rose from \$0.199 billion in FY 2012 to \$0.917 billion during the first quarter of FY 2013.<sup>19</sup> In late February 2014, Afghanistan and Pakistan signed an agreement to double trade between Kabul and Islamabad to \$5 billion per year.<sup>20</sup>

As a land-locked nation, Afghanistan is highly dependent on other countries for its trade, transit, security, and stability. As shown in the figure below, Pakistan is Afghanistan's largest trading partner, followed by the United States, the European Union, and regional neighbors. In its latest analysis, the World Bank found that Afghanistan's trade deficit widened in 2012 to the equivalent of 41.9% of GDP. Total exports in 2012 increased approximately 3 percent to \$2.76 billion, while total imports rose about 11 percent to \$11.4 billion. This gap was largely offset by foreign aid. International assistance allowed for an overall surplus in Afghanistan's balance of payments and a record \$7.1 billion in international reserves

19 The International News (December 6, 2013) "Pak-Afghan trade target for FY15 unattainable: report", URL: <http://www.thenews.com.pk/Todays-News-3-218352-Pak-Afghan-trade-target-for-FY15-unattainable-report> (accessed on February 26, 2014).

20 Tolo News (February 25, 2014) "Afghanistan and Pakistan Agree to Expand Trade", URL: <http://www.tolonews.com/en/afghanistan/13984-afghanistan-and-pakistan-agree-to-expand-trade> (accessed on February 26, 2014).

at the end of 2012. Reserves declined to \$6.9 billion in June 2013.<sup>21</sup>

Economic cooperation between Afghanistan and Iran has intensified in recent years. While Pakistan had a bigger share in Afghanistan's total trade, Iran's trade with Afghanistan has increased notably in the last 10 years. Iran's exports to Afghanistan rose from \$120 million in 2002-2003 and \$250 million in 2005 to \$1.18 billion in 2013.<sup>22</sup> Trade between the countries reached about \$2 billion in 2011.<sup>23</sup> Exporting an average of 30 MW of electricity to Afghanistan, Iran is a key supplier of electricity to western Afghan cities, including Herat, as well as to the Afghan provinces of Zabul and Nimroz.<sup>24</sup> Afghanistan receives from Iran 50 percent of its oil imports<sup>25</sup>, as well as important private investment.<sup>26</sup>

While Pakistan remains the most relevant of all Afghanistan's neighbors in terms of economic partnership, Iran is very actively trying to increase its economic relevance in Afghanistan. In 2008, Iran, Afghanistan

21 World Bank (October 2013) *Afghanistan Economic Update: Poverty, and Economic Management*, South Asia Region, pp. 11-14.

22 The International News (December 6, 2013) "Pak-Afghan trade target for FY15 unattainable: report", URL: <http://www.thenews.com.pk/Todays-News-3-218352-Pak-Afghan-trade-target-for-FY15-unattainable-report> (accessed on February 26, 2014).

23 Bloomberg News (December 25, 2011) "Iran, Afghanistan Trade Hits \$2 Billion in 2011, IRNA Reports", URL: <http://www.bloomberg.com/news/2011-12-25/iran-afghanistan-trade-hits-2-billion-in-2011-irna-reports.html> (accessed on February 26, 2014).

24 Shabnam Mirsaee-Glossner (July 15, 2013) "Iran's Flourishing Regional Influence", URL: <http://www.sciencediplomacy.org/article/2013/irans-flourishing-regional-influence> (accessed on April 18, 2014).

25 Viola Gienger (April 4, 2012) "Afghanistan Needs Leeway on Iran Sanctions, Minister Says", URL: <http://www.bloomberg.com/news/2012-04-03/afghanistan-needs-leeway-on-iran-sanctions-minister-says.html> (accessed on April 18, 2014).

26 In 2006, an estimated 2000 Iranian private firms operated in Afghanistan. Hazifullah Gardesh (October 3, 2006) "Afghans Fear Fallout from Iran Sanctions", Institute for War and Peace Reporting, URL: <http://iwpr.net/report-news/afghans-fear-fallout-iran-sanctions> (accessed on April 18, 2014).

Afghanistan's transit trade interests with India and Pakistan's interest in reaching the Central Asian markets dominate the bilateral trade agenda. At the same time, political obstacles and vested interests on both sides prevent trade from reaching its full potential.

While Pakistan remains the most relevant of all Afghanistan's neighbors in terms of economic partnership, Iran is very actively trying to increase its economic relevance in Afghanistan.

and Tajikistan agreed to form the Economic Council of the Persian-Speaking Union.<sup>27</sup> Iran also has encouraged Afghan businesses to relocate their international offices from the United Arab Emirates to Iran.

Possibly, the greatest potential for Iran to grow its economic relevance in Afghanistan is by using the Iranian port of Chabahar instead of the Pakistani Karachi harbor as a major entry and exit point for Afghan goods and goods destined for Afghanistan. In May 2012, the governments of Iran and Afghanistan inked a deal securing Afghanistan's access to the newly expanded facility.<sup>28</sup>

Since January 2003, Afghan businesses have been able to use the Iranian port of Chabahar with a 90 percent discount on customs and port fees for non-oil goods and a 50 percent discount on warehouse charges, as well as transit rights on Iranian roads for Afghan trucks.<sup>29</sup> Iran has also upgraded a tax-free trade route linking Chabahar, located at the southern end of the Sistan and Baluchestan province, near the Oman Sea, to the southwestern border post of Malik in Afghanistan, and to Kandahar and Kabul. The road shortens the distance from the Persian Gulf to Afghanistan by 700 kilometers, and can significantly diminish the importance of the Karachi-Kandahar road, which is Afghanistan's traditional roadway to international waters.<sup>30</sup>

In addition, a portion of the Afghan transit trade has shifted to Iran's Bandar Abbas port from the Pakistani port of Karachi because of delays in the implementation of the Afghan Pakistan Transit Trade Agreement (APTTA). The agreement took force in 2011, but complications in clearance and transportation of cargo, as well as the

ineffectiveness of Pakistan Railways,<sup>31</sup> are making the Iranian ports of Chabahar and Bandar Abbas increasingly the preferred route for cargo originating in or destined for Afghanistan.<sup>32 33 34</sup>

Iran's economic interests have been particularly noticeable in the Herat region. Equally, most of Iran's pledged reconstruction assistance, estimated at \$660 million, is in Herat.<sup>35</sup> Iran's investments in the Herat region involve infrastructure projects, road and bridge construction, education, agriculture, power generation and telecommunication projects.<sup>36 37 38</sup>

31 Business Recorder (February 25, 2014) "Goods transportation from Peshawar to Karachi and vice versa: KPCCI asks Railways to specify time period", URL: <http://www.brecorder.com/business-a-economy/189/1156862/> (accessed on February 27, 2014).

32 US Department of State (June 13, 2011) "Afghanistan-Pakistan Transit Trade Agreement", Press statement by Mark C. Toner, Deputy Spokesperson, Office of the Spokesperson, URL: <http://www.state.gov/r/pa/prs/ps/2011/06/166078.htm> (accessed on February 27, 2014).

33 The International News (April 20, 2011) "Afghan transit containers going through Iran", URL: <http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=42524&Cat=3&dt=4/20/2011> (accessed on February 27, 2014).

34 Dawn.com (April 29, 2013) "Decline in Afghan transit trade", URL: <http://www.dawn.com/news/1025675/decline-in-afghan-transit-trade> (accessed on February 27, 2014).

35 Mohsen Milani (no date) "Iran and Afghanistan", United State Institute of Peace, URL: <http://iranprimer.usip.org/resource/iran-and-afghanistan> (accessed on February 27, 2014).

36 Iran has helped rebuild Afghanistan's radio and television infrastructure and has increased its own radio and television programs in Dari. The Iranian state telecommunications company began providing Internet transit services in Afghanistan and Iraq in 2010, acting as a carrier for both commercial and government traffic.

37 Mohsen M. Milani (Spring 2006) "Iran's policy towards Afghanistan", *Middle East Journal*, Vol. 60, No. 2, p. 251.

38 Jim Cowie (September 15, 2010) "Iran: Exporting the Internet (1)", URL: <http://www.renesys.com/blog/2010/09/iran-exporting-the-internet.shtml> (accessed on February 27, 2014).

27 Institute for the Studies of War (no date) "Iran and Afghanistan", URL: <http://www.understandingwar.org/iran-and-afghanistan> (accessed on February 26, 2014).

28 Tolo News (May 2, 2012) "Iran Opens Chabahar Ports to Afghan Traders", URL: <http://www.tolonews.com/en/afghanistan/6097-iran-opens-chabahar-port-to-afghan-traders> (accessed on February 26, 2014).

29 A. Pappas (2009) *Trade Promotion in Afghanistan: Roles for Infrastructure and Institutions*.

30 Ibid.





While Afghan businesses are often not able to challenge their Iranian competitors leading to protests against “price dumping” and calls for higher import tariffs,<sup>39</sup> it is clear that the role of Iran in achieving an acceptable level of growth and productivity in Afghanistan post 2014 will be very important. Given the relatively successful economic performance of Afghanistan’s western provinces, the economic importance of Iran to Afghanistan will increase after the 2014 troop withdrawal.

Pakistan remains of all Afghanistan’s neighbors the most relevant in terms of economic relations. Pakistani exports to Afghanistan include basic food supplies such as rice, cooking oil, sugar and dairy products; construction materials; and fertilizer. Pakistan is also an important exporter of pharmaceuticals to Afghanistan.

Afghan exports to Pakistan are typical of Afghanistan’s current spectrum of interests: fruits and vegetables, raw cotton and precious metals. The volume of bilateral trade has increased from \$170 million in 2000–2001 to \$1.49 billion in 2008–2009 and to approximately \$2.5 billion in 2010–11.<sup>40</sup>

39 Mohayudin Noori (May 13, 2011) “Struggling for survival in a free market economy”, URL: <http://www.afghanistan-today.org/article/?id=111> (accessed on February 27, 2014).

40 Pakistan Institute of Legislative Development and Transparency (PILDAT) (December 2011) “Pak–Afghan trade”, Pak–Afghan Dialogue VI discussion paper, p. 7, URL: <http://www.pildat.org/Publications/publication/FP/Pak-AfghanTrade-DiscussionPaperDec2011.pdf> (accessed on February 27, 2014).

Pakistan is targeting a further increase of up to \$5 billion by 2015.<sup>41</sup> Afghanistan’s transit trade interests with India and Pakistan’s interest in reaching the Central Asian markets dominate the bilateral trade agenda. At the same time, political obstacles and vested interests on both sides prevent trade from reaching its full potential.

The major Afghan concern regarding its transit trade through Pakistan is the implementation of its transit trade agreement with Pakistan (APTTA) with the goal of reaching the Indian market. Afghan concerns center around the implementation of an existing bilateral agreement and other regulations. Afghan cargo often experiences delays in the harbor at Karachi. Ambiguities in the rules for handling open cargo (wheat, sugar) as well as container shipments from Pakistan to Afghanistan are major areas of concern. For Pakistan, an important concern is the establishment of a trade corridor to Tajikistan that would considerably shorten its trade route to Central Asia that currently goes through Turkmenistan.

As the World Bank already noted in 2004, trade in the region, in particular between Afghanistan and Pakistan, suffers from high transport and logistical costs. Continued outside assistance for infrastructure investments, progress on security and removal of non-tariff barriers are required to fulfill the potential of this bilateral trade relationship.

41 APP (January 17, 2014) “Pak–Afghan agree to enhance bilateral trade to \$ 5 billion by 2015”, URL: [http://app.com.pk/en\\_/index.php?option=com\\_content&task=view&id=175201&Itemid=2](http://app.com.pk/en_/index.php?option=com_content&task=view&id=175201&Itemid=2) (accessed on February 27, 2014).

Tomas Niklasson, Acting Head of Division, Pakistan, Afghanistan, Bangladesh, Sri Lanka and Maldives Division, European External Action Service (EEAS); Sapar Berdiniyazov, Counselor, Asia and Pacific Department, Ministry of Foreign Affairs, Turkmenistan; James Creighton, Chief Operating Officer, EastWest Institute; Miroslav Jenča, Special Representative of the UN Secretary-General and Head of the UN Regional Center for Preventive Diplomacy for Central Asia (UNRCCA).

# Perspectives from the Region







# Changing Discourse through Integration



**Prof. Gulshan Sachdeva**

Professor and Chairperson, Centre for European Studies, School of International Studies, Jawaharlal Nehru University, New Delhi

There is a lot of uncertainty surrounding the bilateral security agreement between Afghanistan and the U.S. as well as on the peace process. Within this context, most analysts and international reports clearly indicate that in the post-2014 phase, Afghanistan is going to face three major challenges—security, political and economic.<sup>42</sup> Economic challenge is by no means less serious than other difficulties. At various platforms, both the international community as well as regional players, have reaffirmed their long-term commitment to the future of Afghanistan, which goes much beyond 2014. These developments, however, fail to reduce uncertainty about Afghanistan's future. Now sustainability of gains made in areas of education, health, infrastructure, communications and women empowerment is under serious threat.

With declining Western interest, the amount of resources available for development projects in the next decade is likely to be significantly lower than the past decade. Experience suggests that withdrawals of international troops in other parts of the world have reduced civilian aid, with implications for economic growth and fiscal sustainability. Therefore, potential financing gaps in the budget could threaten security and recent progress made at the developmental front. Despite international commitment for the “transformational decade of 2014-2024,” the Afghan government will be forced to deploy its limited resources on maintaining security infrastructure.

To offset these trends, Afghanistan will have to concentrate on two things. First, it has to

42 As a regional cooperation advisor, Prof. Gulshan Sachdeva headed the ADB and The Asia Foundation projects at the Afghanistan Ministry of Foreign Affairs in Kabul (2006-2010).

attract foreign investment particularly in sectors like mining, hydrocarbons, infrastructure, telecommunications, agriculture, education, health services etc. Secondly, for long term sustainability, it ultimately also has to play its traditional role of facilitating trade and commerce through its territories. Apart from big Chinese investment in the mining sector, many Indian companies have also decided on big investments. A consortium of seven Indian companies led by the state-owned Steel Authority of India (SAIL) have won a \$10.3 billion deal to mine three iron ore blocks in central Afghanistan. Some Indian companies are also planning to bid for copper and gold projects. There are reports that India is also planning to build a 900 Km railway line between Iran's Chabahar port and the Bamiyan province of Afghanistan.

The strategic location of Afghanistan will always be important for India, particularly in the context of difficult India-Pakistan relations. However, the importance of Afghanistan for India is much bigger than normally perceived in this narrow context. Once Afghanistan becomes stable, trade through Pakistan, Afghanistan and Central Asia has the potential to alter the nature and character of India's continental trade. So far the majority of Indian trade is conducted by sea. Looking beyond Central Asia, it is clear that India trades a great deal with other CIS countries, Iran and of course with the European continent. In 2012-13, India's total trade with these countries amounted to about US \$ 173 billion. Just before the global economic slowdown, India's trade with this region was growing very fast, particularly with Afghanistan, Pakistan and Iran. Simple calculations on the basis of past trends show that India's trade with Europe, CIS countries, plus Iran, Afghanistan and Pakistan would be in the range of about \$ 400-500 billion annually within the next

few years. Even if 20 percent of this trade is conducted through road, \$80-100 billion of Indian trade would be passing through Afghanistan and Central Asia. With improvement in India-Pakistan relations, an important portion of Indian trade (particularly from the landlocked northern states including Jammu and Kashmir) will be moving through Pakistan and Afghanistan. With the possibility of this trade passing through Afghanistan and Central Asia, most of the infrastructural projects in the region will become economically viable.

With Indian continental trade moving through this region, the Pakistani economy is also going to benefit in a major way. Many within Pakistan fear that with Indian goods moving to Afghanistan and Central Asia, markets for Pakistani products may be eroded. However, trade figures show that even without Indian competition, Pakistan is not able to export much to Central Asia. In the last couple of years, Pakistani exports to Central Asia are less than \$20 million a year. It has significant exports only to Afghanistan and a major portion of those exports is unlikely to be affected. In fact, with major infrastructural development and movement of goods and services, both India and Pakistan could be important economic players in Central Asia. At the moment both are insignificant players.

For many of these things to happen, various big and small projects discussed at different meetings in the last few years need clear prioritization. Afghan and American officials have now repeatedly talked about the New Silk Road Strategy. This strategy is a long term vision of an international trade, transit and energy network that links Central and South Asian economies through Afghanistan. This was a good blueprint for Afghanistan but unfortunately has been mixed with regional geopolitics and exit

strategies from Afghanistan. Still, Afghanistan has no other option but to continuously work toward this strategy.

It is difficult to imagine implementation of this policy in the current regional political environment. However, some positive developments have taken place. The Afghanistan-Pakistan Transit Trade Agreement (APTTA) has been reached after years of negotiations and active U.S. encouragement. Despite its limited nature and serious initial problems in implementation, the agreement can be seen as a major development in regional economic cooperation. It has also generated interest beyond Afghanistan and Pakistan. Both Pakistan and Afghanistan have decided, in principle, to include Tajikistan in the APTTA. To make this initial small project into a serious regional economic force, it is imperative to include Turkmenistan, Uzbekistan (and perhaps Iran) into the broader agreement. However, the project will be of very limited interest to Central Asian countries if traffic to India is not allowed in both the directions. Once Central Asians and India are included in the expanded APTTA, the region will be ready to take advantage from the emerging Eurasian Economic Union space within a few years.

Despite tensions at the political level, there are some positive developments between India and Pakistan on trade matters. Both have agreed on three agreements viz redressal of trade grievances, mutual recognition and custom cooperation. Pakistan will allow bilateral trade through Wagah for all goods (presently restricted to 137 items). India has agreed to reduce the number of items under the restricted list by 30 percent. There are some signs that Pakistan may provide most-favored nation (MFN) status to India soon. While India had given Pakistan MFN in 1996, Pakistan has been refusing to do so. Once that happens, India

Once Afghanistan becomes stable, trade through Pakistan, Afghanistan and Central Asia has the potential to alter the nature and character of India's continental trade.





will bring the South Asian Free Trade Area (SAFTA) sensitive list to just 100.<sup>43</sup> Pakistan will do so in the next five years. By 2020 the peak tariff rate will not be more than 5 per cent. Both have also agreed to cooperate in investment, banking, electricity and gas trade, railways and better air connectivity. In addition, they have signed new liberalized visa agreement.

In the last few years, all four countries involved in the Turkmenistan–Afghanistan–Pakistan–India Pipeline (TAPI) project have already signed most agreements required for its commencement. These include: an Inter-Governmental Agreement (IGA), a Gas Pipeline Framework Agreement (GPFA) and Gas Sales and Purchase agreement. A broad agreement on transit fees has also been agreed upon. Recently, Indian Minister for Petroleum and Natural Gas M. Veerappa Moily asserted that the framework for TAPI is moving forward on a fast-track basis by the four stakeholder nations. A transactional advisor for the project has also been appointed. He announced confidently that “gas is expected to reach the border of India by August 2017.” The Indian public sector giant ONGC also plans to bring Russian hydrocarbons to India via Central Asia, Afghanistan and Pakistan.

Within the broad context of increasing regional economic cooperation, India continues to support both the Regional Economic Cooperation Conference on Afghanistan (RECCA) as well as and the “Heart of Asia”

43 The sensitive list defines products which will not be eligible for lower import tariffs in the South Asian Free Trade Area (SAFTA) [editor’s note].

process. In the Istanbul process India leads the Trade Commerce and Investment Opportunities Confidence Building Measure (TCI-CBM). Uncertainty concerning post-2014 Afghanistan has also added a new dimension to India’s relations to Central Asian republics. The failure of the Afghanistan project poses common security challenges but any positive outcome will open tremendous economic opportunities to both India and Central Asia. These two factors have increased strategic significance of the region considerably and are perhaps reasons for announcing a 12-point “Connect Central Asia” policy. As the Shanghai Cooperation Organization (SCO) may play a bigger role in Afghanistan in any post-2014 situation, India is also hoping to get its full membership soon.

Overall, economic integration both within and between South and Central Asia is limited at the moment. High economic growth in both the regions, however, will be pushing policy makers to work for integration strategies. Regional economic integration is also important for sustainability of Afghanistan as ultimately it has to play its traditional role of facilitating trade and commerce through its territories. Between 2006 and 2009, the issue of regional economic cooperation through Afghanistan was becoming serious. Since then, however, the focus on exit and later on “negotiated settlement” in discussions pushed the issue into the background. Now it is high time to bring it back on the agenda. Even if a single major project like the TAPI takes off, it could become a “game changer” in regional geopolitics and the whole discourse on Afghanistan may change.

# Regional Economic Cooperation in Central Asia: Challenges and Perspectives

The UN Regional Centre for Preventive Diplomacy for Central Asia (UNRCCA), through its mandate of preventive diplomacy, has been dealing with a number of challenges in the Central Asian region, in particular those that may pose a threat to regional peace and security. To effectively address challenges in the region, whether relating to the management of shared natural resources, terrorism, extremism, and cross-border organized crime such as drug-trafficking, regional cooperation is a very important component.

In landlocked Central Asia regional cooperation is particularly important. It would make sense economically, bringing the advantages of a larger market, allowing for better use of local resources, lowering the cost of production and transport, and increasing the competitiveness of local businesses. The region has an abundance of natural resources and the countries could benefit significantly from using them in an efficient and cooperative manner. Failure to cooperate may also bring risks to security and stability.

But in spite of serious efforts to make such cooperation happen, cross-border trade within the region in general is very modest. The development of infrastructure and communication links remains far behind its potential. The shared use of trans-boundary water resources causes serious tensions between upstream and downstream countries as long term sustainable arrangement has not been achieved yet. Cooperation is hampered by the countries' different strategic visions of their future and their role in the region; historical grievances; and fear

that regional cooperation could undermine their sovereignty and lead to or prolong a disadvantageous dependency on their neighbor(s). These factors are compounded by the strategic and economic interests of external players in the region.

Unfortunately, the lack of trust affects both bilateral and multilateral relations in Central Asia, particularly the relationship between upstream and downstream countries.

The lack of a "regional identity", although not directly affecting cooperation among the countries, can also be seen to limit the potential for building trust and increasing contacts. While Central Asian states put a stronger emphasis on their own unique position and role, the advantages of the region as a whole are underused.

At the same time, it is important to remember that despite the above mentioned factors, the Central Asian countries since gaining independence have managed to maintain peaceful and relatively stable relations, and that in the last decade the region has experienced solid economic growth. The regional potential to cope with serious security crises in a cooperative manner should not be underestimated. However, this potential can be seriously challenged even in medium term if more lasting arrangements are not found and negative factors grow.

The countries have tried to strengthen their economic ties through the establishment of various regional organizations. The Protocol of Five Central Asian States on a Common Market was signed at the Tashkent Summit in January 1993. The International



**Ambassador  
Miroslav Jenča**

Special Representative of the Secretary-General, Head of the UN Regional Center for Preventive Diplomacy for Central Asia, Ashgabat, Turkmenistan



Stable energy transit and trade require regional co-operation mechanisms and multi-layered political, technical and commercial linkages. There is a growing understanding in Central Asia that with a more stable and developed Afghanistan in the future, the efficient and fair distribution of water resources in the region would become even more crucial.

Fund for Saving the Aral Sea (IFAS), comprising all the five Central Asian countries, was established in the same year. Kazakhstan, Kyrgyzstan and Uzbekistan set up the Central Asian Economic Union (CAU) a year later. Interstate presidential and prime minister-level committees and the Central Asian Bank for Cooperation and Development were created. In 1998 Tajikistan joined the CAU, that after changes including of its name was finally merged into the EurAsEC (EurAsian Economic Community), putting the idea of a Central Asian regional community on hold. In 2008, Uzbekistan suspended its activities in EurAsEC. The efforts to establish functional regional structures of economic cooperation in Central Asia have so far failed. The only exception is IFAS, which sees different levels of engagement by its five member states and also struggles to meet expectations.

The challenges to regional cooperation in Central Asia also impact on how the countries engage with Afghanistan. The countries share deep concerns over the potential developments in Afghanistan, notably the possible deterioration of the security situation there and how this could impact on Central Asia. Security concerns, such as the threat of terrorism, religious extremism, drug trafficking and other forms of organized crime are also factors that lead these countries to display a cautious approach to closer economic cooperation with Afghanistan. At the same time, while the above-mentioned security threats should provide a strong incentive for closer cooperation between the five countries to jointly tackle these threats, they have selectively preferred to seek better protection of their interests through broader structures like the Shanghai Cooperation Organization (SCO), the Collective Security Treaty Organization (CSTO) with its Collective Rapid Deployment Forces and the Commonwealth of Independent States (CIS).

With regards to economic cooperation with Afghanistan, the Central Asian countries are engaging on a bilateral or trilateral basis, without pursuing a common Central

Asian approach. To give a few examples, Kazakhstan has allocated US \$ 50 million for the education and training of Afghan students. Uzbekistan, a key partner in the "Northern Distribution Network," has built a railway line from Hairaton to Mazar-e Sharif in Afghanistan, providing electricity for Kabul. Turkmenistan is a strong promoter of the development of the TAPI project (Turkmenistan-Afghanistan-Pakistan-India natural gas pipeline). It has also increased the capacity of existing electric transmission lines to Afghanistan and plans to build new ones. The construction of a railroad to connect Turkmenistan, Afghanistan and Tajikistan has started in Turkmenistan. Tajikistan and Kyrgyzstan, with the support of the World Bank, promote the CASA-1000 project (transmission of electricity from Kyrgyzstan and Tajikistan to Afghanistan and Pakistan). Both countries are very interested in the development of their transport and communication links with and through Afghanistan, in particular railways. Tajikistan also supplies electricity to Afghanistan and actively supports cross-border trade between the two countries.

Despite the currently fragmented regional interaction, both within Central Asia and with Afghanistan, developments in Afghanistan can bring an additional impetus to regional cooperation. There is a common understanding among the Central Asian countries that economic cooperation with Afghanistan is of vital importance for the stability and sustainable growth of the region as a whole. With Afghanistan more engaged in the economic processes of the countries of Central Asia, chances of attracting foreign investments and providing economic opportunities will increase for the entire region.

The potential for closer regional economic cooperation is highest in the fields of energy and infrastructure, as these areas are of primary interest for the Central Asian countries and would be difficult to develop purely on a bilateral basis. Stable energy transit and trade require regional cooperation mechanisms and multi-layered political,

technical and commercial linkages. There is a growing understanding in Central Asia that with a more stable and developed Afghanistan in the future, the efficient and fair distribution of water resources in the region would become even more crucial.

Infrastructure and communication links would also benefit from increased regional cooperation. The development of Afghanistan as a transit country is an idea that has received much attention from Central Asian countries. Two major transit corridors (the North-South Corridor connecting Central Asia with Pakistani ports and the East-West Corridor connecting Central Asia with Iranian ports) could be developed through Afghanistan. The development of these two corridors could result in improved and diversified connectivity across the broader region and impact positively on both employment opportunities and production capacities.

Different regional frameworks, such as the Istanbul Process, RECCA (Regional Economic Cooperation Conference on Afghanistan), SPECA (the UN Special Program for Economies of Central Asia), and CAREC (Central Asia Regional Economic Cooperation Program) could support regional economic cooperation in a complimentary manner. CAREC, as an Asian Development Bank (ADB) supported initiative, has a main advantage due to its financial resources and implements a number of cross-border infrastructure projects. With regards to SPECA, its strength lies in the improvement of border-crossing procedures and transport-data harmonization in the region, while RECCA serves as a coordination body of economic activities related to Afghanistan and Central Asia. The World Bank (WB) has offered various alternatives on how to cope with seasonal energy shortages in Central Asia.

The Istanbul Process has also significant potential, as it includes not only the economic and security aspects, but also removing political constraints for effective regional cooperation. As mentioned above,

these constraints in Central Asia are particularly important. The Istanbul Process could become a political platform or an umbrella, under which concrete regional projects, including those mentioned above, are promoted. However, it is essential that the process has reliable funding for its projects and does not simply devolve to only providing formal reporting on already existing (mainly bilateral) activities.

The UN Regional Center for Preventive Diplomacy has actively supported both bilateral and regional approaches to enhance cooperation in the region as the best conflict preventive measure. UNRCCA is a partner of the counter-terrorism confidence building measure of the Istanbul process, focusing its activities on the implementation of the Global UN Counter Terrorism Strategy in Central Asia. It has facilitated a Joint Plan of Action on the implementation of the Global Strategy adopted in November 2011.

The Memorandum of Understanding between the United Nations and the Executive Committee of the International Fund for Saving the Aral Sea was signed in Ashgabat in 2009, providing a solid basis for mutual support and interaction. The Regional Center has used its convening power to offer a needed platform for regional meetings on use of shared water resources in the region with Afghanistan as a frequent participant.

The Regional Center has been actively engaged in supporting economic cooperation through earlier mentioned RECCA and SPECA initiatives. Not less important in this respect is our cooperation with regional organizations such as SCO, CIS, OSCE, EU, ECO, CSTO as well as with International Financial Institutions notably the World Bank.

Finally, while promoting regional economic cooperation, it is important to keep in mind that cooperation is not a goal in and of itself. The main objective is to achieve security and stability, long-term development and economic prosperity in Central Asia, including Afghanistan and the broader region.

The main objective is to achieve security and stability, long-term development and economic prosperity in Central Asia, including Afghanistan and the broader region.

# The Historic and Current Relationship between Afghanistan and Central Asia



**Ambassador (ret.)  
Robert Finn**

Former U.S.  
Ambassador to  
Afghanistan

**B**abur, the founder of the Moghul dynasty of India, came from the lovely Fergana Valley, where Uzbekistan, Tajikistan and Kyrgyzstan come together in contorted and anguished embrace. Driven out, he conquered Kabul, then Kandahar and finally Delhi and Agra. He is buried in Kabul, which he considered the most beautiful place on earth.<sup>44</sup>

The ties between Central and Southeast Asia date back to pre-history and are well-known to the people of the region, who have moved across the landscape in response to economic and political pressures. Today, there are more Tajiks in Afghanistan than in Tajikistan and millions of Uzbeks, Turkmen and Kyrgyz as well. These ethnic groups spread east and south into China and Pakistan. Many of those came to Afghanistan in response to the Russian imperial and then Communist advance into Central Asia. A British observer on a hill in Kyrgyzstan in the 1920s recorded the movement of thousands of Kyrgyz and their flocks into China to escape the Communists.

The separation between the British and Russian Empires was legal, but imperfect. Raiders from south of the border attacked the Soviet Union well into the 1930s and tribes and family ties spill across the borders. The routes of the Silk Road moved horizontally through the region as well, running on both sides of the Hindu Kush. The traders from Kazakhstan snapping up bargain products

in Western China are not new, and neither is the trade in carpets, grapes and yes, opium from Afghanistan to the north.

So then, what is it that Central Asian countries see when they look at Afghanistan? Historically, it is part of their world and one with which they are familiar. In spite of the extensive cultural changes that took place during the Soviet period, there are still common bases of language and culture that can make communication and commerce easier. The Economic Council of Persian-Speaking countries, set up in 2008 among Iran, Tajikistan and Afghanistan, is a preliminary example of how such ties can be utilized.

Iran, which must be included when discussing Afghanistan on a regional basis, helped sponsor Afghanistan's participation as an observer in the 2012 Shanghai Cooperation Organization summit. At that meeting, the countries of Central Asia made it clear that they intend to work closely to help Afghanistan develop. Economically, Afghanistan can provide a quick and ready route to the sea that could be of enormous importance for Central Asian countries as they develop economically and seek to establish themselves as players independent of the two great powers—Russia and China that loom over them. Trucks could arrive in Karachi in 18 hours from Tashkent, whereas it takes them a week to get to Europe if they go west. The transport savings are equally substantial. For the Northern Distribution Network (NDN) to take a container from Afghanistan overland to a Russian port costs \$17,000, to go south to Karachi costs only \$7,000. In a future where U.S.-Iranian relations improve, the Iranian port of Chabahar could provide another ready access for traffic.

44 Excerpted from "Central Asia and Afghanistan", speech made by Ambassador (ret.) Robert Finn at the EastWest Institute's "Afghanistan Reconnected" consultation in Istanbul, April 10, 2013.





Afghanistan's mineral wealth has been delineated; its water resources are still untapped; and energy potential is in the early stages of development. Afghanistan holds a major potential for development and cooperation with its neighbors, and some steps, such as electric lines, are already being constructed. Regional planning and cooperation are essential to build and maintain a modern regional infrastructure for the future. Bilateral cooperation can only cover part of the work that needs to be done.

The obvious advantages of economic cooperation outweigh the threat [of Islamic fundamentalism], and in time may even work to eliminate it, as an improved economic environment mitigates the problems of poverty that heavily contribute to popular dissatisfaction.

Afghanistan is a question mark which makes its neighbors uneasy in a variety of ways. What will happen in Afghanistan after 2014 and how Afghanistan's politics will develop will determine how receptive its

northern neighbors are to closer and more open relations. For many in power in Central Asia, Afghanistan currently represents the twin dangers of democracy and fundamentalism. Both Uzbekistan and Tajikistan have experience of Islamic fundamentalists who sought refuge in Afghanistan and later Pakistan when they were unsuccessful and who now have reappeared in Central Asia.

All of the nations of the region will be wary of Afghanistan. All need to avoid entangling themselves in Afghan politics as well. The intertwined histories of the region will not make that easy. If Afghanistan is to succeed with the help of its Central Asian neighbors, they must focus on what they can do to help, on the benefits it will bring them at a delicate time in their own growth, and in the potential for setting new positive parameters of relations in one of the most exciting and promising regions of the world. The 21st century should be the century of Central Asia, and Afghanistan can be its window to the world.

# Investing in Energy Development and Trade: Progress and Prospects



**Ambassador Sapar  
Berdiniyazov**

Advisor, Asia and  
Pacific Department,  
Ministry of  
Foreign Affairs,  
Turkmenistan

International and regional support for Afghanistan's stabilization and economic development beyond the 2014 transition period and during the 2015-2024 transformation decade are essential factors.<sup>45</sup>

Turkmenistan has presented a five-point formula for peace and stability in Afghanistan. The interacting theme is "Peace through progress." These are not empty words. Turkmenistan is working actively on these points.

Two of the promising areas of regional development are transport and communications. Geo-economic potential of transport and transit ventures is enormous because it involves huge and extensive spaces, human resources, attracts considerable investments and creates opportunities for transformation of transport segments into one of the engines for the development of regional economy. In its geo-economic strategy, Turkmenistan assigns a major role to the creation of modern transport infrastructure and together with other states implements large-scale regional and continental projects.

Turkmenistan believes that the development of transport and transit infrastruc-

ture in Central Asia and Afghanistan will meet the objective requirements for regional development. Turkmenistan offers the civil-engineering design of the railway from Turkmenistan to Afghanistan with prospects of its further continuation in the Afghan territory.

In June 2013, the construction of the railway line Turkmenistan–Afghanistan–Tajikistan began from the Lebap province of Turkmenistan. Turkmenistan will construct with its own funds a 58 km track spanning Atamyrat–Ymamnazar section (Turkmenistan) at the cost of 200 million USD. In addition, Turkmenistan has expressed its willingness to construct a 2km long track Ymamnazar (Turkmenistan)–Akina (Afghanistan) and a 35km track Akina–Andhoi (Afghanistan) part of the project. Earlier, Turkmenistan reconstructed the railway line Sarhadabad (old name Kushka)-Turgundi and now by the request of the Afghan side, Turkmenistan plans to extend it.

Turkmenistan finds it absolutely essential to implement the potentially beneficial Turkmenistan–Afghanistan–Pakistan–India (TAPI) gas pipeline project. The benefits of the project are far more important, as it will greatly influence the development of the Afghan economy, resolve major social issues and promote inflow of investments. The construction of this gas pipeline will address the economic, social and humanitarian issues such as creation of the new jobs, development of social infrastructure along the pipeline route and what is more

<sup>45</sup> Excerpted from "Investing in Energy Development and Trade: Progress and Prospects", speech made by Ambassador Sapar Berdiniyazov at the EastWest Institute's "Afghanistan Reconnected" consultation in Berlin, April 10, 2014.





important—to maintain and enhance political stability in the region.

The rough estimates indicate that TAPI will generate some 200–500 million USD for Afghanistan annually as a transit country and create 12,000 job places for the Afghan nationals. The construction of this project will improve the welfare of the partner countries, besides meeting the industrial and domestic needs. It is also conjectured that if completed it would be the greatest development project of Afghanistan. The pipeline will route through South Yolotan gas field of Turkmenistan to Heart, Kandahar (Afghanistan); Chaman, Quetta, Multan (Pakistan) and Northern Indian city Fazilka. Its total length is 1735; 145 km is in Turkmenistan; in Afghanistan the length of the pipeline would be 735 km; in Pakistan it would be 800 km and the rest will be in India. The diameter of tubes will be 56 inches (1219 mm). The TAPI gas-pipeline project is designed for transportation of 33 billion cubic meters of natural Gas annually, 31.4 billion cubic meters of which will be consumed in Afghanistan, Pakistan and India. The remaining portion will be utilized as a fuel at the compressor stations along the pipeline.

The Meetings of the Technical Steering Group are held regularly, discussing different matters concerning TAPI project.

On May 23-25, 2012 in “Avaza” (Turkmenistan) the 15th Steering Meeting on TAPI project was held. At this meeting Agree-

ments on buying and selling between Turkmenistan and India, between Turkmenistan and Pakistan were signed. And Turkmenistan and Afghanistan signed “Memorandum of Understanding” (MOU) on the long term cooperation in the gas sphere.

On July 9, 2013, the 17th Steering Committee Meeting on TAPI project was held in Ashgabat. Directors and representatives of the concerned Ministries of the member countries, the representatives of the Asian Development Bank (ADB) took part at the Meeting. Within the framework of this Meeting of Steering Committee an Agreement on purchase and sale of Natural Gas, under TAPI project, between the State Concern “Turkmengaz” and the cooperation of Afghanistan was signed.

Recently the Technical Steering Committee Meeting was held, where the leading specialist from member states, with the support of the experts of the Asian Development Bank (ADB) discussed and came to an agreement on the basic matters of the project upon the issues of formation of a specialized Consortium TAPI Ltd and the election of a leader of the Consortium.

The TAPI is really a large scale gas pipeline project in the region, and it is necessary to draw attention and to anchor interest of the world business and financial circles to it.

For the purpose of presentation of TAPI project in September 2013 within the framework of the meeting with the repre-



representatives of leading international Oil & Gas companies and financial institutions, business —tours to the largest business and financial centers of South-East Asia, America and Europe—to the cities of Singapore, New York and London were organized. Such International Oil & Gas companies like Chevron, Exxon Mobile (USA), BP, BG Group (UK), RWE (Germany), PETRONAS (Malaysia) express their willingness to participating in the project. Some banks and financial institutions show their interest in participation in TAPI project as well.

At the same time, Turkmenistan pays great attention to trade economic ties with Afghanistan. Increasing dynamics of Turkmen-Afghan cooperation especially visible in the sphere of trade-economic cooperation between two countries, as well as in the projects related to a creation of transport and energy infrastructure Turkmenistan supplies electricity to Afghanistan. Liquefied gas, diesel and gasoline and other items are also supplied.

One of the main points of trade and economic cooperation between two countries is power supply. Turkmenistan annually provides 352 million KWT power to Mazari-Sharif and Herat provinces of Afghanistan. In the future Turkmenistan intends to increase the power supply to Afghanistan.

In February 2011, President G. Berdymuhamedov of Turkmenistan signed a decree about construction of Mary-Lebap-Afghanistan 500 KWT high voltage power

transmission line and construction of small power transmission units. After the completion of the construction power supply to Afghanistan will increase up to 1.5 billion KWT annually. Already 80 percent of the construction has been completed, and the project will be fully completed in the nearest future as well.

Electric energy sector promotes opportunities for the regional cooperation as well. The power system of Turkmenistan is associated with the combined power system of Central Asia. It is capable of exporting large amounts of electricity to Afghanistan, Tajikistan, Iran, Turkey and other countries in the region as well. Energy sector potential is constantly increasing. The construction of high voltage overhead power lines and substation complex has begun in Lebap and Mary provinces. Upon completion of these works Turkmenistan will be able to increase the export of electricity to Afghanistan five times. In order to connect power lines of both countries, Afghanistan with assistance of international organizations and financial institutions should build new power transmission units in its territory. Electric power promotes the development of national energy security, greater regional co-operation.

The most important component in the comprehensive development of Afghanistan is strengthening international efforts aimed at reconstruction of economic and social infrastructure, and its active involvement in regional and global trade and eco-





conomic processes, as well as implementation of major energy and transport projects.

In this context, Turkmenistan's opinion, regional cooperation and progress made in the framework of the Istanbul process, is an effective mechanism that can rapidly affect the situation in Afghanistan and beyond.

At the beginning of March 2014, there were consultations in Ashgabad between the Ministries of Foreign Affairs of Turkmenistan and Afghanistan during which the Afghans expressed their willingness to join the transit and transport infrastructure of the region. Mainly to these routes: Afghanistan-Turkmenistan-Kazakhstan; Afghanistan-Turkmenistan-Tajikistan-Kirgizstan; Afghanistan-Turkmenistan-China; Afghanistan-Turkmenistan-Azerbaijan-Georgia; Afghanistan-Turkmenistan-Iran (seaport Charbahar). All of these by all means increase the opportunity of Afghanistan's export-import and economic growth.

It should be noted that Turkmenistan is supporting the solution of the situation in Afghanistan as mentioned earlier by peaceful and political means, bringing long-lasting peace to our neighbors. In order to implement this principle, President Berdymuhamedov put forward an initiative of UN sponsored peace talks on Afghanistan with participation of all interested parties, and he expressed readiness to provide political space for that purpose. In this regard, Turkmenistan is working very closely with the Centre of Preventive Diplomacy for Central

Asia in Ashgabad. The Centre's activity is very affective in the region.

Political settlement cannot be complete and lasting without real economic development. Effective battle against terrorism and drug trafficking is impossible without solution of social problems and improvement of education and culture. In this regard, I would like to note that the list of confidence-building measures, which are planned will give their results. We confirm our participation in areas such as regional infrastructure, education and activities of chambers of commerce and industries.

Turkmenistan considers Afghanistan as an important trade partner. The Turkmenistan-Afghanistan partnership is bilateral; and has a multilateral character as well. These relationships have a solid legal base comprising 33 agreements.

Trade relations between Turkmenistan and Afghanistan increase year by year. By the end of 2013 Afghanistan holds the 7th place in Turkmenistan foreign trade turnover. For 2013 the level of trade turnover between two countries reached USD 997.76 million : export – USD 984.89 million; import – USD 12.87 million. Main export items are oil, liquefied gas, different products of petrochemical industry, electricity, textile industry products. The imports are agricultural products, construction materials and products of the chemical industry and others.

From left:  
K.L. Thapar,  
Chairman,  
Asian Institute  
of Transport  
Development  
(AITD), India;  
Robert Finn,  
Former U.S.  
Ambassador to  
Afghanistan, U.S.;  
Ikram Sehgal,  
Member of EWI  
Board of Directors,  
Pakistan; Tomas  
Niklasson,  
Acting Head of  
Division, Pakistan,  
Afghanistan,  
Bangladesh, Sri  
Lanka and Maldives  
Division, European  
External Action  
Service (EEAS),  
Belgium.



# Regional Economic Cooperation: An Overview

## Prospects for Economic Cooperation

As an administration under a new president will assume responsibilities in Afghanistan after the April 2014 elections, it will be timely to share with our Afghan partners a proposal (road map) which suggests practical steps for moving forward on economic, trade and energy cooperation.

There is a need to explain how rising fuel demands will lead to regional energy solution and to highlight the profit potential in order to make investments more appealing, including measures that would reduce security risks. Increased regional inter-connectivity will help an energy market thrive in the region at competitive prices.

For bringing all participants around an action-based and result-driven approach, participants should propose how to:

- Convince beneficiary countries of concrete benefits,
- Quantify benefits of future energy trade,
- Encourage entrepreneurs to join cooperation initiatives,
- Jointly move home-spun solutions for widely public private partnerships.

## Overview of Challenges

### Development vs. Security Scenario

If active participation in a regional setup is delayed, any potential benefit for par-

ticipant countries to enjoy the dividends of their geographical location will remain elusive. There is a need to break the security-development link so that funds do not get predominantly diverted to security.

### Geopolitical Interests

Ideological impediments and dogmas can cause some stakeholders to cling on to past baggage. There is a need to encourage participants to focus less on the obstacles and more on the opportunities.

### Infrastructure Barriers

Taking any concrete steps forward is usually hampered by unrest, insecurity, poor infrastructure and insufficient funding.

### Policy Differences

The paucity of mutual trust among the key players pushes them to begin discussions from divergent viewpoints. Lingering legacies of the past obstructs the possibilities of progress. The key players start with opposing standpoints, ensuing from a position of deficient trust. Hence, much effort, energy and time is wasted. As a result, diverse ambitions, and ongoing differences of opinion between potential energy buyers cancel out the possible collective gains that could arise with timely action. Long delays due to continuing policy differences may cause investors' interest to wane.

Wider communication campaigns can help to address any hesitations and prod respective government agencies into action.



**Dr. Najam Abbas**

Senior Fellow  
focusing on Central  
and South Asia,  
EastWest Institute



There is a need to showcase the advantages of taking steps to achieve economically feasible initiatives that can be put in place from 2014 and onwards.

### Institutional Weakness

There is slow progress due to the passivity and misgivings on the side of Central Asian leaders as they fear their sovereignty could be compromised.

Stakeholders are yet to agree on sustainable solutions. An absence of any mechanism to resolve differences in priorities and plans for energy partnership retards potential progress. Political will to move forward is not mobilized adequately enough for effective decisions.

### Capacity Limitations

Energy deficits remain a source of instability owing to poor funding and insufficient infrastructure. There is a need to raise more public funds to invest in regional associations to facilitate energy solutions. There is still a lack of interest from investors that needs to be addressed.

### Breakthroughs and Quick Wins

There is a need to showcase the advantages of taking steps to achieve economically feasible initiatives that can be put in place from 2014 and onwards.

Attention should be drawn to the best case examples to convincingly demonstrate how economic gains can always triumph over rivalries and differences.

An extension of Turkmenistan's rail links to Afghanistan and Tajikistan can be presented as a watershed initiative which can have a multiplier effect for other areas of economy.

Even some modest doses of UAE investment in TAPI can be seen as an encouraging signal for participants to proceed. The UN General Assembly resolution on Safe Energy Transit pursued as Turkmenistan's initiative will encourage the government in Ashkhabad to take bolder decisions to put plans to action.

Until regional networks come into place, alternative energy generation via local production units can serve as a step forward. As a measure to improve stability, stakeholders should be encouraged to link practices with local citizens at the grass roots level. There is a need to identify one or two pilot projects as models serving as light-

ning rods for future cooperation.

An emphasis on the benefits achieved by boosting broader collaboration will encourage the Afghans to see TAPI as the first step towards a steady income source.

We next move to identify what are the creative ways to make inroads on several critical, closely interrelated clusters of issues which are holding back progress, most notably the nexus of border security issues with narcotics and trade facilitation.

There is a need to provide alternate income generation opportunities for the border population. Crop replacement initiatives for poppy growers will encourage the concerned players to switch to legal yet profitable means (e.g. pistachio, pomegranates, saffron and walnut) for earning secure and stable livelihoods.

### Nexus between Transport Infrastructure and Transit Facilitation

It is desirable to start with modest yet meaningful steps that could help entrepreneurs and investors become engaged in regional initiatives that are commercially profitable and attractive for investors and host sides alike.

Several matchmaking possibilities were proposed during the "Afghanistan Reconnected" consultation in New Delhi to attract investments. They may well be appealing for regional donors as they also overlap bilateral and regional objectives. This may also provide an opportunity to diversify the EWI funding base to supporters of the Istanbul Process. Ideas that promise to benefit from future matchmaking include instituting an "Industries for Peace" initiative for cross-border facilitation as well as development of industrial parks as conditions become more favorable.

Such initiatives will help bring further jobs and opportunities for all participants. There is a need to facilitate international cooperation to provide some training. Technical capacity must be built for greater trade and transit. As the transport corridor country, Afghanistan needs to develop systems to ensure pipeline security, stable transit fees, speedy custom clearance, efficient facilitation at borders, investment protection and dispute resolution mechanisms.



## Nexus of Energy and Water Issues

With regard to the energy and water issues, the approach should be driven more by pragmatism and less by ambition. Hence, instead of bringing any sensitive issues such as water sharing to the agenda at this stage, it is preferable to play safe and keep it on a back burner as an area of potential cooperation in the future.

Immediate efforts must focus on facilitating specific matchmaking ventures between energy-deficit and energy-surplus sides. Kazakhstan's investors need to be made aware of the potential for significant profits should they invest in hydro-power projects in Kyrgyzstan and Tajikistan.

Expansion of regional trade could occur with possible expansion of trade and transit agreements (e.g. APTTA; expansion of transport infrastructure— Tajikistan-Afghanistan rail line to Gwadar; infrastructure projects linking Central Asia to the port of Karachi (Pakistan), Bandar Abbas and Chabahar (in Iran)).

With easing of sanctions on Iran, land-locked Afghanistan and Central Asian states can benefit from transit and trade expansions, which in turn will bring revenues for Iran too.

## What Should India and Pakistan Do?

- Regional resource corridor: prospects for linking the extractive industry through cross-border infrastructure projects;
- Joint development of regional resources: energy, water, mining and CASA-1000.

As a first step, there is a need to identify a mutually beneficial project that can bring India and Pakistan together. India may be encouraged to consider offering a transit to Nepal for Pakistani goods in 2014. Such measures could act as a positive signal for Pakistan to reciprocate good intentions and reach an agreement to allow transit of Indian goods to Afghanistan and Central Asia via Pakistan by 2015.

It may be beneficial to explore, if any experts from either World Bank and/or Asian Development Bank can share a projection of benefits expected once CASA-1000 becomes operational.

Due to low fuel supply reserves, rising fuel prices pose inflationary pressures on the energy-deficient economies of both Pakistan and India. As shortages continue to depress potential growth rate, the demand supply gap is widening.

It must be emphasized that the rewards for cooperation are much greater than the risks. One example could be discussing the proportion of benefits lost and costs incurred if TAPI is delayed or shelved.

While pursuing the TAPI project as key to Central-South Asia transport transformation, the key words to focus on are trust, economic partnership, regional cooperation and a shared benefit approach. The South Asian Association for Regional Cooperation (SAAARC) can act as a mechanism for implementation and harmonization. The regional cooperation forum can override bilateral differences and move collective interests forward.

Beneficial energy trade could serve as a medium for resolving intractable conflicts and make stakeholders speak the language of common interest. The greater the gains, the easier it becomes to address political differences and deepen further cooperation. The use of regional cooperation frameworks may enhance inflow of private capital. In this context it may be helpful to showcase how the European Union (EU) could help multilateral cooperation. How can EU energy cooperation help other regions arrive at consensus? How can Robert Schuman's vision for the 1951 creation and leadership of the Community of Steel and Coal (ECSC) in its early years be cloned for oil and gas cooperation in Asia?

### India: Initiative and Impulse

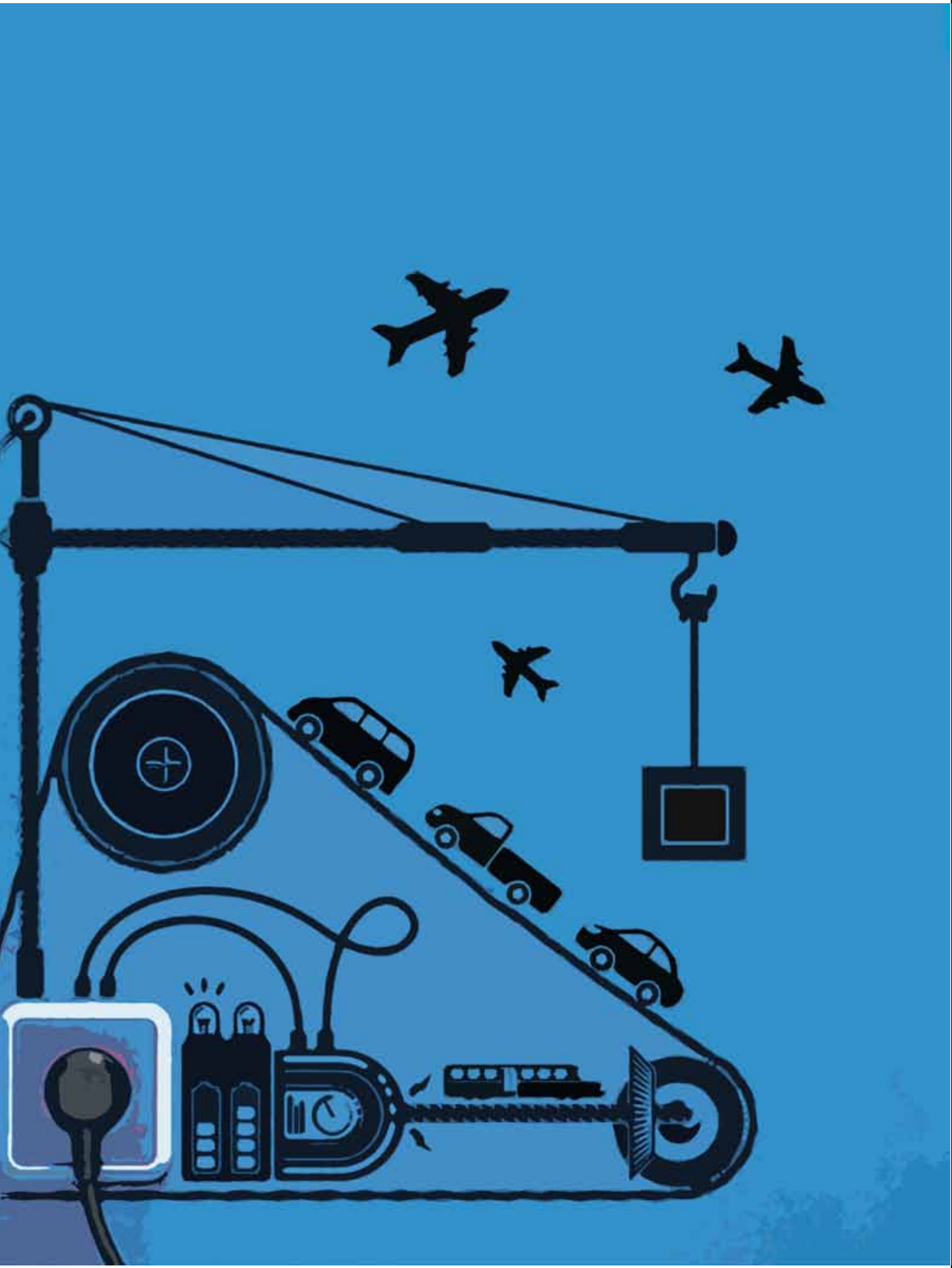
The private sector's role is critical to fund infrastructure. India has vibrant private, business and corporate sectors that could potentially act as a powerhouse of investments in the region that could benefit all partners.

### China Factor

It remains very crucial to ensure China's endorsement of and engagement with the Abu Dhabi Process (ADP). Presenters need to discuss whether Peking's rising affluence will further advance its access and acquisition of energy supplies from Central Asia via South Asia, and whether Peking will help construct a cross-continent corridor of commerce and energy trade.

As a first step, there is a need to identify a mutually beneficial project that can bring India and Pakistan together.

# Transport Infrastructure



# Regional Transport Infrastructure: Prospects and Challenges



**Zubair Kerami**

Senior Advisor  
to Minister of  
Transport and  
Civil Aviation,  
Afghanistan

## Prospects and General Analysis

Afghanistan's geographic position makes it a perfect fulcrum for trade and transit interaction within the region and globally. From the trade and transit perspective, the transport system in Afghanistan provides choices to connect Central Asia with South Asia, East Asia and beyond. The war of over three decades has had a severe impact on the effective functioning of the country's trade-transport system. There has been significant investment during the last 10 years to rehabilitate and support the recovery of the transport infrastructure, especially in relation to roads and airports. This rebuild presents great opportunities to improve the transport system in line with our vision in trade and transit. Creating a country that is easier to move around in will improve access, support a sustainable economy, help create better trade and business and finally help create a healthier environment. The Afghan government's efforts have created the opportunity to update our thinking of transport planning and urbanization—placing a strong emphasis on strengthening trade and transit by for all transport options during the next 10-15 years.

At the same time, the country witnessed an outstanding rise in the GDP—due to the rapid expansion of the service sector, electrification and transportation infrastructure development. On the average, real GDP growth averaged 9.2 percent between 2003

and 2012<sup>46</sup>, with an estimated 14.4 percent in 2012<sup>47</sup>.

Delivering flexible transport networks, with an emphasis on efficient road use and public transport will make Afghanistan a smooth-moving country. It is advisable to work with our transport and regional partners to manage our existing road network more efficiently and cost effectively by adopting a “one-network” approach and developing alternative freight routes to improve access to the transit borders and freight hubs. Also, this is key for effective parking and congestion management to support the growth of commercial centers, green infrastructure and climate change enhancements.

On the other hand, funding, affordability and a long-term commitment are fundamental to achieving the vision. Funding is required to not only rebuild roads and provide new infrastructure but also to capitalize on the opportunities available through improving the transport system. For the time being, the main sources of funding will continue to be provided by our donor partners, with some infrastructure and services costs provided by transport investors. While these notes are being developed, there are many

46 World Bank (no date) “Afghanistan Overview”, URL: <http://www.worldbank.org/en/country/afghanistan/overview> (accessed on March 24, 2014).

47 World Bank (January 29, 2014) “Afghanistan: Transition to Transformation Update”, JCMB Meeting, URL: <http://www.worldbank.org/content/dam/Worldbank/document/SAR/afghanistan/AF-JCMB-meeting-jan-29-2014-presentation-english.pdf> (accessed on March 3, 2014).



The transport system is an integral part of economic growth and plays a very strategic role in moving both freight and passengers across the country and even beyond our borders.

other worthwhile projects being planned, e.g. mining projects. It is the responsibility of the government of Afghanistan to work closely with key partners in finding more sustainable and effective investment mechanisms to meet its long-range goals of growth and prosperity.

In light of the available statistics, Afghanistan has an estimated total road network of 135,000 km (including rural roads). More than 80 percent of this road network is in bad condition, and a major portion is not passable by motor vehicles. The regional, national and provincial road networks identified for development include about 46,500 km. This excludes the rural roads that must also be built and maintained.

The government of Afghanistan has recently launched a new way forward as it enters a phase of political and economic transition, and its future development will be a vital part of the region at the cross-roads of Asia. The potential for Afghanistan to act as an economic land bridge in Asia will focus on regional infrastructure and connectivity. Afghanistan's economic potential could not be fully developed without strong political will within the region. The transport system is an integral part of economic growth and plays a very strategic role in moving both freight and passengers across the country and even beyond our borders.

As a landlocked country, Afghanistan cannot develop without access to regional and international markets. The stabilization and reconstruction of Afghanistan, the gradual opening of its borders, and better security in certain parts of the country, have opened new opportunities for the country. At the

same time, it has provided an extraordinary opportunity for the region and the world. Currently, Afghanistan is a member of: the South Asian Association for Regional Cooperation (SAARC), the Central Asian Regional Economic Cooperation (CAREC), the South Asian Free Trade Association (SAFTA), the International Road Transport System (TIR, Transports Internationaux Routiers). Furthermore, Afghanistan is oversight member of the Shanghai Cooperation Organization (SCO), a signatory to the Economic Cooperation Organization Trade Agreement (ECOTA) and soon to become a member of the World Trade Organization (WTO). Afghanistan is thus in a good position to use its membership in these organizations to promote its integration into the Middle East, South, East and Central Asia and the larger community of nations.

In July 2007, Afghanistan reached trade and transit agreements with Uzbekistan and Turkmenistan. In early 2013, a transit and motor vehicle agreement, CBTA, was signed between Afghanistan, Tajikistan and Kyrgyzstan. Afghanistan also signed another trade and transit agreement with Pakistan in 2012. SAARC nations will finalize a motor vehicle agreement in 2014. Another motor vehicle and tanker movement agreement was signed between Iran and Afghanistan during early 2013. These agreements will help reduce transit and transport time for truckers moving goods trans-nationally. Yet, the negative impact of external tensions on regional cooperation initiatives creates obstacles for Afghanistan. For example, the tension in relations between Pakistan and India had blocked the land transit between Afghanistan and India. After lengthy bilateral and trilateral dialogues, Afghan goods



can now reach India through the land transit corridor in Pakistan. Land transit for trucks from India reaching Afghanistan is currently being discussed between Pakistan and India, however now, Indian trucks cannot reach Afghanistan through Pakistan.

Afghanistan has successfully started the rollout of the Automated SYstem for CUstoms DAta (ASYCUDA). This will provide substantial efficiency gains on transit, trade, anti-narcotics, anti-smuggling, data-exchange and a host of other factors, including tracing the flow of customs collections. Currently the system transit module is operational along four axes: Torkham-Jalalabad-Kabul, Islamqala-Herat-Kabul, Sherkhan Bandar-Kunduz-Kabul and Hairatan-Mazar-Kabul.

The civil aviation industry is a key national asset to stimulate economic growth through the safe and efficient transportation of goods and people, especially in a landlocked country such as Afghanistan. There is a great expansion of airport infrastructure where the number of operational and standard airports has increased from 10 in 2001 to 21 in 2013. The passenger handling capacity has increased during the same period from just thousands to approximately one million per year. The growth in air cargo has been from 0 tons in 2001 to about 35,000 tons in 2013. This is a

remarkable growth story.

Railway network in Afghanistan is important as bulk commodities are brought to Afghanistan's borders by rail—then transhipped to trucks for movement within the country. Transport costs of bulk commodities over long distances are typically cheaper by rail than road; therefore, an extension of the proposed rail lines into Afghanistan would result in significant savings of transport costs for these types of commodities. Fortunately, due to large deposits of copper and other minerals, it is possible that new rail lines could be built provided private investors are willing to form public-private partnerships with the government of Afghanistan to help cover the capital and operating costs of any new rail lines.

## Strategic Recommendations

- Advocate to transform all Afghan corridors, air and land, into a development corridor which, in addition to offering safe, fast and competitive transport and transit services that secure regional trade, will stimulate investments, encourage sustainable development and poverty reduction so that the economic and social growth along the transport corridors are accelerated while ensuring envi-

Afghanistan's longest border with Pakistan, more than 2,400 km and with Iran, more than 1,000 km have always been subject to many border closure, disturbance, insurgency, terrorist activities, drug and/or human trafficking.

- Environmental sustainability;
- Improve the credibility and safety of the transportation system by addressing behavioral, vehicle, and infrastructure safety issues through the innovative and effective use of regional and global coordination, partnerships, programs, and resources;
- The governments of Afghanistan, Pakistan, India and Iran should agree on access to Afghanistan and to Central Asia via the ports of Chabahar, Gwadar and to the Indian Border;
- Construct strategic dry ports at key transit points in the provinces of Kandahar, Nangarhar, Kabul, Herat, Mazar-e-Sharif and Nimroz;
- Promote Afghanistan's transport system as a channel to increasing licit transit and trade by 30 percent per year through SAARC, the Economic Cooperation Organization (ECO) and later accession to the WTO. This will require harmonization of standards and increasing trade and transit agreements with SAARC and ECO member nations; therefore, Afghanistan and its neighbors will achieve lower transit times through Afghanistan and vice versa;
- 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;
- Develop an integrated strategy on a regional level by 2018 where roads, airports and rail infrastructure are improved while, at the same time, related programs improve security, develop agriculture (extension services, alternative crops), develop water resources (irrigation and drinking water), provide accessible health and education facilities and reduce the production and trade in narcotics.

## Key Challenges

- War damage and recovery—almost 100 percent of Afghanistan's roads sustained significant damage during the decades of war—land and property damage from the period of war has resulted in many households and businesses relocating to other areas across country or within the region. [Editor's note: USAID estimated that there were only 50 kilometers of paved road in the entire country in

2002.<sup>48</sup> Despite substantial funding from international development agencies for the reconstruction of major roads<sup>49 50</sup>, (re)building civil infrastructure remains a key challenge.];

- After the 9/11 attack, permanent intimidation by neighboring countries, drug trafficking, continuous drought and high unemployment have accelerated the already negative impacts on economic and commercial activities of Afghanistan;
- Afghanistan's longest border with Pakistan, more than 2,400 km and with Iran, more than 1,000 km have always been subject to many border closure, disturbance, insurgency, terrorist activities, drug and/or human trafficking;
- The progress of work for alternative transportation modes such as railroads is moving too slowly to connect Afghanistan with China, Europe, India, and Middle East.

48 Alex Their (April 4, 2012) "Hard Won Progress in Afghanistan", blog post for USAID, URL: <http://blog.usaid.gov/2012/04/hard-won-progress-in-afghanistan/> (accessed on March 24, 2014).

49 The United Nations Office for Project Services (UNOPS) has supported the Afghan Ministry of Public Works (MPW) and the Afghan Ministry of Rural Rehabilitation and Development (MRRD) since 2003 in the construction and rehabilitation of over 10,000 km of roads. A further 2,000 km of rural roads are to be constructed and rehabilitated through the Afghan government's National Emergency Rural Access Project (NERAP), assisted by UNOPS. UNOPS (no date) "UNOPS in Afghanistan", URL: <http://www.unops.org/english/whatwedo/Locations/Europe/afghanistan-operations-centre/Pages/Afghanistan-Operations-Centre-AGOC.aspx> (accessed on March 24, 2014).

50 Since 2001, international development agencies have donated approximately \$3 billion towards rebuilding and expanding the Regional Highway alone. Of the total donor commitment for the 3,200 kilometer-long Ring Road, USAID has committed about 42%, followed by the ADB (24%), JICA (6%) and the World Bank (6%). Mohammad Abid Amir (Spring 2013) "Road Reconstruction in Post-Conflict Afghanistan: A Cure or a Curse?", in *International Affairs Review*, Vol. XXI, No. 2, p. 5.

# Regional Cooperation in Transport



**K. L. Thapar**

Chairman,  
Asian Institute  
of Transport  
Development  
(AITD), India

Throughout the history of confrontational humankind, two forces have driven change when most needed: technology on the one hand and the will of the people on the other. Whether it was the invention of the wheel or discovery of the steam engine that enabled faster mobility of goods and people, or it was vox populi resulting in the creation of newer forms of government and cooperation, to begin with amongst tribes and then, over time, between nations, the story has been the same. The will of the people and technology have mostly been independent harbingers of change.

South Asia is no exception, and today stands at an important inflexion point: slowly but inexorably, democracy is taking hold on the subcontinent. From Myanmar in the southeast to Afghanistan in the northwest, this enormous land mass which is home to almost 1.8 billion people, is witnessing a political empowerment as never seen before in its long history. The result is change on an unprecedented scale. The people demand a greater say in ordering national priorities.

It is vitally important to grasp the magnitude of what is happening because of South Asia's recent history. Until recently, it was not subject to the current geographic divisions, and trade within it proceeded unhindered. It was a single geographic entity with traditional trade and accompanying transit facilities. The division of the subcontinent in 1947 led to the creation of extensive land

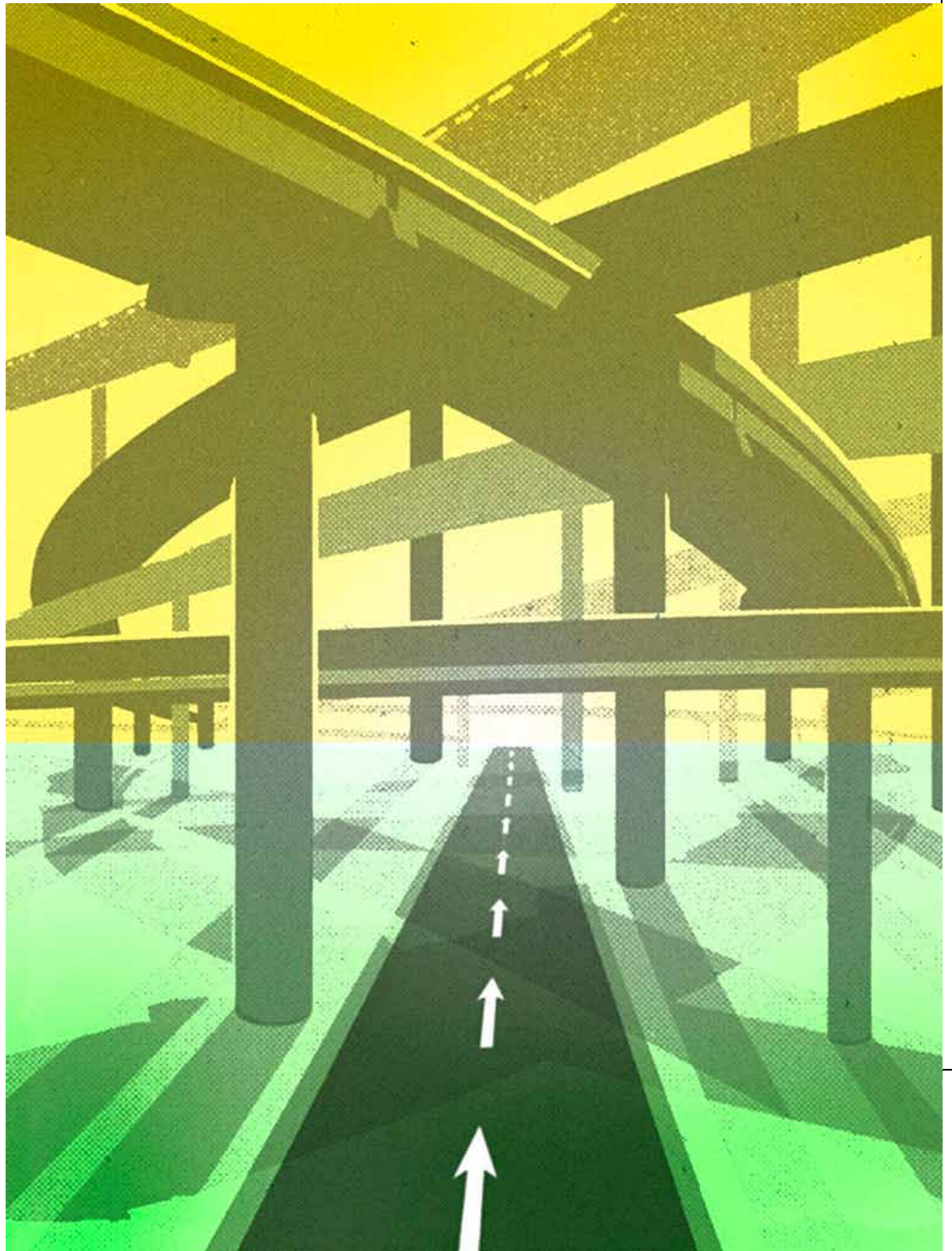
borders, mostly unnatural and porous, disrupting geographic space and economic and transport linkages.

Fortunately, there is now a growing recognition in the region that the time has come to settle the differences of the 20th century and restore the seamlessness in connectivity, so that the 21st century can experience regional cooperation in South Asia. The realization is dawning throughout the region that the road to prosperity lies in cooperation and not the insistence on settling what are, in the end, irrelevant issues to the well-being of the people. The old elites are being forced to make way for a new generation of young leaders who have neither the memories of the past nor the desire to inflame old wounds.

Alongside this enormous political and attitudinal transformation is the manifest impact of new technologies that are bringing people closer. More travel, more contact and more exposure is making people realize that it is only through cooperation that the region can provide its people a better future. In the last two decades, the technological face of the subcontinent has changed beyond recognition. The latest communication and transport technologies have now become a part of daily life.

As we peer into the future of the 21st century, it is immediately apparent that South Asia has grasped the historic opportunity that it has been offered. It is no longer a





Total exports have been witnessing a considerable upward trend. The negative list of commodities traded has been shrinking.

question of whether and when but how quickly. This is not a sudden development. This has been in the making for almost three decades. Progress, though slow, has been in the right direction of promoting free trade through the mechanism of comprehensive cooperative agreements. Total exports have been witnessing a considerable upward trend. The negative list of commodities traded has been shrinking.

In the foreseeable future, the depletion of fossil fuels will result in an increase in oil prices. This will give a boost to the development of regional rather than global production networks. Equally important would be the availability and access to relevant technologies within the region. This would not only provide a cost-effective solution but would also bring about much desired harmonization of technologies. In this regard, sub-regional cooperation could work as building blocks for integration at the regional level in the long run.

South Asia is endowed with historical connectivity of road, rail and maritime modes of transport. Recent developments lend hope that this infrastructure would be put to use for enhancing inter-country linkages. In the recent past, several welcome steps have been taken in this regard. Bhutan and Nepal have been allowed to use Mongla and Chittagong sea ports in Bangladesh, in addition to the sea ports in India for their third country traffic. Myanmar has been allowed the use of its port at Sittwe for transit traffic to the northeast region of India.

The Indian Railways' network is being extended to the inland container depots in Nepal and Bhutan. The ferry services between Sri Lanka and India, which had been

long suspended, have been reintroduced. New trading points along the border between India and Bangladesh have been opened. Agreement has been reached on Asian Highway and Trans-Asian Railway networks and on setting up of dry ports on the specified routes.

Afghanistan has recently been inducted as a full-fledged member of South Asian Association for Regional Cooperation (SAARC). The country has been strategically important, throughout history, as a gateway to Asia and Europe and as the dominating geography for the ancient Silk Routes. This role has assumed greater importance with the emergence of the Central Asian Republics and the current phenomenon of economic integration both at regional and international levels.

As a landlocked country, Afghanistan has hitherto been solely dependent on the sea port of Karachi for its export and import trade. Newly developed ports at Bandar Abbas and Chabahar (Iran) and Gawadar (Pakistan), have opened alternate sea-land routes for accessing the country and beyond. The recently completed road radial from Zaranj-Delaram links the circular road with Iran and its port at Chabahar.

The topography of Afghanistan has led to development of a circular road network closer to its borders, which has largely been improved in the recent years. The radials from this circular network link both the interior of the country and its neighboring countries (Pakistan, Tajikistan, Uzbekistan, Turkmenistan and Iran). With the completion of the stretch between Herat and Qaiser (300 km), the road circle will be fully in place.

In the rail sector, Uzbekistan has extended its railway line from Termez (Uzbekistan) to Mazar-i-Sharif (75 km). Turkmenistan has already a rail link with Afghanistan at Kushak (Turkmenistan)-Torghundi (Afghanistan). Pakistan has planned to extend its railway line from Chaman (Pakistan) to Spind Boldak (Afghanistan), a distance of 12 km. Iran has completed its railway line from Bafq to Mashhad. This will enable building a spur line of 124 km between Khawaf (Iran) and Herat (Afghanistan).

South Asia is deficient of energy endowments while Central Asian Republics have abundant resources. Energy resources from Central Asia can be shuffled to the South Asian region through efficient energy corridors of overland pipelines. The role of Afghanistan will be crucial in this endeavor. It straddles the main transit routes from South Asia to Central Asia and the transit fee could be a substantial source of revenue for the country.

It is vitally important from the South Asian point of view that Afghanistan be a stable, peaceful and prosperous country. Towards ensuring this, it is most desirable that it possess the necessary transport infrastructure in the form of road, rail and pipeline networks. There are several viable ways of funding the development of this infrastructure. These include: mineral endowments to be used as collaterals, transit fee realized from hydrocarbon pipelines, project specific funding, lines of credit/grants and establishing a dedicated infrastructure fund.

Considering the financial constraints of Afghanistan, the bulk of the funds will have to be as grants/aid. The role of the private

sector would be minimal, keeping in view lumpy investments, long gestation period and delayed paybacks of ground infrastructure. Priorities for developing land-sea routes (trans-Afghan corridors) should be determined by the people of the country and not imposed by outside forces. For example, Russian-British rivalries in the 18th century did not allow the emergence of rational and modern transport links, particularly rail corridors.

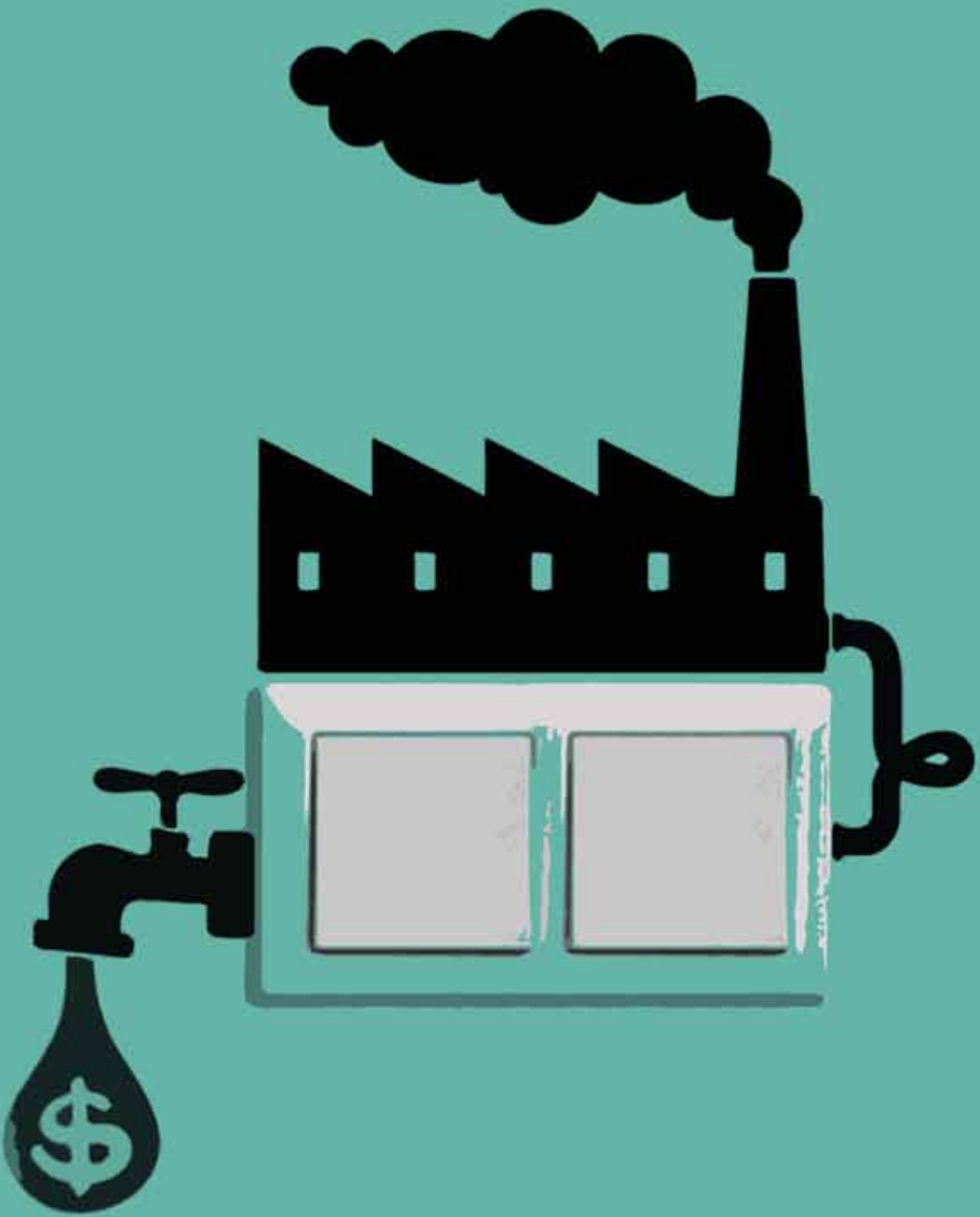
International agencies, regional bodies and countries should be the facilitators of the process by way of technical choices, provision of capital and building local capacities. Stability and security are pre-requisites for a favorable climate for investment in transport networks. Indeed, in many ways, investment in infrastructure and stability are mutually reinforcing. Considering the long gestation of building transport corridors and their long term benefits, international polity should factor this characteristic in their calculus of providing aid to the country. In the long run, it is much better to have infrastructure on the ground rather than having only boots on ground.

Regional cooperation need not be only at the government level. Non-governmental organizations can play an important role. The Asian Institute of Transport Development (AITD) has taken several initiatives in this regard. It has established the Asian Railways Association to promote cooperative research, harmonization of hardware technologies and operational practices. It has also launched a regional training program in technical, economic and social aspects of infrastructure. Significantly, the residential training courses are provided free of cost.

South Asia is deficient of energy endowments while Central Asian Republics have abundant resources. Energy resources from Central Asia can be shuffled to the South Asian region through efficient energy corridors of overland pipelines. The role of Afghanistan will be crucial in this endeavor.

# Trade and Investment





# Harnessing Afghanistan's Economic Potential



**Ambika Sharma**

Deputy Secretary General, Federation of Indian Chambers of Commerce and Industry (FICCI), India

The year 2014 is extremely important for Afghanistan. The country faced elections in April 2014, followed by withdrawal of NATO forces by the end of 2014. These two events are going to have profound and long-standing impact on the future of the country, as the country assumes full responsibility for its security.

Much of the discourse on transition in Afghanistan has focused on the Afghan security sector. However, the economic component will be critical to shore up Afghanistan's institutional capacities and bring in long-term stability.

Afghanistan will have to manage a transition from an economy supported by the presence of foreign troops to a more self-sustaining economy. It is envisaged that the planned foreign-troop withdrawal by the end of 2014 will have direct impact on the Afghan economy, by some estimates to the tune of two or three percentage points of GDP growth rates. The main reason for this will be the reduced local spending, currently being incurred by the foreign forces and also to a certain extent by the concurrent withdrawal of foreign civilian organizations with international and national staff. The Afghan government must orchestrate an economic transition to a market economy.

The tremendous challenge in the transition is further aggravated by the fact that Afghanistan is highly aid dependent. Afghanistan's aid dependency is one of the highest in the world and has increased sharply in the last decade. In 2010-11, total military and civilian aid was US \$ 15.7 billion, about the same size as of the GDP. The civilian component of aid was nearly 40 percent of the GDP. Aid contributed to domestic demand for construction and procurement of goods and services thereby contributing to

economic growth. Further, the conditionality on compliances put by the traditional donors will get more and more stringent and will impact the aid flow adversely.

A successful transition would be contingent upon forging a greater stake and regional commitment to rebuilding Afghanistan through economic opportunities, foreign investment and transit potential—by capitalizing on Afghanistan's location, energy and mineral resources in a mutually interdependent regional framework. The long-term economic benefits, revenue and employment opportunities arising out of investment, trade and transit would help build constituencies of peace.

Towards this end, in the last couple of years or so, the international community has reiterated its commitment to Afghanistan at various regional and bilateral fora. One such important and unique initiative is the "Heart of Asia" process of regional cooperation for rebuilding Afghanistan. It presents a unique opportunity for Afghanistan and its near and extended neighbors to engage in a sincere dialogue to build confidence and promote cooperation at the regional level. The process has been successful in evolving a common set of confidence building measures (CBMs) ranging from political and security cooperation to economic cooperation, disaster management and education. Each CBM is coordinated by a lead country(s).

India has taken the lead with respect to the Trade, Commerce and Investment Opportunities CBM (TCI CBM). The government of India has designated the Federation of Indian Chambers of Commerce and Industries (FICCI) as the implementing agency for this CBM. The TCI CBM provides an excellent opportunity to support private



sector development in Afghanistan and to strengthen the commercial ties between Afghanistan and countries of the Heart of Asia region. This initiative is an important part of the long term development of Afghanistan.

Increasing regional trade will open up new sources of raw materials, energy, and agricultural products—not just for Afghanistan but for all nations in the region. And we are delighted to see this vision coming to light through the “Heart of Asia” process and various regional trade and transit agreements.

Over the last year, FICCI has undertaken a range of activities including capacity building programs, business-to-business meetings, road shows, and an international conference and exhibition on “Doing Business with Afghanistan” to promote economic development not only in Afghanistan and but also in its neighboring region.

Going forward, we intend to develop a cooperative framework through which we are able to bind the region in a web of trade, energy and transport linkages that will not only act as a major confidence building measure but will also contribute to greater economic synergies in the region and spur economic growth in Afghanistan and beyond.

Sure, the country has its share of problems as a landlocked state with difficult logistics. All of this amidst an ongoing security, political and economic transition. Yet, amidst transitional dynamics, there are many opportunities for increasing economic growth and transforming lives in Afghanistan.

As alluded to before, Afghanistan’s strategic location and abundant wealth of natural resources, coupled with the government’s

commitment to provide an investor-friendly environment and pro-private sector policies, make it an attractive investment destination.

There are vast investment opportunities in sectors ranging from agriculture and food processing to energy and mining; from transport, logistics and infrastructure to services like education, healthcare, telecommunication, information technology and skill development.

Afghanistan’s National Development Strategy (ANDS) puts strong emphasis on private sector development as a cornerstone of growth and poverty reduction in Afghanistan. The principles of free market have been incorporated in Article 10 of Chapter 1 of Afghanistan’s new constitution, which states that, “The State encourages and protects private capital investments and enterprises based on the market economy and guarantees their protection in accordance with the provisions of law.” The Afghanistan Investment Support Agency (AISA) has come out with a detailed account of the enabling policy environment and identified sectors of opportunities for investment in Afghanistan. The Law on Private Investment (2005) in Afghanistan does not discriminate between domestic and foreign investment. Foreign ownership, up to 100 percent, is allowed in most of the economic sectors with full repatriation of profit.

Unlocking and harnessing Afghanistan’s economic potential is imperative, and we all have stakes in it. A strong, stable democratic Afghanistan will mean a win-win proposition for the region and the international community.

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# Jump-Starting Afghanistan's Economy



**Prof. S. Frederick Starr**

Senior Research Professor and Chairman, Central Asia – Caucasus Institute, Johns Hopkins University, U.S.

## The Threat that Looms Immediately <sup>51</sup>

The withdrawal of U.S. and NATO forces will leave a massive hole in the Afghan economy. Anthony H. Cordesman points out that these cuts [in the military and development spending] “threaten to derail [the] Transition.”<sup>52</sup> In fact, the damage could be worse yet. One should note the comparison between Afghanistan’s possible fate and that of East Timor, where the economy severely contracted after the sudden withdrawal of 10,000 UN peacekeepers and international advisors in 2005. Aggregate demand plummeted overnight, with fatal consequences that severely damaged the private sector, thus crippling the best engine for the country’s recovery. Paul Cleary wrote in *The Wall Street Journal* that the collapse was “a sufficient condition for sending any post-conflict country back into conflict.”<sup>53</sup> The situation in East Timor

51 Excerpted from “Finish the Job: Jump-Start Afghanistan’s Economy – A Handbook of Projects” by S. Frederick Starr with Adib Farhadi, *Silk Road Paper*, November 2012.

52 Anthony H. Cordesman (2012) “The Afghan War: Creating the Economic Conditions and Civil-Military Aid Efforts Needed for Transition,” Third working draft, 18 September, CSIS, p. 2.

53 Paul Cleary (May 23, 2007) “It’s the Economy, Stupid,” *The Wall Street Journal*.

was reversed only when foreign companies were brought in to exploit the country’s hydrocarbon resources.

## Afghanistan’s Surprising Long-Term Prospects

While Americans and others abroad debate [Afghanistan’s security and economic challenges], Afghanistan’s long-term economic prospects have improved far beyond what anyone could have imagined a decade ago. However counter-intuitive it may seem, Afghanistan today is positioned—or can soon be positioned—in such a way as to sustain its economic recovery beyond the period of transition and even launch an economic boom thereafter.

Three new factors are opening this vista. First, it turns out that Afghanistan is extremely rich in oil, gas, and minerals. The U.S. Geodetic Survey, on the basis of careful study, has announced the presence there of more than \$1 trillion in natural resources—50 times Afghanistan’s current GDP. These riches include gas, oil, copper, iron, other minerals and rare earths. Related to these are the concession payments that will result from extraction, and the many jobs that task will create. Resource specialists speak of Afghanistan as a “mineral Kuwait.” When South Korea launched its rapid development nearly a half century ago, it could boast no such assets.

Afghanistan is one of the world's hottest telecom markets. Driven mainly by private foreign investment, the communications sector has fundamentally changed the way Afghans go about their work and lives. It is no surprise that the millions of beneficiaries of these and other recent gains want to preserve them.

Second, Afghanistan's central but landlocked location, seen until recently as an unmitigated liability, turns out to be a major plus, for it will enable the country to take full advantage of the transport revolution that globalization is creating across all Eurasia. Much has been said of the "Silk Road" that connected China and Europe, and which is rapidly reopening. Equally important over the millennia was Eurasia's great "Southern Corridor" that connected India, Europe and the Middle East, and which passed directly through Afghanistan. On the territory of Afghanistan, this great thoroughfare linked with north-south routes connecting to China, Russia, and northern Europe. The closed borders of the USSR long throttled these corridors of continental commerce. Now, since 9/11, they are rapidly reopening. In the long run, this unanticipated and unheralded development may prove to be the most lasting impact of Operation Enduring Freedom. However, if the U.S. accompanies its military drawdown with a less-than-intensive engagement with the economy, and one that is publicly supported at the highest levels, the benefits of this could accrue to hostile interests and parties.

Quite independent of Afghanistan, NATO or the U.S., tens of billions of dollars are being invested in these routes by countries as diverse as India, Pakistan, China, Bangladesh, Turkmenistan, Uzbekistan, Azerbaijan, Georgia, Turkey, and Iran, and by such international financial institutions as the World Bank, Asian Development Bank (through its Central Asia Regional Cooperation Program, CAREC), and Islamic Development Bank. Moreover, in addition to national governments and international financial institutions, such entities as the Economic Cooperation Organization (ECO), Shanghai Cooperation Organization (SCO), and South Asian Association for Regional Cooperation (SAARC) are all actively engaged in fostering trade and transport throughout the Greater Central Asia region.

Afghanistan is the inevitable hub of all these transport projects. As they are completed, that cash-starved country will gain a reliable and long-term income stream. European freight forwarders and Indian firms are already planning how they will take advantage of this new/old corridor of trade through Afghanistan. India estimates that if the political economy of the region improves and as little as 20 percent of western trade is sent by roads, \$100 billion dollars worth of goods will pass through Afghanistan as early as 2015-16. Significantly,

this enormous engine of wealth creation is being driven mainly by the private sector, not by governments.

Third, Afghanistan is not the same country it was on 9/11. GDP, still miserably low, has risen seven-fold, which places Afghanistan above 16 other countries on the UN's Human Poverty Index. In 2001, the national treasury was non-existent; eleven years later domestic revenues have reached \$2 billion and are growing steadily. When the Taliban ruled the country, 1.2 million children attended school; now the number has risen to 8.2 million. The number of students at public and private universities has also grown: from 4,000 to 75,000. Eighty women sit in the National Assembly. Cell phones are everywhere, and Afghanistan is one of the world's hottest telecom markets. Driven mainly by private foreign investment, the communications sector has fundamentally changed the way Afghans go about their work and lives. It is no surprise that the millions of beneficiaries of these and other recent gains want to preserve them [...].

Together, these and other developments have generated new expectations among millions of ordinary Afghans that no government, even one dominated by the Taliban, can long ignore. All Afghans expect to reap benefits from their heretofore unknown energy and mineral resources; they want to be able to export their produce to more lucrative markets, and to participate in the new transit trade; they expect their hard-earned social and economic gains to continue; and they all want to do so as a single country. Like citizens of other countries, they debate how to divide the pie. But no one proposes to take his or her slice and withdraw.

## Why the Economy Can't Wait

Underlying nearly all discussion of [the troop withdrawal and Afghanistan's future] are two closely related assumptions: first, that the level of political stability or instability in post-Karzai Afghanistan will determine the security situation; and, second, that the level of security will in turn determine the chances for economic progress. These assumptions give rise to an extremely important corollary, which rarely articulated, has nonetheless defined the phasing of U.S. and NATO strategy in Afghanistan for a decade. This holds that: (a) the first task is to establish political stability; (b) that then, and only then, will it be possible to address the problem of physical security; and, (c) that only with the establishment of physical security

and peace will it be possible to address the problem of the economy.

It is undeniable that this formulation is partially valid, and that in an ideal world strategy would be built around precisely such a phasing. But a decade's experience has shown that people with no economic prospects can easily be recruited by insurgent forces, especially if those forces offer better pay than the poor can earn on their own or even as members of the Afghan National Army. And experience has shown that under these circumstances it is difficult, if not impossible, for a newly established government to rule effectively, or even to establish its legitimacy. Anyone seeking to build political stability and peace in Afghanistan must therefore figure out how to spark the economy while at the same time undertaking these tasks. The economy cannot wait. Of course, this creates formidable challenges. But the phased strategy outlined above has failed not because it is illogical but because it ignores the human factor. Given the extreme poverty in which most Afghans live, signs of economic progress have become the essential condition for political progress and social peace.

Economic development is not something to be pursued after political stability and security have been established; rather, it is what must be achieved in order to forge political stability and communal peace.

Even as we are bombarded with news of horrific conflicts in some parts of the country, most of the 30 million Afghans are busy not with politics and guerrilla war but with surviving and earning a living. They judge the country's contending powers in terms of their ability, or inability, to improve the economic lot of ordinary people. If they discern progress in a neighboring region, they will immediately seek to identify its causes and work to apply them on their own territory as well. An awareness of economic progress will do more than anything else to advance political stability. Economics, in other words, while not an independent variable, shape the prospects for political stability and military security at least as much as they shape the economy.

## What Has to Be Done

[Immediate short-term measures are necessary] to soften the economic impact of the military drawdown and to pave the way for broader mid- and long-term measures. These include the establishment of a few key border crossings where Afghan goods can be quickly processed for export; cross-border free economic zones at those crossings to foster trade; an air hub at Kabul; and the immediate full implementation of the signed trade and transport agreement with Pakistan [APTTA].<sup>54</sup>

Afghanistan is awash with programs to develop its economy. There exists little or no coordination among them. More serious, as a group, they are neither prioritized nor phased.

[As an alternative, the Central Asia-Caucasus Institute at Johns Hopkins University's School of Advanced International Studies (SAIS) has identified a series of short-, mid- and long-term measures.] The main thrust of these projects is to overcome the geographical isolation from regional and world trade and commerce that was the cause of Afghanistan's poverty and under-development in the first place and remains so today. This means opening internal, regional and continent-wide channels of transport and trade. Without them, neither the country's agricultural wealth nor rich natural resource can reach the best markets abroad. [The Central Asia-Caucasus Institute's listing of short-, mid- and long-term measures] places heavy emphasis on railroads and roads as the key channels for east-west and north-south transport across Eurasia. [At the same time, one has to bear in mind that] Afghanistan cannot be reintegrated with the world of commerce simply by constructing roads to its borders. Equal attention must be devoted to the efficiency and cost of those more distant border crossings and ports to which those roads lead.

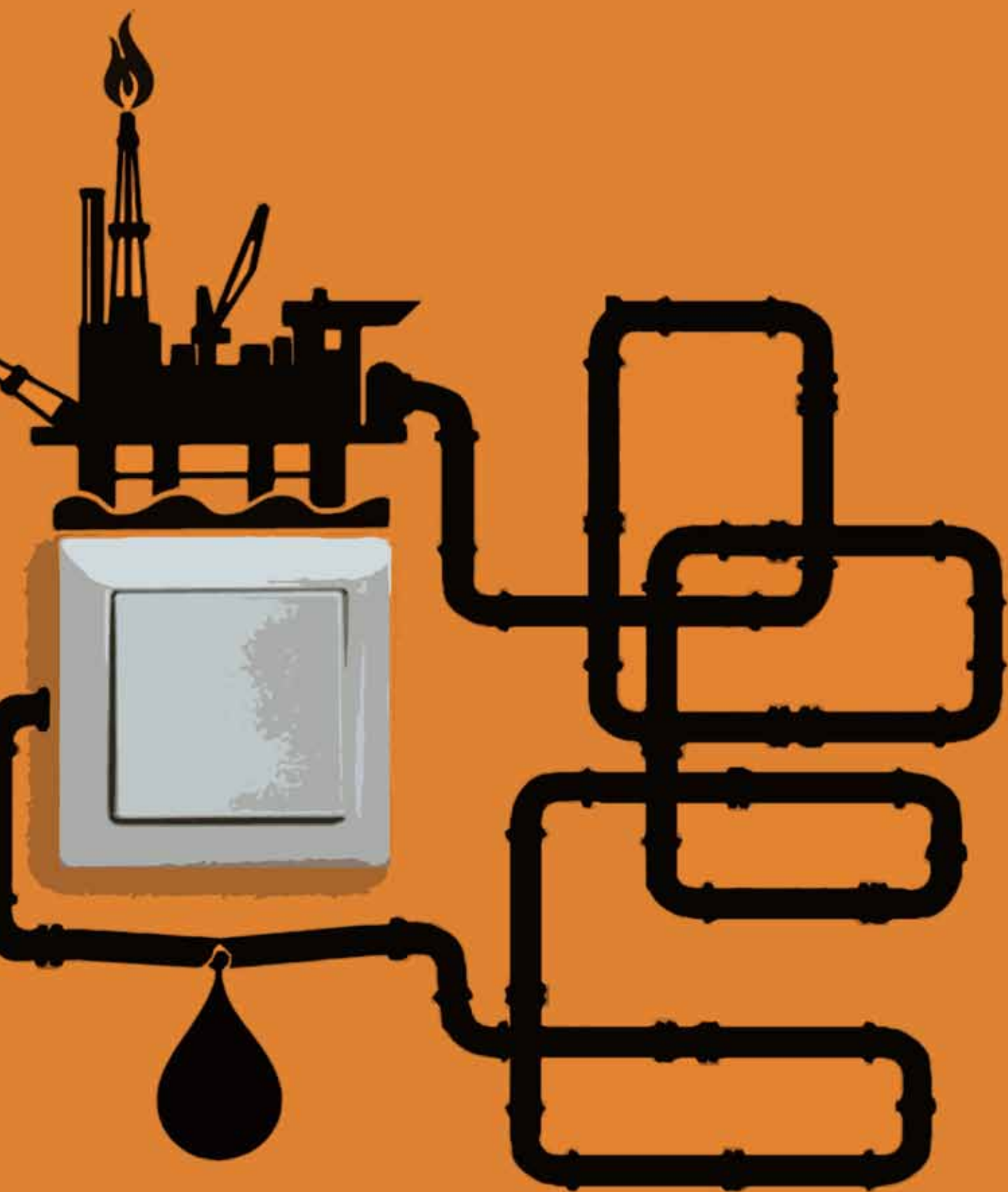
Afghanistan cannot be reintegrated with the world of commerce simply by constructing roads to its borders. Equal attention must be devoted to the efficiency and cost of those more distant border crossings and ports to which those roads lead.

54 A detailed description of those measures can be found in "Finish the Job: Jump-Start Afghanistan's Economy – A Handbook of Projects" by S. Frederick Starr with Adib Farhadi, *Silk Road Paper*, November 2012, pp. 17-18 and pp. 32 and 36.

# Energy Security







# Energy Security and Regional Cooperation

The wider Central Asia region has a considerable potential for developing energy resources as well as expanding energy trade, but there are major constraints that need to be addressed in order for this potential to be realized.

Some regional electricity trade based on existing power surpluses and gaps is already occurring, including relatively modest electricity imports by Afghanistan from neighboring countries and the possibility for electricity trade between India and Pakistan.

If extended properly, further development of this trade represents a good short-term option for moving forward, including confidence-building and establishing a track

record of regional cooperation. Electricity trade may also provide a good entry point for making progress over time on water issues, first from the hydropower perspective and then on the more difficult water issue associated with irrigation use.

The sequence of actions would thus be first to regularize and expand the ongoing electricity trade and to prioritize ongoing efforts to achieve quick-wins like increasing the current import from Tajikistan by 200 MW and expanding it to Pakistan. A pilot project of this kind will provide further breakthroughs in the area of accelerating the construction of the CASA-1000 grid. Progress in these areas would set the stage for systematic exploitation of the large potential for electricity trade in the medium and long term.

**Table-1: Surplus Electricity Available for Trade (GWh)**

Country	Season	2005	2010	2015	2020	2025
<b>Kazakhstan</b>	Summer	3198	3623	6876	3745	-234
	Winter	-2504	-2969	-130	-5563	-12318
	Annual	694	654	6746	-1818	-12552
<b>Kyrgyzstan</b>	Summer	4737	6283	6863	6406	5991
	Winter	-2092	1584	1517	5761	4753
	Annual	2645	7866	8381	12167	10744
<b>Tajikistan</b>	Summer	1511	4587	6767	12579	11697
	Winter	96	2841	4287	8308	7431
	Annual	1607	7429	11055	20887	19128
<b>Uzbekistan</b>	Summer	1620	3904	7635	5088	2091
	Winter	2862	5485	9846	7058	3767
	Annual	4482	9389	17481	12147	5858
<b>Total</b>	Summer	11066	18396	28142	27819	19545
	Winter	-1637	6942	15521	15564	3633
	Annual	9429	25338	43663	43383	23178

Source: World Bank (December 2004) Central Asia: Regional Electricity Export Potential Study, p. 26, URL: [http://siteresources.worldbank.org/INTUZBEKISTAN/Resources/REEPS\\_Main\\_Report\\_Final\\_English.pdf](http://siteresources.worldbank.org/INTUZBEKISTAN/Resources/REEPS_Main_Report_Final_English.pdf).

# Electricity Trade between Central and South Asia: Potential and Prospects for Afghanistan

Afghanistan can emerge as a vibrant economy in the foreseeable future by exploiting its natural resources and taking advantage of its geographical location. Flanked by energy rich Central Asia and energy deficient South Asia to its north and south respectively; Afghanistan can immensely benefit as an energy trade and transit country by facilitating energy flows between these regions. Before one suggests such an arrangement, it is essential to evaluate whether the prerequisites to attract private investment for building energy infrastructure through Afghanistan exist. This will require an evaluation of the prevailing supply-demand scenarios, electricity prices and legal/regulatory regimes governing the electricity sector in the two regions.

## Supply-Demand Scenario

Central Asia is and shall remain energy surplus till 2025 as indicated in Table-1. From the available projections, Kazakhstan will start experiencing shortage of 1818 GWh in 2020, which will increase to 12,552 GWh by 2025. The other three countries will remain energy surplus even up to the year 2025. Despite the fact that the energy surplus of the region as a whole will decrease from 25338 GWh in 2010 to 23178 GWh in 2025, the region will still have a surplus of 23178 GWh for export. This energy can be exported to South Asia (SA).

South Asian nations are facing acute energy shortages (see Table 2) and need to import electricity to fuel their economies. All the countries in South Asia except Bhutan are facing electricity shortages. The peak-



**D.N. Raina**

President,  
Entecsol  
International,  
India

**Table-2: Energy and Peak Shortages in South Asia in 2011-12**

Country	Energy Shortage		Peak Shortage	
	Unit/%	MU	%	MW
<b>Afghanistan</b>				
<b>Bangladesh</b>		2000	5	1084
<b>Bhutan</b>				
<b>India</b>		86926	8.7	12159
<b>Maldives</b>				
<b>Nepal</b>		1171	22	447
<b>Pakistan</b>		45877	32	3971
<b>Sri Lanka</b>		0	0	0

Sources: Compiled by the author: 1. Afghanistan, Data not available; 2. BPDP Bangladesh (2011-12); 3. Bhutan Power Data Book 2012. 4. MOP/CEA GOI Websites (Jan. 2013); 5. Maldives; 6. Nepal: NEA Annual Report 2011-12; 7. NTDC, Pakistan, (2011-12); 8. Ministry of Energy, Government of Sri Lanka.

**Table-3: Summary of Electricity Tariffs in South Asia 2011-12 (US Cents per kWh)**

Consumer	India	Pakistan	Bangladesh	Nepal	Sri Lanka
<b>Domestic</b>	0-200KWh: 5.5 201-400 KWh: 8.8 >400 KWh: 10.4	0-50 KWh: 2.2 0-100 KWh: 5.1 101-300 KWh: 7.6 301-700 KWh: 12.4 >700 KWh: 15.4	0-100 KWh: 3.3 101-400: 4.2 >400 KWh: 7.0	0-20 KWh: 5.6 21-250 KWh: 10.3 >250 KWh: 13.9	0-30 KWh: 2.7 31-60 KWh: 4.3 61-90 KWh: 6.8 91-120 KWh: 19.1 121-180 KWh: 21.8 >180 KWh: 32.8
<b>Industrial</b>	11.3	10.3	5.4	9.3	9.1
<b>Agricultural</b>	3.5	6.2	2.6	5.0	13.6
<b>Commercial</b>	15.1		7.1	10.8	13.6

Sources:

Compiled by the author from websites of the Ministry of Power, India; NEA, Nepal; BPDB, Bangladesh; CEB, Sri Lanka; Pakistan Economic Survey 2010-11.

ing shortages range from 9 percent in India to 44 percent in Nepal. Access to electricity in South Asia is next only to Sub-Saharan Africa. South Asia needs to import electricity from the neighboring regions including energy rich Central Asia to meet its electricity demand.

### Electricity Prices

Electricity prices in South Asia are quite high compared to those prevailing in Central Asia. The prevailing energy prices in the two regions are given in table 3 and table 4 below. Tariffs in South Asia are based on consumption levels and go up as consumption increases. The lowest tariff applicable for consumption of 30 kWh is in Sri Lanka ( 2.7 US Cents) and the highest is 15.1 US Cents for commercial consumers in India. Cost of generation from liquid fuel based power plants in Pakistan works out to over 13 US cents, which is much higher than the average tariff. The retail tariffs in South Asia for commercial and industrial consumers range from 5.4-15.1 US Cents/kWh. The domestic tariffs for consumption below 50 kWh/month range from roughly 4.2-32.8 US Cents/kWh. The average tariffs in Cen-

tral Asia range from 1.93-3.84 US Cents/ kWh. This price differential is a big incentive for the inter-regional power.

### Legal and Regulatory Environment

Both the regions have sound legal and regulatory systems in place to govern electricity sector operations.

### Afghanistan's Role

Previous studies<sup>55</sup> on energy trade between these regions have highlighted the benefits for energy exporting/importing and transit countries. To harness the benefits of inter-regional energy trade between Central Asia and South Asia, Afghanistan shall have to improve the security environment and in-

55 D.N. Raina (2007) "Regional Electricity Cooperation in Central and Southern Asia – Opportunities for Increased Regional Trade and the role of the energy Charter Treaty", Energy Charter Secretariat, Occasional Papers, URL: [http://www.encharter.org/fileadmin/user\\_upload/Working\\_Papers/OP\\_2007\\_3.pdf](http://www.encharter.org/fileadmin/user_upload/Working_Papers/OP_2007_3.pdf).



**Table-4: Electricity Tariffs in Central Asia (2010-11) - (US Cents per kWh)**

Item	Kyrgyzstan (1)	Kazakhstan (2)	Tajikistan (3)	Turkmenistan (4)	Uzbekistan (5)
Average tariff	3.42	3.84	2.25	0.00	1.93

Sources:

1. Danish Board of District Heating Annual Report 2012, <http://www.dbdh.dk/artikel.asp?id=1874&mid=9>.
2. Electricity tariffs, power sector modernization and energyefficiency investments: [www.kazseff.kz/.../Article%20Development%20of%20power%20tariffs](http://www.kazseff.kz/.../Article%20Development%20of%20power%20tariffs).
3. World Bank: [siteresources.worldbank.org/.../TAJ\\_winter\\_energy\\_27112012\\_Eng.pdf](http://siteresources.worldbank.org/.../TAJ_winter_energy_27112012_Eng.pdf);
4. EBRD: [www.ebrd.com/downloads/legal/irc/countries/turkmenistan.pdf](http://www.ebrd.com/downloads/legal/irc/countries/turkmenistan.pdf).
5. UZNEWS.NET: [http://www.uznews.net/news\\_single.php?lng=en&cid=2&nid=18476](http://www.uznews.net/news_single.php?lng=en&cid=2&nid=18476).

vestment climate. It shall have to facilitate:

1. Obtaining of legal, regulatory and other approvals;
2. Help in acquiring land, right of way, issue of permits and licenses; and
3. Incentivize big-ticket investments. With these things put in place, most of the requirements of the private sector to create cross border energy infrastructure through Afghanistan would be met.

### Benefits to Afghanistan

The major benefits that Afghanistan will get by facilitating this trade will come from attendant benefits of large investments required for implementing the projects; thereby boosting the Afghan economy. It will create large employment opportunities during project construction phase. The spin-off benefits in other sectors of the economy will be an added advantage. Afghanistan will earn the transit fee. Afghanistan can import electricity from Central Asia for its own use through these projects, thereby enhancing the access to electricity, which is one of the lowest in the world. The implementation of these large projects will lead to the development of areas through which the energy infrastructure projects pass through. In the

post-construction phase, these projects will provide long term employment for operation and maintenance of these projects. Afghanistan will also be able to export its own surplus energy, as and when, it is able to develop its indigenous energy resources. Above all, the power trade between Central Asia and South Asia, when implemented successfully, will establish Afghanistan as a reliable investment destination in other sectors of the economy. That is what exactly Afghanistan should be looking for at the moment for its early reconstruction.

# Afghanistan's Energy Security: Internal Aspects



**Dr. Danila  
Bochkarev**

Brussels-based  
fellow, Regional  
Security Program,  
EastWest Institute

Afghanistan's social and political development is at a critical juncture—and in a bit of a conundrum.<sup>56</sup> On the one hand, we are witnessing how negative domestic security developments affect the country's economic development. On the other hand, there are concerns that internal peace and stability are impossible to achieve without stable economic growth. Peace and stability should be based on economic projects of common interest that will create a positive sum game for key political and business actors, as well as for the country's average citizens. The social and economic reconstruction of Afghanistan is therefore impossible without stable, affordable access to energy for its citizens, the business sector and government services. Access to energy is not only a key for economic growth, it is also essential for any strategy to improve the health and social welfare of a nation.

The country's energy sector has been negatively affected by decades of war and political instability, and it is in dire need of a large-scale upgrade. The lack of investment in production, transmission and distribu-

56 This article is based on Danila Bochkarev (March 2014) "Afghanistan Reconnected: Linking Energy Supplies to Consumers in Asia", *EastWest Institute Policy Report Series*, URL: <https://dl.dropboxusercontent.com/s/lggrya5mu5dmyss/Danila%202014%20Final.pdf>.

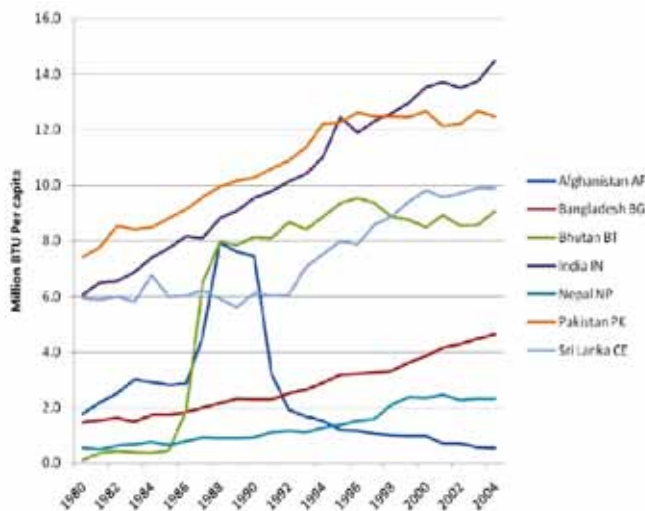
tion of energy has led to the overall insufficiency of available domestic or imported energy supplies. Afghanistan's energy situation can be described as a prolonged "energy poverty," defined as "lack of access to modern energy services." This situation is likely to persist after 2014, and it will negatively affect the overall socio-economic development.<sup>57</sup>

The level of power access in Afghanistan is still low, although it has considerably improved in the last few years with the power supply almost tripling between 2006 and 2011. According to estimates of the Ministry of Energy and Water of Afghanistan, only 30 percent of Afghanistan's population has access to power, with the level of electrification reaching 70-75 percent in Kabul.<sup>58</sup> Approximately 85 percent of the rural population is without basic access to electricity required for numerous daily activities.<sup>59</sup>

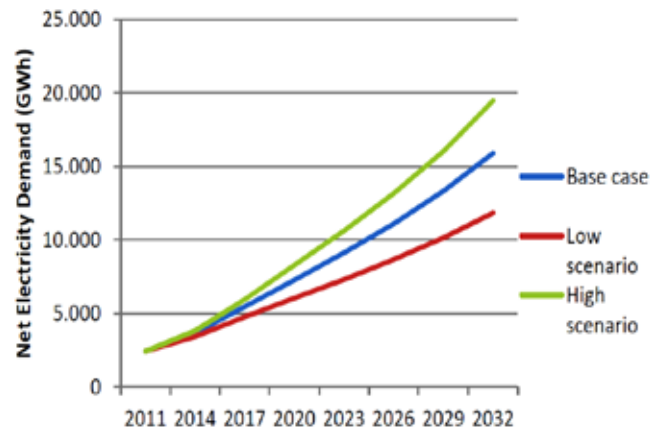
57 For more detailed explanation, please see <http://www.iea.org/topics/energypoverty/> (accessed on October 20, 2013).

58 Data compiled by the World Bank <http://www.worldbank.org/en/country/afghanistan/overview> (accessed on October 10, 2013).

59 Data provided by National Area-Based Development Programme (NABDP) of UNDP, URL: [http://www.undp.org.af/whoweare/UNDPinAfghanistan/Projects/psl/prj\\_nabdp.htm](http://www.undp.org.af/whoweare/UNDPinAfghanistan/Projects/psl/prj_nabdp.htm) (accessed on October 20, 2013).



**Per capita energy consumption in the SAARC countries (million BTU equals 293 kilowatt hours)**



**Net Electricity Demand in Afghanistan**

To meet its energy demand, Afghanistan can develop its indigenous hydrocarbon and renewable energy resources or import energy resources from abroad. If efficiently managed, local resources might suffice to satisfy Afghanistan's mid-term (2014/15-2024/25) primary energy demand. In theory, domestic energy resources may allow Afghanistan to become energy self-sufficient in the not-too-distant future. Different estimates based on already-discovered hydrocarbon deposits suggest that Afghanistan can meet up to 80 percent of its demand for petroleum products from its domestic production.<sup>60</sup> There are also good prospects for finding new petroleum reservoirs. According to the United States Geological Survey (USGS), undiscovered petroleum resources include 15.687 trillion cubic feet (tcf) of natural gas, 1,596 billion barrels (bbl) of oil and 0.562 bbl of natural gas liquids. If these reserves are proven commercially viable for development, they can satisfy the internal energy consump-

60 World Bank (April 2013) *Afghanistan Economic Update*, Poverty Reduction, and Economic Management, South Asia Region, URL: [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/05/02/000333037\\_20130502161223/Rendered/PDF/770830REVISED0box377289B00PUBLIC00.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/05/02/000333037_20130502161223/Rendered/PDF/770830REVISED0box377289B00PUBLIC00.pdf) (accessed on November 1, 2013).

tion for years to come.<sup>61</sup>

Most of the undiscovered oil reserves are located in the Afghan-Tajik basin, while most of the undiscovered natural gas is located in the Amu Darya basin.<sup>62</sup>

The country's renewable energy potential is also significant. According to U.S. National Renewable Energy Laboratory (NREL) data, the wind energy potential in Western Afghanistan alone may reach 158,000 MW and national hydropower potential is in excess of 23,000 MW.<sup>63</sup>

61 U.S. Geological Survey Fact Sheet (2012) "Assessment of undiscovered oil and gas resources of the Amu Darya Basin and Afghan-Tajik Basin Provinces, Afghanistan, Iran, Tajikistan, Turkmenistan, and Uzbekistan, 2011", URL: <http://pubs.er.usgs.gov/publication/fs20113154> (accessed on October 30, 2013).

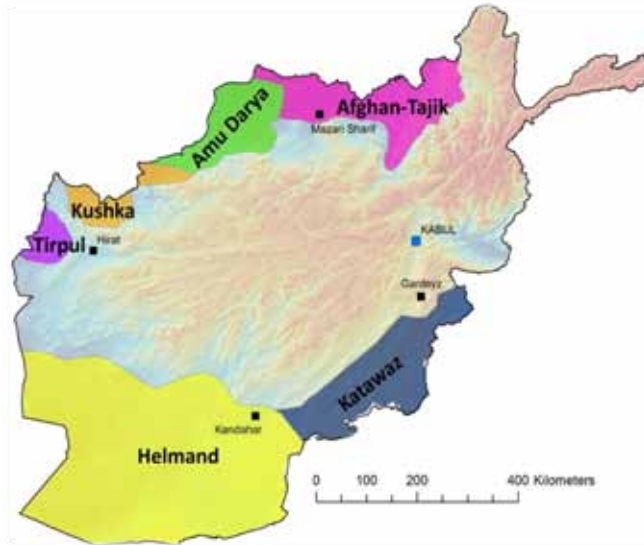
62 Here by "undiscovered reserves" we understand recoverable economic reserves (oil and natural gas), yet undiscovered, that are estimated to exist in favorable geologic settings.

63 For more details, please see Dennis Elliott (Juen 2007) "Wind Resource Assessment and Mapping for Afghanistan and Pakistan," *National Renewable Energy Laboratory*, Golden, Colorado, U.S., URL: [http://www.nrel.gov/international/pdfs/afg\\_pak\\_wind\\_june07.pdf](http://www.nrel.gov/international/pdfs/afg_pak_wind_june07.pdf) (accessed on August 26, 2013).

Sources:

Islamic Republic of Afghanistan. Afghanistan National Development Strategy. Energy Sector Strategy (2007/2008 – 2012/2013), p. 33.

The World Bank Report (May 2013) "Islamic Republic of Afghanistan: Power Sector Master Plan", p. 42.



**General location of six sedimentary basins in Afghanistan.**

Sources:

Left: Map from "Afghanistan as Energy Importer and Producer," presentation by Abdul Razique Samadi, CEO of DABS, Islamabad, Pakistan, September 3, 2013.

Right: USGS, "Islamic Republic of Afghanistan: Power Sector Master Plan." The World Bank Report, May 2013, p. 94.

It is, nevertheless, too early to claim that Afghanistan could become soon an energy exporter. The Asian Development Bank (ADB) predicts that in 2014 Afghanistan's GDP growth will reach 4.8 percent, which would lead to an even higher increase in energy consumption.<sup>64</sup> This trend would not allow, at least at the initial stage, a decoupling of economic growth and a parallel increase in energy consumption.

Developing Afghanistan's energy sector is impossible without relevant specific policy frameworks. Legal and regulatory directives are essential for providing incentives and guarantees to investors. This will help to resolve non-payment issues, and will provide access to affordable energy supplies. The regulation will also help Kabul build contingency and resilience capacity, and it will increase energy efficiency.

These facts are fully acknowledged in the Energy Sector Strategy, the key energy policy document of Afghanistan.<sup>65</sup> This EWI

report will add another important point to the plan for the reform of Afghanistan's energy sector. Changing the structure of the energy mix is also a critical undertaking for Afghanistan's energy security.

## Action Plan for the Reform of Afghanistan's Energy Sector

### Pillar I: Efficient Use of Energy

#### Improve Energy-Saving Practices

At this stage, improving energy efficiency in Afghanistan is low hanging fruit—these policies will be inexpensive to implement, cost-effective and bring immediate results.

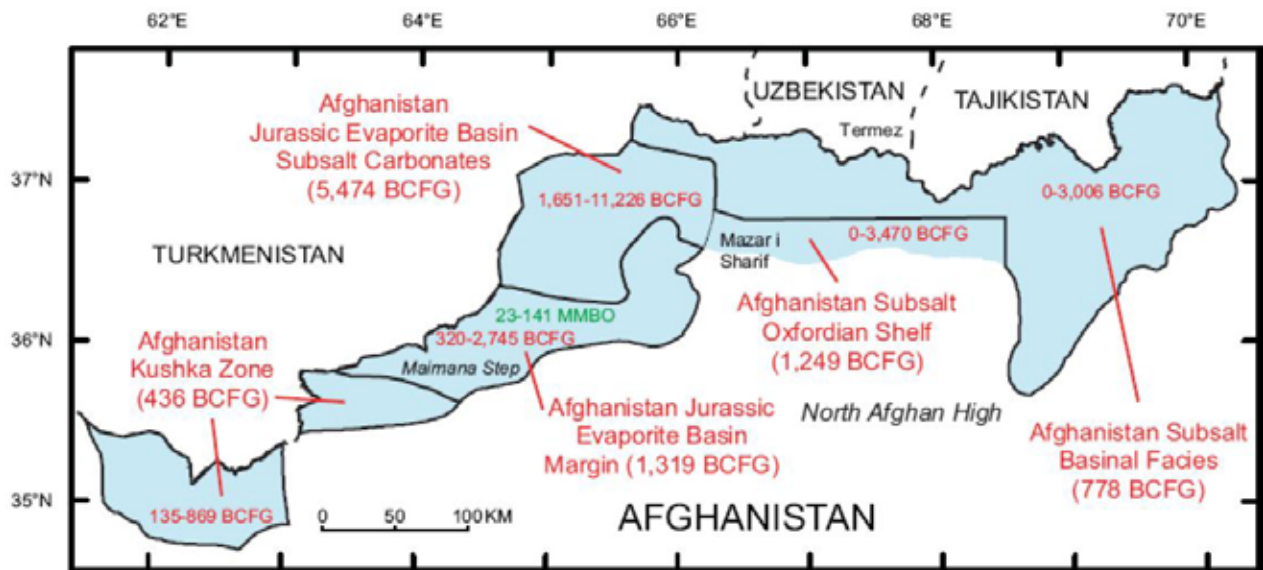
#### Move Forward with Pricing and Subsidies Reform

Low tariffs and non-payment continue to undermine Afghanistan's energy sector. There is a clear need for reform that will both attract investment in the energy sector and provide the local population with affordable access to energy. Gas and electricity prices are still too low to cover costs of rehabilitation, operation and maintenance. However, a simple prescription to increase tariffs would not work in this low-income society. On the contrary, it would lead to more socio-economic tensions. In this situ-

64 For GDP growth estimates please see International Monetary Fund (April 2013) *World Economic Outlook, Hope, Realities, Risks, World Economic and Financial Surveys*, Washington DC, p. 62, URL: <http://www.imf.org/external/pubs/ft/weo/2013/01/pdf/text.pdf> (accessed on November 2, 2013).

65 Islamic Republic of Afghanistan. *Afghanistan National Development Strategy. Energy Sector Strategy (2007/08 – 2012/13)*.





**Map showing undiscovered petroleum resources.** The means of estimates are stated next to the assessment unit name and the ranges are given within the assessment unit boundaries. BCFG is billion cubic feet of natural gas and MMBO is million barrels of crude oil (USGS).

ation, the state has a responsibility to ensure “energy welfare,” providing access to energy for the poor population.

“Energy Welfare” in Afghanistan should include:

- Subsidized social tariffs for the population for a limited amount of basic services: In the future, these tariffs should be gradually removed.
- Guaranteed tariffs for the utilities that will allow them to have a secured return on investment: The issue of targeted subsidies can be addressed via a well-shaped subsidies program, co-financed by international donor assistance.

### Pillar II: Expanded/New Supply

#### Changing the Country’s Energy Mix and Developing Domestic Energy Resources

Afghanistan’s energy sector is dominated by expensive fuel oil and diesel generation, which can cost up to 35-40 US cents per KWh or 6-7 times the price of the electricity imported from Central Asian countries. There is an urgent need to move away from the unsustainable use of biomass and oil in power generation to small and mid-scale hydropower projects and local gas- and

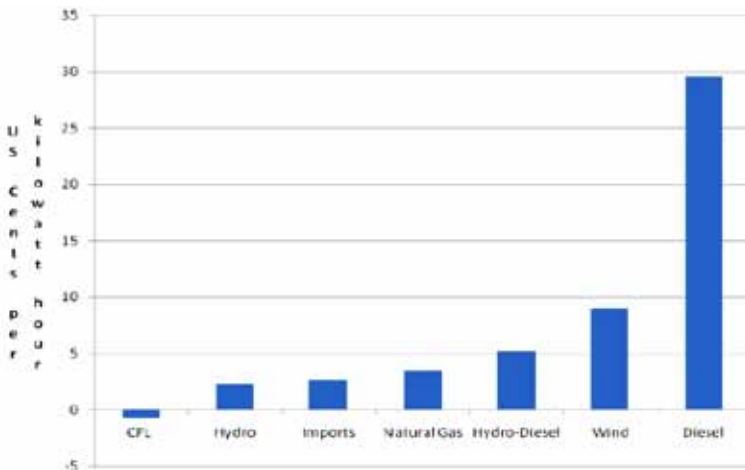
coal-fired electricity plants.<sup>66</sup>

Lacking a fully developed power transmission and distribution network, Afghanistan should focus on the development of the “off-grid” or regional low-cost power generation with diverse regionally-produced energy mix. Off-grid solutions could provide local access—independent of problems with long-distance electricity supply such as security issues, technical faults and illegal access to transmission networks. Furthermore, micro-generation projects require less investment and contribute to local economic development and employment.

### Pillar III: Developing National Resilience and Contingency Planning

The country still lacks crisis prevention-crisis management mechanisms for securing energy supplies. Most existing, functioning contingency plans at the national level offer no guaranteed coverage at the local or provincial levels. Often, it is unclear who is responsible for local contingency and resilience plans. For Afghanistan, obviously,

<sup>66</sup> Large hydropower projects are unlikely to present an adequate solution due to internal and external challenges linked to the water flow problems, unpredictable and rising construction costs, and a lack of necessary infrastructure.



**Cost of Power Supply in Afghanistan**

S/N	Type	Average Estimated Unit Price (USc/kWh)
1	Hydro	2.29
2	Thermal (NW Kabul)	27.115
3	Imported	2.62
4	Diesel (all provinces)	29.53
5	Hydro and diesel	5.19
6	Hydro, thermal and diesel	6.473
7	Natural gas	2.8 to 3.5
8	Coal (1MW = 4.5 ton)	1 ton = Afs 2,200

**Electricity generation costs (kWh), 2007.** The estimated cost of power is based on Sheberghan power plant; no estimate of cost of coal fired capacity is available at this moment (source: DABM).

Source: Islamic Republic of Afghanistan. Afghanistan National Development Strategy. Energy Sector Strategy (2007/08 – 2012/13), p 36-37.

energy resilience and contingency planning would be extremely useful.

### Energy Cooperation and Conflict Resolution in Southwest Asia

The trade in energy both inside Afghanistan and across Southwest Asia could become an important conflict prevention and peacebuilding mechanism. It can alleviate internal tensions by a fair distribution of an “energy rent.” On an interstate level, bilateral or multilateral joint energy ventures may contribute to the settlement of conflicts when all stakeholders recognize that such cooperation can bring tangible economic benefits. Project-based energy cooperation in Southwest Asia might even mirror the positive spillover effect of the European Coal and Steel Community, which laid the foundation for the European Union. Recently, developments in the South Caucasus, the Barents Sea and in Northern Iraq proved how mutually beneficial trans-border energy initiatives are leading the

conflicting sides to put aside their disagreements and start cooperating.

Recent examples of energy trade and conflict settlement include the area in the Barents Sea that was disputed by Norway and Russia, the Southern Energy Corridor (passing via Georgia) and Turkish participation in upstream projects in Northern Iraq, governed by the Kurdistan Regional Government (KRG).

These examples demonstrate that the benefits of the trans-border cooperation may outweigh political disagreements and intrastate territorial disputes—if there is sufficient political will and an available framework for cooperation. Afghanistan and other Southwest Asian countries could learn from these best practices as well. In practice, the TAPI gas pipeline and the CASA-1000 power transmission network could promote regional energy cooperation and contribute to trust building and conflict settlement in Southwest Asia.

# The Role of Afghanistan in the Energy Security of Pakistan

**E**nergy is the prime mover for economic growth across the globe and Pakistan is no exception. Fossil fuels (gas, oil and coal) meet 87 percent of Pakistan's current commercial energy needs; the remaining is contributed by hydro and nuclear electricity (Figure-1).

Pakistan's per capita energy use is currently only 0.36 tonne of oil equivalent (TOE) per year as compared to 1.7 for China and 2.4 for Malaysia. Pakistan's population has been increasing and is now reported at 180 million whereas the growth in energy supplies has not been proportionate. For the last three years, energy supplies have been hovering around 65 million TOE annually in contrast to a growth rate of energy consumption of 6-9 percent during the years 2006-2008. Assuming an upturn in the growth of energy consumption at an average of 5 percent during 2015-2025 and 6.5 percent during 2025-2035, the projected energy requirements of Pakistan can be seen in Figure-2.

Besides, nearly 20,000 MW of electricity generation with complimentary transmission and distribution (T&D) system will have to be added to meet the growing electricity demand. If 20,000 MW power is to come from thermal generation, it will require every year either 1.5 trillion cubic feet (4 billion cubic feet per day (BCFD)) gas, or 40 million tonnes oil, or 60 million tonnes coal, or 120 million tonnes lignite. Investment needs for the power generation based on thermal power would be around \$40 billion assuming capital cost of \$ 2 million per MW.

Due to rising demands, failing power infrastructures and heavy reliance on imported fuel, Pakistan is in the midst of a severe energy crisis. Massive energy shortages have paralyzed the industry and economy.

Domestic production of oil was 76,000 barrels per day (BPD) during the year ending June 2013, whereas the requirement was 434,000 BPD, thus causing an import of 358,000 BPD. The demand of natural gas stands at 6 billion cubic feet per day (BCFD) whereas supply was around 4 BCFD reflecting a shortfall of 25 percent. Existing gas reserves are depleting sharply and new additions are small. With an installed electric power capacity of over 20,000 MW, actual capacity remained at around 13,500 MW causing a massive gap of over 6,000 MW.

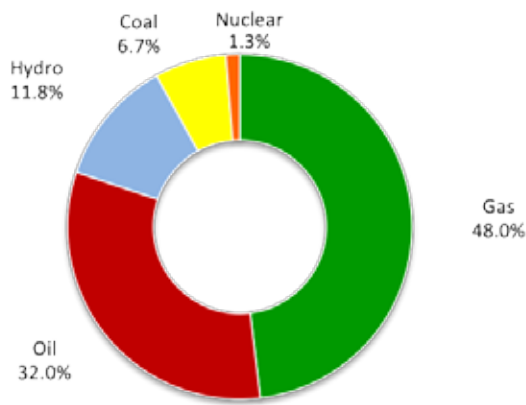
In addition to the development of its own indigenous energy resources of fossil fuel, hydro-power, renewable and nuclear power, Pakistan is actively pursuing regional co-operation as a means to supplement and enhance its energy supplies. Accessing the energy resources of Central Asia is a cardinal point of this policy. Afghanistan would be an essential link for this purpose due to the obvious reason of its location.

The CASA-1000 project (Figure-3) is designed to transmit 1,300 MW of summer-surplus electricity from the existing hydro-power plants in the Central Asian countries, namely, Tajikistan and the Kyrgyz Republic, through Afghanistan to Pakistan: 300 MW will be drawn by Afghanistan while the remaining 1,000 MW will come to Pakistan (Figure-4). This project is an excellent example of synergizing seasonal variations in power supply and demand due to climatic differences; during the summer months there is low demand in the comparatively moderate heat of Tajikistan and Kyrgyz Republic while there is peak demand in the hot climate of Pakistan. . The CASA-1000 Project is receiving strong support by the World Bank, the International Finance Corporation (IFC), the Islamic Development Bank and many bilateral donor agencies.

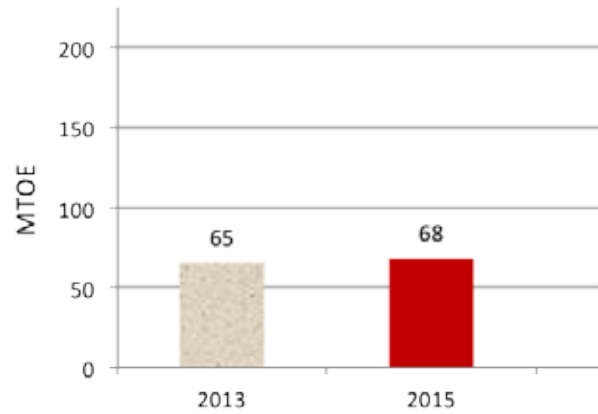


**Hilal A. Raza**

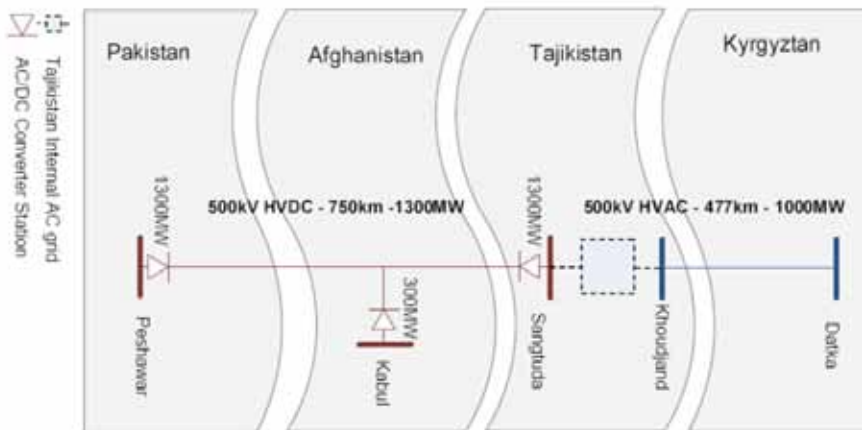
Director,  
SAARC Energy  
Centre, Islamabad,  
Pakistan



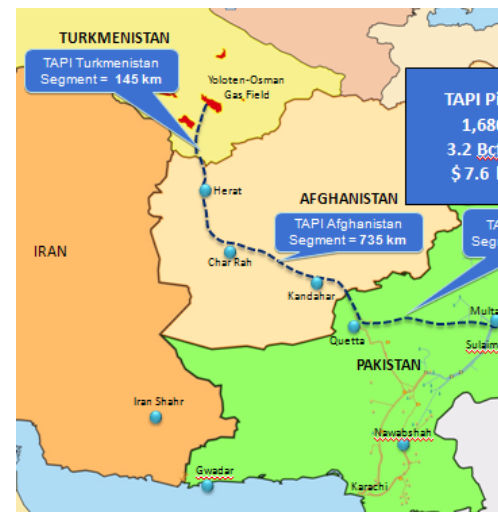
**Figure 1: Pakistan Mix of Commercial Energy**



**Figure 2: Projected Energy**



**Figure 4: Schematic layout of CASA-1000 Project**



Graphs provided by the author.

A ministerial level meeting of the Inter Governmental Council of CASA-1000 Project comprising all four participating countries was held in February 2014 in Washington, D.C., where the parties agreed, in principle, on the terms and conditions of the Power Purchase Agreement; conducted negotiations on the Master Agreement; and at the same time initiated negotiations on electricity pricing.

The progress on the bidding for the Energy Procurement Construction (EPC) was also reviewed during the meeting with satisfaction. The negotiations round concluded with the signing of a resolution approving, in principle, the terms and conditions of the power purchase between the parties. Applications for pre-qualification of contractors for construction of high voltage direct current (HVDC) converter stations at Sangtuda, Kabul and Peshawar have been received; pre-qualification process along with the preparation of bidding documents with respect to converter stations is also expected to be finalized shortly.

The hydropower potential of Afghanistan itself could be developed for supply to Pakistan. Afghanistan has a total hydropower potential of 25,000 MW, far more than its requirement. The Ministry of Water and Energy of Afghanistan has already identified 15 small-to-large hydropower projects with an overall capacity of 7,500 MW.

The Asian Development Bank has been looking at 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). Afghanistan acts as the anchor country to collect 2,600 MW power from Central Asia for supply to Afghanistan and Pakistan. Interconnections with Turkmenistan, Uzbekistan and Tajikistan are to be located in Pul-e-Khumri creating a HVDC hub in Afghanistan.

In order to meet the natural gas requirement of Pakistan (and India and Afghanistan), the countries are negotiating the





**Figure 5: TAPI Natural Gas Pipeline**

TAPI Project (Turkmenistan, Afghanistan, Pakistan, India) to transport 3.2 BCFD natural gas from Yoloten-Osman gas field of Turkmenistan to Afghanistan, Pakistan and India (Figure-5). The TAPI gas pipeline is planned along the highway through Herat, Helmand and Kandahar in Afghanistan to Quetta and Multan in Pakistan and onwards to Fazilka in India. This 1,680 kilometer, 56 inch diameter pipeline, is estimated to cost US \$ 7.6 billion (2008 estimate). It will have a capacity of 3.2 BCFD to be shared by Pakistan and India, each receiving 1.325 BCFD while Afghanistan will get 0.5 BCFD. The project is receiving strong active support of the Asian Development Bank (ADB) and is scheduled to be completed by 2017.

The TAPI pipeline offers multiple economic benefits to all four participating countries and would promote cooperation. For Turkmenistan, it would provide revenue and diversification of export routes. For Pakistan and India, it would address energy deficits. For Afghanistan, it would provide revenue for development through transit and gas for industrial enterprises. In order



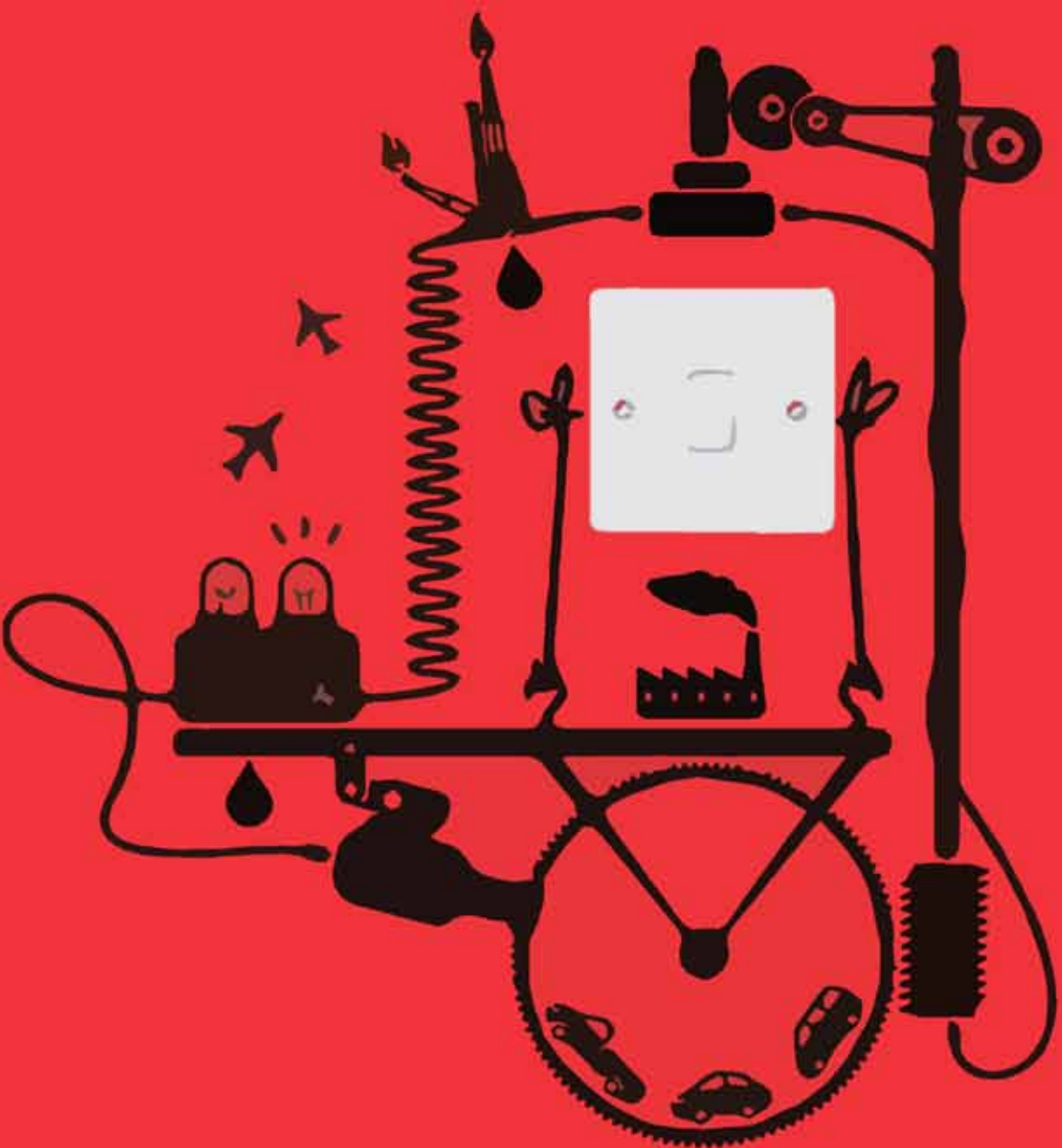
**Figure 3: CASA-1000 - Connecting Central Asia with Pakistan via Afghanistan**

to ensure energy security, Pakistan eagerly looks forward to new supplies for easing its gas shortages that widened to over 2 BCFD during the peak hours of winter 2013-2014, which caused social unrest and factory closings.

TAPI parties have already signed the Heads of Agreement (HOA), Inter Governmental Agreement (IGA), Gas Pipeline Framework Agreement (GPFA) and the respective bilateral Gas Sales and Purchase Agreements (GSPA). Transit fee figures have been agreed upon between the parties. Project sponsors, with the help of ADB, conducted road shows. ADB is also acting as the transaction advisor to assist TAPI parties in the formation of a pipeline consortium to finance, design and construct the project. The bidding documents are scheduled to be completed by the second quarter of 2014 for competitive solicitation of the consortium leader.

A complete view of the energy situation of Pakistan and the opportunities like CASA-1000, TUTAP, Afghan hydro-power potential and TAPI clearly shows that regional connectivity and energy trade need to be prioritized, since it would strengthen Pakistan's energy security and maximize the socio-economic benefits for the people of both countries. The synergy among the two neighboring countries is the key to creating significant opportunities for economic progress through energy security and eventually leading to one of the largest integrated energy markets of the world.

# Conclusions and Ways Forward



# The Role of Parliaments in Rebuilding Afghanistan's Economy



**Anna Deister**

Program Assistant,  
Parliamentarians  
Network for Conflict  
Prevention and  
Regional Security  
Program, EastWest  
Institute

While Afghanistan's security situation is most often making headlines in the international press, the international community is also recognizing that economic growth and development play a crucial role in the country's transition and transformation period: the economic situation is indeed interlinked with the prospects for an improving security situation.<sup>67</sup>

Various initiatives have been launched to promote regional cooperation beyond the security dimension: the Istanbul Process on Regional Security and Cooperation for a Secure and Stable Afghanistan, the Regional Economic Cooperation Conference on Afghanistan (RECCA), the United Nations Special Program for the Economies of Central Asia (SPECA), and the South Asian Association for Regional Cooperation (SAARC) are the most prominent initiatives focusing, mainly or partly, on economic issues.

These initiatives have three main characteristics in common: they promote regional

cooperation, focus on regional economic issues and operate at the government level, but do not systematically bring members of Parliament to the table.

While focusing on similar issues, the EastWest Institute has chosen a more comprehensive approach for its "Afghanistan Reconnected" consultation series. Conscious of the important role that Parliaments play in setting the legal framework for economic activity, we bring members of Parliaments from Afghanistan and the region to the table when consulting with government officials, experts from national, regional and international institutions as well as representatives from the business sector to identify opportunities for Afghanistan's economy and regional economic cooperation.

The private sector plays a crucial role as the main actor of economic activity and development by investing, creating jobs, innovating, producing goods and providing services. The government, as the executive branch, can adjust spending and tax rates (fiscal policy), and manage the money supply and use of credit (monetary policy). Parliaments, as the "elected assembly, responsible for passing legislation and granting

<sup>67</sup> See contribution by S. Frederick Starr, pp. 56-59.



“As secretary of the Lower House of Parliament in Afghanistan and member of the Budget and Finance Committee, it is important for me to know about the alternatives to the current economic situation in Afghanistan, especially at a time when international troops have started their withdrawal.

Members of Parliament, as representatives of the people, have to decide on what policies and legislation are needed to address the different issues faced by the public. This requires platforms such as the “Afghanistan Reconnected” that can contribute to better decision making.

The “Afghanistan Reconnected” consultations provide us with the opportunity to interact with regional stakeholders and to explore opportunities in the region and beyond. It also helps in consolidating our knowledge of the threats and opportunities that we face as a nation. The “Afghanistan Reconnected” helps Afghanistan to remain connected with the international community at a crucial point in time when we are undergoing a threefold transition: security transition, political transition and economic transition at the same time.”

### **Sayed Ikram, MP**

Member of Wolesi Jirga,  
Secretary of Wolesi Jirga  
Afghanistan

“The “Afghanistan Reconnected” meetings— not only in Delhi, but also in Istanbul and Islamabad—are very important and effective in indicating challenges and opportunities that Afghanistan is facing post-2014, as well as Afghanistan’s role in connecting Central and South Asian countries. This will strengthen regional cooperation, and may improve trade and economic ties, and result in development in these countries.

Parliament is playing a very crucial role as a legislative body in elaborating and ratifying good laws which can facilitate doing business and attracting investment in the countries of the region. And this we need to help trade and economic progress.”

### **Ramazan Jumazada, MP**

Member of Wolesi Jirga, Afghanistan

government the right to levy taxation”<sup>68</sup> are equally important actors in setting the legal framework for economic activity. In the case of Afghanistan, Article 90 of the country’s constitution provides Wolesi Jirga, the Afghan National Assembly, with the following duties: 1. Ratification, modification or abrogation of laws or legislative decrees; 2. Approval of social, cultural, economic as well as technological development programs; 3. Approval of the state budget as well as permission to obtain or grant loans; [...]”. Furthermore, members of Parliament are elected to represent the interest of their constituents, the end users of economic policies.

On an institutional level, the Parliament’s role in the economic field is reflected through different parliamentary commit-

tees focusing on financial and economic issues.<sup>69 70</sup>

69 In the Afghan Wolesi Jirga, the Finance, Budget Public Accounts and Banking Affairs Committee, the National Economy, NGOs, Rural Development, Agriculture and Animal Husbandry Committee, and the Natural Resources and Environment Committee are focusing on financial and economic issues. Committee titles taken from USAID Afghanistan Parliamentary Assistant Project (APAP) Legislative Newsletter, March 18, 2011, Vol. 05, No. 07, URL: [http://www.cid.suny.edu/APAP\\_Newsletter/2011/APAP\\_Newsletter\\_March.18.11.pdf](http://www.cid.suny.edu/APAP_Newsletter/2011/APAP_Newsletter_March.18.11.pdf) (accessed on February 24, 2014).

70 In Pakistan, four parliamentary standing committees are in charge of financial and economic affairs: 1) Finance, Revenue, Economic Affairs, Statistics and Privatization Committee, 2) Industries and Production Committee, 3) Petroleum and Natural Resources Committee, 4) Planning and Development Committee. Committee titles taken from the website of the National Assembly of Pakistan, URL: <http://www.na.gov.pk/en/cmen.php?type=1> (accessed on February 24, 2014).

68 Iain McLean and Alistair McMillan (2009) *The Concise Oxford Dictionary of Politics* (3 ed.), Oxford University Press, online version (2013), URL: <http://www.oxfordreference.com/view/10.1093/acref/9780199207800.001.0001/acref-9780199207800-e-971?rskey=Mg43YM&result=1045> (accessed on February 19, 2014).

Clockwise from left: Ramazan Jumazada MP, Member of Wolesi Jirga, Afghanistan; Romina Khurshid Alam MNA, Member of National Assembly, Pakistan; Ozan Acar, Senior Economist, Economic Policy Research Foundation of Turkey (TEPAV), Turkey.



In addition to the specialized parliamentary committees, the Afghanistan's Parliamentary Business Caucus was inaugurated in November 2013. Bringing together members of Parliament and private sector representatives, the Business Caucus "provide[s] a platform to discuss issues of concern to the business community and ways in which the private sector and MPs can work together to make sure that Afghanistan passes key legislation to spur private sector development."<sup>71</sup> This initiative reflects the vital interest of members of Parliament in actively promoting the economic development of their country, and illustrates how they see their role as facilitators.

71 CIPE (Nov. 26, 2013) "Afghanistan Launches New Business Caucus in Parliament", URL: <http://www.cipe.org/blog/2013/11/26/afghanistan-launches-new-business-caucus-in-parliament/#.UwXXw4X5T1U> (accessed on February 18, 2014).

By bringing members of Parliaments from Afghanistan and the region to the consultation table, the EastWest Institute responds to their need to develop closer links with key actors and experts in international forums on regional economic security. Through the "Afghanistan Reconnected" consultation series, parliamentarians take part in informed discussions, forge and consolidate ties with key actors and experts, and can make their voice heard in an international forum.

Afghanistan's security transition does not depend only on internal aspects. Regional efforts are necessary. The same applies for the economy. And in order to move forward, all stakeholders need to be involved: governments, experts, the private sector, and last but not least, members of Parliament who represent the needs of their constituents, the end users, and who shape the legal framework that can facilitates economic development.

# Private Sector Development in Afghanistan and Pakistan

## A regional development agenda

Two major developments will be extremely important for the future of Afghanistan. The first is the 2014 presidential election that took place on April 5 and was an important step toward consolidating a transition to democracy. The second one is the withdrawal of NATO forces from the country until the end of 2014. The election is over, but the results have yet to be determined. The new president will need to decide on the Bilateral Security Agreement between the US and Afghanistan immediately after assuming his new role. As the NATO forces will hand over security to Afghanistan's nascent national forces, it is highly likely that the country will spend a significant part of its energy on ensuring security in the near future. In such an environment, there is the risk that Afghanistan's economic woes are being overlooked.

Afghanistan has had rapid economic growth throughout the last decade. In 2001, it had the second lowest per capita income in the world. With the windfall of revenues mostly from development aid, the Afghan economy grew by approximately 10 percent on a yearly basis between 2003 and 2012. As a result of this significant economic progress, Afghanistan's per capita income ranked the 20th lowest in the world in 2011. Even though, Afghanistan outstripped 18 countries in per capita income

level in the last decade, it is still a fragile and low income country that is dependent on international aid flows. Any effort towards decreasing Afghanistan's dependence on foreign aid flows and expanding opportunities for its population should be pursued by the new administration and supported by the international community and all of Afghanistan's friends. Otherwise the country could easily spiral down into a new era of instability.

## A Proposal for the Establishment of an Integrated Production Zone (IPZ)

At the third Istanbul Forum Meeting, the Economic Policy Research Foundation of Turkey (TEPAV), a think-tank based in Ankara, presented a proposal for the development of an Integrated Production Zone (IPZ) on the border of Afghanistan and Pakistan. The IPZ is comprised of multiple zones to harness cross border complementarities between the two countries. The proposed IPZ model gets its inspiration from Turkish Chamber Federation's (TOBB) effort to develop Jenin Industrial Zone on the border of Israel and Palestine. Despite all the roadblocks the land acquisition for Jenin Industrial Zone was completed at the end of 2013 and the construction work is expected to start in the first half of 2014. IPZ is a cross border project with two fundamen-



**Ozan Acar**

Senior Economist,  
Economic  
Policy Research  
Foundation of  
Turkey (TEPAV),  
Turkey





**Proposed site for IPZ**

tal targets. The first one is to enhance the economic integration between Afghanistan and Pakistan, whereas the second target is to bring economic development to the regions where IPZ will be established. In this short study, TEPAV's IPZ proposal is going to be discussed briefly.

### Conceptual Framework

In order to bring stability to Afghanistan and Pakistan there is a need to focus on cross border regional development projects based on private sector development (PSD). The private sector is the most important agent that has the tools and capabilities to bring prosperity to the people of the two countries. PSD programs in this respect have to be based upon a set of carefully selected sectors, the ones that add value to both sides of the border should be given priority. Policy intervention should aim to focus on missing or weak links in the value chain in the two countries. Such PSD policies could be successful even under political constraints as they have the potential to create win-win situations.

PSD in a politically unstable environment with security problems is a delicate business. Incremental designs rather than grand projects have a higher chance of success in such environments. Independent of the size of the project, PSD in fragile states requires effective coordination among all parties. Maintaining dialogue among public and private sectors and the international community is a key factor throughout the process. In order to make the projects sus-

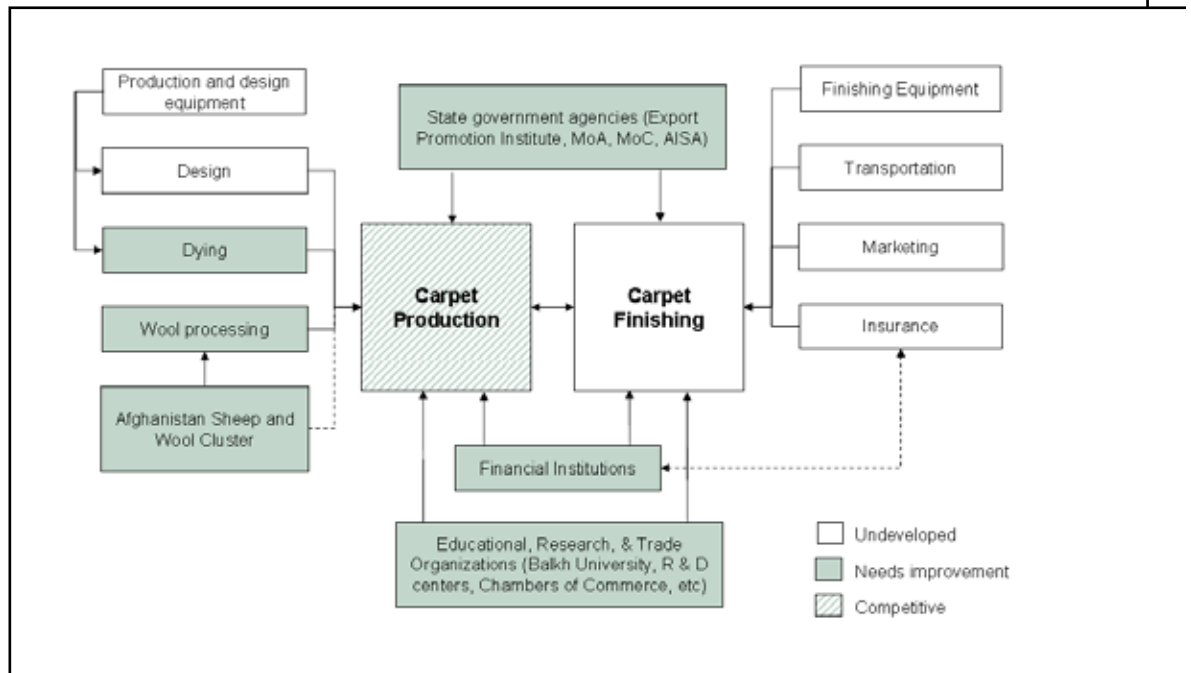
tainable, they must produce profits for the involved private sectors.

Tackling all investment climate constraints at once is not feasible. Economic uncertainty, infrastructure problems, the lack of a skilled workforce and vulnerability to finance problems are significant challenges behind underdeveloped private sectors in such environments. However, creating a favorable investment climate at the local level can be possible. Three issues should be tackled in creating a conducive business environment. The first one is to initiate capacity building programs with a focus on institutional building that are necessary for production and commercial transactions. The second one is to provide a superior infrastructure at the local level. The final one is to decrease the effective cost of investment of the private sector through insurance mechanisms and subsidized credits.

PSD in the framework of an Integrated Production Zone (IPZ) requires a cross-border cluster development perspective. The success of the project is strongly tied to the sector selection. In making this decision, backward and forward linkages of the sectors and available capabilities in the region should be carefully analyzed. Following this conceptual framework, the Economic Policy Research Foundation of Turkey (TEPAV) conducted an initial feasibility study for an IPZ that is proposed to be established on the border of Afghanistan and Pakistan. Site and sector selection criteria together with an evaluation of critical project components are summarized below.



## Carpet value chain in Afghanistan



### Proposed Site for IPZ

The proposed site for IPZ is on the northern border of Afghanistan and Pakistan. It will expand to the area that encompasses Khost and Gardeyz of Afghanistan, Parachinar and Thal of Pakistan. On this triangle, there will be multiple production zones that will leverage the existing capabilities available in the region and cross border complementarities between Afghanistan and Pakistan. The proposed region partially includes Federally Administered Tribal Areas and is not the most secure among the alternatives. In addition to the internal security problems of Afghanistan, one can see the tensions between Afghanistan and Pakistan escalating in this region. Despite all the downsides, the proposed IPZ site was selected on the basis of technical and economic feasibility.

Considering the terrain characteristics, border crossing availability, transport conditions and electricity production potential, the proposed region is suitable for an IPZ. First, Thal is an open valley with a perfectly suitable terrain, convenient for the construction of a joint production zone. Furthermore, in the vicinity of Thal, there are gas and coal reserves available for electricity generation, which is crucial for growing private sector activity. Products of an IPZ in the proposed region can cross the border from the Gulam Khan Border crossing, which is one of the most important border crossings between Afghanistan and Pakistan. It is not ready for public use right now, but there is an airport under construction in the Khost province as well. In terms of

availability of road transportation opportunities, the Khost to Gardeyz road is currently under construction and will shorten the route between Kabul and Karachi by approximately 400 km when it is complete. This road project is extremely important as it will ensure easier access of products that are produced in IPZ to the Karachi Port.

### Selection of Priority Sectors: The Carpet Example

Increasing the level of economic integration between Afghanistan and Pakistan is one of the building blocks of the IPZ idea. We therefore need to analyze cross border entities. Priority sectors should be identified by taking into account the backward and forward linkages between the two countries. Another factor that shouldn't be overlooked in the selection of priority sectors is the availability of natural resources, skills and physical infrastructure. Carpet production is identified as one of the priority sectors that could benefit from cross border exchange. The food and furniture sectors, which are not covered in this short note due to space constraints, are the other priority sectors that are identified by TEPAV.

The carpet sector is one of the two high-potential sectors, after the initial feasibility studies, to be targeted in IPZ. Afghanistan has achieved some competitiveness in the carpet production segment. The total amount of Afghanistan's carpet exports exceeds 200 million USD, which is approximately 45 percent of the country's total exports. The main source of Afghanistan's

Source: Afghanistan Carpet Committee (April 2006) "Growth Strategy and Action Plan for the Carpet Cluster of Afghanistan", Kabul, URL: [http://www.trade.gov/static/afghanistan\\_carpetstrategy.pdf](http://www.trade.gov/static/afghanistan_carpetstrategy.pdf).

An efficient logistics and road infrastructure is required for companies, which are going to be based in IPZ, to transport their raw materials and intermediate inputs from outside and final goods to their customers.

competitiveness in carpet production is the country's abundant supply of high-quality wool. The combined lack of adaptation capacity to frequent changes in global trends, working capital, and finishing equipment for washing and cutting, as well as problems in access to export markets are the main impediments to increasing the country's global market share in the carpet trade. Strengths and weaknesses of Afghanistan's carpet value chain are summarized in the chart on the previous page.

Establishment of carpet washing and cutting facilities in the Gardeyz-Khost region to strengthen the value chain has the potential to create significant economic gains for Afghans and Pakistanis. Afghanistan could contribute to the carpet value chain through its existing capacity of drying facilities in Khost region, whereas Pakistan could provide chemical inputs for the washing stage and electricity to the value chain. As a third party, Turkish carpet producers could take part in the value chain through know-how transfer to Afghan producers namely by following trends in the world market and the creation of new designs and colors. Carpets that are produced in Afghanistan with the necessary inputs from Pakistan could be marketed and transported to export markets by Pakistani retailers and logistics operators.

Potential benefits of strengthening the weak parts of the carpet value chain in Afghanistan with the involvement of Pakistan and Turkey are huge for all the parties involved. From the point of view of Afghanistan, the country would increase its competitiveness and production of carpets. Afghan carpet producers' access to world markets and value added of carpet production would increase. Know-how transfer from Turkish industrialists in terms of adaptation to changing tastes and preferences in world markets would help Afghan producers to sustain competitiveness in the global carpet trade. Potential benefits of such an engagement to Pakistan are significant as well. First, in Pakistan, new employment in input industries for cutting and washing would be created. New business opportunities for Pakistani fleet operators and retail service providers would increase.

## Integrating the Project Components

An IPZ that is going to be developed on the border of Afghanistan and Pakistan can be successful only if off-site infrastructure is adequately provided for private sector companies to operate in an effective manner. Electricity, transportation, border crossings, waste management, and security are all prerequisites that would make the IPZ an attractive investment location. TEPAV has completed a needs assessment for off-site infrastructure components.

Power shortages are a key problem for industrial development in both of these countries. However, there are deposits of high quality coal in Kohat and Kurram. Exploration techniques have to be improved in order to make better use of these reserves. One or more coal-fired thermal power plants should be constructed to leverage the availability of coal reserves in electricity production. The private sector would be interested in investing in coal-fired power plants under a public-private partnership arrangement (PPP). This framework is a must to enable the private sector to share the risk of such an investment. In addition to strengthening the electricity production capacity, there is the need to improve the existing transmission lines and building new cross border transmission lines between Afghanistan and Pakistan.

An efficient logistics and road infrastructure is required for companies, which are going to be based in the IPZ, to transport their raw materials and intermediate inputs from outside and final goods to their customers. Under the current situation the lack of reliable roads and railways makes logistics difficult in the region. In terms of transport infrastructure, priority should be given to the improvement of Thal-Kohat railway that is going to be used for the transport of coal to coal-fired thermal plants. Cross-border road infrastructure should be carefully inspected and any problem that increases travel times should be fixed. In this respect, another priority project should be the improvement of Parachinar-Thal road.

Customs administration and border gates are also important project components that affect the likelihood of the IPZ's success. Ongoing initiatives to improve border gates and customs administration in

Afghanistan and Pakistan should be completed as soon as possible. Aside from the ongoing initiatives, the establishment of a new border crossing where goods trade between Afghanistan and Pakistan can be quickly processed should be supported by the governments. The Turkish Chamber Federation (TOBB) border gates modernization projects in Turkey could be taken as a model in increasing the effectiveness of the crossing on Afghanistan's border with Pakistan. Currently, there are six border gates in Turkey, which have achieved significant performance improvement after TOBB started to operate them. The goal of these initiatives is to improve trade facilitation through a PPP scheme. TOBB could undertake a similar task in Afghanistan and Pakistan with the partnership of Afghan and Pakistani business chambers.

Without capacity building programs, the proposed IPZ cannot become operational in an efficient manner. In this respect, vocational training centers should be planned as part of the production zones in the IPZ. Vocational training programs should target skills building and skills conversion. In addition to vocational training centers, there is the need for a business development center specialized in SME development with a micro-credit focus. Chamber federations that should be actively involved in administration of the production zones should improve their capacity for income resources, estate and border management.

The Turkish Chamber Federation (TOBB), which has been actively involved in the Istanbul Process from the outset, would be willing to get involved in the dialogue process for the establishment of IPZ, revitalization of border crossings and designing capacity building programs. TEPAV, which is supported by TOBB, could undertake detailed feasibility studies that would assist policy makers in deciding on the best location and sector alternatives.

### What to Do Next?

1. Building consensus: The IPZ is a multi-stakeholder initiative. In addition to governments of Afghanistan and Pakistan, there is the need to get the endorsement of business communities led by the chamber federations of these

countries. But this will not be enough. The support of the U.S., Turkey, and other donor countries to provide financial, technical and security assistance would be highly useful in the realization of this project.

2. Land issues: The IPZ's success depends greatly on its location. A delegation of experts should contact governments and identify the best location for an IPZ.
3. Legislative process: Analyze the local legislations to identify the parts that negatively affect the establishment of an IPZ. A concession agreement should be drafted at this stage and free trade agreements between Afghanistan and Pakistan should be modified if necessary. In addition to a free trade agreement between Afghanistan and Pakistan, developed countries should give zero tariff access to the products produced in IPZ to their domestic markets.
4. Identifying donors: International financial institutions and development agencies of major donor countries should be contacted to discuss provisions of financing and technical advisory to the IPZ. The World Bank, the Asian Development Bank, the Islamic Development Bank, USAID, the Department for International Development (DFID), and the Turkish Cooperation and Coordination Agency (TIKA) should be on the list of contacts.

It should be noted that "the journey of a thousand miles begins with one step." There is a need to start thinking about establishing an IPZ on the border of Afghanistan and Pakistan to bring prosperity to the region and enhance regional integration between these two countries. Despite all the political problems between Afghanistan and Pakistan, this IPZ is a workable project that could provide significant economic gains to all the parties involved. TOBB and TEPAV are ready to provide technical assistance to the Afghan and Pakistani governments as well as business organizations in their efforts to realize the IPZ mission.

There is the need to start thinking about establishing IPZ on the border of Afghanistan and Pakistan to bring prosperity to the region and enhance regional integration between these two countries.

# Interconnecting the Region: Ways Forward



**Mohammad Naeem Shinwari**

Program Associate,  
Regional Security  
Program, EastWest  
Institute

EWI's Abu Dhabi Process 2012-2014 has provided an opportunity to the governments of Central and South Asia to engage in regional cooperation, to increase trade both within the region and with major more distant partners via continental trade corridors. Countries in South and Central Asia and beyond will gain significantly from reducing trade and transit costs. Reducing costs, partner countries can benefit as well from developing transport infrastructures and investment strategies, and from working out common programs for facilitating trade. Emphasis must be placed on effective trade logistics and trade facilitation; customs and border management; and on directly engaging the business sector as a key partner in regional trade facilitation. Some quick win-win measures include:

- Full implementation of the Afghanistan-Pakistan Trade and Transit Agreement by improved border management and reduction of smuggling. APTTA requires procedural and regulatory reform to discourage unauthorized trade and introduces mechanisms that reduce transit cargo dwell time. The agreement should be gradually extended to Tajikistan and India.
- Creation of one or two cross-border zones adjacent to countries with restrictive trade regimes, where people and goods can move freely. This would generate new employment opportunities in the border areas and would also help separate the informal trade in goods from narcotics and crime by creating incentives (low tax, duty-free trade) for informal traders to declare their products. Border guards and custom officials would be better able to expedite border processes, concentrate on stopping criminals

and control large cargos, rather than dissipating efforts and resources for dealing with small individual traders.

The business and private sector will have to play an indispensable role. During the Abu Dhabi Process consultations held in 2013-2014, it was acknowledged that the cost of transport is a major obstacle to trade in Afghanistan. It is vital to recognize the role of the private sector in reducing these costs. The first step is to have an inclusive approach in the process of evaluation and implementation of reforms by seeking and encouraging direct private sector participation. In doing so, there are a number of key areas for cooperation where the business and private sector can make a successful contribution to the expansion of trade.

Engaging the associations of private transport operators, freight forwarders, insurance companies and chambers of commerce will provide an opportunity to develop policy solutions for streamlining border controls and reducing entry barriers for private investors, and also propose policies to stimulate private sector activity. Politicians and donors often find it easier to commit resources, if a problem can be quantified and if the results of their interventions can be concretely measured.

Furthermore, the benefits from trade in the energy sector also demonstrate that Central Asia and South Asia can help satisfy each other's needs. The proximity of supplier and consumer countries, the seasonal nature of hydroelectric power production, and the huge pull from the explosive economic growth in India and Pakistan all set the stage for successful regional wide trade in gas, oil and electrical energy. Impoverished populations in Afghanistan and Pakistan will benefit immediately, in particular





in Afghanistan, where energy costs are among the highest in the region. The energy programs would not only create economic corridors and sustainable alternative sources of income against the threat from drug trafficking but also add much needed revenue streams for the state.

Successful exploitation of such opportunities for regional energy trade will build a track record of cooperation and enhance overall momentum. There are possibilities for one or more “bold strokes”-projects with large benefits for several countries and significant private sector participation. These projects include the quick start of CASA-1000 and the opening of TAPI by 2017. Progress with these two initiatives may open up prospects over the long term for developing a regional energy market with major energy flows and benefits.

Finally, the potential gains of regional cooperation in the transport sector are considerable; they will require large scale investment and maintenance. Hence quick win-win solutions will require a greater degree of political buy-in and leadership from the region as well as a more selective approach by donors in order to leverage their support. Quick measures will include:

- Donors may invest in the development/extension of Afghan railways to important seaports in the region such as Chabahar (Iran), Bandar Abbas (Iran), and Gwadar (Pakistan). Continued road improvement and the creation of targeted rail capabilities are vital to extractive and energy development.
- The Afghan government needs to establish credible institutions to ensure the maintenance of the infrastructure. Mineral endowment and revenue

from energy and transit could be re-invested into infrastructure development.

In the beginning, it may also be possible to identify a particular transport corridor for investment where the benefit of cooperation can be demonstrated. Donor’s assistance should be structured in such a way that it would maximize these opportunities. In the meantime, investment in infrastructure development should mainly be subject to policy change and implementation or updating of bilateral agreements. External anchors such as the WTO accession process or existing regional cooperation bodies could be used to coordinate national policies. The private sector could play an indispensable role in the construction of large and small scale infrastructure, which would generate employment opportunities for young people.

As Afghanistan realizes its potential as a land bridge in Asia it will stimulate numerous investment projects in the region. Thus, the reconstruction of Afghanistan would become an integral part of a successful regional development strategy. The creation of an inter-governmental trust fund for regional initiatives with Afghanistan as a central focus and with direct and measurable benefits to regional players can effectively promote this objective.

There is an undeniably compelling investment return. Donors and participant countries have an unprecedented opportunity to decisively engage in closer cooperation as it is a small price to pay for regional prosperity and for the creation of closer ties among nations leading to significant economic expansion, sustained stability and regional security.

The creation of an inter-governmental trust fund for regional initiatives with Afghanistan as a central focus and with direct and measurable benefits to regional players can effectively promote a regional development strategy.

# Afghanistan Reconnected



**James Creighton**

Chief Operating  
Officer, EastWest  
Institute

The “Afghanistan Reconnected” dialogue has focused on engaging public and private leaders from Central, South and Southwest Asia and beyond in order to identify challenges and opportunities facing Afghan economic growth prospects. EastWest convened four meetings in Istanbul, Islamabad, New Delhi and Berlin, which enabled leaders from Afghanistan, Pakistan, India, Turkmenistan, Iran, China, the EU, United States and other nations to exchange ideas, identify opportunities and clarify obstacles to growth. The results of these frank and open discussions are the identification of several actions that must be taken to assure Afghan growth and regional stability.

To place the challenges facing Afghanistan in context, Afghanistan has endured 35 years of continuous war. The youth in Afghanistan, represented by 65 percent of the population, who under the age of 25, have never known a day without war. Yet, their positive attitude is reflected in several ways: the exponential growth in education; the 7 million voter election turn-out on April 5, 2014 (almost double the turn-out of 2009); and entrepreneurs who develop new opportunities every day. The dramatic increase in the number of schools and students, miles of new paved and gravel roads, and improved life expectancy and health care are all indicative of tremendous human capital potential. The young, educated professionals beginning to populate the Afghan ministries demonstrate technical competence, corruption resistance and a positive outlook for Afghanistan. Afghanistan has billions of dollars of mineral resources, such as iron, copper, gold, rare earths, and lithium, which can be an important foundation for economic development. The prospects for hydrocarbon industry development, mining sector growth and trade and transport expansion are recognized as sources of significant potential. The opportunities for business development in these sectors combined with an energetic, increasingly educated and youthful population present a climate ready for positive development.

The obstacles impeding this positive development are significant; however, many of them are being reduced by courageous

citizens, businessmen and government servants. Corruption in Afghanistan is rampant from the district to the national level. The April 2014 elections, which according to international observers have seen reduced levels of corruption, could represent an opportunity for new leaders to address predatory corruption in the government. The assessment of Afghan National Security Force performance during the elections has been positive as evidenced by the lack of violence during the election. Even if the Taliban consciously decided not to interfere with the elections, the insurgent leaders recognize the improved competency and capability of the Afghan National Security Forces. The top three presidential candidates have agreed to sign the Bilateral Security Agreement (BSA) which ensures adequate funding and training for Afghan National Security Forces and lays the foundation for continued NATO and international community support for Afghanistan over the next 10 years.

Security in the south and east still threatens economic growth in the Pakistan border region; however, this represents only about 6 of the 34 provinces in Afghanistan. The remaining provinces, although not completely secure, are safe enough to allow businesses to begin to grow. Security assessments must be made on a district to district basis and not aggregated to the national or provincial level. Businesses have already made their assessments and have invested in gas, granite, cell phones, carpets, higher education and other sectors. With the departure of the coalition forces in 2014, there will be a reduction in economic growth from over 10 percent to less than 5 percent. This reduction will be offset by improved indigenous security, aggressive businessmen and the potential for improved governance.

The illicit drug related industry represents an existential threat to Afghanistan and the region. Children are admitted to emergency rooms with injuries, yet they cannot be operated on because of their addiction to opium caused by harvesting poppies. This dire situation is indicative of the dangers to the population. The continued growth of poppy production must be addressed head-on by religious, tribal and government

# Conclusions

leaders. Regional and international governments and other agencies realize their own internal threats associated with the drug trade but have been ineffective at stemming the industries growth. The Taliban, who had ruthlessly all but eliminated poppy production in the 1990s, now relies on the income from this trade to fund its operations. Solutions to this challenge are paramount to economic growth.

The “Afghanistan Reconnected” dialogue solicited high level feedback from regional government and business leaders who all agreed that a regional approach with international support was the best way to promote economic development and long term security. In general, existing regional institutions are widely considered to be ineffective. A regional economy will have to grow out of a multitude of bilateral and trilateral initiatives. The consensus of the dialogues was that regional agreements should be agreed to and implemented. Several priority initiatives were identified:

- Turkmenistan, Afghanistan, Pakistan, India (TAPI) pipe line
- Central Asia and the Caucasus Kyrgyzstan Central Asia South Asia Electricity Trade and Transmission Project (CASA-1000)
- Afghanistan Pakistan Trade and Transit Agreement (APTTA)

On a national level, improvements to infrastructure, rule of law, governance and procedures are required in all countries to maximize economic potential. Continued road improvement and the creation of targeted rail capabilities are vital to extractive and energy development. Border control process and liberalization of regional trade agreements will spur Central Asian trade and transport and expand connections to Asia and Europe. Resurrection of Afghan agricultural capacity will enable Afghanistan to be food self-sufficient. Individual nations have the capacity to modify and improve their individual processes and procedures in order to help maximize regional cooperation.

Historic rivalries and mistrust were evident in the frank and open discussions at

the “Afghanistan Reconnected” meeting. However, by building relationships between leaders representing countries that normally do not agree, we were able to gain consensus on the need for agreement on regional initiatives and a way ahead toward approval and implementation. The network of experts cultivated during the “Afghanistan Reconnected” dialogue will be a vital asset in pressing for recommendation implementation.

EastWest proposes to follow-up on the success of the Afghanistan Reconnected meetings to date by succinctly defining the specific challenges to regional cooperation in order to develop clear and concise recommendations. The technical aspects associated with the regional agreements are understood. It is the policies of the individual countries that present the greatest impediment to implementation. The solutions presented will be policy related and follow a three phase process:

1. Phase 1: Policy recommendation development—Engage the network to define precise, suitable, feasible and acceptable policy solutions.
2. Phase 2: Private sector engagement—Solicit support from the business community to validate and support the recommendations.
3. Phase 3: Government leader and decision maker engagement—With business leader support for these recommendations, the “Afghanistan Reconnected” network will advocate for policy implementation by forming a multinational expert task force to engage appropriate leaders in each country.

The Afghan people are tired of fighting. Despite the significant challenges associated with economic growth in Central Asia, businesses are beginning to realize the growth potential in Afghanistan and Central Asia. It is imperative for regional leaders to recognize regional obstacles and fight to overcome them. Regional economic cooperation will yield a more secure environment and long term stability.

Despite the significant challenges associated with economic growth in Central Asia, businesses are beginning to realize the growth potential in Afghanistan and Central Asia.





# Annexes

# Conclusions and Recommendations from the Consultation “Afghanistan Reconnected: The Potential for Afghanistan to Act as an Economic Land Bridge in Asia”

April 10-11, 2013, Istanbul

## Summary

About 40 participants from Afghanistan, Pakistan, India, the United Arab Emirates, Turkey, Uzbekistan, Kyrgyzstan, China, the United States and Europe attended EWI's Istanbul conference. The business communities of the region voiced their interest in unimpeded trade and business opportunities. Participants discussed opportunities and challenges in developing the hard and soft infrastructure required to enhance Afghanistan's connectivity. The conference's objective, to reconnect Afghanistan and the region, was driven by the understanding that Afghanistan's economic potential will be optimized when it becomes a transit route for trade and continental transport connecting people and markets in East and South Asia, Central Asia, Europe and the Middle East.

A key issue at the conference was the relationship between Afghanistan and Pakistan and the need to enhance regular trade in line with the Afghanistan Pakistan Trade and Transit Agreement (APTTA). The potential opportunities of the Southern Corridor from India to the Middle East and Europe were also widely discussed. While uncertainties regarding the security situation in 2014 will remain, it was emphasized that it is not only necessary, but also possible to move on to a trade-led economy in Afghanistan with a number of targeted measures promoting connectivity. Economic progress is key to overall stability in Afghanistan and the region. And in times of global trade “the markets won't wait.”

## Recommendations for Short-term Measures

Existing impediments, especially bureaucratic impediments at Pakistani-Afghan borders and at other key borders preventing the quick transit of goods need to be removed promptly. This step requires swift governmental action and enhanced private-public partnerships. The conference suggested that all governments in the region should undertake the following:

1. Increase efforts to realize the full implementation of the Afghanistan-Pakistan Trade and Transit Agreement (APTTA) as well as its gradual extension to India. Most of the participants expressed the view that full implementation of the APTTA and good governance will be key in achieving progress on associated problems. This will require creative efforts to solicit buy-in from the Pakistani trucking industry and to convince the Afghans to address the illegal re-exports of goods to Pakistan. Once effectively implemented, the Afghan transport business would have access to the ports of Karachi, Qasim and Gwadar.
2. Remove impediments to the fast transfer of goods between Kandahar and the Pakistani port at Gwadar and vice versa. Gwadar is the natural port for most of the Central Asia countries as well as for Afghanistan. Afghanistan, Pakistan, and China should cooperate to provide easy access to Gwadar from the North.
3. Simplify border operation processes and enhance border cooperation through a single window system and information exchange between border and custom officials, at least at a selected number of border posts. This would be a first step in the medium and long-term efforts to modernize and professionalize all Afghan border crossings to Pakistan, Tajikistan, Turkmenistan, Uzbekistan, Iran and China. Such modernization should include education and training, including English language training for border and custom officials.
4. Enhance mobility, import-export and access to services between India, Pakistan, Afghanistan and Central Asia countries through:
  - » Introduction of cross-border ID cards for traders, businessmen, logisticians and transporters;
  - » Removal of duties on the export of Afghan products to Pakistan to support the exportation of agricultural products to Pakistan, India and the Middle East;
  - » Establishment of credit card, insurance and banking services for Afghan trad-

ers and the trucking industry to fulfill deposit/guarantee demands in Pakistan, which will also enable Afghan traders and the transport industry to have easy and assured access to the port of Karachi and others in Pakistan.

5. Strengthen and facilitate trade between South and Central Asian regions and beyond through:
  - » Provision of regular and accessible information services to traders and the transport industries in Pakistan, Afghanistan and Central Asia countries through business conferences and matchmaking events;
  - » Construction of cold storages in Afghanistan and in the border/corridor regions;
  - » Training for the private sector in Afghanistan, Pakistan and Central Asia on relevant standards of certification.

### Recommendations for Long-term Measures

Participants suggested several long-term measures to boost regional economic cooperation:

1. Increase incentives for regional states along transit corridors, especially in Central and South Asia, to reduce the time and costs of border crossing. One promising idea is the implementation of the Model Highway Initiative (MHI) developed by the International Road Transport Union (IRU) as a means of encouraging Afghanistan and its bordering to cooperate in addressing unnecessary bureaucratic barriers to road transit. Major institutional donors such as the World Bank and the Asian Development Bank (ADB) may initiate funding for the construction of up to three model cross-border highways.
2. Promote closer Afghanistan, Pakistan and Indian economic relations through continued confidence-building measures and through the facilitation of legal transit and trade. An incentive to bring a higher percentage of current informal trade into a legal framework that will positively affect both Afghanistan and Central Asia.
3. Strengthen the capacity of the Afghan government to maintain roads to a single sustainable standard. At present, the multiplicity of donors and contractors has produced wide variations in the quality and sustainability of the actual road beds and surfaces.
4. Develop and extend an Afghan rail network. While Afghanistan's road network is under-developed, its rail network is virtually nonexistent. Higher priority has to be given to connecting Afghanistan through trans-continental rail lines. In the short term, the rail line to Mazari 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.

### Implementation

Representatives from the government of Afghanistan as well as members of parliament committed to undertaking speedy follow up on these recommendations in Afghanistan. In a first step, the EastWest Institute will forward these recommendations to all participants as well as to other stakeholders in the region prior to the Almaty Conference on regional cooperation that will be held at end of April 2013. The EastWest Institute will furthermore identify specific issues on infrastructure for follow-up in the region and report on the outcome at the next Abu Dhabi Process meeting in 2013.

# Conclusions and Recommendations from the Consultation “Afghanistan Reconnected: Linking Energy Suppliers to Consumers in Asia”

September 2-4, 2013, Islamabad

## Summary and Conclusions

As a gateway from South Asia to Central Asia, Afghanistan holds a key position to unlock new economic potentials in the region by providing transit routes for energy supplies from Central Asia to the energy markets of South Asia – a scenario with win-win potentials for all stakeholders.

While sources of energy (gas, oil, hydropower) are abundant in Central Asia where countries wish to diversify the sale of their commodities at market prices, Afghanistan, Pakistan and India would be obvious markets at reach with significant demand for energy. More external energy supplies will be required in these countries - in addition to domestic reforms of energy markets – to grow the national economies for growing populations. With supplies being available from within the region, effective regional cooperation needs to be promoted and pursued. The role of the economy for the future of the whole region as well as the need for “economic diplomacy” were highlighted throughout the region. It was noted that while Asia is emerging as a new center of gravity and trade between South Asia and the rest of the world is also growing, trade within South Asia has remained stagnant and the proximity in South and Central Asia is not leveraged so far. Likewise, there is a lack of foreign investment in the region. The known ills are distrust, political instability and security concerns, frequent power outages as well as weakness of rule of law.

Participants thanked EWI for taking the initiative of convening this regional meeting on energy as a concrete step to promote regional energy trade as well as trust-building. While doubts were expressed about the effectiveness of existing regional institutions, there is no desire to establish new mechanisms, but rather a preference to move ahead on bilateral agreements as well as to focus on specific small projects which would generate trust. While no time should be lost to engage in “economic diplomacy”, it was stressed that security concerns – in particular in Afghanistan – should not be considered as an impediment to engage in economic cooperation. Participants agreed that security challenges could be overcome as long as there is mutual understanding and interest of all (including local) stakeholders in a given project. Pipeline projects in the 1990s engaging also local power brokers in Afghanistan, and recent engagement of Turkish companies exploring resources in Northern Iraq demonstrate the viability of investment and trade if there is shared interest and local ownership.

Pakistan's most senior Government representative, Mr. Sartaj Aziz, Advisor to the Prime Minister on Foreign Affairs and National Security, recognized Afghanistan as a vital connector for regional energy, communication and transmission. Referring to President Karzai's recent visit to Islamabad, he explained recent agreements on the Peshawar-Kabul Road and the Chaman-Kandahar railway line. He noted that these links would not only improve trade relations between Pakistan and Afghanistan, but would also help connect Central Asia with South Asia. He confirmed that the Afghanistan-Pakistan Transit Trade Agreement (APTTA) was an important step ahead and that it would be implemented. In terms of bilateral support for Afghanistan, Pakistan supports Afghanistan on developing the Kunar dam with a capacity of generating 1500 MW of electricity. CASA-1000 electricity grid had now been converted into CASA- 1300 with further addition of 300 MWs.

Mr. Shahid Khaqan Abbasi, Federal Minister for Petroleum and Natural Resources urged Pakistan, Afghanistan and neighboring countries to engage in dialogues to meet common growing energy demands and also to seize the significant economic opportunities that energy trade would provide. He said that the region is at the forefront of a transition towards energy economy as the 'energy security' has become a key priority for all the countries. He noted that Pakistan was also committed to achieving the Iran-Pakistan pipeline. In terms of areas of cooperation between Afghanistan and Pakistan, the Minister stated that Pakistan could assist Afghanistan in capacity building through Pakistani universities, help in



geological surveys, training to Afghan engineers in hydropower projects and facilitation in engineering consulting services in developing micro and macro dams. Further areas of assistance would be building infrastructure, transmission lines and an efficient grid system.

Turkmenistan is producing 24 billion cubic meter of natural gas per annum, and Tajikistan has abundant potential for hydroelectricity with installed capacity of 7 billion Kwh. Central Asian countries are well equipped with modern road and rail networks for transportation of resources, the main hindrance being still to connect with South Asia via Afghanistan. However, the TAPI project seems to be coming within reach in late 2013.

A session on “Afghanistan as an Energy Importer and Producer” discussed Afghanistan as a country with tremendous untapped natural resources. According to a U.S. National Renewable Energy Laboratory study, the wind energy potential in Western Afghanistan was estimated at 158,000 MW and hydropower was said to be in excess of 23000 MW. Moreover, U.S. Geological Survey forecasts 1.6 billion barrels of unexplored petroleum reserves with 444 billion cubic meter of probable natural gas and 0.50 billion barrels of probable liquid natural gas. For optimum future use of these resources, participants suggested active dialogue between foreign investors/private sector and the government and other local stakeholders with a defined goal of common interest. Investment in these natural resources which could turn Afghanistan into an exporter would also require long-term capacity building within Afghanistan.

There was general agreement at the conference that the promotion of Afghanistan's bilateral energy trade and the Central Asia-South Asia multilateral energy trade would benefit all stakeholders in many ways. It would enable the Central Asian power/gas utilities to make full use of their assets. In medium term, it would enable the States in Central Asia to increase their export revenues, to improve the sector viability and to cover fossil fuel or thermal power imports (needed in winter) from their neighbors. In a longer term perspective energy trade would stimulate their economic growth. As to Afghanistan, energy trade and transit would help stabilize the power system, give more access to electricity to the population and upgrade its power system for transit purposes. Regional energy trade would enable Pakistan and India to close the current supply gap in a cost effective manner.

The possibility of substantial energy exports may also create incentives to solve water/power issues among the Central Asian countries and achieve sustainable water sharing agreements that are required for many attractive large hydroelectric projects.

There was a consensus that enhanced regional energy trade would contribute to the broader objectives of economic cooperation and political stabilization in the region. This will require high level political commitment in the region. Private investors will have to get involved to finance, construct and operate the transnational facilities. International organization and financial institutions offer instruments for risk mitigation.

### Recommendations

Participants commended EWI for convening the conference as a step towards energy cooperation and trust-building in the region.

It was suggested that EWI focus on the implementation of some specific projects involving the SAARC Energy Center as a regional partner. Tangible progress on specific projects would also promote confidence. A general recommendation for EWI was to launch a public information campaign in the region on key energy projects and their benefits, as there was a need to inform the public at large on opportunities.

Further recommendations included:

- Governments and the private sector should explore the possibility of joint electricity generation in at least two SAARC member countries as a pilot project.
- Electricity exports from Tajikistan to Afghanistan should be extended to Pakistan. The governments of Afghanistan and Pakistan should co-operate with the government of Tajikistan to increase volume by 200 MW to be transmitted via Afghanistan to Peshawar.
- Renewed efforts should be undertaken by the governments of Turkmenistan, Tajikistan, Afghanistan, Pakistan and India to initiate the construction of CASA-1000 network and the TAPI gas pipeline. The transformative potential of TAPI for the region was highlighted, while other options (use of LNG) could replace TAPI otherwise. It was recommended to involve the Energy Charter Secretariat for projects of regional significance to help ensure transit security, provide investment potentials, assist in dispute settlement and address efficiency and environmental issues.
- In terms of security concerns, special attention should be given to mitigating transit risks throughout Afghanistan. Measures to be taken include: employment of local workforce and local regular access to supply of electricity and gas along the transmission routes, special security measures to protect the routes, deployment of repair crews and maintenance. In terms of funding, an intergovernmental regional trust fund could be set up to cover such costs.
- Energy trade between Pakistan and India: State transmission companies NTDC and PGCI should conduct a joint feasibility study on grid connectivity.
- Governments should engage in domestic energy sector reforms to enhance efficiency and to attract investment. Reforms should lead to improving infrastructure, financial performance and collection of revenues, governance and regulatory framework, customer services.
- Governments should undertake initiatives to attract foreign and domestic investment in the energy sectors which could develop into very profitable markets. Regional private sector associations could be a tool for business consultation. A regional trust fund set up by governments of the region with the support of IFI's or donors could collect funds for kick-starting regional projects.
- Governments in the region should engage in exploring the energy potential of Afghanistan. Cooperation between Afghanistan and Pakistan on the Kunar river dam is a step into this direction. For sustainable development of capacity building in Afghanistan (training of Afghan experts), regional opportunities for capacity building will be required.

# Conclusions and Recommendations from the Consultation “Afghanistan Reconnected: Unlocking Investment Potential in the Region”

**November 19-20, 2013, New Delhi**

## Summary and Conclusions

Third in a series, EWI's New Delhi consultation was held in cooperation with the Federation of Indian Chambers of Commerce and Industries (FICCI). Over 40 high-level representatives of governments, parliaments and key investors from the region and beyond participated in this meeting. EWI's regional consultation complemented FICCI's "Conference on doing business with Afghanistan", organized as one of the economic confidence building measures of the Istanbul Process led by representatives of the Indian government and managed by FICCI.

The aim of EWI's third consultation was to explore investment opportunities in the trans-Afghanistan energy and transport corridors and in the country's mining resources, and to attract both regional and international direct investment. The conference also assessed regulatory frameworks for investment and highlighted potential economic gains for the region in the Afghan economy.

Decision-making representatives of governments from the region and beyond recognized Afghanistan's potential for business, trade and investment after 2014. A scenario with win-win prospects for all stakeholders would be an Afghanistan reconnected by investment in transport and energy infrastructure, railway lines, roads, the CASA-1000 grid and the TAPI gas pipeline.

Participants called upon investors and institutional donors in the region and beyond to invest in the extraction of natural resources as well as in mining in Afghanistan. Such investments could essentially substitute for foreign aid. A critical message from the private sector is that priority should be given to investments in the construction of large-scale infrastructure, which would facilitate transportation of resources to neighboring countries and beyond.

Investors called upon the government of Afghanistan to ensure a more efficient regulatory framework and high-quality national institutions. Investors require transparency and accountability, effective rule of law, an efficient judiciary system, and enforcement of property rights. Significant strides have been taken in this regard, but must be communicated to the international community and enforced more rigorously.

Participants agreed that security challenges were key impediments for investment in trans-Afghan energy and transport corridors as well as for investment in Afghanistan's domestic natural resources. However, lessons learned also suggest that security risks can be mitigated by engaging local stakeholders in economic projects such as the construction of infrastructure. The local population should benefit from investments in gas pipelines, electricity transmission grids and in mining. Local ownership may prevent insecurity.

Furthermore, security risks can also be mitigated by targeted interventions and industry for peace initiatives, such as cross-border economic zones, industries and free markets. Targeted investment in more peaceful regions such as the resource-abundant north is also possible now.

Participants acknowledged that Afghanistan's economic potential could not be fully developed without strong political will within the region. The success of projects such as TAPI and CASA-1000 will continue to require strong leadership, commitment and a shared vision for the whole region.

## Recommendations

A key objective of the New Delhi consultation was to highlight the investment potentials in Afghanistan and to recommend that regional governments take action to attract sustainable investment. The removal of administrative barriers and improvements of the regulatory framework and practice were recommended as cross-cutting issues in all economic sectors.

### Investment in Trans-Afghan Transport Corridors

Suggestions for government action included:

- The governments of Afghanistan, Pakistan, India and Iran should agree on access to Afghanistan and to Central Asia via the ports of Chabahar, Gwadar and to the Indian border.
- The Afghan government should develop incentives for infrastructure investment to attract foreign direct investment in construction of trans-Afghan roads and rail lines. Several funding options exist (mineral endowment and the regional infrastructure fund).
- The government of Pakistan should extend the railway network to Chaman and beyond to Kandahar, if they wish to gain access to Central Asia.

Opportunities for investors included:

With the ring road almost completed, there are several major investment opportunities for transport infrastructure: the construction of dry ports at key transit points in the provinces of Nanagar, Hirat and Mazar-i-Sharif and Nimroz; the construction of transport terminals inside Afghanistan; and capacity development of civil aviation authority. Furthermore, investment opportunities exist for construction of cross-Afghan rail lines and roads.

### Investment in Trans-Afghan Energy Corridors and Mining

The Afghan government should ensure an investment friendly climate for the development of Afghanistan's domestic energy resources. Investing in hydropower and coal-fired power plants has the potential to address Afghanistan's domestic energy demands as well as the growing demand in Pakistan and elsewhere in the region.

Investment in the mining sector is a great prospect for Afghanistan that could ensure financial sustainability after 2014. Successful investment in the mining and extraction sectors will require a two-fold strategy by the Afghan government with regional cooperation. The two main pillars are: building of large-scale infrastructure projects (railway network, power plants) and institutional reforms leading to an efficient regulatory framework that eliminates corruption.

Governments in Central Asia, Afghanistan, Pakistan and India should move ahead on the CASA-1000 electricity grid and the TAPI gas pipeline. These two projects are essential for enhancing regional cooperation. Major institutional donors can provide investment assurance fund to guarantee international and regional investment in these projects.



## Expanding Regional Trade through Cooperation and Investment

Suggestions for government action included:

- The governments of Afghanistan and Pakistan should undertake efforts to ensure the full implementation of the Afghanistan-Pakistan Trade and Transit Agreement (APTTA) and its further extension to India.
- The governments of Tajikistan, Afghanistan and Pakistan should finalize the tripartite agreement on trade and transit to facilitate cross-border trade.
- Pakistan should provide access via Wagah border for trade between India and Central Asia. India should provide access for trade from Pakistan to Nepal and other South Asian Countries
- The Afghan Government should improve its control over northern cities to facilitate the regional trade with Central Asia.
- Tariff disparity in Afghanistan and Pakistan should be reduced to increase trade.
- The governments of Afghanistan, Pakistan, Iran and Tajikistan should establish economic trade zones on the border with Afghanistan, to be autonomously managed by the business sector involved.

Opportunities for investors include:

Construction of shared production zones in Afghanistan's border regions with Pakistan, Iran, Turkmenistan, Uzbekistan and Tajikistan; the initiation of industry for peace initiatives for cross-border trade facilitation; the construction of industrial parks in Afghanistan and of cross-border economic zones; and capacity and institutional development in Afghanistan and the region.

The purchase of excess coalition equipment and the use of abandoned coalition bases as industrial parks could provide Afghan entrepreneurs excellent opportunities for further growth.

# Conclusions and Recommendations from the Consultation “Afghanistan Reconnected: Creating Momentum for Regional Economic Security”

**April 8-10, 2014, Berlin**

## Summary and Conclusions

On April 8-10, 2014, EWI convened the fourth high-level meeting in Berlin, Germany, on regional economic security aspects of Afghanistan post-2014. The objective of this meeting was to review progress on regional economic cooperation and to define an agenda of targeted activities to be implemented in 2014-2015. Progress was stated on some large scale projects such as the CASA-1000 electricity grid and the TAPI gas pipeline, as well as on bilateral trade relationships (e.g. India-Pakistan).

Thirty-five high-level government representatives, members of parliament and business leaders from the region and beyond participated in this meeting held after the first round of presidential elections in Afghanistan. Participants viewed the high voter turnout and the relatively few incidents as a positive sign for a smoother political transition.

Participants once again recognized Afghanistan’s economic potential for business, trade, transit and investment after 2014. Some of them argued that the momentum for regional cooperation has already been largely created. A scenario with win-win prospects for all stakeholders would be an “Afghanistan reconnected” by investments in transport and energy infrastructure, including railway lines, roads, the CASA-1000 electricity grid and the TAPI gas pipeline.

To move forward with this agenda, it was stressed that stakeholders—governments and businesses— should first keep in mind this long-term vision of regional cooperation, while addressing the impediments.

Second, the governments and partners should agree on issues with good prospects for near term success that could serve as entry points for further progress. Trust and security are not absolute preconditions for cooperation if the potential gains are significant enough and risks are quite low. The business sector could help identify potential quick successes. Both large-scale projects and small-scale trade can move ahead.

Third, the business communities in the region should be encouraged to take the lead in the implementation of key regional projects as well as in the reform of national and bilateral cooperation policies. The business sector is an indispensable catalyst in changing the mindsets of policy makers in the region.

Fourth, capacity building will continue to be essential, in Afghanistan, and in some countries of the region as well as in regional organizations.

Overall opportunities for trade, development and cooperation are immense, and they should be turned into gains. Progress is more likely at bilateral levels, as existing regional institutions are considered to be more politicized and less effective. However, in some areas such as transit agreements, quick borders (at Torkham and Spinboldak), transit facilitation, and energy trade as a regional approach— already occurring in some cases—is recommended.

## Recommendations

The Berlin meeting laid out the core issues affecting regional cooperation with a focus on the critical interrelationship between trade and transit, border-management and drug trafficking, energy and investment. Participants also discussed issues with good prospects for progress in the short term that could generate further momentum and facilitate “breakthroughs” with larger projects such as TAPI. Recommendations for quick win-win solutions included the following:

**Interregional Trade Facilitation:** Facilitating trade in the region is a long process. The liberalization of trade policies is politically sensitive for some countries. Restricted trade policies, however, do not effectively protect domestic markets, but rather push trade into an informal sector. Quick measures suggested by the participants are:

- Full implementation of the Afghanistan-Pakistan Trade and Transit Agreement by improved border management and reduction of smuggling. The agreement should be gradually extended to Tajikistan and India.
- Creation of one or two cross-border zones adjacent to countries with restrictive trade regimes, where people and goods can move freely. This would generate new employment opportunities in the border areas and would also help separate the informal trade in goods from narcotics and crime by creating incentives (low tax, duty-free trade) for informal traders to declare their products. Border guards and custom officials would be better able to expedite border processes, concentrate on stopping criminals and control large cargos, rather than dissipating efforts and resources interacting with small individual traders.

**Transport Infrastructure:** The potential gains of regional cooperation in the transport sector are large; they will require large scale investment and maintenance. Hence quick win-win solutions will require a greater degree of political buy-in and leadership from the region as well as a more selective approach by donors in order to leverage their support. Quick measures suggested by the participants are:

- Donors may invest in the development/extension of Afghan railways to important seaports in the region such as Chabahar (Iran), Bandar Abbas (Iran), and Gwadar (Pakistan). Continued road improvement and the creation of targeted rail capabilities are vital to extractive and energy development.
- The Afghan government needs to establish credible institutions to ensure the maintenance of the infrastructure. Mineral endowment and revenue from energy and transit could be reinvested into infrastructure development.

In the beginning, it may also be possible to identify a particular transport corridor for investment where the benefit of cooperation could be clearly demonstrated. Donor's assistance should be structured in such a way that would maximize these opportunities. In the meantime, investment in infrastructure development should mainly be subject to policy change and implementation or updating of bilateral agreements. External anchors such as the WTO accession process or existing regional cooperation bodies could be used to coordinate national policies. The private sector could play an indispensable role in the construction of large and small scale infrastructure, which would generate employment opportunities for young people.

**Energy Trade and Development:** Perhaps the greatest prospects for quick win-win initiatives at the regional level are in the energy trade. Afghanistan's demand for energy is required to boost its agriculture, and donors' willingness to fund investment in trans-Afghan transmission infrastructure will create opportunities for Tajikistan and Turkmenistan to diversify their energy markets.

Successful exploitation of such opportunities for regional energy trade will build a track record of cooperation and enhance overall momentum. There are possibilities for one or more "bold strokes"-projects with large benefits for several countries and significant private sector participation. These projects include the quick start of CASA-1000 and the opening of TAPI by 2017. Progress with these two initiatives may open up prospects over the long term for developing regional energy markets with major energy flows and benefits.

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