



The Once-and-Future Crossroads: Maximizing Afghanistan's Potential in Regional Transport Corridors

Annie Cowan, Program Associate, EastWest Institute

Prepared for the RECCA VII Academic Forum
Ashgabat, Turkmenistan: October 13, 2017

Since 2012, the EastWest Institute's Afghanistan Reconnected Process has—through convening business leaders, members of government, academics and other stakeholders from around the region—provided a platform for businesses and governments to identify obstacles to regional trade and transit and formulate actionable recommendations to address them. One of the primary takeaways from the Afghanistan Reconnected Process has been that there is a personal willingness on the part of individuals across all sectors to encourage and facilitate mutually-beneficial cooperation across the region. The obstacle, however, is largely a political ecosystem that includes regional and bilateral political constraints, a lack of larger political will to cooperate, a lack of a unified regional strategy and a lack of implementation and enforcement of bilateral and regional trade agreements. This is illustrated by the present deadlock regarding the Afghanistan Pakistan Transit Trade Agreement (APTTA), which has never been thoroughly enforced or applied; in fact, as of October 11, talks to discuss its full implementation have been suspended.¹ Even if fully implemented, however, APTTA, though a step in the right direction, cannot be a full panacea for regional or even bilateral trade difficulties. If the region is to fully seize on the opportunities, comprehensive, end-to-end trade agreements must be put in place and, most critically, fully implemented and enforced to incentivize and protect mutually-beneficial trade between regional partners and take full advantage of regional initiatives such as China's Belt and Road Initiative (BRI).

At the heart of the BRI is the concept that greater connectivity leads to greater growth. Launched in 2013, BRI is China's ongoing 900 billion USD campaign to physically and economically link itself to diverse markets such as Central Asia, Southwest Asia, Europe and the Middle East through one maritime and six terrestrial transport corridors. It is, in essence, a resurrection of the old Silk Road trade routes that once served as the cornerstone of the greater Eurasian economy. With this in mind, to resurrect the ancient Silk Road would be impossible without its heart: Afghanistan.

Afghanistan is considered by China to be a vital part of BRI, largely for two reasons: its strategic location and its economic potential. Situated at the "heart of Asia," Afghanistan was the nexus of ancient trade routes, a focal point of cultural and economic exchange for a multitude of empires and civilizations throughout history. As in the past, its convenient geography makes Afghanistan an essential part of connecting disparate regions in the present and future. China's interest in integrating Afghanistan into the BRI is also due to its untapped economic potential, as the country's natural resources and human capital stand to benefit China and the region if this potential is realized.

Afghanistan is poised to benefit from projects such as BRI, as connectivity will allow the country greater opportunities to capitalize on its own potential both domestically and regionally. In this regard, both BRI and the respective developments of Iran's Chabahar and Pakistan's Gwadar ports are hoped to lend momentum to domestic and regional growth as well as to other initiatives as Afghanistan becomes an increasingly engaged and attractive market.

Though at the surface, the near-simultaneous developments of the India-supported Chabahar and China-backed Gwadar ports seem to require of potential users a choice of alignments, the two can in fact be used to

¹ <http://www.tolonews.com/business/afghanistan-puts-transit-trade-meeting-pakistan>

complement one another for the betterment of trade throughout the entire region. For instance, Gwadar can benefit Chabahar by handling spillover cargo, while both cargo and passenger services between the two ports could enhance economic interaction between Iran and Pakistan, in addition to benefitting travelers (such as religious pilgrims) by precluding the necessity of travelling by road through insecure Baluchistan. Pakistan's fears of losing Afghan and other business to Chabahar port are thus largely unfounded; Chabahar port should be viewed as a facilitator for additional opportunity rather than as a competitor. Pakistan's proximity, existing trade ties, and ability to facilitate trade ties to other markets—particularly as CPEC projects continue to develop—ensures that trade from Afghanistan, though suffering at present due largely to bureaucratic and political blockages, will likely always flow in substantial volume through neighboring Pakistan. It can be hoped that Chinese administration of Gwadar port could potentially ease these bureaucratic and political hang-ups that tend impede economic traffic between Pakistan and Afghanistan; however, further work to separate political disputes from economic retributions, such as border closures and punitive visa policies, must be continued and increased if a smooth transit corridor is to be used as incentive for investment and economic engagement in Afghanistan and the region.

Just as Gwadar offers China increased access to new markets, so too can its neighboring Chabahar port. The potential benefits of direct connection between CPEC projects and Chabahar could create opportunity and incentive for China and other partners to invest in infrastructure and development in Afghanistan. In fact, in August 2017 Iran began incentivizing Afghan use of the port by offering an 80 percent discount to Afghan traders and a 75 percent discount on import duties.² However, in order to maximize Chabahar's impact, the port must be further developed. At present, there is a need for airports that can accommodate large cargo planes as well as harbor facilities for large cargo ships at the port itself, as well as for transport infrastructure connecting the port to source, destination and transit markets such as Afghanistan. The commitment of India to help build a railway connection between Iran's Chabahar and Zahedan represents a good start; however, there remains only one projected rail link between Afghanistan and Iran, the Afghan portion of which is projected for completion in Spring 2018. To maximize and incentivize Chabahar's use by diverse markets, further railway connections between Iran and its neighbors, and further railway connections between Afghanistan and the region, through to China are necessary, including transit trade agreements to ensure the smooth passage of goods along them.

These new opportunities for increased connection with the region—and through it, diverse international markets—can increase momentum for infrastructure development and foreign investments, as well as driving economic opportunity. This momentum, and access to new markets, will enhance Afghanistan's ability to control its own brand and image in international markets. If transport corridors are enhanced and regulations and transit trade agreements put into place, updated, and enforced, the increasing global exposure to Afghan goods can change perceptions by building a comprehensive "Brand Afghanistan" that draws attention to unique and quality products, thus driving demand in diverse markets. Opportunities to export and promote uniquely-Afghan goods abroad can be identified through leveraging- and perhaps formalizing- the extensive network of businesspeople that are part of the Afghan diaspora in far-flung markets globally. Products such as jalghoza nuts or talkhan can be exported to new markets and branded distinctly and specifically as Afghan to enhance the country's marketability in the long-term and create direct economic benefits in the short-term.

The benefits of linking Afghanistan to regional transport projects can extend beyond transportation, as transport connectivity brings with it greater people-to-people connectivity. Linkage with BRI and other regional transport projects may facilitate and encourage further investment in Afghanistan's people- such as a focus on developing medical and educational infrastructure in rural areas—and, as development drives development, can support Afghanistan's human development in such a way as to promote a viable trading economy, to the benefit of the entire region. With increased connectivity from transport corridors, new opportunities for people-to-people connectivity, educational and professional exchange and human development will contribute to economic stability and thus security.

Afghanistan stands poised to capitalize on the growth taking place around it; its neighbors, investors, and international donors must help facilitate this- again, for the benefit of the entire region. However, domestic infrastructure development must also take place to allow Afghanistan to maximize its potential to seize on opportunities. Road networks (including a direct link to Pakistan's Gwadar port) must be constructed or repaired

² <http://www.tolonews.com/business/iran-offers-discounts-chabahar-traders>

and enhanced to fully take advantage of regional transport initiatives and connect rural Afghanistan with avenues to ship agricultural goods abroad. Further exploration of air corridors- such as the recent air link to India- can enhance this capability and bypass areas of blockage or security risk. However, the development of air corridors will hinge on access to secure airfields and the training of local talent to man them. In the short term, the creation of pilot programs using specific airfields as secure hubs for regional or international companies to transport Afghan agricultural goods or extractive products could illustrate Afghanistan's potential to investors and the international community, and incentivize further development and investment in this area. Reforms in the domestic business and financial sectors are also necessary to facilitate the growth of Afghan businesses to take advantage of new connectivity. These would include initiatives such as the formalization of land ownership to facilitate loans to start businesses, as well as changes in regulations and licensing- such as easing the process of starting a business, or ensuring that a single commercial drivers' license is valid in all 34 provinces.

Regional and bilateral trade transit agreements relevant to new corridors must be created, implemented, and enforced to allow for an efficient flow of goods into, through, and out of Afghanistan. A regional strategy for economic connectivity and development—such as is being explored through the RECCA process—must be adopted to allow neighboring countries to work together towards mutually-positive economic growth. Afghanistan's strategic position, economic potential and cultural history makes it an obvious link between markets; its formal integration into regional transport projects and agreements is necessary for the success of individuals projects, Afghanistan's own economic development and regional stability.