



# Afghanistan Reconnected

Advocacy and Outreach Mission to  
Afghanistan; Kabul, November 14-16, 2015



# Working Together to Unlock Regional Trade

**An international high-level expert delegation, led by the EastWest Institute (EWI), discussed with representatives of the Ghani administration the regional economic growth proposals developed over three years of the Afghanistan Reconnected Process. The delegation's visit to Kabul allowed it not only to advocate and update recommendations to unlock regional trade developed during previous years, but also to share the findings of the Missions to Pakistan, India and Tajikistan carried out by the institute over the course of 2015.**

**E**WI's Outreach and Advocacy Mission represented a fundamental step for the Afghanistan Reconnected Process. The mission began in the presence of representatives of the local business community at an opening hosted by the Ministry of Foreign Affairs and featured a number of high-level meetings, including with H.E. President Ashraf Ghani. Discussions took into consideration the repercussions of the conclusion of the International Security Assistance Force (ISAF) mission, as well as the expected growth of Afghanistan's connectivity with its neighbors. Experts agreed that not only dim security prospects, but also systemic corruption, represent strategic threats to the economic development and stabilization of Afghanistan, as do the ongoing brain drain and emigration of entire families. Notwithstanding, the talks provided positive insights towards the country's and the region's development prospects:

- Afghan policy-makers look positively at the country's growth prospects in light of its integration into international trade systems such as the World Trade Organization and thanks to the

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- progress made in the extractive and energy production fields.
- President Ghani's administration is taking a cluster approach to local development by building specific areas of the country into economic growth zones with an exemplary role for the rest of Afghanistan.
- In order to meet the country's needs, the government is making plans to reconvert infrastructure built during the ISAF mission to civilian purposes to boost trade and transport.

The EastWest Institute's delegation included private sector representatives, Members of Parliament and experts from Afghanistan, China, India and Pakistan, who were received at the Presidential Palace and various Ministries to explore Afghanistan's growth potential in the fields of transport, energy, trade and mining. The mission was convened in partnership with the Afghanistan Chamber of Commerce and Industries (ACCI) and with the support of both the Ministry of Foreign Affairs of the Islamic Republic of Afghanistan and the German Federal Foreign Office.



**H.E. Mr. Mohammad Ashraf Ghani, President of the Islamic Republic of Afghanistan** expressed confidence that a growing Afghan economy will become a significant driver of national and regional security. Ghani emphasized that the challenges in the field of transport and economic cooperation in the region are primarily due to disagreement between parties, rather than to a lack of capacity. For instance, Afghanistan is endowed with a sizable capability for transport, but large numbers of trucks and tanker fleets are unused at the moment due to the need to develop regional infrastructure and craft functioning transit agreements. Referring specifically to collaboration with Pakistan, the president stressed that Afghanistan is eager and willing to work with its neighbor to tackle mutual transit concerns, but will diversify its efforts and transit plans

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

**Mohammad Ashraf Ghani**  
President of the Islamic Republic of Afghanistan

should Islamabad not cooperate. Dialogue with India and Iran on the development of the Chabahar port is already progressing rapidly, and Afghanistan is looking towards becoming a part of the Caspian economic region.

In the field of infrastructure development, Ghani announced his focus on programs rather than specific projects, referring to regional initiatives such as the Turkmenistan–Afghanistan–Pakistan–India Pipeline (TAPI), the Central Asia South Asia Electricity Transmission and Trade Project (CASA-1000) and hydropower production on the Kunar river. The president claimed that Afghanistan had addressed all its primary concerns regarding TAPI, and that the deadlock on prices for the CASA-1000 project had been broken.

Regarding energy production, power purchasing agreements will allow for the construction of multiple new dams without depending on donor assistance. Currently, 17 medium-sized dam development projects are ready for implementation, and could be completed within 2 years. Moreover, thanks to the finalization of repairs on its gas pipelines, Afghanistan is expected to produce 100MW of energy from natural gas in 2015, and will produce more energy in 2016 than in the past 40 years. Adding to a local renewable energy production potential of 316,000MW from solar and wind, these projects are slated to be critical drivers of Afghanistan's economic growth.

Looking further into transport infrastructure, President Ghani stated that Afghanistan will need at least 30,000 additional kilometers of roads to enable economic development and help rural areas realize their potential. To achieve this objective, road contracts must be awarded in a manner that would make them supervisable and ensure their quality.

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**Salahuddin Rabbani**  
Afghan Minister of Foreign Affairs

Specific road-connectivity needs include an alternative to the Salang Pass, the completion of the Ring Road, as well as connections with neighboring countries to facilitate interaction with trading partners.

In addition, the construction of a fiber optics Ring Road is deemed crucial for the growth of the country's telecommunication capabilities. With this improvement, Afghanistan could become a communications hub between South Asia and Europe, as well as between all of its neighbors.

President Ghani repeatedly referred to Afghanistan's "image problem" and cited the positive brand that Nobel laureate Rabindranath Tagore's story "Kabuliwala" lent to his country. Afghanistan, Ghani stated, "faces a delicate balance between a sense of impending disaster and a sense of human soul"; efforts to further improve the international brand of the country are necessary. The president specifically asked the EastWest Institute to continue its work focusing on the efforts presently being made



in Afghanistan as well as to help demonstrate the cost of inaction and the advantages of cooperation.

**H.E. Mr. Salahuddin Rabbani, Minister of Foreign Affairs** and **H.E. Hekmat Khalil Karzai, Deputy Minister of Foreign Affairs,**

highlighted the need to shift the focus of the discourse on Afghanistan from the military dimension to the economic sphere. In fact, the aim of the National Unity Government is to make Afghanistan a land of economic opportunities rather than one of security threats.

Rabbani stressed that both Afghanistan and Pakistan have the political will to avoid the repetition of the mistakes of previous governments, and that Islamabad's support is necessary for the success of the peace process in Afghanistan. The progression towards this goal entails firstly an appeasement in the relation between the two countries, followed by a normalization process, which would later allow for sincere cooperation among neighbors with aligned interests. Afghanistan's hopes for cooperation go beyond the relation with Pakistan and focus also on the regional dimension, where progress is expected from the seventh round of the Regional Economic Cooperation Conference on Afghanistan (RECCA) to be held in Ashgabat, Turkmenistan.

**H.E. Mr. Mohammad Mustafa Mastoor, Deputy Minister for Finance,** announced that upcoming major infrastructure projects include the development of the country's railway system, which should initially extend towards Central Asia, and eventually to South Asia and China. A solution to Afghanistan's problem of having neighbors with different track gauges has been identified in the development of a ring rail with standard gauge, connected to Afghanistan's neighbors with exchange points matching the

“To ignore Afghanistan now is to surrender the security and economic gains and squander the sacrifices that have been made, thus insuring ultimate victory to factionalism and extremism.”

**James L. Creighton**  
Head of the EWI  
Delegation

respective neighbor's gauge.

As previously outlined by President Ghani, a second major project is hydropower production on the Kunar river through the construction of a number of dams in Afghanistan and Pakistan. The project offers local energy production opportunities as well as cooperation incentives between Afghanistan and Pakistan, and is based on a benefit-sharing scheme, which should include advantages both for upstream and downstream communities. Kabul and Islamabad are interested in the project, which the World Bank is willing to support, though it will require additional private sector investment for the completion of the project.

A leading constraint to Afghanistan's economic growth is its underdeveloped market and the need to create a more positive investment climate. At the moment, for instance, no Afghan investor is insured. Risk assessment and mitigation are however essential to facilitate investment. The government of Afghanistan is looking closely into refining banking laws, developing and creating insurance markets, and taking other measures to make Afghanistan a more investment-friendly environment. Moreover, the current administration is looking to put into place a Build-Operate-Transfer (BOT) system for future infrastructure projects, which would increase private sector participation in large-scale public works and help to manage the risks involved in investing in Afghanistan.

Asked about the current focus of Afghanistan's extractive industry, **H.E. Mr. Mir Ahmed Javid Sadaat, Deputy Minister of Mines and Petroleum** identified energy and cement production, as well as small extractive contracts, as current priorities. The Afghan government has



decided to sequence the exploitation of its extractive potential, focusing initially on small and medium size mining concessions in order to limit the risks in the event that either party is unable to fulfill its contractual obligations.

As remarked by Sadaat, Afghanistan is endowed with deposits of oil, copper, as well as a number of minerals in high demand in developed countries, such as lithium. The country's largest untapped potential may be in Paktika Province, which is likely to become its richest province as more and more natural resources are discovered, including petroleum, coal, salt, chromites and rare earth metals.

In order to exploit the gas deposits in the north for the production of 50 MW of energy in the capital, transmission capacity needs to be built. As a matter of fact, Afghanistan's extractive industry needs a functional infrastructure system, as well as an appropriate regulatory environment. In this respect, the mining law needs to be finalized, and the petroleum law will be revised in light of the recent progress of the TAPI project.

The main challenge for the Afghan extractive sector is, however, the lack of access to capital, which will be

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addressed by improving the relations with regional banks in the future. Sadaat stressed that although the Afghan government cannot at present provide monetary facilitation to investors in the extractive and mining industry, other forms of incentives are available, particularly for the marble and cement industries. On the other hand, the plans to start production of energy from coal have been reconsidered due to environmental concerns.

Increasing urbanization represents a great challenge for local development in Afghanistan, declared **H.E. Mr. Sadat Mansoor Naderi, Minister of Urban Development Affairs**. While 15 years ago, 1 in 20 Afghans lived in cities, currently 25 percent of the population lives in urban areas, with an estimated 50 percent projected to be doing so by 2030. Urbanization is a process traditionally connected to development and prosperity, but in Afghanistan it is causing difficulties due to the resulting large number of informal settlements—around 70 percent. Therefore, an urban sector law has been completed, which will feed into a process of registration of informal settlements.

This registration process, combined with capacity building of local administrations, are necessary



components of effective decision-making at a local level. In turn, more efficient local governance will boost investment by first improving the business climate for local entrepreneurs.

**H.E. Mr. Mohammadullah Batash, Minister of Transport and Civil Aviation**, stressed the importance of ensuring the creation of an enabling environment for the Afghan transport sector. This is fundamental as presently all transportation services in Afghanistan are run by private enterprises, whose activities need to be supported.

In order to foster economic growth, Afghanistan must also develop a national construction capability, overhauling requirements and certifications, and freeing up its development budget. The formalization and legalization of property is key, as is the establishment of public-private partnerships. In addition, the country has the potential of utilizing transport infrastructure and equipment formerly used by ISAF forces. It has started doing so, for instance, by discussing with the Chord Group how to repurpose unused airfields into Special Economic Zones.

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## Background

Through the Afghanistan Reconnected Process, EWI has established a network of high-level representatives from governments, parliaments, and the private sector from Afghanistan, Iran, India, Pakistan, Uzbekistan, Tajikistan, Kyrgyzstan, Turkmenistan, Kazakhstan, China, the U.A.E., the U.S., and Europe, as well as from regional and international organizations. The group of eminent experts has been meeting since 2013 in Istanbul, Islamabad, New Delhi and Berlin to determine and promote opportunities for economic growth both in Afghanistan and in the region, complementing the “Heart of Asia” or “Istanbul Process.” The Afghanistan Reconnected Process, also known under the name of “Abu Dhabi Process,” is co-financed by the governments of the United Arab Emirates and Germany.

The current phase of the Afghanistan Reconnected Process, named “Businesses Take Action to Unlock Trade in the Region,” will conclude mid-2016. However, it is likely that Afghanistan’s security and economy will need the attention of the international community for a number of years to come.

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