



# **Shifting Comparative Advantages in Tajikistan: Implication for Connectivity Policy**



The World Bank  
November 3, 2009

# Main message of the policy note

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- Tajikistan is going through a structural transformation, requiring a redistribution of its resources to sustain its growth path
- In this process, improved market accessibility will be essential to optimize what the country produces and what it trades
- Starting by unleashing the potential of the two leading cities and linking them with each other and with major regional markets should be the guiding principle of the country's connectivity policy

# Outline of the presentation

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- Tajikistan is a changing economy...
- ...but with persisting constraints to market accessibility
- How to boost growth through export diversification in such context? A selective connectivity policy



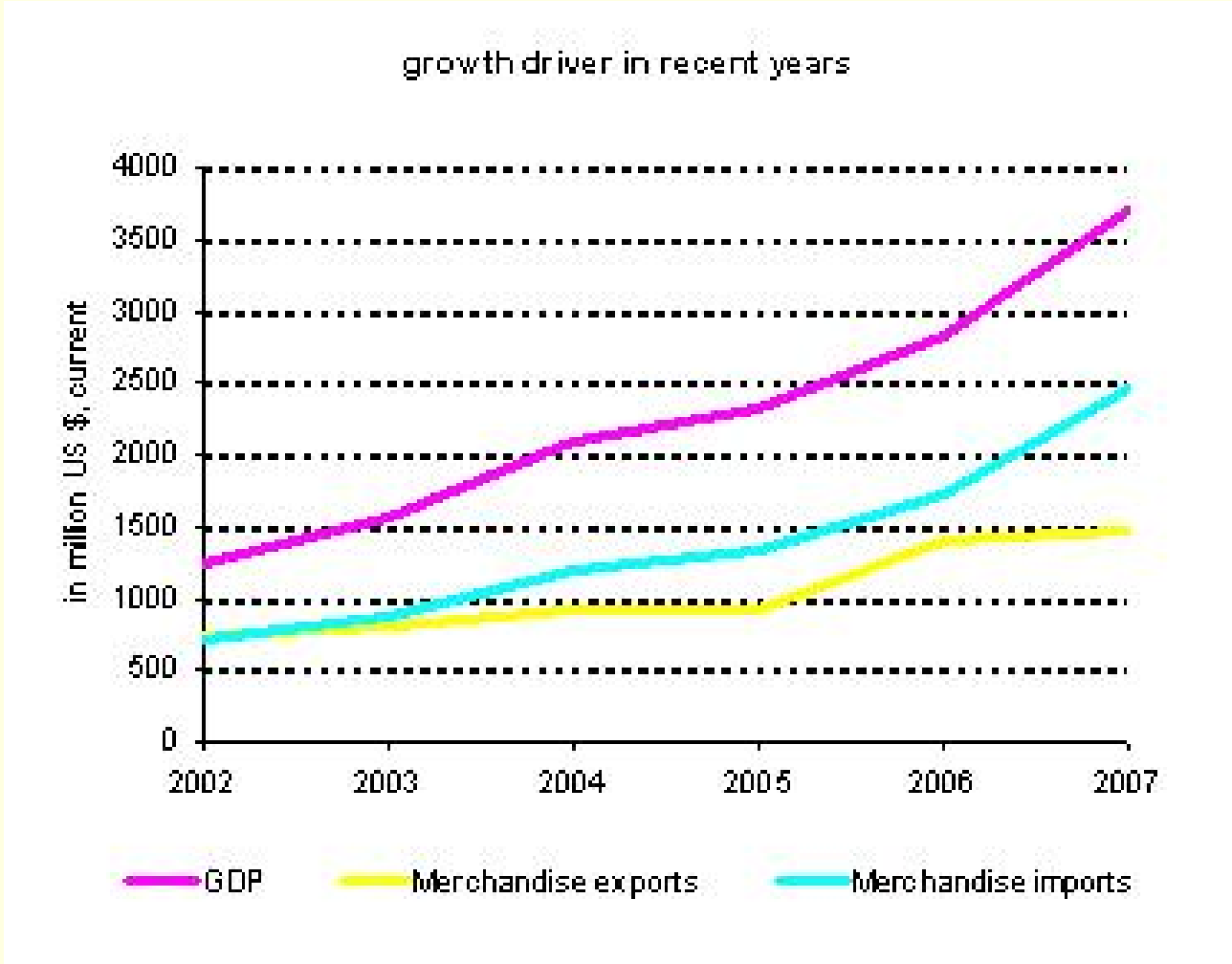
# Tajikistan, a changing economy

## A changing economic structure: from cotton to non-cotton and more

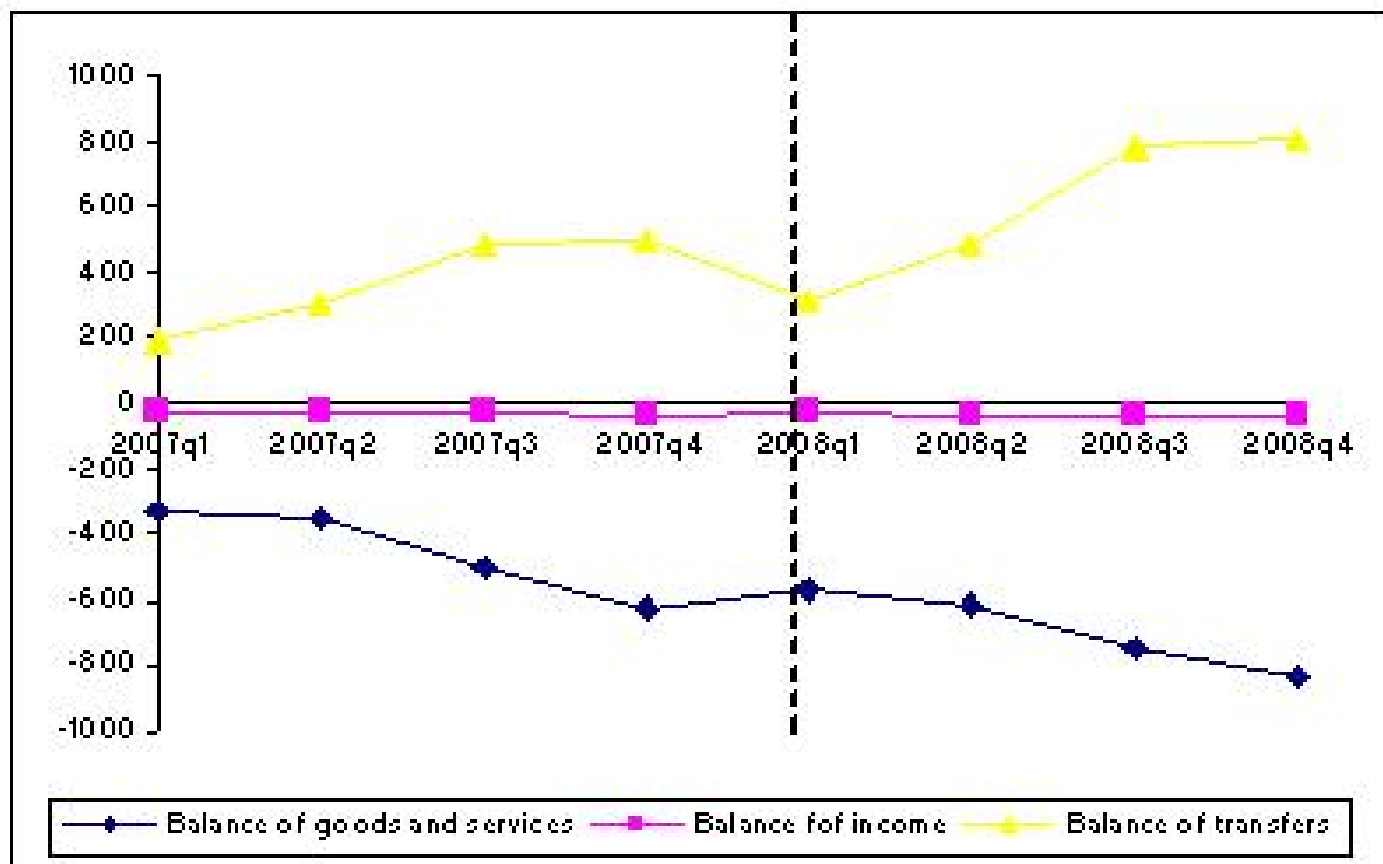
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- Since 2003, the share of Cotton in GDP has been decreasing from 9% to 2.6% in 2007
- Since 2004, share of non-Cotton agriculture in GDP has been increasing from 13% to 19% in 2007
- Remittances increasingly contributes to Tajikistan economy: from 4% of GDP in 2000 to 36% in 2007 (estimated at USD1.5 billion), with an estimated 429 thousands temporary migrants in 2009

# Increasing role of remittances: recent growth has been driven by consumption funded by remittances

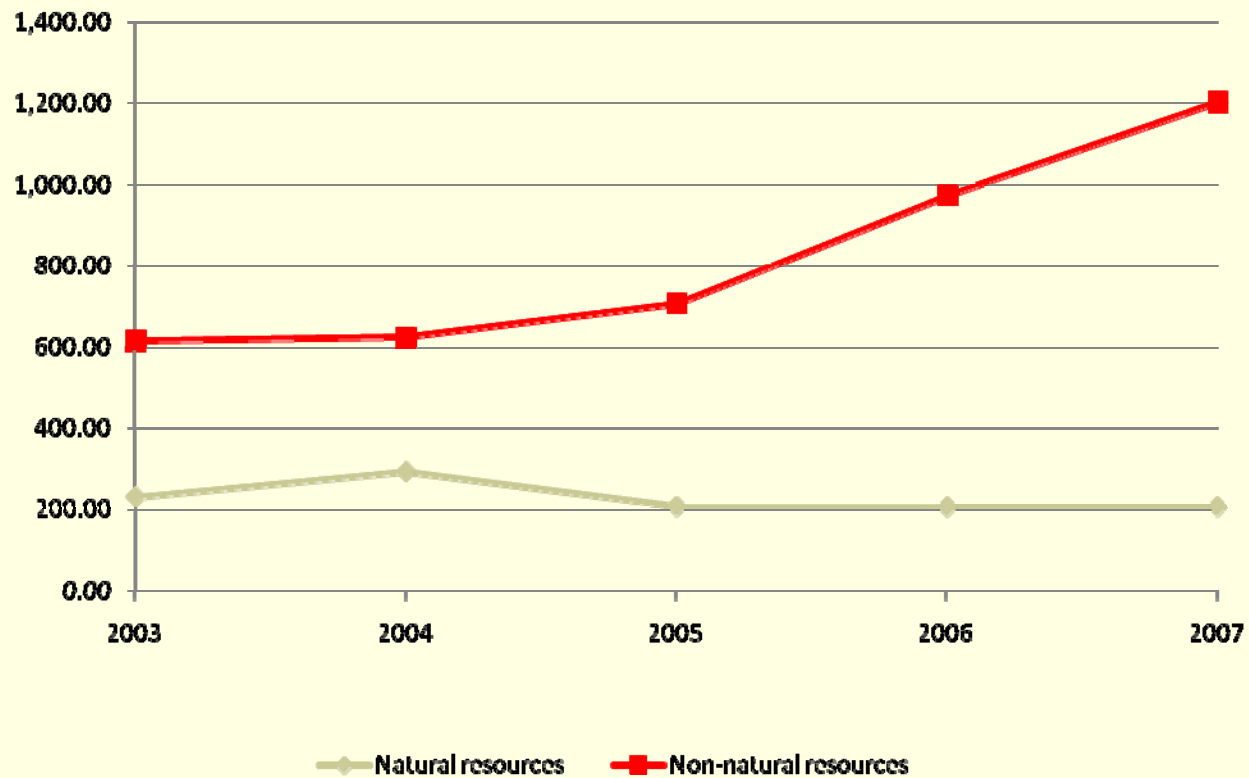


# Increasing role of remittances: only exports have the potential to buffer against soaring CA deficit



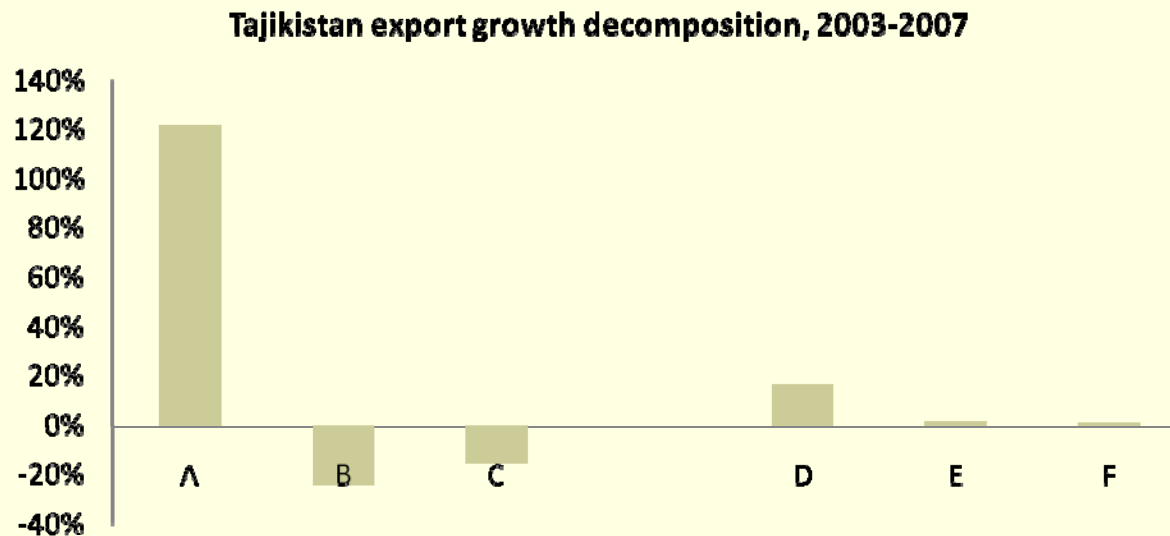
**Role of exports: while export of natural resource products have been stagnating, non-natural resource exports have been steadily increasing**

**Export values, in million \$**



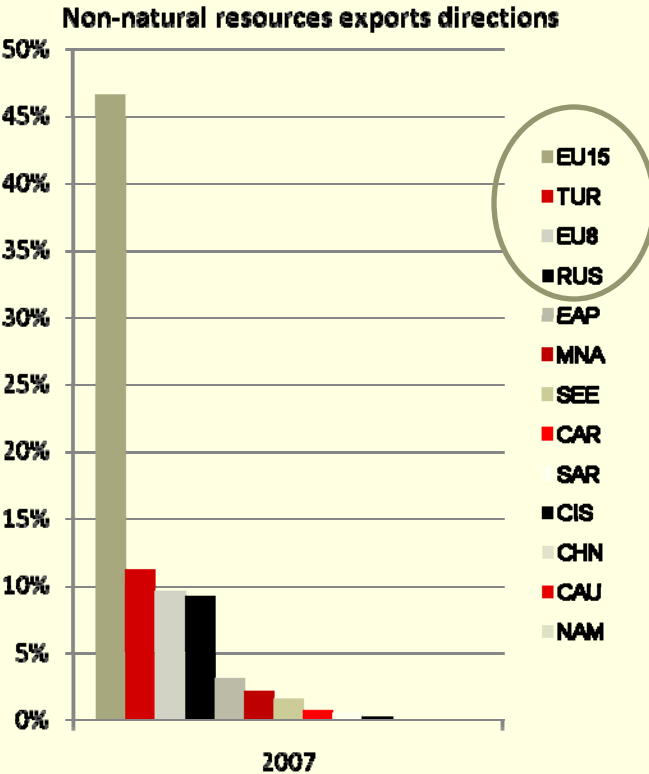
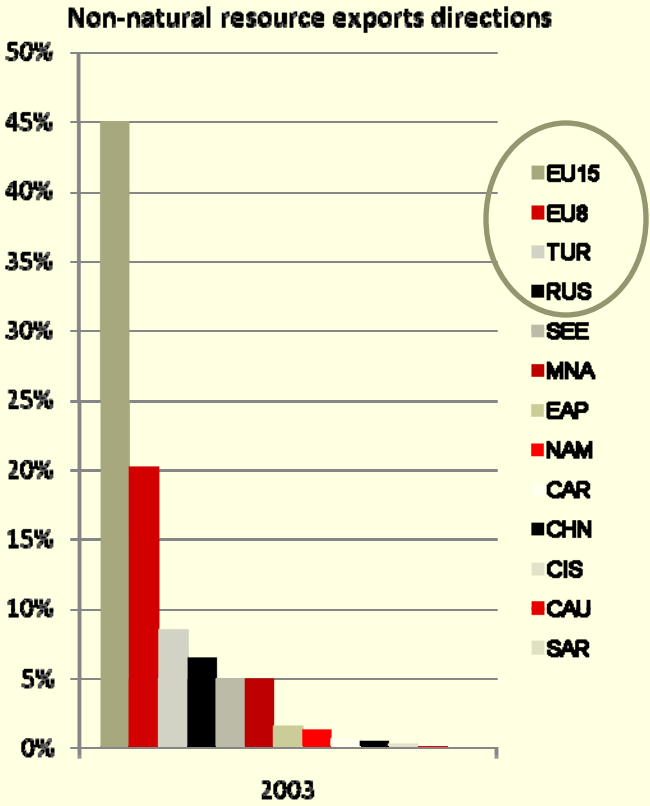


## Role of exports: the main source of growth in non-natural resource exports has been the growth of export of existing products to existing markets

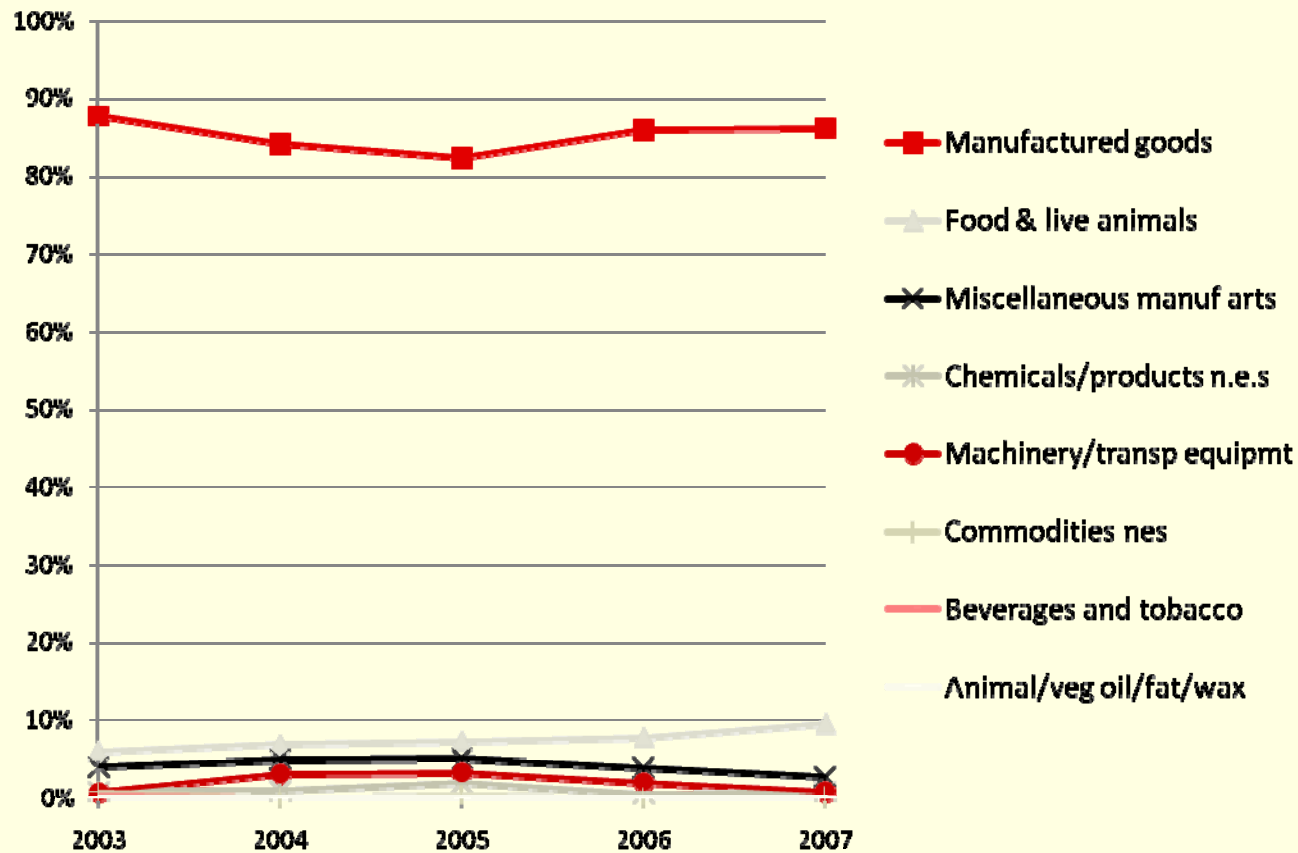


- A="increase in exports of existing products to existing markets";
- B="fall in exports of existing products to existing markets";
- C="extinction of exports of existing products to existing markets";
- D="new exports of existing products to new markets";
- E="new exports of new products to existing markets";
- F="new exports of new products to new markets".

# Role of exports: 80% of non-natural resources exports have been going to the same partners along the **North-South** direction



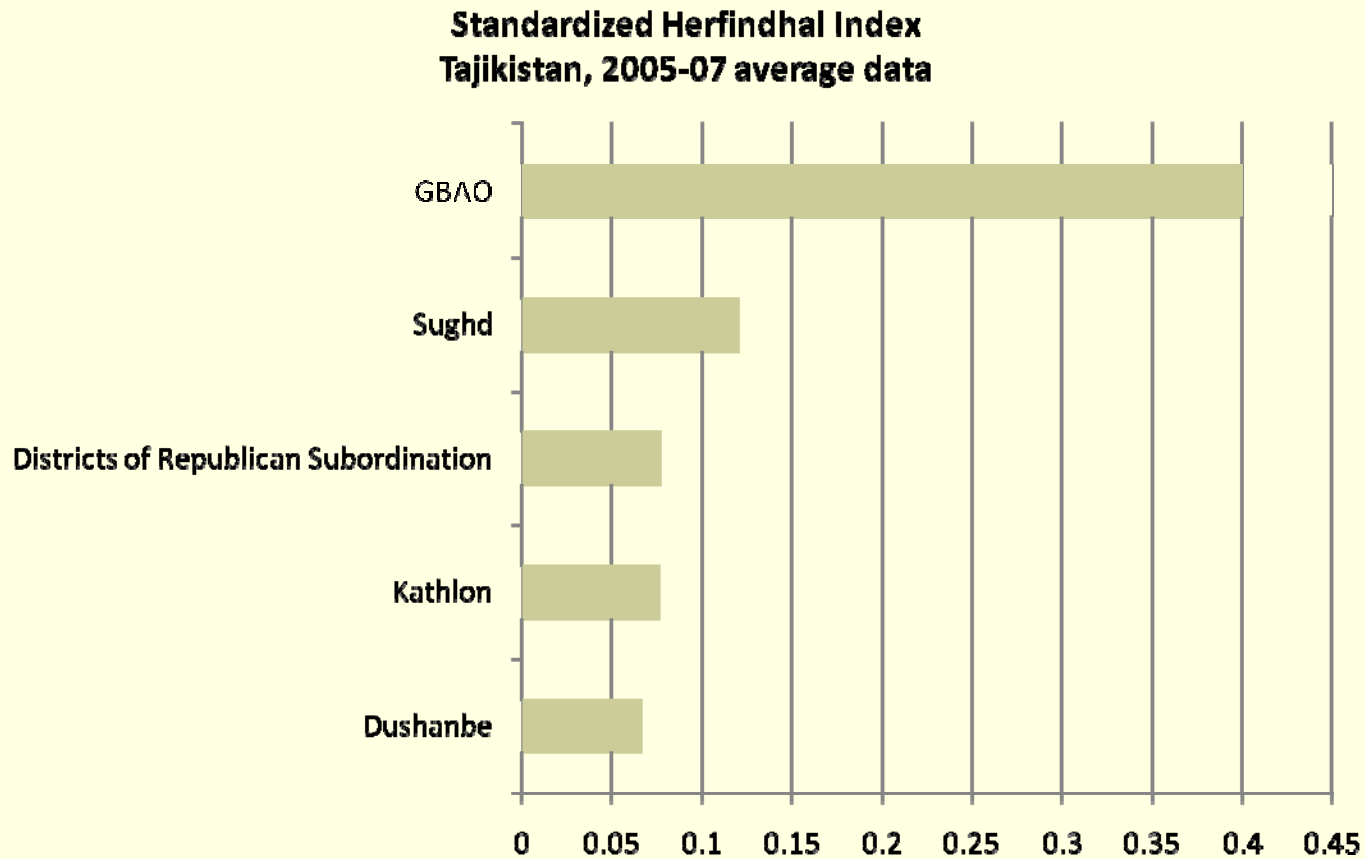
## Role of exports: 80% of non-natural resources exports have been aluminum products although the share of food has been constantly increasing



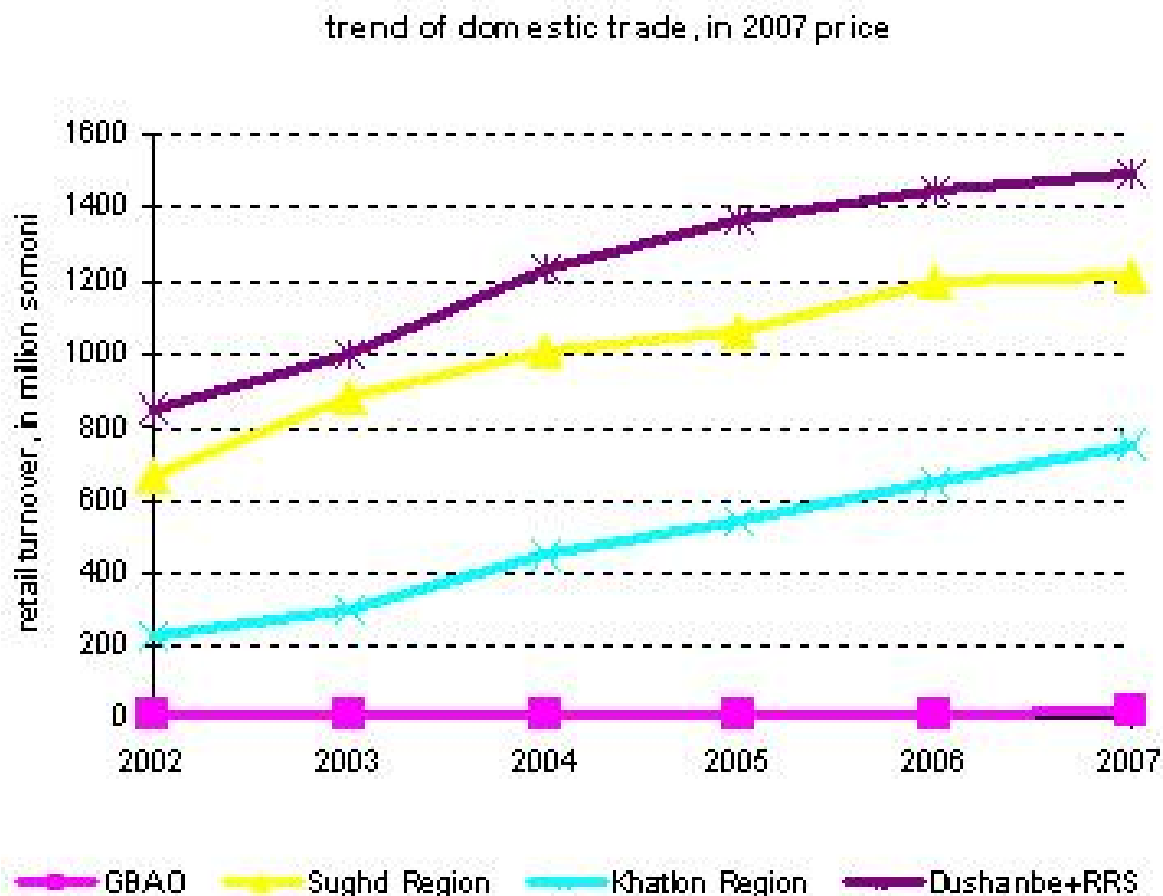
## Role of exports: Tajikistan Revealed Comparative Advantage has been shifting toward food products, and also points to the **North-South direction**

Products	Average RCA, 2003-2007	
	TJK	Major Markets
Other nuts, fresh or dried	5.48	RUS,TUR
Grapes, fresh or dried.	17.92	RUS
Other fruit, fresh.	6.47	RUS,IND
Locust beans	5.21	CHN
Fruit juices (including grape must)	8.39	KAZ,RUS,TUR
Men's or boys' suits, ensembles	9.35	KAZ
Ferro-alloys	4.53	CHN
Aluminum wire	31.18	KAZ
Other articles of aluminum	2.30	RUS,TUR

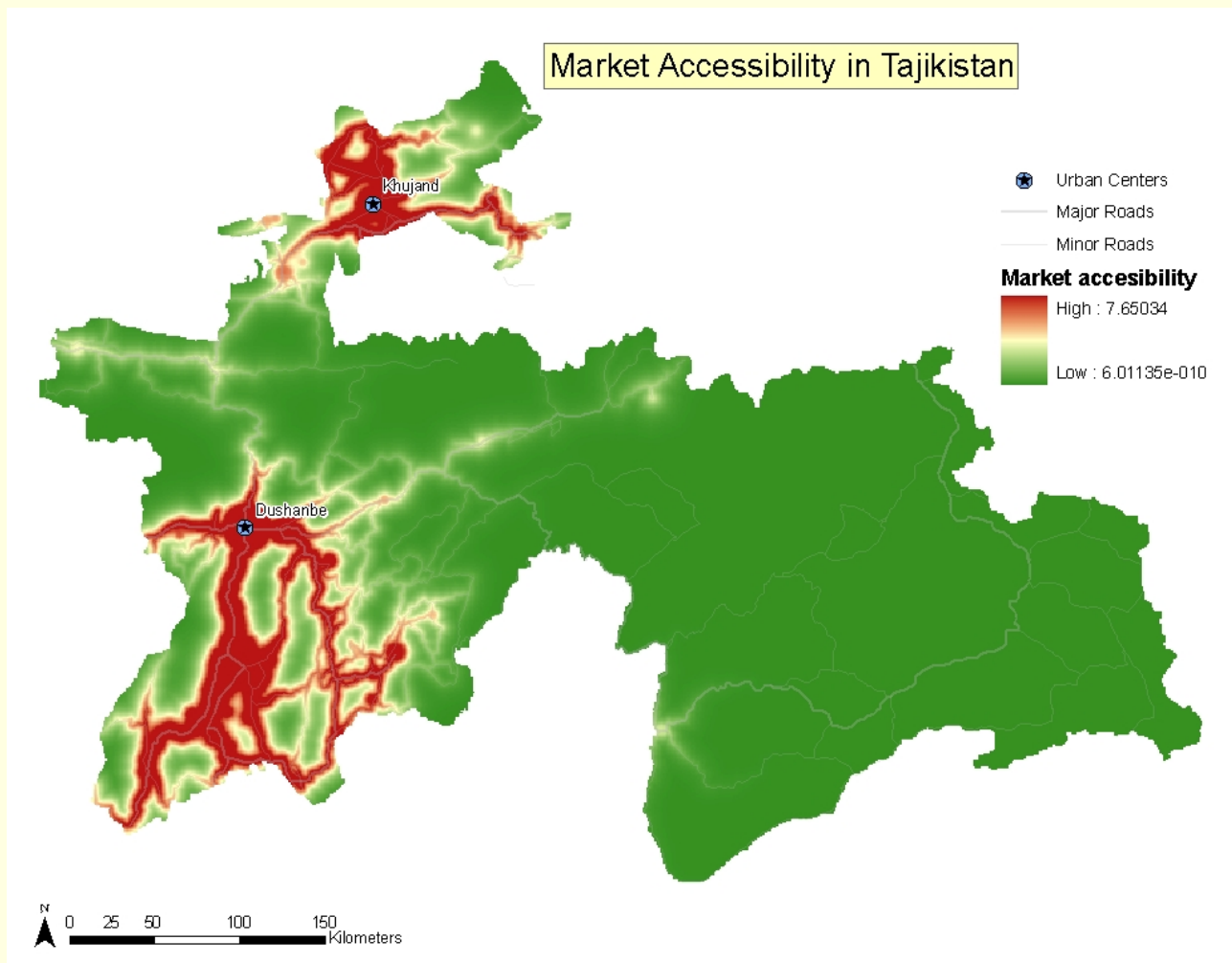
**Role of exports: Dushanbe and Khujand are the most diversified production base, pointing to the **North-South** direction**



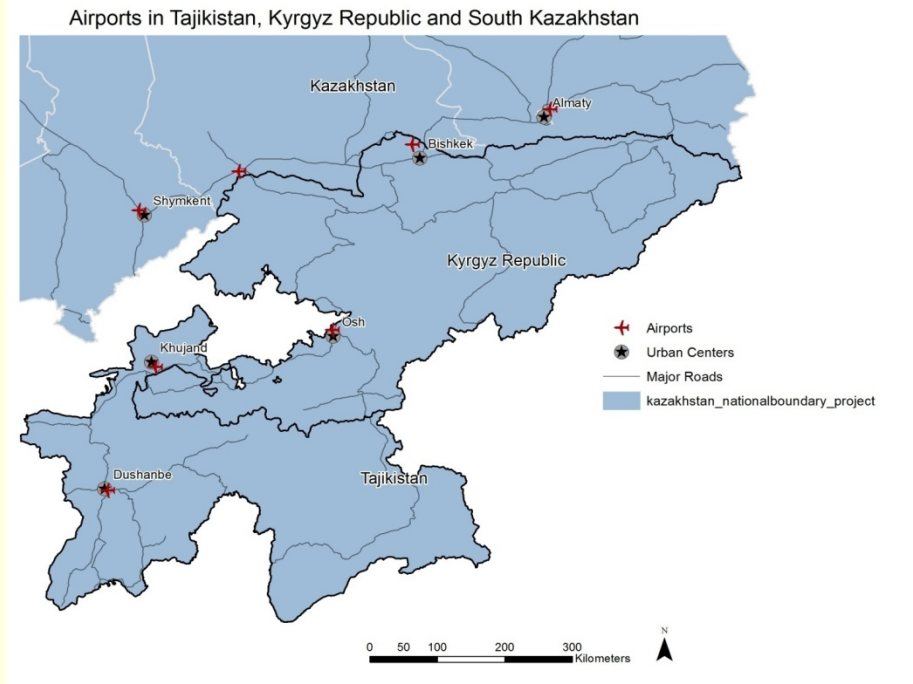
## Role of exports: Dushanbe/RRS and Sughd are also leading domestic trade, pointing to the **North-South direction**



# Role of exports: Dushanbe and Khujand are the places best connected domestically, pointing to the **North-South** direction

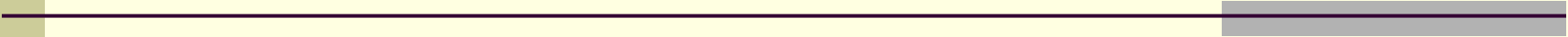


## Role of exports: Dushanbe and Khujand are also better connected externally via international airports, pointing to the **North-South direction**



½ of domestic flights are departing from Dushanbe, 2/5 from Khujand. Dushanbe is receiving ½ of the domestic arriving traffic, Khujand 2/5. Dushanbe is now connected directly to Frankfurt twice a week with the newly created “Somon Air,” in addition to the two weekly connections to Dubai, Istanbul, Russia, and Urumchi





... but with persisting constraints to  
market accessibility ...

# Diagnosing constraints to market accessibility

## Constrained transport and logistics services

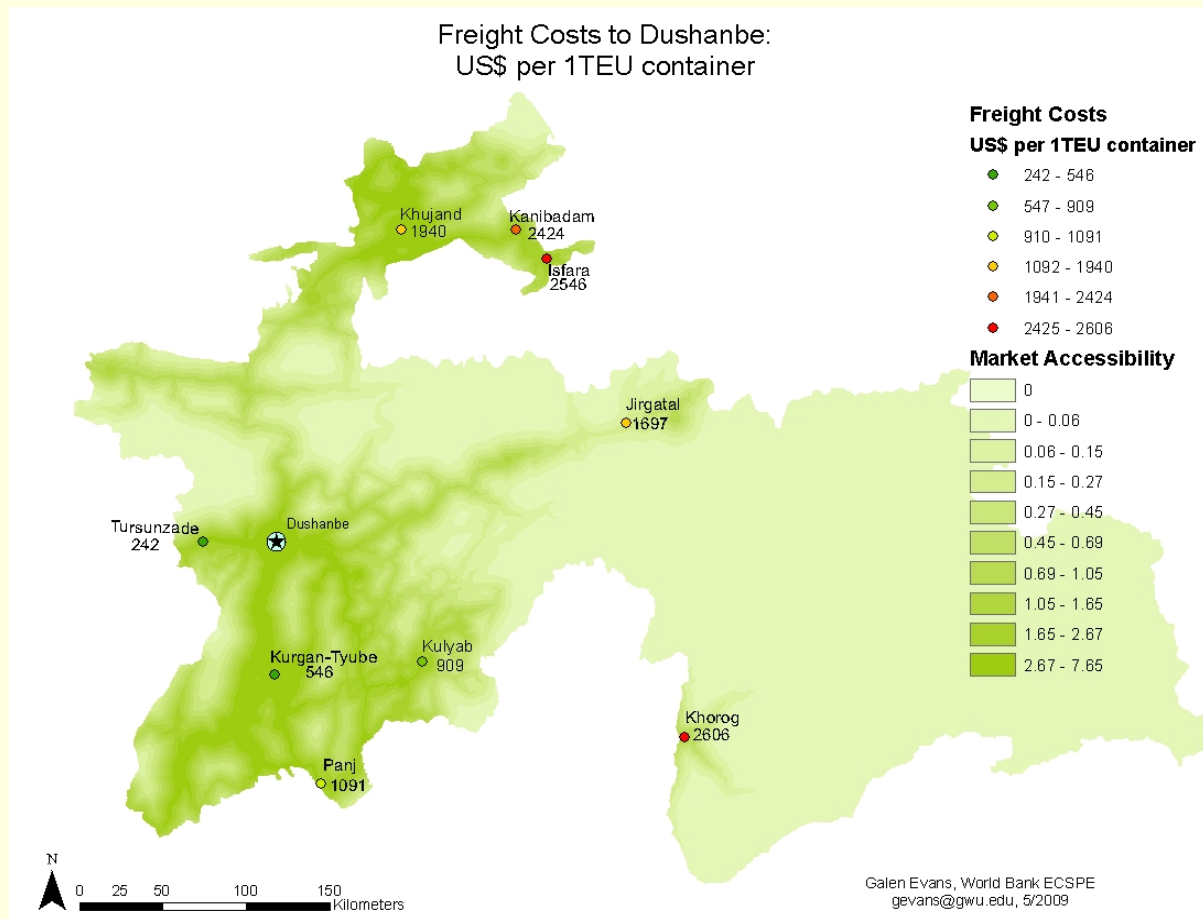
Domestic transport costs (particularly between Dushanbe and Khujand are abnormally high compared to cost of importing a container from the US to Moldova (DB2009 data)

Direction	Distance, km	US\$ per 1TEU container
Within Dushanbe	12	30-242
Dushanbe –Tursunzade	56	242
Dushanbe –Kurgan-tube	99	546
Dushanbe-Kulyab	204	909
Dushanbe – Panj	206	1091
Dushanbe-Jirgatal	287	1697
<b>Moldova import from US</b>	<b>7,668</b>	<b>1895</b>
Dushanbe-Khujand	341	1940
Dushanbe- Kanibadan	421	2424
Dushanbe –Isfara	448	2546
Dushanbe-Khorog	524	2606

# Diagnosing constraints to market accessibility

Constrained transport and logistics services

The freight cost to Khujand, Konibodon and Isfara seems abnormally high (compared to Jirgatal) given their market accessibility,



# Diagnosing constraints to market accessibility

Constrained transport and logistics services

... and given Khujand potential for multi-modal (road-rail) transport services given its better regional connection



Source: Vavilon Freight Forwarder, Global Development Solutions, LLC

Note: Each border crossing takes a minimum of one day. If goods are perishable, customs may create excessive delays in an attempt to extract additional bribes. All trains departing Khujand must transit through Uzbekistan.

# Diagnosing constraints to market accessibility

## Constrained transport and logistics services

Cargo consolidation services are almost inexistent in TJK, although the potential seems to exist particularly along the **North-South direction** linking Dushanbe and Khujand to Kyrgyzstan, Kazakhstan towards the North and Afghanistan and Iran and Turkey towards the South

	Cargo vehicles arrival				Cargo vehicles departure			
	2007		2008		2007		2008	
	With goods	Empty	With goods	Empty	With goods	Empty	With goods	Empty
Foreign countries	7,343	310	11,110	585	2,159	4,825	2,745	8,901
of which								
<b>Iran</b>	<b>2,786</b>	2	2,485	2	<b>1,027</b>	1,762	616	1,844
<b>Turkey</b>	<b>2,171</b>	0	<b>2,841</b>	1	<b>899</b>	1,242	<b>1,175</b>	1,676
China	1,984	273	2,369	232	224	1,518	243	2,011
<b>Afghanistan</b>	381	34	<b>3,392</b>	348	9	280	<b>711</b>	3,351
CIS countries	5,340	340	4,963	255	1,961	3,448	1,806	3,164
of which								
Russia	172	91	272	131	41	112	14	171
<b>Kazakhstan</b>	<b>2,137</b>	14	<b>1,472</b>	16	<b>786</b>	1,362	<b>802</b>	662
<b>Kyrgyzstan</b>	<b>1,341</b>	221	<b>1,662</b>	87	<b>713</b>	691	<b>742</b>	1,030
Uzbekistan	1,105	10	739	5	418	702	245	495
Turkmenistan	527	0	762	0	2	524	0	755
<b>Tajikistan</b>	<b>4,025</b>	<b>3,395</b>	<b>7,717</b>	<b>3,538</b>	<b>1,430</b>	<b>3,205</b>	<b>1,600</b>	<b>9,252</b>
<b>Total</b>	<b>16,708</b>	<b>4,045</b>	<b>23,790</b>	<b>4,378</b>	<b>5,550</b>	<b>11,478</b>	<b>6,151</b>	<b>21,317</b>



How to boost growth through export  
diversification in such context?

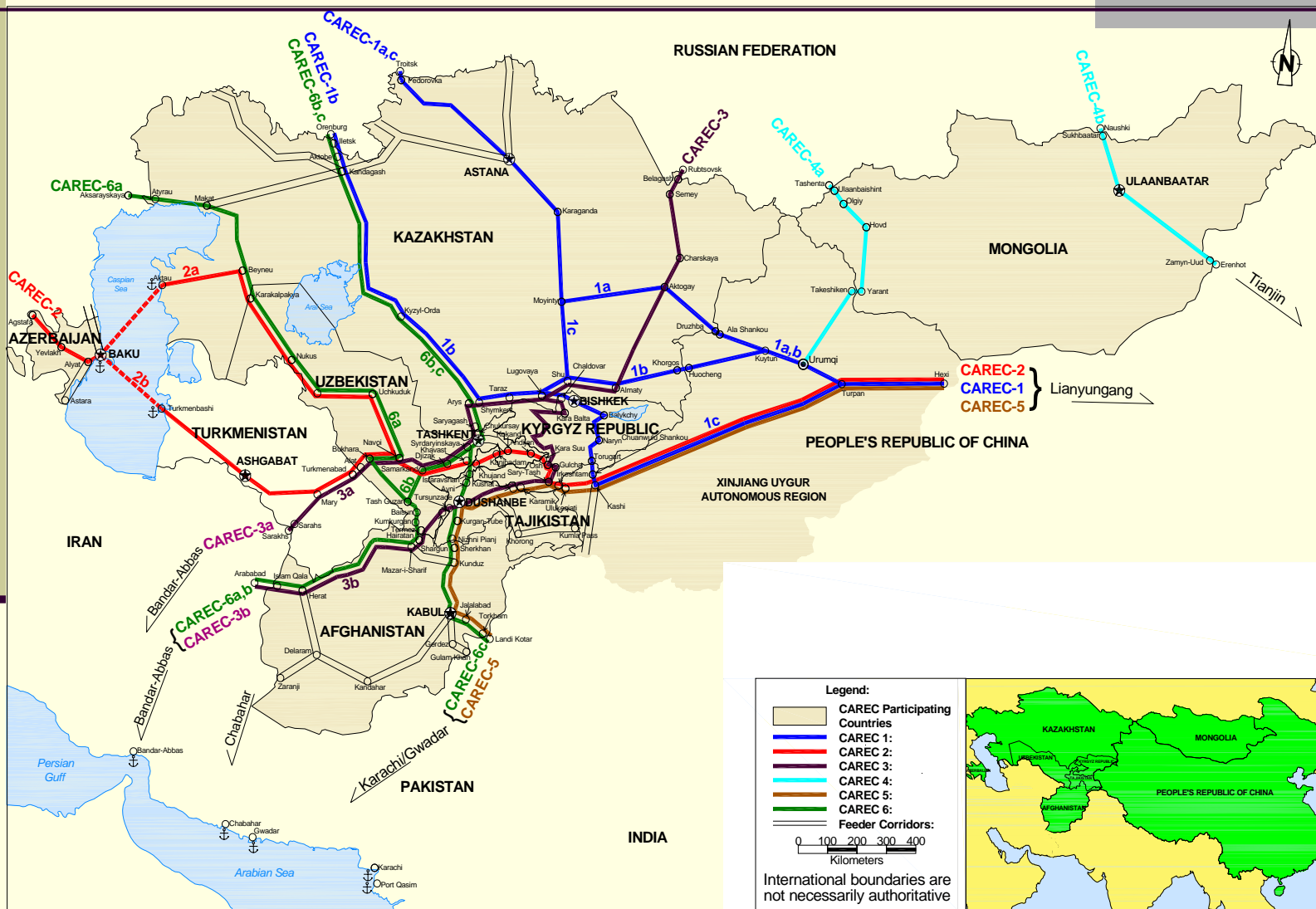
## Growth strategy with a selective connectivity to markets

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- With such a strategy, the government can use public financing to develop multi-modal transport hubs and upgrade international transport corridors to reduce the cost of trading
- Dushanbe and Khujand are natural candidates to develop such hubs
- The Dushanbe-Khujand-Isfara connection (of which a leg coinciding with the Dushanbe-Khujand-Chanak connection is already financed with Chinese loan of 281mil USD) and the Dushanbe-Nyjny Pjanj are natural corridor candidates to open up the country towards its major export markets
- These hub cities and corridors happen to cover the areas where most of the agribusiness and industrial production are occurring

# How to address high transport costs to export markets?

A selective connectivity policy





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A selective connectivity policy

- The CAREC action plan does not propose a priority order to guide governments on the legs of the corridors crossing their territories
- All the North-South corridors proposed in the CAREC action plan go through Uzbekistan, although repeated border closings and reported breach of transit agreements reduce transit predictability and increase transport costs
- The non-natural resource intensive goods produced and exported by Kazakhstan, Kyrgyzstan and Tajikistan (food and garments) are also transported along the Nijny Pjanj-**Dushanbe-Khujand**-Isfara-Batken-**Osh-Bishkek-Almaty-Astana**-Petropavlovsk corridor
- A sound connectivity policy is therefore to promote a **North-South Road Corridor** connecting their 6 leading cities of KAZ (Almaty and Astana), KGZ (Bishkek and Osh) and TJK (Dushanbe and Khujand) as a priority connection to tapped into the transport demand generated by these leading cities

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A selective connectivity policy

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- As competition and services improve in the rail sector, this will provide a basis for multi-modal transport services
- As envisaged by the Kazakh government, the development of a regional logistic center in Almaty will facilitate multi-modal transport and reduce transport costs. This means that a regional integration initiative involving Kazakhstan and Kyrgyzstan and focusing on trade and transport logistics need to be fully part of this selective connectivity policy
- This corridor choice establishes a priority order of the legs of the CAREC corridors in Tajikistan: the Isfara-Khujand-Dushanbe-Nijny Pjanj leg
- Uncompleted tunnels between Khujand and Dushanbe and the road connecting them should be the priority No.1 of the country's Transport Master plan. If completed, the travel time between Khujand and Dushanbe will be reduced from 9 to 4 hours and thus significantly reduce transport costs

# How to address high transport costs to export markets?

A selective connectivity policy

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- To facilitate the coordination of both physical infrastructures needs and trade and transport facilitation measures, international best practice suggests to establish a corridor management institution
- It is advised to be designed as a problem solving group with operational procedures encouraging the flexibility necessary to be responsive and ensuring public-private interaction at all levels
- It is also advised to be a three-tier corridor management institution comprising a stakeholders group, a core group and a secretariat
- Funding arrangements for existing corridor groups include membership fees, contributions by governments, traffic-based usage fees, donor support