



Afghanistan Reconnected: Cross-Border Cooperation at a Critical Juncture

Report Preview

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EWI Brussels Centre





"The Afghanistan Reconnected Process has been a success in advocating for regional economic integration by taking proactive measures to ensure economic cooperation in a region that is one of the least-connected on the globe."

-H.E. Mr. **Hamidullah Farooqi**, Chancellor of Kabul University; Adviser Minister to the President of Afghanistan

I. A Neighborhood at a Crossroads

Regional Overview

- Bilateral and regional issues make the Pakistan-Afghanistan relationship a complicated one. **Pakistan** is finding itself with few allies in the region, in a difficult position to trade and negotiate the necessary agreements to ensure the country's development. In this respect, Chinese investment in the China-Pakistan Economic Corridor and the development of Gwadar port is providing Pakistan with economic opportunities and leverage vis-a-vis other regional players.
- **India** strives for better access to markets in Iran, Afghanistan and Central Asia, looking for ways to bypass Pakistan as well as to counter China's growing influence in the Indian Ocean. New Delhi's interests in Afghanistan are greatly influenced by India's future economic growth prospects, which will require better connectivity to reach foreign markets for its exports.
- **Iran's** return to the global fold presents Afghanistan and the region with unprecedented opportunities in terms of connectivity, energy trade and diversification of markets.



"EWI is a pioneer in helping Afghanistan and the region to take responsibility for its own prosperity."

-H.E. Mr. Mohammad Ashraf Ghani

President of the Islamic Republic of Afghanistan

I. A Neighborhood at a Crossroads

Regional Overview

- Iran's renewed involvement in the region presents a valuable opportunity for Afghanistan's **Central Asian** neighbors to develop connectivity towards their south and access the Indian Ocean, an opportunity that is all the more valuable in the face of the economic stagnation facing the republics. In conjunction with fears of the region's vulnerability to both indigenous and foreign violent extremism, economic stagnation risks leading to an increased isolation of the traditionally introverted Central Asian States.
- **China** is also increasingly emerging in the region as a political actor, stepping out of its traditional economy-driven approach to foreign relations. Chinese investment in the China-Pakistan Economic Corridor and OBOR projects has game-changing potential for the prosperity of the region, as does its growing engagement as a political power broker.
- **Russia** maintains a comparatively low profile in Afghanistan. However, heightened tensions with NATO and increasing anxiety over the security situation in Afghanistan could cause a change in this hands-off approach.

"If Afghanistan fails to have proper security, the region fails to have proper security."

-Ms. Najilla Habibyar

President , Howdah Consulting Group;
Former CEO, Export Promotion Agency of Afghanistan (EPAA)



II. Trade & Transit

Seizing Opportunity

- Significant opportunity for trade and transit in the face of persistent and even rising difficulties places Afghanistan at a critical juncture. President Ghani has prioritized regional cooperation in his foreign policy. **However, progress made in the past fifteen years– and in particular in the past three– is challenged** by a number of factors.
- Certain facets of regional cooperation have improved over the past three years, **including some improvements in visa policies, a decrease in delays at ports like Karachi, and reductions in problems with insurance, bank guarantees and goods declarations** (which are now transmitted electronically).
- Regional, bilateral, and domestic factors continue to challenge trade and transit between Afghanistan and its neighbors and hinder Afghanistan's domestic economic growth. **The EastWest Institute has highlighted some of these concerns and developed a series of recommendations to address them.**






“When it comes to Afghanistan and its role, we must remember there is an opportunity in the will and positive outlook to seek regional integration held by the Ghani administration.”

-H.E. Ambassador Franz-Michael Skjold Mellbin

EU Special Representative Head of Delegation of the European Union to Afghanistan

II. Trade & Transit: Regional Issues

Problem	Recommendation
Shifting visa policies between countries remain a complicating factor in trade and transit.	 To facilitate easier intra-regional trade, visa regimes and policies should be improved and streamlined.
Pakistan prevents Indian products from reaching Afghan territory, and often prevents Afghan goods from being transported by Afghan trucks to India.	 Pakistan should allow the import, and enforce its commitment to allow the direct export, of Indian products through the Wagah border crossing point.  APTTA should be expanded to include India as well as Tajikistan.

“Even if we talk about integration, if there is too much difficulty in obtaining a neighbor’s visa, regional integration fails.”

-Ms. Faiza

Executive Director/Secretary General of the Pakistan-Afghanistan Joint Chamber of Commerce and Industry (PAJCCI)



II. Trade & Transit: Regional Issues

Problem	Recommendation
Strained political relations and a lack of connectivity between countries in the region impact Afghanistan's trade capabilities and opportunities for regional integration.	<ul style="list-style-type: none"> Establish more cross-border business networks and encourage the participation of an organized private sector. The influence of joint chambers of commerce should be expanded and improved, and the possibility of a regional chamber of commerce should be explored.
Iran's re-emergence as a player in the region presents new opportunities for Afghanistan.	<ul style="list-style-type: none"> Iran should be further engaged in Afghanistan's economic development and regional integration process.






"Leadership does not only come from politicians, but also from private sector institutions like chambers of commerce and business institutions."

-H.E. Mr. Hamidullah Farooqi

Chancellor of Kabul University and Adviser Minister to the President of Afghanistan

II. Trade & Transit: Regional Issues

Problem	Recommendation
Potential competition from Iran’s development of the Chabahar port worries Pakistan, which fears losing its status as Afghanistan’s primary trading relationship.	 The developing seaports of Gwadar and Chabahar should be viewed as complementary rather than competitive.
Afghanistan lacks the infrastructure that would better facilitate connectivity with its neighbors.	 Afghanistan should explore linkage with Gwadar port and OBOR projects.  The development of rural road networks should be a priority.



“Let there be connectivity everywhere. Let there be options everywhere. Let goods go from India to Iran, let them go through Pakistan. Set the ball rolling.”

-Mr. Muhammad Amin

CEO of TransLog Worldwide Logistics (Karachi, Pakistan)



II. Trade & Transit: Bilateral Issues



Problem	Recommendation
Inconsistencies and fluctuations in customs tariffs and seemingly arbitrary transit delays for exports to Pakistan diminish profits on the Afghan side.	 Afghanistan and Pakistan should analyze transit processes and procedures and continue to improve border crossing point efficiency.
Bilateral political tensions between Afghanistan and Pakistan exacerbate existing obstacles to trade.	 Afghanistan and Pakistan must continue to work to separate political and economic issues in order to maintain and improve good relations.



“Politics and economy need to be segregated at any cost; until we do this, the region will not find its destiny.”

-Mr. Zubair Motiwala
Founder Chairman, PAJCCI

II. Trade & Transit: Bilateral Issues

Problem	Recommendation
Corruption and a lack of trust and confidence hamper trade and transit between countries, particularly between Afghanistan and Pakistan.	 A system involving tiers of officers with third-party arbitration or oversight — such as from a chamber of commerce-- could limit corruption.
	 The creation of export houses between Afghanistan and Pakistan could build trust and confidence in cross-border trade.

“Afghanistan needs to have proper solutions. Economy, security, and politics all go together.”

-Ms. Najlla Habibyar

President , Howdah Consulting Group;
Former CEO, Export Promotion Agency of Afghanistan (EPAA)



II. Trade & Transit: Domestic Challenges

Problem	Recommendation
<p>The lack of an organized financial sector in Afghanistan, as well as a lack of confidence and trust in local banks, impedes the ability of foreign businesses looking to operate in the country, and hinders local business as well.</p>	<p> Afghanistan needs to continue to emphasize the enforcement of existing laws and rules while striving to improve on the established framework, including the formalization of land ownership for use as collateral.</p>
	<p> Reforms must balance the need for oversight, transparency, and trust with the need to make effective loans available to businesses and individuals.</p>





"If the financial sector is put in place, you will find many Indian businesses going into Afghanistan in the private sector and in joint ventures."

-Mr. Goutam Ghosh

Director of the Federation of Indian Chambers of Commerce & Industry (FICCI)

II. Trade & Transit: Domestic Challenges

Problem	Recommendation
A lack of awareness, education, and accessible information regarding procedures, policies, and trade agreements impedes both Afghan businesspeople and potential international partners.	 Consolidation and communication of information about business practices and trading arrangements is key, as are the standardization of processes across the country.
A negative international perception of Afghanistan discourages foreign investment and business.	 In order to encourage international participation in Afghanistan's economy, chambers of commerce and media outreach should publicize improvements in Afghanistan's business climate.

"Afghanistan is a landlocked country; our priority and policy is to open the gates for people-to-people contact and trade opportunities. "

-Mr. Wahidullah Waissi

Director-General for Economic Cooperation, Ministry of Foreign Affairs of Afghanistan



III. Regional Energy Dynamics in Central and South Asia

- **TAPI:** The beginning of construction on the TAPI gas pipeline represents a **hopeful new momentum** for a project that has been sluggish in past years. However, current international market conditions and fears of security challenges in Afghanistan may make it **difficult for consortium members to secure necessary funds** from donors and international financial markets going forward.
- **CASA-1000:** Construction has also begun on the CASA-1000 electricity transmission project, with completion hoped for in 2018. However, **water scarcity, aging energy infrastructure, and a lack of investment in Kyrgyzstan and Tajikistan** are likely to limit the capacity of the two countries to export sufficient electricity.



Construction site for the TAPI gas pipeline
Turkmenistan, May 2016

III. Regional Energy Dynamics in Central and South Asia

New Impetus for TAPI

- The slowing growth of the Chinese economy is affecting the country's energy consumption and imports. Should this trend continue, **decreasing Chinese gas imports could be an additional driving factor** for alternative transmission projects such as TAPI.
- Due to decreased exports, a loss of the Russian market, and lower gas prices, Turkmenistan is risking running out of cash, leading to a **change in the attitude of the Turkmen leadership towards the TAPI pipeline**. The trans-Afghan project is now even more crucial for the landlocked Turkmenistan.

"When it comes to regional projects like CASA and TAPI, nothing is more important in generating confidence than implementation."

-Mr. Wahidullah Waissi

Director-General for Economic Cooperation, Ministry of Foreign Affairs of Afghanistan



III. Regional Energy Dynamics in Central and South Asia

Emerging Competition

- The lifting of economic sanctions on Iran has **revived the 2,775 km Iran-Pakistan Gas Pipeline** from the South Pars gas field in Iran to Karachi in Pakistan and possibly further east to India. The Iran-Pakistan Pipeline, slated for a 2017 completion, makes Iran Turkmenistan's key competitor in the gas market and **could negatively impact natural gas transit via Afghanistan.**
- Pakistan and India are both seeking new gas supply. Pakistan's energy deficit is a key impetus for the TAPI pipeline, but **competing supply via other pipelines could provide faster relief.** Pakistan will not stake everything on the gas pipelines, however; it will in all likelihood bet on both the pipelines and imported LNG.



"CASA and TAPI are a shared interest between countries; they should serve as a catalyst for cooperation in transit and trade."

-Mr. Muhammad Amin

CEO of TransLog Worldwide Logistics (Karachi, Pakistan)

III. Regional Energy Dynamics in Central and South Asia

Emerging Competition

- Chinese- and Russian-sponsored infrastructure projects in Pakistan bring an additional factor to the regional energy equation, potentially creating **additional competition for TAPI gas** in Pakistan.
- The Russia-Pakistan North-South Pipeline is expected to be completed by 2020, and **will enlarge the national gas network of Pakistan and facilitate gas flows from Russia and Iran** to Central and Northern provinces of Pakistan.
- The CPEC-sponsored Gwadar-Nawabshah pipeline is slated to be completed by December 2017 and will be interconnected with the Iran-Pakistan pipeline. **It will be able to deliver natural gas to the same markets as TAPI.**

"For South and Central Asia, there is no doubt that Afghanistan offers many opportunities."


-Mr. Ramazan Jumazada,
Member of Parliament, Afghanistan



III. Regional Energy Dynamics in Central and South Asia

Challenges for Afghanistan

- As alternative energy supply routes towards South Asia are already developing, there is an increased urgency to Afghanistan's need to become a viable transit country for energy transmission
- Despite recent improvements, Afghanistan is still experiencing serious problems with electricity supplies. In this context, Afghanistan needs to both develop domestic sources of energy and secure supplies from abroad.
- Afghanistan's precarious security situation presents a tremendous challenge for project development. Many parts of Afghanistan where the TAPI pipeline and CASA-1000 are expected to pass through are essentially no-go areas for non-armed personnel.

A circular inset image showing a man in a dark suit, white shirt, and red striped tie, speaking at a podium with a microphone. He is identified as H.E. Ambassador Franz-Michael Skjold Mellbin.

"Security is the least of TAPI's challenges; if political will is mobilized to have these projects mobilized, even large-scale difficult obstacles can be surmounted."

-H.E. Ambassador Franz-Michael Skjold Mellbin

EU Special Representative Head of Delegation of the European Union to Afghanistan

III. Regional Energy Dynamics in Central and South Asia

The Road Ahead

- 💡 For Afghanistan, energy transit projects will bring new investment and energy supplies as well as additional income in the form of transit fees. This will result in a greater stability for Afghanistan and closer economic relations with its neighbors.
- 💡 For Kyrgyzstan and Tajikistan, CASA-1000 provides an incentive to reform their energy markets and attract foreign investors into their energy sectors.
- 💡 Pakistan will have competing choices between: 1) TAPI and LNG-based gas supplies and 2) CASA-1000 versus domestic generation facilities being built under the CPEC initiative. The experience of the EU energy market could provide guidance.
- 💡 For Turkmenistan, TAPI opens new markets and helps to monetize its gas reserves.

"Energy trade is one of the most significant areas with the potential of enhancing cooperation between Afghanistan and its neighbors."

-Dr. Danila Bochkarev
Senior Fellow, EastWest Institute



Looking Forward

A Call for Continued International Engagement

- Despite spite fifteen years of international commitment, social and economic progress and the opportunity to increase the present pace of development are **jeopardized by a deteriorating security situation.**
- The situation, though precarious, is not entirely grim. **Renewed commitments** from NATO, the United States, and international financial institutions, as well as the expected renewal of EU commitments next month, paint a hopeful figure for continued international involvement.
- It is easy to let bad news and setbacks, overshadow the very real progress that has been made in recent years. **There is a need for a new narrative—one focusing on opportunities and progress rather than defeatism—to be crafted for Afghanistan.**



"The international community has a moral duty to have a continued and sustained involvement in Afghanistan for the larger good of its people and the world as well."

-Mr. K. L. Thapar

Founder and Chairman, Asian Institute of Transport Development, India



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