



Afghanistan Reconnected: Cross-Border Cooperation at a Critical Juncture

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Dr. Najam Abbas, Senior Fellow, EastWest Institute
Mr. Muhammad Amin, CEO, TransLog Worldwide Logistics
H.E. Mr. Hamidullah Farooqi, Chancellor of Kabul University and Adviser Minister to the President of Afghanistan
Mr. D. N. Raina, President, Entecsol International
Mr. Wahidullah Waissi, Director-General for Economic Cooperation of the Ministry of Foreign Affairs of Afghanistan

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Why Afghanistan Matters

Afghanistan lies at the center of a volatile region which is directly affected by the risks of irregular migration, organized crime and narcotics trade, and violent extremism. But Afghanistan also provides numerous opportunities for its neighbors and the wider region. I am convinced that investments in its future will eventually pay off.

For many members of the international community, Afghanistan has been and remains one of their largest foreign engagements. Germany's annual official development assistance to Afghanistan stands at 430 million euros. Even after the full assumption of security responsibility by the Afghan security forces, our current contingent in the framework of NATO's "Resolute Support" Mission consists of up to 980 soldiers, more than in any other place in the world. In October this year, international partners will come together at the Brussels Afghanistan Conference to sketch the course of our common endeavor in Afghanistan for the next few years. This will be an important opportunity to look back and remind ourselves why, at a time of multiplying crises, we still rightly focus so much attention on a small and distant land which counts among the poorest in the world.

The international community joined forces to combat global terrorism emanating from Afghan soil and to help restore a legitimate and functional state after the attacks of 11 September, 2001. The Afghan people had suffered a bloody civil war and subsequent human rights abuses under Taliban rule in the aftermath of the Soviet withdrawal. Systemic state failure led to simmering conflict, humanitarian tragedy, and the unchecked proliferation of terrorist and extremist groups. Our stabilization efforts therefore aimed at helping the Afghan state get back on its feet and thus allow peace to return to a country that had known nothing but hardship and war for decades. Unfortunately after 15 years, despite significant gains in human development and infrastructure this key objective still remains elusive.

With its lasting engagement, the international community has shouldered a grave responsibility in front of its own as well as the Afghan populations. We must ensure that progress achieved is safeguarded and consolidated, but also that negative scenarios are prevented. Vigilance is also needed in the face of tensions along ethnic and religious fault-lines. It is clear that the current levels of international financial support are exceptional and will have to significantly decrease over the medium term. The time ahead must be used by the Afghan government to implement overdue political and economic reforms, to fully capacitate its security forces and to reach a peaceful settlement with those militant groups willing to forswear violence. Only an Afghan-led political process can bring about a sustainable resolution of the conflict.



This will be impossible without the backing of Afghanistan's neighbors. Afghanistan lies at the center of a volatile region which is directly affected by the risks of irregular migration, organized crime and narcotics trade, and violent extremism. But Afghanistan also provides numerous opportunities for its neighbors and the wider region. I am convinced that investments in its future will eventually pay off. Afghanistan in turn must demonstrate that it is worth investing in. As a missing piece of the regional architecture at the crossroads of Europe and Asia, it holds enormous untapped potential for trade and infrastructure. Its greatest potential, however, lies in its people and especially its young generation, boys and girls who are heirs to a rich cultural tradition, but whose education and opportunities will take them far beyond what their parents could have dreamt of.

I am pleased about the partnership between the EastWest Institute and the German Federal Foreign Office which has made the program "Afghanistan Reconnected: Cross-Border Cooperation at a Critical Juncture" a success. It is my hope that the dialogue it has helped stimulate will contribute to bringing the people and countries of the region together in the shared interest of a peaceful, stable and prosperous Afghanistan.

A handwritten signature in blue ink, which appears to read "Sabine Sparwasser".

Ambassador Sabine Sparwasser

Chair of the International Contact Group on Afghanistan,
Special Representative of the German Federal Government
for Afghanistan and Pakistan

Afghanistan Reconnected: How EWI Can Make a Difference

Now is a time of opportunity, though it may seem to many in Kabul that times are unusually tough. It's a time for leaders throughout the region, in politics, security, economics, and culture, to find new ways to look at one another and to articulate these new ways to their populations, getting away from previously held ideas that only perpetuated the kind of cynicism and ill-will that have dominated the region in recent years.

Afghanistan's fate will have an enormous impact on the region. That is why the EastWest Institute, working in close partnership with other concerned institutions, has engaged in reconnecting Afghanistan to its neighbors. This is not a question just of states working with one another—though certainly such cooperation is needed. During my time as American ambassador in Islamabad, I and my diplomatic colleagues were acutely aware of the interconnected nature of government-to-government efforts to promote security, prosperity, and democratic norms. But more than that, we were committed—as EWI and its partners are committed—to bringing in other stakeholders to ensure Afghanistan's future.

Let's consider just the question of prosperity, the long-term viability of business and economic affairs in the region. At the end of the day, this is what will sustain Afghanistan. A viable base of business, trade with neighbors, and attractiveness to investors from afar: this is what will stabilize the country and make it a vibrant and successful culture after years of challenges and trauma. This cannot be achieved simply through the efforts of leaders from the region. Of course, the support of governments from Delhi to Tehran, Moscow to Beijing, and the international community led by Washington will always be necessary. But it's the ability for businesses to thrive and grow that matters. This will be, in turn, something to which business leaders from neighboring countries will need to contribute. From Chinese investment in infrastructure and extractive industries to a Pakistani commitment to openings in trade, from Indian efforts to build highways to Iranian ties in traditional trade relations—this is what will truly reconnect Afghanistan, and the courage and farsightedness of those business leaders, working with one another on these and other projects, will be the test of how committed Afghanistan's neighbors are to longterm stability.

Pakistan plays a critical role in this process. The past fifteen years have underscored a deep lack of trust between Pakistan and Afghanistan, and yet reminded everyone of the deep links that hold the countries together. The great numbers of ethnic Pashtuns in Pakistan remind us of the intertwined fate of both countries, from the difficulties of longterm refugees to the changes in the ethnic makeup of megacities like Karachi. But it's not enough to retreat to the long-held prejudices that parade themselves as analysis on both sides of the border. Afghanistan must find a way to contribute to the Pakistani effort to extend the writ of its government throughout its territory, including the knotty problems of the tribal areas on the western border. For Pakistan's part, one hopes that civil and military authorities will see the great efforts the current leadership of Afghanistan has made (and the great political risks it has undertaken) in reaching out to Pakistan, and that these Pakistani leaders will contribute to the stability of the Afghan government in the knowledge that Afghanistan's success must truly be their own.



Another pressing challenge facing Afghanistan is the drug trade, which impacts both the economic and security outlook in the country as well as its relations with its neighbors. EWI's Strategic Trust-Building Initiative has, since 2011, convened its Joint U.S.-Russia Working Group on Afghan Narcotrafficking, which discusses ways to constructively and jointly enhance bilateral and multilateral efforts against the cultivation of poppy and trafficking of Afghan opiates and heroin.

Now is a time of opportunity, though it may seem to many in Kabul that times are unusually tough. It's a time for leaders throughout the region, in politics, security, economics, and culture, to find new ways to look at one another and to articulate these new ways to their populations, getting away from previously held ideas that only perpetuated the kind of cynicism and ill-will that have dominated the region in recent years. There is room, in Afghanistan, for Pakistan and India to find common ground, especially in promising areas so important to both countries as natural resources and energy—a whole dialogue should continue on electricity, water, pipelines, and food security. There is also room now, as Iran emerges from many years of sanctions, to see where it can contribute to Afghanistan's prosperity. No doubt the impact of China's ambitious plans that go under the rubric of One Belt One Road can make an enormous change in the way countries in the region see one another. And the international community, led by the United States, must get past its disinclination to focus on the region. Now is certainly not the time for Afghanistan fatigue, but quite the opposite: new ideas and new commitments are what is called for. It may be that new participants from outside government, from assistance leaders to other nongovernmental entities, will make the difference.

The efforts of the Afghanistan Reconnected process are valuable guides to lead us all in this direction. As we look at the achievements of this program, we must remind ourselves that all past, here, is prologue. The EastWest Institute, calling on all sides to provide clear and sober analysis of the issues, has brought this discussion forward: from trade and transit, to energy, to a clear assessment of the scenarios that Afghanistan faces, EWI has, with its partners, once again made the search for common ground in a difficult region its priority, and provided a real possibility of success.

Ambassador Cameron Munter
President and CEO, EastWest Institute

Program Overview

It is not the EastWest Institute that tries to tell countries of the region how to tackle their problems; instead, EWI provides the platform for practitioners and experts from the region to jointly identify these recommendations and to build the political trust to jointly implement them.



Afghan
Independence
Day celebration
in Kabul,
August 2016.

EWI delegation meets with President Ghani during the Advocacy and Outreach Mission to Afghanistan, November 2015 (Office of the President of Afghanistan)



Lana Schmidt-Goertz,
Program
Assistant,
EastWest
Institute

With the end of the ISAF mandate in late 2014, Afghanistan entered the “Transformation Decade”, facing not only security challenges but also an increased need for economic independence and stability. The reduced presence of international military forces left a security vacuum, aggravated by the subsequent loss of income and employment opportunities. In the face of these challenges, the economic development of Afghanistan was a crucial prerequisite for the peaceful stabilization of the country, and remains to date key to securing the fragile region from current and future threats.

Additionally, the need to shift the Afghan economic landscape away from a security economy and aid dependence towards harnessing the country’s potential in agriculture, mining and as a strategically located trade and transit hub was paramount. These assumptions proved accurate in the wake of the conclusion of the ISAF mission, and remain valid today as the Afghan National Security Forces (ANSF) are entrusted with the main responsibility for stabilizing the country, and the Afghan administration attempts to establish a sustainable governance system and eradicate corruption.

Foreseeing the region’s and Afghanistan’s upcoming challenges, the EastWest Institute (EWI) has since 2012 refocused its ongoing Afghanistan program, originally called the “Abu Dhabi Process”, towards the concept of regional economic security, hence the new title, “Afghanistan Reconnected

Process”. The Institute aims to forge economic cooperation and political trust between neighbors in what can be considered one of the least interconnected regions in the world. To achieve this goal, EWI has created a platform for businesses and governments from Greater Central Asia to identify obstacles to regional trade and transit. It has established a network of high-level experts, representatives from parliaments, and the private sector from Afghanistan, its immediate neighbors, and countries with interests in the region, as well as from regional and international organizations. In 2013-2014, EWI convened high-level consultations in Istanbul, Islamabad and New Delhi to address priority regional economic security issues post-2014 such as infrastructure, energy and investment. After a review meeting in Berlin in April 2014, EWI published participants’ views in a major report entitled “Afghanistan Reconnected: Regional Economic Security Beyond 2014”, which was launched in Brussels, Washington, D.C. and New York City.

A subsequent conference in Istanbul in November 2014 enabled participants to build upon the report’s conclusions, and formulate actionable short- and long-term recommendations for policy reforms in the fields of energy, transport, trade, and investment. Suggested measures included the development of a computerized customs-clearance system to enhance the transport of goods across borders; easing visa regimes to facilitate the movement of business persons in the region; addressing the slow progress of



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

H. E. Ashraf Ghani
President of Afghanistan

the Turkmenistan–Afghanistan–Pakistan–India Pipeline (TAPI) and of the Electricity Transmission and Trade Project for Central Asia and South Asia (CASA-1000) projects as well as infrastructure needs to overcome the lack of regional transport connectivity.

In order to advocate for the implementation of these recommendations, in 2015 the EastWest Institute conducted advocacy missions to Pakistan, India, Tajikistan, and Afghanistan in 2015 to discuss opportunities to unlock the region's economic potential with relevant stakeholders. The visits allowed EWI's delegations to engage with local chambers of commerce as well as with the countries' policymakers, including the presidents of Afghanistan and Pakistan as well as ministers with portfolios in the fields of foreign affairs, trade, transport, and energy. The country-specific recommendations put forward by EWI's group of private sector representatives, members of parliament, and experts from the region received great attention and follow-up after each mission.

In an effort to track and assess progress in the region and gather perspectives from different audiences, in 2016 EWI convened two roundtables in Brussels and a major conference in Istanbul. For the first roundtable, EWI brought experts from its regional network together with Brussels-based practitioners to discuss current challenges to economic and political cooperation in the region, and continued needs for international involvement. The second roundtable was held with

Brussels-based Ambassadors of Afghanistan, its neighboring states, and interested countries in order to gather more official assessments of current developments, opportunities and challenges for the region from their countries' perspectives.

EWI convened its most recent Istanbul conference as a Track II side event to the June 5, 2016 meeting of the International Contact Group on Afghanistan. Engaging participants from Afghanistan, China, India, Iran, Pakistan, Tajikistan, Turkey, Europe and the US, EWI took stock of the developments in the region since the beginning of the Process' activities in 2013. The main findings of these events are translated in the present report “Afghanistan Re-connected: Cross-Border Cooperation at a Critical Juncture”, which aims to appeal to regional actors and the international community to continue their commitment to Afghanistan and the region, as well as to stress the importance of a stable and prosperous Afghanistan for the rest of the world.

The reader of this report will find a wealth of concrete policy recommendations, not least in the chapter on Trade and Transit. While some of these recommendations are in various stages of implementation, we believe that their full implementation would make a difference. But it must be stressed that it is not the EastWest Institute that tries to tell countries of the region how to tackle their problems; instead, EWI provides the platform for practitioners and experts from the region to jointly identify these recommendations and to build the political trust to jointly implement them.

04/2013
Istanbul

Afghanistan Reconnected:
An economic Land Bridge
in Asia

11/2013
New Delhi

Afghanistan Reconnected:
Unlocking Investment
Potential in the Region

06/2014
Brussels

Roundtable discussion
and recommendations
report launch

10/2014
New York

Recommendations
report launch

09/2013
Islamabad

Afghanistan Reconnected:
Linking Energy Suppliers
to Consumers in Asia

04/2014
Berlin

Afghanistan Reconnected:
Creating Momentum for
Regional Economic Security

10/2014

Washington, D.C.
Recommendations
report launch



Afghanistan Reconnected: Program Timeline

03/2015
Islamabad
Advocacy and
Outreach Mission
to Pakistan

10/2015
Dushanbe
Advocacy and
Outreach Mission
to Tajikistan

03/2016
Brussels
Sustaining Regional
Cooperation in an
Insecure Environment

06/2016
Istanbul
Afghanistan Reconnected:
Cross-Border Cooperation
at a Critical Juncture

11/2014
Istanbul
Afghanistan Reconnected:
Businesses Take Action
Conference

06/2015
New Delhi
Advocacy and
Outreach Mission
to India

11/2015
Kabul
Advocacy and
Outreach Mission
to Afghanistan

05/2016
Brussels
Ambassadorial Briefing:
Promoting Regional
Stability and Prosperity



Afghanistan Reconnected

A family traveling
on the outskirts of
Kabul, August 2016.





A Neighborhood at a Crossroads

Both Afghanistan and its neighborhood are undergoing changes causing major shifts in the perspectives on cooperation between actors in the region and beyond. This chapter provides an overview of these regional dynamics, the changes in the most significant regional actors' postures towards Afghanistan and their potential impact on the future of Greater Central Asia.



Ettore Marchesoni,
Program
Coordinator,
EastWest
Institute

Recent years saw Afghanistan move from a UN-led Transition Process (2001-2014) to its Transformation Decade (2015-2024), during which the Afghan administration is striving to advance from UN-supported political and economic reconstruction and ISAF-managed security to long-term stability and prosperity based on economic self-reliance and good governance.¹ The move from internationally-driven management of an emergency situation towards taking responsibility for its own progress and security engendered major political, military and economic transitions for Afghanistan. From a political angle, in 2014 a peaceful transfer of power from the Karzai administration led to the establishment of a government led by President Ghani under a power-sharing agreement with his main opponent, Chief Executive Officer Abdullah Abdullah. The National Unity Government took a regional approach to bringing peace and stability to the country, and committed to undertaking extensive reforms to enhance governance, tackle rampant corruption and bolster economic growth focusing on infrastructure development and capacity building. Nevertheless, a deadlock delayed the appointment of a defense minister and intelligence director until June 2016, exposing the vulnerability of the National Unity Government to political rivalry between power-hungry factions.²

The security transition resulting from the transfer of responsibility from international forces to the Afghan National Security Forces (ANSF) was met by an expected increase in insurgent activities. As a result, 2015 showed a record number of civilian casualties, particularly among women and children, and significant territorial gains by the Taliban.³ Efforts toward engaging the group in multi-party peace talks through the Quadrilateral Coordination Group provide a glimpse of hope, but progress has stalled, with participants casting blame on one another. Another weakness of the peace process is the exclusion of players who are or have been heavily involved in Afghanistan, such as Russia, Iran and India, each of which have the potential to act as spoilers should the results of future negotiations clash with their national interests. In addition, Islamic State and Al Qaeda activities are growing, with reports describing clashes both with government and between the competing groups. Nevertheless, despite a reduced international military presence, the ANSF proved capable of withstanding the 2015 Taliban offensive and resistant to one of the most violent fighting seasons since 2001.⁴ In the wake of the increased violence, the international community's reaction has been twofold. First, the pace of the troops drawdown has been decreased by a number of allies, acknowledging the heightened challenge

¹ Government of the Islamic Republic of Afghanistan. (December 2014) *Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership*.

² Radio Free Europe/ Radio Liberty. (20 June 2016). *Afghan parliament confirms new defense minister, intelligence chief*.

³ United Nations Assistance Mission on Afghanistan. (2016). *Afghanistan Annual Report 2015: Protection of Civilians in Armed Conflict*.

⁴ Snow, Shawn. (15 February 2016) *Afghanistan: Lessons learned for the 2016 fighting season*. The Diplomat.



Blue Mosque in Mazar-e-Sharif, Afghanistan, March 2016.

faced by the Afghan security structures.⁵ Second, ANSF's taking further responsibility for Afghanistan's security was encouraged and sustained at the July 2016 Warsaw summit, during which NATO allies committed to support the forces until 2020 with around USD 1 billion annually.⁶

The third transition faced by the Afghan administration, which will be discussed in more detail in the following chapters, is taking place in the economic dimension. The withdrawal of ISAF forces and the reduction of international support have left Afghanistan in a dire situation. The Ghani administration has undertaken, with some success, reforms to cope with the foreseeable post-ISAF economic shock and start moving away from aid dependence, and has focused on tackling endemic corruption, increasing the state's budgetary revenue and improving the business environment.⁷ Despite the country's GDP growth plunge to 1.3 percent in 2014 (from an average of 9 percent during previous years), modest growth is expected in the short-term, although still strongly dependent on donor support.⁸ In this respect, the results of the October 2016 Brussels Conference

on Afghanistan have the potential to determine the country's economic outlook for the coming years, as they will demonstrate the level of donors' political and financial support to Afghanistan's stability.

Having put **regional cooperation** at the core of its National Development Strategy, the Ghani administration has participated in- and brought new life to- a number of initiatives, such as the Heart of Asia-Istanbul Process, of which Afghanistan is a permanent co-chair, and the Regional Economic Cooperation Conference on Afghanistan (RECCA). The latter forum was convened for the sixth time in Kabul in September 2015, and with the appointment of National Focal Points is promising to become a forum for regular exchange on economic cooperation in the region. In fact, it has already taken a leading role in generating momentum for regional projects such as the Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI) and the Central Asia-South Asia-1000 (CASA-1000) power project. Additionally, Afghanistan is set to become the 164th member of the World Trade Organization (WTO) following the ratification of the accession protocol by the National Assembly. On the other hand, other regional initiatives, such as the Economic Cooperation Organization (ECO) and the South Asian Association for Regional Cooperation (SAARC), are still daunted by combative and obtrusive regional dynamics which limit their effectiveness.

A growing regional trend, fueled by the conflicts in Syria and Iraq, has been the increasingly **shared perspective of common security risks** stemming from Islamic extremism. The need for such

⁵ Landler, Mark. (6 July 2016) *Obama says he will keep more troops in Afghanistan than planned*. New York Times.

⁶ Torbati, Yeganeh and Emmott, Robin. (9 July 2016) *Despite fatigue, NATO commits to fund Afghan forces to 2020*. Reuters.

⁷ Byrd, William A. and Payenda, M. Khalid (24 February 2016) *Afghanistan's revenue turnaround in 2015*. United States Institute of Peace.

⁸ Asian Development Bank (2016) *Afghanistan: Economy*. (Accessed: 31 August 2016).

People shop at local bazaar ahead of Eid al-Fitr, the celebrations marking the end of the Muslims' holy fasting month Ramadan in Kabul, July 2016.



a common view on regional common threats represent a major change from the traditional consideration that security concerns are solely a matter of national interest. As EWI's expert group noticed during their mission to Tajikistan, security issues were considered to be essentially an Afghan problem, although such a mindset ignores the regional context that enables armed groups to flourish and the impact the security situation in Afghanistan has on its immediate neighbors and the rest of the world. In other words, this vision neglects the growing transnational dimension of violent extremism, and the ability of armed non-state actors to capitalize on a lack of trust between countries in the region, as in the case of Central Asian citizens fighting alongside the Taliban in Afghanistan.⁹ However, the rise of Islamic State and the conflicts in Syria and Iraq have generated a flow of foreign fighters drawing the attention of regional powers to the risks connected to their return. Regional bodies such as the Collective Security Treaty Organization (CSTO), the Shanghai Cooperation Organization (SCO) and the Conference on Interaction and Confidence-Building Measures in Asia (CICA) are all engaged in discussions on how to address these risks. This perception of a common threat could become a rallying point to further a joint security vision across the region, and to foster cooperation among concerned actors from Central to South Asia.

Violence and economic stagnation in some areas of Afghanistan have caused the displacement of an estimated 10 percent of the country's population outside the country. The current **Afghan refugee population**, approximately 2.6 million

individuals, has continued to represent a major challenge not only for Afghanistan, but also for host countries in the region and the European Union. The movement of Afghan refugees, asylum seekers and economic migrants towards safer locations and employment opportunities has strongly affected Afghanistan in the first place, which is suffering from brain-drain and loss of a skilled workforce. Secondly, Afghan migrants represent a significant burden for countries in the region, particularly for Iran and Pakistan, which are currently hosting, respectively, 950,000 and 1.5 million registered refugees.¹⁰ In the face of the refugee crisis resulting from the conflicts in Syria and Iraq, Afghans still constitute the second largest group of migrants arriving in the European Union.¹¹ However, due to the protracted nature of the crisis in Afghanistan and variable security throughout the country, acceptance rates of Afghan migrants and asylum seekers in Europe are declining, and western countries are adopting different strategies to ensure their return. The resulting risks of marginalization and exploitation in host countries, as well as the risk of increasing instability in Afghanistan through forcible return of large numbers of migrants, opens the door to cooperation between the actors affected by the refugee outflow, in the context of the Solutions Strategy for Afghan Refugees (SSAR), signed by Pakistan, Iran, Afghanistan and the United Nations High Commissioner for Refugees, or under new frameworks for policy coordination.¹²

¹⁰ Malikiyar, Helena. (15 September 2015). *Afghanistan: The other refugee crisis*. Al Jazeera.

¹¹ The Economist, print edition. (2 April 2016). *Living in limbo: The treatment of Afghans shows how Europe's asylum system is collapsing*.

¹² United Nations High Commissioner for Refugees (August 2015). *Afghanistan Regional Portfolio: Solutions Strategies for Afghan Refugees*.

⁹ Domínguez, Gabriel. (4 November 2015). *Why Central Asia is increasingly worried about Afghanistan*. Deutsche Welle.



"Afghanistan needs to have proper solutions: economy, security and politics all go together."

Najlla Habibyar

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



"Chabahar and Gwadar are not competing ports; they are complementary ports."

Zubair Motiwala

Founder Chairman of
PAJCCI, Pakistan

Accompanied by bilateral bickering and shifting national priorities, the posture of the main countries in the region underwent significant changes, drawing new connectivity lines across the neighborhood. The relations between Pakistan and Afghanistan lie at the core of the region's future stability and security due to the two countries' central position and intertwined systems. Following a gradual improvement driven by President Ghani's extensive outreach right after taking office, these relations reached a new low point in late 2015-early 2016, and continued to fluctuate through 2016. The worsening relations led to violent clashes in the summer of 2016 in the proximity of the Torkham border crossing along the disputed border between the two neighbors, and a more recent August 2016 closure of the Wesh-Chaman border crossing.¹³ These rising tensions do not only impact bilateral political relations and human livelihood on both sides of the border; they are detrimental to regional trade as well. Due to growing frustration on both sides regarding the failure to deliver on promises made and also to repeated mutual accusations, the Afghan administration decided to diversify its priorities around regional connectivity. As a result, **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, although Islamabad's economic relationship with Beijing is somewhat one-sided and may raise concerns about its long-term benefits for Pakistan. The U.S., presumably Pakistan's most important

ally, has had limited success with conditioning its substantial aid, notably for the security sector, on an active commitment towards Afghanistan's security, stability and economic connectivity, and is currently downsizing this aid.

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. In this vein, India has become strongly involved in the development of the Iranian port of Chabahar. With the signing of the Chabahar Port Agreement in May 2016, India committed up to USD 500 million to the port's development.¹⁴ This project is one example of continued Indian involvement in infrastructure development in the region, a strategy that has strongly characterized New Delhi's contribution to Afghanistan's prosperity in recent years. India is in fact one of the largest investors in Afghanistan, and has focused its commitments on tangible contributions, such as the construction of Afghan-India Friendship Dam (formerly known as Salma Dam), inaugurated on June 4, 2016 after a decade-long construction marked by delays caused by the volatile security situation.¹⁵ 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.

India's commitment to the development of Chabahar port falls in line with **Iran's** opening towards the region following the 2015 nuclear deal and the progressive lifting of sanctions that had

¹⁴ The Guardian. (23 May 2016). *India to invest \$500m in Iranian port of Chabahar*.

¹⁵ Swami, Praveen. (5 June 2016). *At Afghan dam inauguration, PM promises: India will not forget you*. The Indian Express.

¹³ Al Jazeera. (14 June 2016). *Afghanistan-Pakistan border clashes kill two soldiers*.



led to its isolation in recent years. Tehran's return to the global fold presents Afghanistan and the region with unprecedented opportunities in terms of connectivity, energy trade and diversification of markets. In particular, the Iranian market will offer an additional outlet and transit corridor for Central Asian energy exports, leaving room for optimism for the region's connectivity prospects. In relation to Afghanistan, Iran has a clear interest in the stability of its eastern neighbor, in order to decrease the influx of refugees, as well as to limit the illicit drug trade and control its negative impact on the country's population. As a newly engaged actor on the regional scene, Iran has the potential to gain prominence in the promotion of regional connectivity, providing alternatives to deadlocks that have stalled developments in the fields of transport and trade in recent years. Additionally, Iran's recent coordination with the Taliban to secure a buffer zone against IS along its own border with Afghanistan could allow the country to act as a valuable new partner in the ongoing peace process.¹⁶ Coupled with the thaw in U.S.-Iran relations, this could present additional opportunities for the U.S. government in particular to engage Iran in the peace process in a manner similar to the joint U.S.-China patronage of the Quadrilateral Coordination Group. Recognizing Iran's reemergence and its growing significance to the region, EWI's Afghanistan Reconnected Process has endeavored to include Iran since the program's inception, and is at present working to engage it further in future activities.

In particular, Iran's renewed involvement in the region presents a valuable opportunity for Af-

ghanistan's **Central Asian neighbors** to develop connectivity towards their south, and to overcome their traditional connection to (and dependence on) Moscow. Iran represents for Central Asian Republics not only an additional outlet for their energy exports, but also access to the Indian Ocean. Such an opportunity is all the more valuable in the face of the economic stagnation facing Afghanistan's neighbors to the north due to the decrease in revenues for energy-exporting states and plummeting remittances from foreign workers, caused by the depreciation of the rouble.¹⁷ 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, rather than fostering cooperation. Moreover, due to the centralization of power in the hands of aging leaders, several Central Asian Republics will face difficult political succession processes in the coming years, which may destabilize Afghanistan's northern neighborhood and should be closely monitored by the international community.

In contrast, **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 has game-changing potential for the prosperity of the region, affecting Pakistan and its neighbors. Moreover, the "One Belt One Road" initiative, despite uncertainty around its timeline and route, stands to greatly contribute not only to trade and investment, but also to the regional energy market by revitalizing the ancient Silk Road. However, the most significant change

¹⁶ Dreazen, Yochi. (26 May 2016). *Exclusive: Iran Teams With Taliban to Fight Islamic State in Afghanistan*. Foreign Policy.

¹⁷ Zarzuela, Julia. (16 January 2016). *From Russia with love*. The Economist, print edition.



A worker at a brick factory in Kabul, July 2016.

in China's posture towards Afghanistan and its neighbors can be found in its growing involvement as a political power broker, recognizing that instability in Afghanistan constitutes a risk for its ambitions in the region. This attitude change has led to increased military cooperation with Pakistan and Afghanistan, resulting, for instance, in alleged plans to establish military bases in Federally-Administered Tribal Areas (FATA), and in pledges of financial and needs-based support to the Afghan National Security Forces. Ultimately, the shift in China's approach towards the region has led, since late 2015, to Beijing's engagement in Afghanistan's peace process through the Quadrilateral Coordination Group in partnership with Afghanistan, Pakistan, and the United States. Despite the difficult progress of engaging the Taliban in peace talks, this initiative marks a new dimension of Chinese engagement in the region, which is expected to increase in the coming years.

Russia, meanwhile, maintains a comparatively low profile in Afghanistan, its military history in the country causing it to seemingly prefer to remain in the background as Western powers—led by its traditional rival, the United States—take the lead. The Russian position has thus far been marked by indirect and largely passive involvement as Moscow allows NATO forces to take the helm militarily while Western donors lead financially. However, heightened tensions with NATO and increasing anxiety over the security situation in Afghanistan could cause a change in this hands-off approach. Moscow has given some recent indications that it may expand its involvement in the future; currently, it provides some military and economic aid, which it has recently increased. Russian officials have repeatedly expressed concern regarding the security situation, in particular the threat of the spread of violent extremism to Central Asia and

to their own borders, and have also indicated the possibility of providing greater military aid to Afghanistan, though the sending of Russian combat troops to the country is highly unlikely. Russia also sends reinforcements to military bases in Tajikistan, which sees fighting along its borders with northern Afghanistan. Despite Russia's reluctance to heavily engage officially, it does appear to maintain ties with influential personalities in Afghanistan, preliminarily agreeing to a request by Afghan Vice President Abdul Rashid Dostum to sell helicopter gunships and other weapons to Kabul, for which negotiations are still underway.¹⁸ ¹⁹ Moscow also maintains contact with de facto Balkh governor Atta Mohammad Noor, who in 2015 spoke at a celebration held by the Russian consulate in Mazar-i-Sharif, criticizing the bilateral U.S.-Afghanistan security agreement as having proven useless for Afghanistan's security.²⁰ Moscow's apparent desire to reassert itself geopolitically could drive its future involvement in Afghanistan; furthermore, its warming relationship with Iran (including limited military cooperation in regards to Syria), which is recently pursuing SCO membership as are India and Pakistan, could one day present an alternative bloc to drive development and engagement in Afghanistan, as could its historically close relationship with Central Asian states. With these factors in mind, neglecting to engage Russia as an active part of the official peace process and in regional economic integration endeavors could prove to be short-sighted.

¹⁸ Khaama Press. (16 October 2015). *Gen. Dostum, Russian envoy discuss Moscow's support to Afghan forces*.

¹⁹ Russian Aviation. (26 July 2016). *Afghan Security Adviser to Discuss Russia's Mi-35 Deliveries*.

²⁰ Adeel, Mirwais. (9 May 2015). *US security pact proved useless for Afghanistan's security: Noor*. Khaama Press.



Trade and Transit: Seizing Opportunity

Afghanistan represents tremendous potential in terms of geographic location. Its central position along the ancient Silk Road between South and Central Asia provides exceptional opportunities to take advantage of the country's trade and transit potential. Indeed, significant progress has been made in the past three years in terms of internal growth as well as trans-national and regional cooperation toward this end. The involvement of new players – namely China and Iran – offers new opportunities to capitalize on Afghanistan's potential, with new initiatives and developments seeking to foster increased trade and transit.







James Creighton,
Distinguished
Fellow,
EastWest
Institute

Annie Cowan,
Program
Coordinator,
EastWest
Institute

Significant opportunity for trade and transit in the face of persistent and even rising difficulties places Afghanistan at a critical juncture. Security forces continue to be pressed in northern and southern Afghanistan, and still-complicated relations between countries in the region impede what would otherwise be a natural use of Afghanistan's location. Recent contention — including exchange of fire — between Afghanistan and Pakistan regarding the construction of border gates at the Torkham crossing threatens what progress has been made, and illustrates the continued necessity of maintaining positive relations between neighbors in the region. The accessibility of other border crossings continues to be affected by tensions between the two countries; the Wesh-Chaman crossing point—a second major point of entry after Torkham — was closed by Pakistan for fourteen days in August 2016 following anti-Pakistan demonstrations by protestors in Spin Boldak on the Afghan side, causing spoiled goods and loss of income for traders on both sides of the gate.²¹ The lack of security, political stability, and positive cross-border relations necessary to benefit from available opportunities remains a hurdle that must be overcome through enhanced cooperation within the region and the international community as a whole.

The Afghanistan Reconnected Process is built upon the conviction that regional economic growth is a cornerstone to long-term security and stability for both the country and its neighbors. The meetings held with political, business and academic leaders in Afghanistan, India, Pakistan, Tajikistan, Turkey, Europe and the U.S. have validated this assumption. There exists a common understanding that improvement in regional trade and transit will drive more robust economies and provide the

stability needed to achieve lasting security, and there is a consensus that the substantial natural resources and transit opportunities in Afghanistan represent untapped potential.

The improvements in Afghanistan's basic infrastructure over the last 10-15 years highlight the opportunities for long term growth as well. In 2001, Afghanistan began the process of recovering from 20 years of war and devastation. Society and infrastructure had been reduced to the point of subsistence and survival, and the prospect of regional economic cooperation seemed a far-off concept. Since then, the ISAF coalition's contribution of over USD 100 billion in support of economic development and security improved conditions dramatically, and significant gains were made in many areas such as infrastructure, power, communications, access to healthcare and standard of living. In 2002, only 6 percent of Afghans had electricity; by 2015, this was up to 30 percent, with certain urban areas having 90 percent access. Overall, the country's GDP nearly tripled from USD 7 billion in 2006 to USD 20 billion in 2014. Although the exact statistics are difficult to verify (due to challenges in gathering accurate information in rural and unsafe areas) and the cost to achieve results is extremely high, the magnitude of improvement in well-being, education, and infrastructure has been dramatic. These improvements have set the conditions for Afghanistan to exploit its central position and natural resources in order to grow its regional trade and transit capacity.

Given the improvement in capacity over the last 15 years, Afghanistan has ample opportunity to develop its trade and transit sector under the right circumstances. The human capacity improvements—as indicated by the number of children in school, the improving access to health care and extended life expectancy—provide a more stable

²¹ Associated Press. (31 August 2016). *Pakistan, Afghanistan agree to reopen border crossing.*



"Afghanistan has underdeveloped infrastructure, a relatively small export base, and disruption of natural markets. Trade and transit are of great importance for the country. "

K.L. Thapar

Chairman, Asian Institute of Transport Development, India



"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."

Muhammad Amin

CEO, TransLog Worldwide Logistics, Pakistan

foundation for economic development. Residual coalition infrastructure and equipment—road networks, airport facilities and unused construction and trucking capacity—offer potential critical resources that could be used to maximize exports. The government of Afghanistan has entered into large-scale regional agreements that are being implemented with the purpose of increasing commerce and economic cooperation in the country's neighborhood. One such agreement is the Afghanistan-Pakistan Transit and Trade Agreement (APTTA), which was accepted in 2011 and has been partially implemented, though problems remain, including Pakistan's refusal to allow the transit of Indian goods through Afghanistan, which necessitates that India-Afghan trade go through Iran. Both sides are working through problematic issues and the agreement was revised in March 2016 with the agreement that Tajikistan could be included.

From an international perspective, President Ghani has prioritized regional cooperation in his foreign policy. He has traveled extensively to Pakistan, India, China and the Central Asian states. His outreach and dedication to enacting regional trade and transit agreements are indicative of his desire to improve cooperation between Afghanistan and its neighbors. Unfortunately, the anticipated dramatic improvement in trade and transit has not been realized, due in large part to historical animosities that hinder efforts to implement these agreements. EWI's visit to Pakistan's President Hussain in March 2015 highlighted the optimism for enhanced bilateral trade and transit cooperation created during President Ghani's visit to Islamabad in that same month. By the time of the Institute's meeting with President Ghani in November 2015, that optimism had all but vanished. President Ghani subsequently sought to diversify his outreach efforts, shifting his focus to Central Asia, Iran and China. The Ghani government fully recognizes

the current security and economic challenges facing Afghanistan and is taking measures to improve both the internal and external political situation.

Considering the improvement in the overall trade and transit capacity, compounded by major improvements in infrastructure, Afghanistan should be headed in a positive direction. Unfortunately, the withdrawal of coalition troops in 2014, and the resultant decrease in funds and international aid, threatened to stall progress. The country is currently in a precarious position economically and in terms of security, with stability and progress being both interdependent and hanging in the balance. The deteriorating security situation continues to jeopardize the vision of Afghanistan as a trade and transit hub, with obstacles to maximizing trade and transit potential stemming partially from security declines as well as from a failure to resolve internal and external political conflict. The resurgence of the Taliban and the emergence of the so-called Islamic State (IS) in certain provinces threaten to stall and reverse economic progress made in the past 15 years, as the government struggles to achieve a cessation of hostilities with the Taliban and a defeat of IS. On top of the security challenges, there remain substantial internal governance and regional cooperation components that must be resolved before economic progress can continue at a pace that takes full advantage of the opportunities available to Afghanistan.

Despite the pressing security situation and setbacks in political relations, however, certain facets of regional cooperation have improved over the past three years. These improvements in cross-border trade and transit must be safeguarded and expanded upon in light of present circumstances. Between Pakistan and Afghanistan, significant effort has been made to separate political and economic relations, though this progress is precarious

and subject to backsliding during times of particularly heightened tension. Increased cooperation and intervention by chambers of commerce and joint chambers of commerce, such as the Pakistan Afghanistan Joint Chamber of Commerce and Industry (PAJCCI), have resulted in a decrease in delays at ports like Karachi and reductions in problems with insurance, bank guarantees and goods declarations (which are now transmitted electronically). According to Mr. Muhammad Amin, CEO of global shipping company TransLog Worldwide Logistics, the speed of Afghan-Pakistani commercial connectivity has improved markedly over the past three years, and “most holdups in terms of transit delays now tend to be for individual issues, such as incorrect paperwork or the legality of cargo.”

Improvements in Afghanistan-Pakistan visa policies have also been noteworthy. In the past, worsening political relations with Pakistan had repercussions on these policies, negatively affecting businesses. When relations were particularly bad at the start of 2016, Afghan businessmen could only be granted a 3-month single-entry visa to Pakistan. By May 2016, the situation had improved and businessmen were able to receive one year, multi-entry visas (facilitated by PAJCCI). In fact, over the past three years the overall number of complaints made to PAJCCI by businessmen conducting cross-border trade has decreased due to a normalization of relations and procedures between authorities of the two countries. As of this report’s publication, it remains to be seen how present tensions will affect visa requirements between the two neighbors.

These short- and medium-term increases in cross-border cooperation constitute a positive first step on a path toward greater regional economic integration for Afghanistan, and are not limited to progress with Pakistan. According to Mr. Wahidullah Waissi, Director-General for Economic Cooperation of the Ministry of Foreign Affairs of Afghanistan, the June 2016 inauguration of the Afghan-India Friendship Dam is “a token of real partnership between Afghanistan and India”, and illustrates the growing cooperation between the two countries in a number of fields, including economic integration. An increase in Indian corporations setting up franchises in Afghanistan represents another positive development in cross-border trade. A marked increase in delegations of Afghan businesspeople looking for Indian buyers has been noted by the Federation of Indian Chambers of Commerce & Industry (FICCI), which has had growing success in facilitating cross-border business contacts, exhibitions, and ‘train-the-trainers’ programs between Indian and Afghan businesspeople.

Long-term regional economic cooperation may depend on large-scale transit infrastructure projects. India is presently investing heavily in the development of the Chabahar port in Iran; the agreement pertaining to this was signed in early 2016. From an Afghan perspective, this positive development

opens the possibility of an increase in the import of high-quality and less-expensive Indian goods; likewise, it stands to provide better market access for Afghan exports, allowing Afghan goods to more easily reach the lucrative Indian market and nearly halving the transit time as compared to shipment through Pakistan. While the development of the Chabahar port is a newly-minted plan, the Chinese “One Belt, One Road” (OBOR) initiative is more concrete, and is “perceived as a strategic reality throughout the region and the wider world,” says Ambassador Franz-Michael Skjold Mellbin, EU Special Representative and Head of Delegation of the European Union to the Islamic Republic of Afghanistan. It has also led to a new perception of China as a strong actor in the region, willing to invest in infrastructure projects and take on a greater role. The USD 40 billion initiative, which seeks to revitalize old Silk Road routes and ultimately connect China to European and other international markets, currently heavily involves Pakistan through the China-Pakistan Economic Corridor. OBOR has essentially created a new reality for economic cooperation in the region and presents a unique opportunity for Afghanistan to connect to its associated projects and, through them, take advantage of new and unprecedented access to international markets. In fact, a Memorandum of Understanding between Afghanistan and China in regards to participation in the OBOR initiative was signed in May 2016 and marks a growth in Chinese investment in Afghanistan.

Despite the presence of new opportunities and broad-based support for improved cooperation and improvements in many areas, however, many measures to reduce obstacles to trade and transit remain to be taken or implemented. The failure to implement regional trade agreements, improve trade processes and procedures, and develop a cooperative regional environment has limited economic growth in Afghanistan’s neighborhood, while a deteriorating security situation in the country threatens not only to stagnate what progress exists but to reverse it considerably, impacting both the country and the region as a whole. The threat to regional security and Afghan wellbeing is significant; without concerted efforts to improve Afghan governance and create a more harmonious political environment in South and Central Asia, the opportunities for improved regional trade and transit capacity that have been earned over the last 15 years will slip away.

Certain 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, over the course of the Afghanistan Reconnected Process and in consultation with experts, government officials, and business leaders from the region, has highlighted some of these concerns and developed a series of recommendations to address them.



A man rests under a truck before traveling to Afghanistan in Peshawar, northwestern Pakistan, August 2016.

Regional Issues

Regionally, shifting visa policies between countries remain a complicating factor in trade and transit. Tajikistan has maintained a complicated visa regime towards Afghanistan, benefiting financially from increasing visa costs. Likewise, obtaining an Indian visa is growing more problematic for Afghan businesspeople, due to increasingly cumbersome bureaucratic procedures involved in the process. The fluctuating internal security situation causes visa policies and procedures between Afghanistan and its neighbors to shift frequently, which impedes trade, in particular with the Central Asian states to the country's north.



To facilitate easier intra-regional trade, visa regimes and policies should be improved and streamlined.

Countries in the region need to develop a simplified procedure for obtaining a visa to encourage trade across borders. Continued work on visa regimes throughout the region is necessary, says Ms. Faiza, Executive Director/Secretary General of PAJCCI. "Even if we talk about integration, if there is too much difficulty in obtaining a neighbor's visa, regional integration fails." The prospect of granting easier multi-entry visas for pre-screened businesspeople should be pursued.

Strained political relations and a lack of connectivity between countries in the region impact Afghanistan's trade capabilities and opportunities for regional integration. Pakistan prevents Indian products from reaching Afghan territory, limiting Afghan access to Indian products and necessitating that India-Afghan trade be transported through Iran. Transit of Indian goods through Iran has also posed some problems in the past, but not to the same level as with Pakistan. Likewise, Afghan goods face challenges getting to the Indian market. Under the terms of the APTTA treaty, Pakistan is supposed to provide direct access for Afghan trucks to the Wagah border with India; in reality, this does not always happen. The Pakistani trucking lobby is particularly powerful, and often prevents Afghan trucks from carrying goods to India. This means that although Afghan goods do reach India, they are typically transshipped via Pakistani trucks, constituting a loss to the Afghan trucking industry; furthermore, the delay caused by this transfer frequently causes perishable goods to spoil. Afghan merchants are then paying Pakistani truckers to transport 100% of the cargo, but are able to sell only the unspoiled quantity upon the shipment's arrival in India. This both diminishes the quality of perishable Afghan exports to India and provides an unnecessary barrier to Afghanistan's potentially lucrative full participation in a critical regional and international market.



Pakistan should allow the import, and enforce its commitment to allow the direct export, of Indian products through the Wagah border crossing point, and APTTA should be expanded to include India as well as Tajikistan.

During the last Joint Ministerial Economic Commission in Islamabad in February 2016, Pakistan reiterated its interest in including Tajikistan. In March, the agreement was revised and Afghanistan agreed to drop its reciprocal bid to include India, allowing APTTA to be extended to formally include Tajikistan, for which preparations are underway. Pakistani authorities have thus far continued to oppose the inclusion of India; however, Afghanistan already has its own bilateral trade agreement with Tajikistan. To ensure that both countries profit from the expansion of the APTTA agreement, the inclusion of both Tajikistan and India would be ideal.



The establishment of cross-border business networks and the participation of an organized private sector could help drive domestic and regional economic development and cooperation.

According to H.E. Mr. Hamidullah Farooqi, Chancellor of Kabul University and Adviser Minister to the President of Afghanistan, "leadership does not only come from politicians, but also from private sector institutions like chambers of commerce and business institutions." An organized and mobilized private sector is well-equipped to create connections and alleviate misunderstandings across borders, and is instrumental in ensuring that political and economic matters are kept separate in terms of regional relations. However, the private sector in Afghanistan is largely disorganized, and serious cross-border interrelationships between businesspeople exist primarily with Pakistan and, to a lesser but growing extent, India. Chambers of commerce can play a role in organizing and mobilizing private sector actors in countries in the region to create new business networks. Business advocacy councils with private sector business leaders should be organized to provide valuable insights and guidance to political leadership. An engaged private sector and regional business networks should be driving forces in both economic development and regional integration, creating connections and guiding and incentivizing the reduction of impediments to cross-border trade and transit.



The influence of joint chambers of commerce should be expanded and improved, and the possibility of a regional chamber of commerce should be explored.

The ability of joint chambers of commerce to foster cross-border cooperation has been well-demonstrated by PAJCCI's work in easing certain impediments to trade. Encouraging funding and foreign support for joint chambers of commerce could ease and facilitate further cross-border cooperation. Furthermore, the creation of a regional chamber of commerce, including India and Iran in addition to Afghanistan and Pakistan, could prove beneficial in promoting private-sector-to-private-sector problem-solving.



Iran should be further engaged in Afghanistan's economic development and regional integration process.

The reemergence of Iran as a regional player presents unique opportunities given its close geographic location to Afghanistan, the new potential of the Chabahar port to open Afghan trade, and the renewed foreign investment following the removal of sanctions. According to Dr. Jafar Haghpanah of the University of Tehran, "There are more opportunities [in Iran] because of investments of other countries. This creates more opportunities for all matters related to Afghanistan directly and indirectly." The potential for the development of Chabahar, as well as further plans for railways and other regional projects including Afghanistan, bodes well for future Iranian-Afghan cooperation; however, higher volumes of commerce and trade between the two countries will be necessary to bring these projects to fruition. For this, certain measures- such as the standardization of railway gauges and the regularization of shipping services, customs procedures, and insurance services- must first take place.



The developing seaports of Gwadar and Chabahar should be viewed as complementary rather than competitive.

Pakistani fears of losing its prominence in the Afghan market to its competitors in light of the potential development of the Chabahar port are largely unfounded. Even if Afghanistan increases trade with India and Iran, Pakistan's location and position as a thoroughfare for China will mean that trade will always flow in large volume through it to Afghanistan, and vice versa. China can access Afghanistan

much more easily through Pakistan; Iran and India simply cannot compete. Pakistan, then, is a logical and, indeed, necessary commercial partner for its neighbor; this will continue despite the emergence of new opportunities. Furthermore, its connection to OBOR projects will allow it to maintain and even grow its significance to regional trade.



Afghanistan should explore linkage with Pakistan's Gwadar port and OBOR projects.

A direct connection from the Afghan ring road to Pakistan's Gwadar port would facilitate both regional and international trade for Afghanistan. Gwadar also represents a natural inroad for Afghan linkage to projects related to the Chinese OBOR initiative, which currently involves Pakistan through the China-Pakistan Economic Corridor. The Gwadar port will be heavily used by, and possibly even administered by, the Chinese; an Afghan connection to this- in the form of a straight road connecting the Afghan ring road to Gwadar- could allow easy access to the port, and potential Chinese administration could provide some avenues to work around Afghan-Pakistani bureaucratic hangups. The construction of such a road would be of ample benefit to the Chinese, the Afghans, and the Pakistanis, who could cement Gwadar's position as the most convenient port for Afghan transit. However, at the moment the construction of such a road is not considered a priority, though it will likely emerge as one. The government of Afghanistan has signed a Memorandum of Understanding with China regarding future participation in OBOR projects; follow-up must be ensured to allow Afghanistan and its neighbors to take advantage of its natural position as a hub for regional transit.



Afghanistan's network of rural roads need to be developed to facilitate both domestic and interstate trade and take advantage of existing and emerging opportunities to connect to its neighbors.

In addition to a lack of direct road connection to Pakistan's Gwadar, Afghanistan also suffers from a lack of development in terms of rural road connectivity. "Rural road networks," says Mr. K.L. Thapar, Chairman of the Asian Institute of Transport Development, "are vital to a landlocked country." The poorly-developed rural road network impedes both domestic

A view of the Afghan-India Friendship Dam which was opened by the President of Afghanistan Ashraf Ghani and Indian Prime Minister Narendra Modi in Herat, Afghanistan on June 04, 2016



trade and international transit through Afghanistan, and hampers access to resources and humanitarian needs for rural citizens, as well as affecting the ability of security forces to operate in contested areas.

Bilateral Issues

Bilateral political tensions between Afghanistan and Pakistan exacerbate existing obstacles to trade. Inconsistencies and fluctuations in customs tariffs and transit delays for exports to Pakistan diminish profits on the Afghan side. Afghanistan relies heavily on the export of agricultural products, mainly fruits. During harvest season, when Afghanistan is ready to export its fruits to and through Pakistan, Pakistani authorities increase custom tariffs on these goods by 200-300%. Furthermore, the export of perishable items from Afghanistan into Pakistan is often delayed at border crossings, where vehicles are stopped for trivial reasons for long periods of time, diminishing the quality of the produce. Recent bilateral tensions resulted in the temporary closures of two main border crossings—at Torkham in June 2016 and Wesh-Chaman in August—for political reasons, with the Torkham incident involving exchange of fire. In both cases, trade was significantly disrupted and goods were spoiled, resulting in loss of income for traders on both sides of the gates. In the case of the Wesh-Chaman closure, the Afghan Chamber of Commerce and Industry reported losses in the “millions” to Afghan traders, and Afghanistan resorted to airlifting fresh fruit to India, which agreed to exempt the shipments from taxes.²²



Afghanistan and Pakistan should analyze transit processes and procedures and continue to improve border crossing point efficiency.

Obstacles to cross-border transit continue to exist and, as evidenced by the Torkham and Wesh-Chaman border closures, impede both political and economic relations between the two neighbors. Border crossing procedures should be refined and standardized to prevent arbitrary or trivial delay of shipments in transit.



Most critically, Afghanistan and Pakistan must continue to work to separate political and economic issues in order to maintain and improve good relations. Bilateral political issues continue to have negative repercussions on economic relations. However, the countries are too interdependent economically for this

to persist, and Pakistan cannot afford to lose the Afghan market to competitors. In recent years, a particular effort has been made to separate political and economic issues between the two countries, which has had a positive impact on cross-border business relations; however, the recent conflicts and disruptions at the Torkham and Wesh-Chaman crossings illustrate the necessity of continued work and the danger of backsliding in this area.

Corruption and a lack of trust and confidence hamper trade and transit between countries, particularly between Afghanistan and Pakistan. A system with laws that grant discretionary powers to specific actors or individuals with little to no oversight by third parties allows corruption to flourish and diminishes confidence in formal cross-border trade. The lack of accountability with international funds severely limits both the impact of funding and the willingness of foreign and international donors to invest. Furthermore, the endemic corruption and lack of formal oversight limits not only progress and cooperation on national and regional levels, but hampers confidence and trust between individual traders on a smaller scale as well.



Serious efforts must be undertaken to curb endemic corruption. Says Mr. Zubair Motiwala, Founder Chairman of PAJCCI, “Corruption erupts when there are laws which are designed to give discretionary powers to certain officers, certain groups of officers, and certain agencies. Laws must be amended by both the countries to allow businessmen to bypass this system, as otherwise they have to pay a price, which adds to the cost of goods.” The introduction of a system involving tiers of officers with third-party arbitration or oversight—such as from a chamber of commerce—could limit the corruption that remains a problem in Afghanistan, Pakistan, and the region.



The creation of export houses between Afghanistan and Pakistan could build trust and confidence in cross-border trade.

As advocated by PAJCCI, an export house—run by professional management and with support from both governments—wherein goods are inspected and regulated would allow, for example, an Afghan trader who buys goods from Pakistan to approach a manufacturer or producer and agree to certain items and quantities. Instead of immediately paying the full amount, the trader would pay a small percentage up front; the export house would then oversee

²² Khaama Press. (31 August 2016). *Afghanistan airlifts fresh fruits to India as Pakistan closes land route*.

"We will need the cooperation of Pakistan in the region; if Pakistan helps and assists the other countries, it will be not just for their own benefit but for the benefit of the entire region."

Ramazan Jumazada
Member of Parliament,
Afghanistan



the transit of the goods to their final destination, at which point the Afghan trader would pay the remainder of the cost. This would place the goods in trusted hands, providing confidence in trade and quality while protecting parties from unscrupulous traders who, though they represent a miniscule fraction of all transactions, contribute overwhelmingly to a lack of trust in cross-border trade.

Domestic Challenges

Domestically, the lack of an organized financial sector in Afghanistan impedes the ability of foreign businesses looking to operate in the country, and hinders local business as well. The poor performance of and lack of trust in local banks leaves companies unable to locate local sources of financing. Lack of trust also discourages foreign business investment, while the inability of local businesses to provide acceptable collateral inhibits their ability to secure loans for business growth. Foreign direct investment is further discouraged by confusion regarding taxation, tariff and procedures as well as a need for more reliable banking infrastructure. Businesses are not confident that they will be able to achieve a return on their investment due to the lack of transparency in the banking system.



Afghanistan needs to continue to emphasize the enforcement of existing laws and rules while striving to improve on the established framework. Although positive steps have been made regarding tax laws, banking regulations and procedures, and identification of specific steps required to invest in Afghanistan, the implementation of these measures remains inconsistent.



Reforms in the financial sector must balance the need for oversight, transparency, and trust with the need to make effective loans avail-

"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."

Goutam Ghosh

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

able to businesses and individuals.

The Kabul Bank scandal of 2010-2011, which revealed widespread corruption and resulted in a massive loss of funds and the near-collapse of the bank, led to much needed reforms in bank oversight and control. Unfortunately, these same regulations and requirements for loans have now greatly inhibited the ability of citizens to borrow money. Estimates indicate that there is a USD 4 billion difference between the money held by the bank in savings and the money being loaned to citizens; in other words, there is capacity to issue more loans but people are either unwilling to take them or unable to do so due to excessive oversight. In terms of being granted a loan, the most effective form of collateral is land ownership, but at present a lack of clarity regarding legal ownership inhibits its use in this manner. Many of the land deeds in Afghanistan are disputed as they originate from different governmental regimes. To facilitate more collateral, and thereby encourage and facilitate business growth, Afghanistan must hasten the review and adjudication of land ownership.

A lack of awareness of regional trade opportunities available to Afghan businesspeople, as well as lack of education and accessible information regarding procedures, policies, and trade agreements, hinders the ability of Afghans to conduct business within neighboring countries and limits the knowledge of potential international partners. For instance, Afghanistan is part of the South Asia Free Trade Area (SAFTA), which grants reduced customs tariffs within eight South Asian countries, including Afghanistan, India, Pakistan, Nepal, Sri Lanka, Bangladesh, the Maldives and Bhutan. According to Mr. Goutam Ghosh, Director of the Federation of Indian Chambers of Commerce & Industry (FICCI), however, "a majority of Afghan businessmen do not know how to take advantage of SAFTA. India has given unilateral access to least-developed countries of the South Asian



Association for Regional Cooperation (SAARC), with the exception of 25 items, like drugs and arms. Afghans should take advantage of this." Furthermore, the government of Afghanistan has not made consistent and reliable information available to its neighbors, leaving them in the dark regarding Afghan tax regimes and policies on trade, foreign direct investment, and licensing; also lacking is information for potential partners on whom to approach for specific needs such as land allocation. Public and private perceptions need to be improved as well.



Consolidation and communication of information about business practices and trading arrangements is key.

More effort must be made to 1) educate the business community of Afghanistan on the trading arrangements available to them throughout the region, and 2) educate the international community regarding the opportunities available in Afghanistan. This should be done through more support for and increased efforts by the Afghan Chamber of Commerce and Industry (ACCI) and other chambers of commerce in the region. Processes must be standardized across the country and communicated to ensure that the population and government employees are adequately informed and understand the specific steps involved. This will enable and encourage participation in the formal economy and help enforce and further refine measures to improve trade and transit.



In order to encourage international participation in Afghanistan's economy, chambers of commerce and media outreach should publicize improvements in Afghanistan's business climate.

"The perception outside of Afghanistan is much worse than what we are experiencing inside the country," says H.E. Mr. Farooqi. This drastically affects foreign investors' willingness

to do business inside the country. An improved public outreach in order to highlight the progress that has been made in all sectors, likely with involvement of both domestic and joint chambers of commerce as well as the media, could encourage foreign investment and improve the international community's view of Afghanistan. Says Mr. Amin of Translog Worldwide Logistics, "The media should be used to show 'business as usual' in Kabul; Afghan government efforts should try to show the huge potential for business."

A policeman stands guard at a police checkpoint in Ghazni province, eastern Afghanistan, July 2016.

The Road Ahead

Afghanistan is a country at a critical juncture. Existing opportunities for improved regional and bilateral trade and transit as well as domestic economic growth must be seized upon before they are lost to rising challenges, which threaten both future progress as well as the significant improvements the country has achieved over the past years. At present, many potential actions to improve Afghanistan's trade and transit systems have been enacted or agreed upon but not implemented, or implemented inconsistently. This is due both to domestic and international inefficiency and historical apprehension towards cooperation among states in the region. The myriad challenges facing Afghanistan's trade and transit sector have prevented regional growth and limited national development to a pace that is inconsistent with the country's potential. No one single measure will resolve the complex problems facing the expansion of Afghan trade and transit, though President Ghani's positive attitude combined with a disciplined approach to solving one issue at a time provide a factor of hope and optimism. The challenge, now, is for Afghanistan and its neighbors to quickly enact necessary reforms and policy changes before the rich opportunities for improved trade and transit integration and Afghan domestic growth are eclipsed by security challenges, a lack of trust, and a negative international perception of Afghanistan.

Afghanistan Reconnected



An aerial photograph showing a river with white water rapids flowing through a dry, hilly landscape. The river is surrounded by terraced fields and some sparse vegetation. The terrain is rugged and appears to be in a mountainous region.

Regional Energy Dynamics in Central and South Asia

EWI has identified energy trade as one of the most significant areas with the potential of enhancing cooperation between Afghanistan and its neighbors. Since the beginning of the Afghanistan Reconnected Process, the global energy landscape witnessed dramatic changes, which influenced the supply and demand of oil, gas and electricity in the region. Some of the resulting changes have the potential to negatively impact trans-Afghanistan energy transit projects, while others represent opportunities to boost the prospects of the Central Asia-South Asia power project (CASA-1000) and the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline.

TAPI gas pipeline
construction site, May 2016



**Danila
Bochkarev,**
Senior
Fellow,
EastWest
Institute

It is therefore fundamental to analyze the complexity of regional and global factors and propose a workable solution for regional energy trade that does not lead to exclusion from enhanced connectivity. In this framework, the CASA-1000 and TAPI projects cannot be excluded from the complex energy web in the region, as their execution will have pronounced impacts on the energy scenario for all of Central and South Asia.

Status of trans-Afghanistan gas transmission: TAPI

The Turkmenistan–Afghanistan–Pakistan–India pipeline is a transmission project aimed at bringing natural gas from the Galkynysh field in southern Turkmenistan to India through Afghanistan and Pakistan. TAPI has been in the making since the 1990s and suffered a number of halts due to the security situation in the region and geopolitical concerns of the stakeholders involved. In the early 2000s the project slowly started to come into being, and only recently the implementation of the project seems to have gained momentum.

In November 2014 the joint venture to implement the project was incorporated in Dubai, UAE, under the name TAPI Pipeline Company Limited (TPCL). Initially, its stakeholders tried to secure the involvement of the western international oil companies in the project, but these attempts failed. The absence of interest from international oil companies may have led towards the designation of Turkmenistan's state gas company "Turkmengaz" as the Consortium Leader of TAPI in August 2015. Under the agreed setup, Turkmengaz is the main shareholder (85% of equity shares) of TPCL, while the rest of the Consortium members, namely

Afghan Gas Enterprise, Pakistan's Inter State Gas Systems Ltd and GAIL Ltd. (India) each hold a 5% share. The total cost of the project is expected to be USD 10 billion. The Consortium Members have approved USD 200 million to carry out the preliminary engineering design along with environmental and other studies. A groundbreaking ceremony was held on December 13, 2015 in the presence of the leaders of Afghanistan, India and Pakistan, and construction started shortly thereafter.

TAPI's ability to supply 33 billion cubic meters (bcm) per year of natural gas, as stipulated by the agreement, should not be a problem, considering the cessation of Turkmen gas supplies to Russia. On the other hand, financing the project might pose a challenge given current international markets conditions, as consortium partners will have to find USD 4 billion from their own funds, and secure USD 6 billion from the donors and international financial markets.

Turkmenistan is facing an unpleasant reality of reduced income from energy exports and a decrease in natural gas volumes exported under commercial, market-based conditions. The saturation of the gas market in Europe and Russia led to Gazprom's loss of interest in Turkmenistan's hydrocarbon resources. The loss of ability to export to Russia is a huge loss for Turkmenistan, with Russian gas imports from Turkmenistan decreasing from 40 bcm in 2012 to 4 bcm in 2015. Russian gas conglomerates stopped purchasing natural gas from Turkmenistan in January 2016, depriving it of a significant source of income. Natural gas exported to Iran (6 bcm in 2015) is paid in goods, not in cash. Increased supply to China, estimated at 40 bcm in 2015, was only able to partly compensate for the loss of the Gazprom contract. In



"It's time right now, it's an initiative point. And this forum is an ideal place."

Ms. Faiza

Executive Director /
Secretary General of PAJCCI



"Nothing is more important in generating confidence than implementation."

Wahidullah Waissi

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

fact, according to Chinese customs statistics, only 20.4 bcm were imported under commercial agreement. The rest was shipped in exchange for weapons supplied by China to Turkmenistan and repayment of Chinese credits and investments. In addition, the price paid by China for Turkmen gas decreased from around USD 180/1000 cubic meters (m^3) in February 2015 to USD 140-150/1000 m^3 in February 2016.

As a result, Ashgabat is risking running out of cash due to decreased exports and lower gas prices, leading to a change in the attitude of the Turkmen leadership towards the TAPI pipeline. This trans-Afghan project is now even more crucial for the landlocked Turkmenistan, which hitherto relied heavily on gas exports (75 percent) to China, providing it with an excellent opportunity to diversify its gas exports market.

Status of trans-Afghanistan electricity transmission: CASA-1000

The Central Asia-South Asia electricity transmission (CASA-1000) project was initiated in 2007 with an aim to develop the electricity trade between South and Central Asian countries and create a common trans-regional energy market. According to the project plan, the 1300 MW (Megawatt) transmission line is supposed to link Kyrgyzstan and Tajikistan with Afghanistan and Pakistan.

The CASA-1000 project is based on the premise that Kyrgyzstan and Tajikistan can serve as major sources of seasonal peak-load hydropower

electricity to Afghanistan and Pakistan. The heads of state of Afghanistan, Kyrgyzstan, Pakistan and Tajikistan launched construction of the USD 1 billion CASA-1000 project on 12 May 2016, aiming at its completion by the end of 2018.

A major challenge the project may face is the difference between the hydropower generation potential and actual generation capacity of Tajikistan and Kyrgyzstan. Water scarcity, aging energy infrastructure and a lack of investment in Kyrgyzstan and Tajikistan are likely to limit their ability to export electricity through CASA-1000. They have failed to attract investment to revamp the aging national grids, which were built in 1970s-80s, and increase their electricity export potential. The bilateral agreements between Russian and Kyrgyz companies to build four hydropower plants were canceled in 2016 due to the financial crisis in Russia. In April 2016, the Kyrgyz government signed a MoU with China State Power Investment Corporation (SPIC) to build four hydropower plants with a total capacity 1160 MW. It remains to be seen how fast these projects will go through.

The winter power deficit in Tajikistan reaches 2,000 gigawatt hours (GWh), or 20 percent of the country's demand, and affects 70 percent of its population. In December 2015, due to domestic shortages, Tajikistan temporarily suspended the delivery of electricity to Afghanistan and introduced daily power consumption limits.²³ For the same reasons, Kyrgyzstan stopped exporting electricity and has been importing electricity from Kazakhstan and Tajikistan since 2014.

²³ Azizmurod, Niginai. (8 December 2015). *Tajikistan has stopped exporting electricity to Afghanistan and Kyrgyzstan*. Tajikistan Telegraph Agency.



"Present difficulties can be turned into initiatives that can create opportunity in the region"

Dr. Najam Abbas

Senior Fellow, EastWest Institute



"We in Afghanistan and in the region are at a very important juncture- if you look at human history, critical junctures create great change."

Hamidullah Farooqi

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

New Energy Dynamics and their Impact on Regional Projects

The crash of global energy prices, which fell by nearly 50 percent in the second half of 2015/early 2016, acted as a double-edged sword. While oil consumers paid less, the oil industry in oil producing and consuming countries suffered severely, impacting industry investment plans and leading to cuts in spending and postponement of capital-intensive projects. The economic, social and political impacts of cheaper oil wreaked havoc on oil-rich monarchies in the Middle East, which are dependent on oil exports to finance their social programs and invest in expensive foreign policy initiatives. In particular, Saudi Arabia's budget deficit reached USD 97.9 billion in 2015 primarily because of low prices. The country's reserves dropped from USD 732 billion in January 2015 to USD 586.5 billion in March 2016. As a result, the Saudi government will cut its 2016 budget spending by at least USD 36 billion.

On the one hand, lower energy prices limit the interference of rich Gulf States in regional energy politics and make politically-conditioned aid less likely. Previously, aid conditionality had a strong impact on regional dynamics, as in the case of the Saudi government's donation of USD 1.5 billion to Pakistan in 2014, allegedly linked to Pakistan's withdrawal from the Iran-Pakistan gas pipeline.²⁴ On the other hand, reduced cash flows from oil

exports limit the ability of sovereign funds in the Gulf countries to commit financial resources to long-term/low-yield infrastructure projects, such as TAPI or CASA-1000.

Iran's return to global energy markets following the lifting of sanctions has the potential to shift the global energy balance. Iran has the world's second largest reserves of natural gas, mostly underdeveloped due to sanctions, and has ambitions to ship its hydrocarbons both east and west. According to the BP Statistical Review of World Energy 2015, Iran's gas reserves are estimated at 34 trillion cubic meters (tcm) or 1201.4 trillion cubic feet (tft).²⁵ In comparison, these volumes are good enough to keep the TAPI gas pipeline running for over 1000 years.

In particular, 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 pipeline is expected to be commissioned by the end of 2017, and can carry up to 750 MMcf/7.75 bcm per annum of natural gas, enough to support a 4,000 MW power plant in Pakistan, which is facing an energy deficit of over 60 percent. Iran and Pakistan have already signed a contract to this effect in June 2010.

Post-sanctions Iran is therefore emerging as Turkmenistan's key competitor in the gas market. This competition has the potential to negatively impact natural gas transit via Afghanistan, as India and

²⁴ Syed Fazl-e-Haider. (21 March 2014). *Saudi grant kills Iran-Pakistan pipeline*. Asia Times.

²⁵ British Petroleum (June 2016). *BP Statistical Review of World Energy*, June 2016.



Pakistan will have an option to choose between Iranian and Turkmen gas, and use their bargaining power to negotiate cheaper gas prices.

The demand side: South Asia and China

For the first time in history, India will not have a power deficit in 2016, mostly due to increased coal usage. The range of energy sources available to India— its energy mix— is quite diverse, but the country still heavily relies on the use of fossil fuels in power generation. According to the Indian Central Electrical Authority Report released on 16 January 2016, over 70 percent of the country's installed power generation capacity was run on coal and natural gas, with environmentally-unfriendly coal accounting for 61 per cent of installed generation capacity.²⁶ However, India is experiencing difficulties in securing adequate growth of gas supplies, which starts to limit natural gas consumption, especially in the power generation sector. India's gas production fell from 49.3 bcm in 2010 to 29.2 bcm in 2015, while consumption decreased from 61.5 bcm in 2010 to 50.6 bcm in 2015. The availability of cheap LNG supplies still did not manage to cover India's (hidden) gas supply-demand gap. Therefore, India is in the same situation as Pakistan—looking for new sources of gas supplies, also from Turkmenistan.

²⁶ Government of India, Ministry of Power. (2016). *Indian Central Electrical Authority Report*. (Accessed 16 January 2016).

Low crude prices provided significant relief to Pakistan and improved its balance of trade. Brent crude prices went down from USD 107/barrel in July 2014 to USD ~48/barrel in May 2016.²⁷ As per the report of the State Bank of Pakistan (SBP), lower oil prices helped Pakistan reduce its oil/petroleum products import bill by 43 percent from USD 5.733 billion in July–October 2014 to USD 3.263 billion in July–October 2015.²⁸ Electricity shortages, however, remain the biggest challenge for Pakistan. The demand-supply gap will increase to over 6000 megawatts (MW) in the summer of 2016, from 3500 MW in spring 2016. The demand escalated to 25,000 MW during the summer months of 2016. Gas-fired power stations can be a part of a solution. Pakistan also needs natural gas for the fertilizer industry to replace more expensive fuel-oil for power generation and fuel Pakistan's large fleet of natural gas vehicles.

Domestic gas production is unable to meet the demand. Pakistan's energy deficit is, therefore, the key driver for TAPI, but its competing projects might be faster. Islamabad will not put all its eggs in the same basket, but will bet on both the gas pipelines and LNG supplies.

Port Qasim in southern Pakistan is a fast-track LNG import solution to alleviate the energy shortage faced by the country. The terminal, built in a record time of 335 days, has a base load capacity of 690 MMcf/d or over 50 percent of projected supply from TAPI to Pakistan (1.3 bcf/d). Pakistan is

²⁷ Bloomberg.com. (2016). *Bloomberg Crude Oil & Natural Gas data*. (Accessed 12 May 2016).

²⁸ Iqbal, Shahid. (29 November 2015). *Pakistan makes \$2.5 billion savings in oil import bill*. DAWN.

"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"

Amb. Franz-Michael Skjold Mellbin
EU Special Representative for Afghanistan



planning to import an additional 600 mmcf/d from the Gwadar terminal.

Slowing growth of the Chinese economy is affecting the country's energy consumption and imports. In 2015, China's overall energy demand grew by only 2.5 percent, although gas consumption and imports increased at a faster pace (gas consumption went up by 3.7 percent to 190.9 bcm and imports rose by 4.7 percent to 62.4 bcm). Nevertheless, for China this is the lowest natural gas consumption growth rate in more than a decade. Should this trend continue, decreasing Chinese gas imports could be an additional driving factor for alternative transmission projects such as TAPI.

Trans-Afghanistan energy transit and its alternatives

Despite recent improvements, Afghanistan is still experiencing serious problems with electricity supplies. Only 38 percent of the country's population is connected to the power grid. During the winter months in Kabul alone, the power deficit reaches 150 MW and a bulk of power supplies comes from neighboring Uzbekistan. In this context, Afghanistan needs to both develop domestic sources of energy and secure supplies from abroad.

The security situation in Afghanistan is 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. This affects the personal safety of the construction workforce and increases the insurance, hardware, materials and personnel costs by 200 to 300 percent. In 2015, insurgents damaged transmission lines going from Kajaki Dam hydropower installations to Kabul over 2,000 times. In January 2016, the Taliban sabotaged a major 280 MW power transmission line between Uzbekistan and Kabul, which provided over half Kabul's electricity

demand. This left Afghanistan's capital city largely without power for nearly a month until the line was repaired; this repair was delayed as workers could not access the affected area for security reasons.²⁹

There is also a certain sense of urgency in the need to make Afghanistan a viable transit country for energy transmission, as alternative energy supply routes towards South Asia are already developing. In particular, the Iran-Pakistan (IP) gas pipeline is expected to be completed by December 2017, almost two years ahead of TAPI. TAPI and IP will bring gas into the different regions of Pakistan and, at a first sight, should not enter into direct competition with each other.

Chinese- and Russian-sponsored infrastructure projects in Pakistan bring an additional factor to the regional energy equation. Pakistan and Russia signed an agreement for a North-South gas pipeline in October 2015. This 1,100 km-long gas link with a capacity of 12.4 billion cubic meters per annum (bcm/a) will connect Karachi LNG terminals with the gas network in Lahore in northern Pakistan. The pipeline is expected to be fully operational by 2020. This project will enlarge the national gas network of Pakistan, improve connectivity between different regions of the country and facilitate gas flows from Russia and Iran to Central and Northern provinces.

The China-Pakistan Economic Corridor (CPEC), a USD 46 billion undertaking aimed at upgrading infrastructure in Pakistan, is a part of China's 13th Five-Year Development Plan. It will link Gwadar in Pakistan to China's Xinjiang region through a network of highways, pipelines and rail links. Energy projects in Pakistan, including electricity, are priority projects under the CPEC with an allocation of USD 33 billion. Over 10,400 MW of generation capacity will be built by 2020 as part of CPEC. Pakistan and China signed a preliminary agreement in May 2016 to build the 700 km Gwadar–

²⁹ Mackenzie, James. (23 February 2016). *Power restored to Afghan capital Kabul after weeks of blackout*. Reuters.



Nawabshah gas pipeline with a capacity of 1 billion cubic feet/day (bcfd). It will transport gas from the LNG terminal in southern Pakistan to the country's Northern provinces. This USD 2 billion project is slated to be completed by December 2017 and will be interconnected with the Iran-Pakistan pipeline. The two pipelines will be able to deliver natural gas to the same markets as TAPI and are likely to be completed ahead of the launch of the TAPI project. These projects will, therefore, create additional competition for TAPI gas in Pakistan.



For Kyrgyzstan and Tajikistan, CASA-1000 provides an incentive to reform their energy markets and attract foreign investors into their energy sectors.

The Iran-Pakistan Pipeline (isgs.pk)



Pakistan will have competing choices between TAPI and LNG-based gas supplies, and between CASA-1000 versus domestic generation facilities being built under the CPEC initiative.

Nevertheless, Pakistan might be interested in learning from the experience of the EU energy market. In Europe, additional pipelines/interconnections and new sources of gas supply brought more competition and price relief for consumers. This success story could also be replicated in Pakistan if it makes use of the gas and electricity supply options available to it. With a proper price incentive, the country's energy-hungry market will be able to absorb large volumes of imported energy.

The Road Ahead

Despite a number of challenges, risks and significant delays in the trans-Afghan TAPI and CASA-1000 energy projects, their importance for South Asian economic and political stability only grew stronger. In fact, these two projects are a "silver lining" for other regional projects.



For Afghanistan, energy transit will bring new investment, energy supplies and 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 Turkmenistan, TAPI opens new markets and helps to monetize its gas reserves.

Multilateral financial institutions and donors can play an important role in the actualization of these projects through financial support and their valuable experience in coordinating multilateral cross-border energy projects. Last but not least, all stakeholders should be brought onboard while discussing and/or implementing sizable projects within the framework of the trans-Afghan energy corridor.

Looking Ahead

There is a need for a new narrative- one focusing on opportunities and progress rather than defeatism- to be crafted for Afghanistan.

An Afghan girl performs during a competition in Kabul, August 2016.





**Ambassador
Martin
Fleischer,**
Vice President
Regional
Security,
EastWest
Institute

If efficiency is measured as the ratio of input and output, or of investments and results, then fifteen years of international efforts for Afghanistan's stabilization and development present an outstandingly frustrating balance. The costs of international engagement are tragic and high; estimates placed the cost of only the U.S. military involvement at USD 1 trillion by the end of 2014,³⁰ while nearly 7,000 coalition soldiers and contractors, 23,000 Afghan military and police personnel, and 26,000 Afghan civilians have lost their lives since 2001.³¹ In terms of reconstruction and economic relief, the United States alone has contributed over USD 100 billion in nonmilitary aid since 2002,³² and other Western countries have followed suit, including Germany, which is the third-largest international donor and gave US 2.1 billion from 2002-2010.³³

And in spite of these 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. Afghanistan's long struggle with the Taliban intensified in 2014 following the withdrawal of the majority of ISAF combat troops. Despite the progress made by Afghan security forces since that time, the Taliban continues to remain a persistent threat, further complicated by

the emergence of the Islamic State/Daesh in the country and an Al Qaeda revitalized with new leadership and new contacts. Furthermore, in Europe's current refugee crisis, Afghanistan represents the second-largest country of origin for asylum applicants, following Syria and ahead of Iraq.³⁴

In this light, it would not be surprising if international stakeholders and actors were to grow tired of investment or daunted by persistent and growing challenges and withdraw much-needed aid and support. "Afghanistan fatigue" is the term often heard in this regard.

Fortunately, facts and figures paint a different, more hopeful picture. At the NATO summit in Warsaw in July 2016, the tough but necessary decision was made to extend the ISAF follow-on Resolute Support Mission beyond 2016. Accordingly, President Obama announced a slowing down of the drawback of U.S. troops in Afghanistan, leaving over 8,000 troops in 2017 as opposed to the 5,500 initially projected.³⁵ The term "Transformation Decade" used by NATO relates to 2014-2024 and illustrates that an end to military and civilian investments is not yet in sight.

A parallel fresh resolve can be seen as regards the support of international financial institutions. The World Bank's lending commitments (including IBRD and IDA) have jumped from USD 270 million in 2015 to USD 700 million in 2016.³⁶ In June 2016, the International Contact Group, jointly chaired by

30 Apps, Peter. (01 October 2015). *The war in Afghanistan has so far cost \$33,000 per citizen. And will not end well.* Reuters.

31 Crawford, Neta C. (22 May 2015). *War-related Death, Injury, and Displacement in Afghanistan and Pakistan 2001-2014.* Watson Institute for International Studies, Brown University.

32 Dusai, Sujaya; and Lutz, Catherine. (5 January 2015). *US Reconstruction Aid for Afghanistan: The Dollars and Sense.* Watson Institute for International Studies, Brown University.

33 German Missions in the United States. *Engagement in Afghanistan* (Accessed 31 August 2016).

34 European Commission. *Countries of Origin of (Non-EU) Asylum Seekers in the EU 28 Member States, 2014 and 2015.* (Accessed 31 August 2016).

35 Landler, Mark. (6 July 2016). *Obama Says He Will Keep More Troops in Afghanistan Than Planned.* New York Times.

36 The World Bank. (2016). *Overview: Afghanistan.* (Accessed 31 August 2016)



Children pose for photos outside their home in Kabul, August 2016.

Afghanistan and Germany, reiterated its financial commitment at its Istanbul meeting, and at the upcoming Brussels Conference the European Union is expected to at least sustain its level of aid.

There is a need for a new narrative—one focusing on opportunities and progress rather than defeatism—to be crafted for Afghanistan. The situation, though precarious, is not entirely grim. With international coverage of Afghanistan focusing heavily on the negative, it is easy to let bad news and setbacks, such as the recent events at the Torkham and Wesh-Chaman border crossing points, overshadow the very real progress that has been made in recent years. Politically, the government has seen its first peaceful transfer of power from one administration to the next, marking the first successful political transition in the country's modern history and leading to a progressive cabinet including four female ministers. Significant and tangible advances in education, women's rights and the rule of law have furthered the country's overall advancement since 2001. The Ghani administration has made regional cooperation a key part of the National Development Strategy and a pillar of its foreign policy. To this end, the government of Afghanistan has pursued, participated in, and even initiated a number of regional integration and cooperation efforts. Initiatives spearheaded by Afghanistan include the Heart of Asia Process, of which Afghanistan is the permanent co-chair, and the Regional Economic Cooperation Conference on Afghanistan (RECCA). Both of these initiatives have met multiple times on the ministerial level, and have been largely successful, with RECCA in particular driving several regional projects.

NGOs working towards peace and security are often asked if their work has any impact. Obviously, measuring impact is difficult, if not

impossible, in conflict prevention. However, there are several specific measures advocated for by the Afghanistan Reconnected Process that have been implemented in the short term. Examples include the relaxation of restrictions preventing Afghan trucks bearing commercial goods from crossing the border into Pakistan as well as the granting of one year, multi-entry visas for businesspeople. These reforms were facilitated by the Pakistan-Afghanistan Joint Chamber of Commerce and Industry (PAJCCI), the creation of which is another marker of the commitment to cooperation. PAJCCI's interventions, and the participation of other chambers of commerce and industry, have helped reduce problems with visa facilitation, goods declarations, insurance and bank guarantees. Overall, goods travel across borders more easily and with fewer delays than they did three years ago. Bilateral collaborations with neighbors, such as the Afghan-India Friendship Dam, and active participation in regional energy projects like TAPI and CASA-1000 are further markers of an increase in cooperation and an overall improvement in neighborhood relations. EWI is by no means claiming that these encouraging trends in regional economic cooperation, which have gone largely ignored by the international community, are the direct result of its own efforts. But at least it is reassuring that, with the policy recommendations developed by the eminent experts participating in the Afghanistan Reconnected Process, EWI has been marching in the right direction. Given the necessary donor support, EWI is committed to carry its Afghanistan Reconnected Process forward, as a small but distinguished contribution to regional development and stability.

Afghan refugee families return to their country after spending more than three decades in Pakistan, at outskirts of Kabul, August 2016.



Abbreviations and Acronyms

ACCI	Afghanistan Chamber of Commerce and Industry
ANSF	Afghan National Security Forces
APTTA	Afghanistan-Pakistan Trade and Transit Agreement
CASA-1000	Central Asia-South Asia-1000 electricity project
CICA	Conference on Interaction and Confidence-Building Measures in Asia
CPEC	China-Pakistan Economic Corridor
CSTO	Collective Security Treaty Organization
ECO	Economic Cooperation Organization
FATA	Federally-Administered Tribal Areas (Pakistan)
FICCI	Federation of Indian Chambers of Commerce and Industry
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IPIS	Institute for Political and International Studies (Iran)
ISAF	International Security Assistance Force
OBOR	One Belt, One Road
PAJCCI	Pakistan-Afghanistan Joint Chamber of Commerce and Industry
RECCA	Regional Economic Cooperation Conference on Afghanistan
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Area
SBP	State Bank of Pakistan
SCO	Shanghai Cooperation Organization
SPIC	China State Power Investment Corporation
SSAR	Solutions Strategy for Afghan Refugees
TAPI	Tajikistan-Afghanistan-Pakistan-India Pipeline
TPCL	TAPI Pipeline Company Limited
WTO	World Trade Organization

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Afghanistan Reconnected

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On the cover: An Afghan displaced child plays outside his tent in Ghazni province, Afghanistan, February 2016.

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EWI Brussels Center
Rue de Treves 59-61
1040 Brussels
+32 (0)2 743 4610

communications@eastwest.ngo
www.eastwest.ngo



New York | Brussels | Moscow | Washington, D.C. | San Francisco
www.eastwest.ngo | **t:** @EWInstitute | **f:** EastWestInstitute