Afghanistan's Trade with CAREC Neighbors:
Evidence from Surveys of Border Crossing Points in Hairatan and Sher Khan Bandar[•]

Background

At the request of the senior officials of the Central Asian Regional Economic Cooperation (CAREC) countries, the World Bank conducted in 2007 a study on border-trade among six CAREC countries. The report "Cross-Border Trade among within the Central Regional Economic Cooperation," based on surveys designed at identifying conditions of cross-border trading, was presented at the CAREC Trade Policy Coordinating Committee and SOM meetings held in Manila in September 2007.

The report, however, has not included every CAREC country. Some countries were deliberately excluded: Azerbaijan, which lacks a land border with a CAREC member; Mongolia, which borders only China along a long, thinly-populated frontier; and Uzbekistan as its government declined to participate in the project. Another country—Afghanistan—was not fully covered: the study did include three Afghan-Tajik border crossing points (BCPs), but it was not possible to recruit an Afghan team to conduct surveys on the Afghan side of the border within the tight deadlines for that report.

This report, conducted at the request of the government of Afghanistan, fills this gap. It summarizes the results of surveys carried out on the Afghan side in May 2008 at two BCPs, Hairatan, linking Afghanistan and Uzbekistan, and Sher Khan Bandar, linking Afghanistan and Tajikistan. Since the bulk of trade with all CAREC members, except for Azerbaijan, China and Mongolia, goes through these BCPs, they provide a good vantage point to gain a better understanding of this trade and constraints it faces. Six groups of persons have provided information through structured interviews at both BCPs, including: customs officials, border guards and immigration officials, taxi and truck drivers, traders, buyers and sellers at marketplaces.

Afghan customs and border regime governing the movement of people, goods, and vehicles are the same at both BCPs. By the same token, the differences in intensity of movement at respective BCPs can be explained to some extent by the difference in restrictiveness of regimes in Tajikistan and Uzbekistan. By this measure, Tajik regime appears to be friendlier to cross border trade than that in Uzbekistan. The team has not identified a single small trader at the Hairatan BCP: all traders dealt with large-scale purchases of commodities (fuels, iron bars, and timber).

Since neither Afghanistan nor its CAREC neighbors—Tajikistan and Uzbekistan—submit trade data to the UN COMTRADE database, it is impossible to examine bilateral trade flows between respective countries. Snapshots from observations by a surveying team cannot be presented in a broader perspective. Nonetheless, they offer some insights into both formal or standard trade and unrecorded trade as seen from the Afghan side. More importantly, they point to a significant potential of this trade suppressed by both Afghan and external trade regimes. Although Tajikistan has made some steps towards facilitating cross border trade with Afghanistan, cross border trade is yet to take off.

[•] This report, prepared by a team headed by Saumya Mitra and consisting of Bartlomiej Kaminski and Matin Kholmatov, is based on the results of surveys and structured interviews conducted by the IDC national team in Afghanistan. The team is grateful for the guidance of Annette Dixon (the Bank's country director for central Asia) and Sena Eken (IMF). The Bank acknowledges the generous support of the Swiss government to the conduct of this study.

The remainder of this report is organized as follows: Section 1 provides a general background on Afghanistan's CAREC trade with a special emphasis on bilateral flows between Afghanistan and Tajikistan, on one side, and Afghanistan and Uzbekistan, on the other side. Section 2 provides an assessment of conditions faced by Afghan traders in Hairatan, a BCP into Uzbekistan. Section 3 compares movement of goods, people, and vehicles in Hairatan to conditions in Sher Khan Bandar, a BCP into Tajikistan. Section 4 takes a broader look at barriers to trade, identified in the surveys of both BCPs. Section 5 points to welfare losses associated with the current regime governing flows through respective borders and suggests policy measures that should be taken to facilitate cross border trade.

1. *Trade with CAREC members through the lenses of two BCPs*

Although Afghanistan borders three CAREC members, China, Tajikistan, and Uzbekistan, their commercial interaction remains limited because of geography, security concerns over drug trafficking, Afghanistan's limited export offer, and poor infrastructure, despite recent improvements. Northern Afghanistan is connected to the Central Asian republics through roads, bridges and barge services. Afghanistan's border with CAREC members of around 1,400 kilometers (of which 1,206 kilometers) accounting for 26 percent of its total length is not easy to access because of high mountains (e.g., with China where there is no BCP), rugged roads and the absence of railroads in Afghanistan.

For the reasons of geography, the number of BCPs linking Afghanistan with its CAREC neighbors is rather small: altogether, there are ten BCPs—two at the border with Uzbekistan, and eight with Tajikistan, out of which three are open only to local traffic. The major BCPs carrying out the bulk of respective trade are Hairatan with Uzbekistan and Sher Khan Bandar with Tajikistan. Other BCPs do not have capacities to handle large commercial or automotive volume, whereas both Hairatan and Sher Khan Bandar have bridges, built to international seismic standards, and other border facilities capable of accommodating large flows of goods.

After an initial surge in 2003-04, Afghanistan trade with CAREC countries has been flat with two notable exceptions: trade with both China and Tajikistan has displayed strong growth. This increase, however, has not been sufficiently large to offset an overall decline in the significance of CAREC trade to Afghanistan in terms of its share in total trade turnover.[1] The average rate of growth over 2004-06 of CAREC trade of 22 percent was significantly lower than that of total trade, which was 31 percent. In consequence, the share of CAREC countries in Afghanistan's total trade contracted from its peak level of 8.3 percent in 2004 to 5.9 percent in 2005 and 6.9 percent in 2006. Two countries have accounted for around 90 percent of this trade—China and Kazakhstan.

CAREC markets are more important for Afghan importers than exporters. The share of CAREC in total imports was 7.3 percent in 2006 and this share in exports was 1.5 percent. The latter, one full percentage point below its peak of 2.5 percent in 2004, was 2 percent in 2005. In contrast, the CAREC share in total imports rebounded in 2006 from 6.2 percent in 2005, although it was still below its 2004 level of 8.9 percent.

On the import side, Afghanistan's two major CAREC suppliers are Kazakhstan (49 percent in 2006) and China (40 percent), with the former providing oil and the latter manufactured goods. Despite steady and strong growth of imports from Tajikistan, its share in total Afghanistan's imports contracted in 2006 (Table 1).

Tajikistan is Afghanistan's major market for its exports taking 87 percent of its CAREC-oriented exports, although overall Tajikistan's share of one percent in total markets is tiny. Afghanistan's sales in

---

[1] This does not include Uzbekistan. The IMF DOT (Direction of Trade) database does not provide information on direction of trade of this country.

Tajikistan, however, also display signs of stagnation: they more than doubled in 2004 and subsequently fizzled off (Table 1).

Table 1: Afghanistan's trade with Tajikistan and Tajikistan's share in Afghanistan's CAREC trade (in millions of US dollars and percent)

	2002	2003	2004	2005	2006	LSG
	Value in thousands of US dollars					2004-06
Exports	273	1,455	3,636	3,091	3,820	2.5
Imports	6,930	6,380	8,470	13,310	16,450	33.2
	Share of Tajikistan in total CAREC trade (in percent)					
Exports	71.4	70.2	77.9	63.5	87.2	5.6
Imports	10.2	6.6	4.8	7.1	6.0	11.2

Source: Derived from the IMF DOT database.

While we do not have disaggregated data on trade of Afghanistan with its CAREC members, the conducted surveys at two BCPs offer snapshots of this trade. Since these are the largest BCPs thorough which goods move in and out of Central Asia, they provide a good observation point of this trade and its constraints. First, it is mostly a one-way trade with Afghan imports towering over its exports. The available aggregated data clearly corroborate this observation, albeit with caveat. Although, overall, Afghanistan's export coverage of imports was around 8 percent in 2004-06, it was much higher in trade with Tajikistan as exports amounted to around 25 percent of imports (Table 1).

Second, the range of products exported from Afghanistan to Tajikistan and Uzbekistan is limited (mainly raisins). The Tajik-oriented export basket, however, appears to be a bit more diversified: it includes not only raisins but also potatoes and cement. Fuels, glass, cement, and molten-soft bars of iron are among major imports from Uzbekistan, whereas timber and fuels (liquefied petroleum gas) are the major groups of products brought from or through Tajikistan into Afghanistan.

Third, while cross border trading with neither Tajikistan nor Uzbekistan is well developed, it takes place, albeit on a limited scale, at the Afghan—Tajik border. The number of individuals of around one hundred crossing daily the Sher Khan Bandar BCP is more than double than that at Hairatan. Furthermore, a much larger proportion of them appear to be small shuttle traders. Almost all individuals coming from Tajikistan go through customs clearance, i.e., they declare transported goods as they exceed the threshold of up to 55 kilograms of items of everyday use that they can bring into Afghanistan free of any border charges. At Hairatan, only around one-fifth of individuals crossing the border from Uzbekistan submit customs declaration. Those who do so usually represent large trading firms, "shirkat," involved in formal or standard trade and not shuttle-bazaar-type trading.[2]

On the other hand, however, large "shirkats" may actually suppress trade. Anecdotal evidence suggests that they have been quite successful in establishing monopolistic position in some markets preventing other firms to enter into business.

In a nutshell, official bilateral trade flows between Afghanistan, on the one side, and Tajikistan and Uzbekistan, on the other, are relatively low, but the potential for increasing trade flowing through these BCPs is significant for two reasons. Consider first that as roads and bridges are being rebuilt or constructed between Afghanistan and its Central Asian neighbors, these trade routes will become more

[2] There is a caveat, however, as the number of traders may not fully convey the intensity of commercial links, although this applies to both BCPs. While traders, initially, go across the border to negotiate their deals, once they would establish confidence and trust, they subsequently have their goods delivered to the buyers/wholesalers in trucks, carried by the taxi-drivers.

accessible and attractive turning Afghanistan into a hub between central and south Asia. They will provide land-locked Central Asia with access to trans-Afghan transport corridors connecting them to seaports in Karachi, Pakistan, and Iran's Bandar-Abbas.

Second, there are cultural and ethnic bonds between population of Northern Afghanistan and those of Uzbekistan and Tajikistan. Afghan population across the border is dominated by Tajiks with significant Uzbek minority. This creates an opening for significant cross border trade once a friendlier border regime is in place in each of the three CAREC countries.

2. BCP at Hairatan: untapped potential for cross border trade?

The importance of Hairatan, a BCP between Afghanistan and Uzbekistan (Figure 1), stems from several factors. First, it is the only border point with efficient transport links with much of Central Asia and modern customs facilities. Until the completion of the bridge linking Sher Khan Bandar with Nizhny Pyanj in Tajikistan in 2007, this was the only route out of Central Asia.

The Uzbek city of Termez, located a few kilometers from Hairatan, has railroad connections with both Dushanbe, capital of Tajikistan, and Tashkent, capital of Uzbekistan, supplemented by modern border facilities. Open in 2003 and built with the assistance of the Asian Development Bank, a modern customs facility allows for close inspection of vehicles and cargo thereby enabling increased traffic across the border.[3] The new building of the Customs House at Hairatan has two ports. Port No 1 where shipments sent by boats are processed and Port No 2 where goods transported through train are unloaded (see Figure 1).

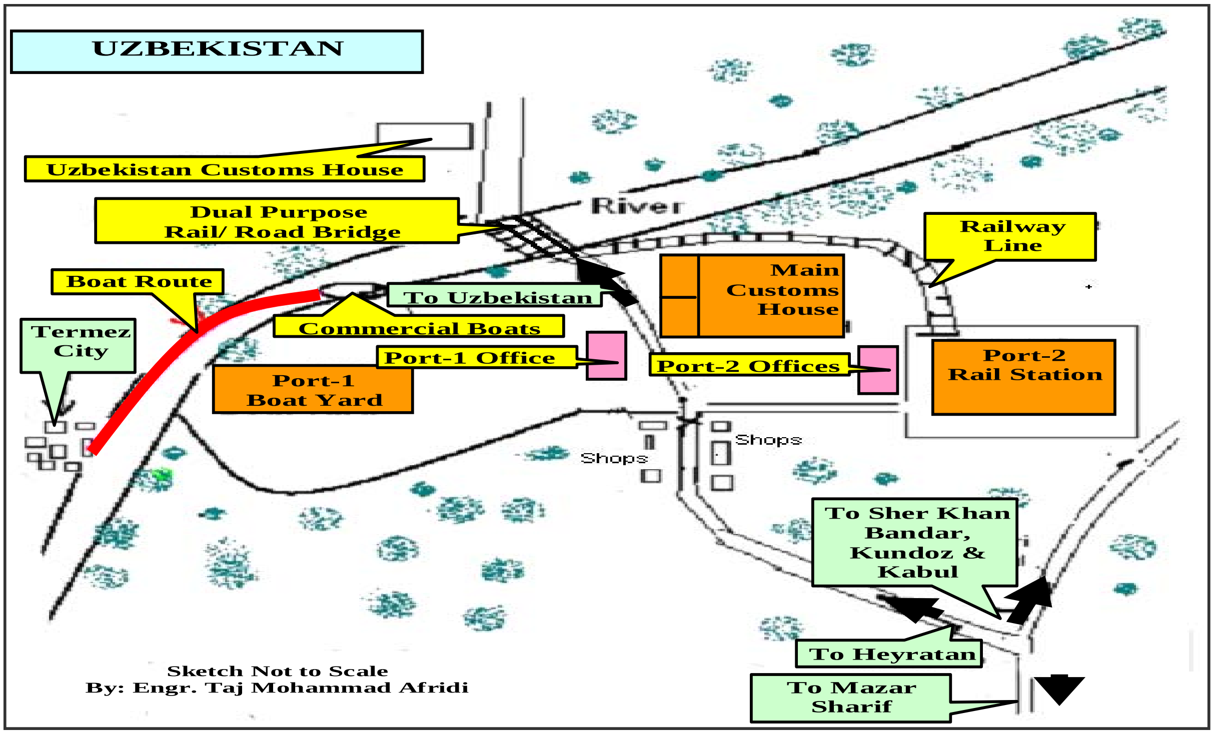
Second, Hairatan is at the intersection of two relatively well-developed contiguous regions connected by Friendship Bridge over the river Amu Darya. The Afghanistan–Uzbekistan Friendship Bridge is the only way to Afghanistan. On the Uzbek side, the province of Surxondaryo—whose capital, Termez, has a population of around 150 thousand—is the largest supplier in Uzbekistan of long fiber cotton and a site to extractive industries (petroleum, natural gas, and coal). Its agriculture is based primarily on livestock, cotton and cereals, supplemented with horticulture and viticulture. It has also a well-developed transport infrastructure with the only Central Asia's river port at Termez on Amu Darya River. On the other side of the border, there is the Balkh Province with its capital Mazar-E-Sharif. Mazar-E-Sharif is the second biggest city in Afghanistan after Kabul, with around 1 million inhabitants. It is just three and half hours away from Kabul, two hours away from the Tajik border, and around three hours from the Hairatan BCP. The local economy is dominated by agriculture with such main agricultural crops as wheat, rice, corn, sesame, and grass pea.

Third, infrastructure that could support cross-border, had the policy conditions been right for it, is already developed on the Afghan side.[4] Around 3-4 kilometers from Hairatan on the road to Mazar-E-Sharif, there is a bazaar encompassing around 150 stalls carrying a whole variety of goods including among others cold drinks, biscuits chips, gums or toffees, phone cards, soap hand towels, fruits, vegetables, etc. The largest bazaar in the region is Mandai, located in Mazar-E-Sharif. It trades mainly in consumer goods imported from China and Pakistan with products, including agricultural produce originating across the border, conspicuously absent. Goods moving through the Hairatan BCP include mainly industrial raw materials (e.g., fuels, glass, molten-soft bars of iron) shipped to Afghanistan and limited quantities of raisins shipped to Uzbekistan. These products are not specific to cross-border trade, albeit with a caveat: there were some shipments containing rubbers shoes, soap, and cooking oil that might qualify as local trade. These were, however, rather rare during the survey period.

[3] For details, see http://www.adb.org/Media/Articles/2003/3625_Uzbekistan_Key_Customs_Facility/ accessed on August 21, 2008.

[4] Since we did not have access to the Uzbek side of the border, our comments are derived from observations and data collected in Afghanistan.

Figure 1: Lay-out of border facilities at Hairatan



Considering relative endowments of these two neighboring provinces on both sides of the Amu Darya River, the potential for mutually advantageous economic interaction is yet to be tapped. There has been very little cross border trading in regionally available surpluses. Relatively few people cross the border (around 60 daily both ways): but even if they do, they do not do it on a regular basis. Among "regulars,' people who cross the border once a month dominate, accounting for almost two thirds of the total. Furthermore, among people crossing there are no small shuttle traders usually responsible for cross border trading activities.

3. Afghan-Tajik BCP: how it compares to Hairatan?

Sher Khan Bandar (located in the northern Kunduz province), the main BCP linking Afghanistan with Tajikistan, appears to be a lively crossing point with much larger intensity of the movement of both goods and people despite the fact that the bridge was completed only in July 2007 and new customs facilities put in place in late 2007.[5] The 'Friendship' bridge replaced a barge that could only transport 60 cars per day and was not operational for part of the year. Given a relatively short period of time that had elapsed before opening of a bridge and our survey that took place in May 2008, one expects a significant increase in traffic across this border.

Although boats still remain as the most favored means of crossing the border for people accounting for around half of their total number crossing the border, the number of trucks crossing the border is

[5] The bridge, financed by the United States with a contribution from Norway and constructed by an Italian company, was opened in July 2007. New hotels on either side of the border, and a restaurant and a gas station on the Tajik side, had been opened even before this 670-meter long bridge was finished. When modern border posts and custom facilities, including state of the art scanning equipment for vehicles and cargo, will be completed, there will be capacity in place to process up to 1000 trucks a day. Border facilities have already become operational by end 2007. The bridge has cut the distance between Dushanbe and seaports almost in half.

significantly larger than in Hairatan—50 trucks in Sher Khan Bandar as compared to two in Hairatan. This is still a far cry from the bridge's capacity to handle up to 1,000 vehicles daily.

Table 2: Movement of people through Hairatan and Sher Khan Bandar

	Hairatan	Sher Khan Bandar
Number of people crossing the border daily	60	100
Percent of people crossing border weekly	32	60
Percent of people crossing border monthly	66	25
Percent of people crossing daily	2	15
Percent of people crossing the border by		
Car	45	5
Boat	17	60
Truck	15	35
Railway	20	n/a
Other (on foot or bicycle)	3	2
Daily traffic in terms of mode of transportation		
Cars	20	5
Trucks	2	50
Boats	1--2	6
Railway	1-2 weekly	n/a

Source: Based on interviews and observations taken in May 2008

Another difference between two BCPs is that observations from movement of people through Sher Khan Bandar point to more intensive cross-border trading activities than in Hairatan. Indirect evidence abound. First, there are daily travelers. Around 100 people cross the Sher Khan Bandar BCP each day or twice as many as in Hairatan. Some of them are 'frequent travelers:" they go abroad on a daily basis indicating some cross-border business activities.

Second, although around three-fourths of individuals crossing border do not submit customs declarations; they all carry significant amounts of luggage. According to Afghan customs procedures, an individual may carry without customs clearance up to 55 kilograms of luggage. On the Tajik side, thanks to regulations designed to facilitate cross-border trade with Afghanistan,[6] 31 product groups from Afghanistan are exempt from taxes and other border charges.[7] In addition, individuals can bring up to 50 kilograms of goods with their total value not to exceed US$1,000 free of any border charges.

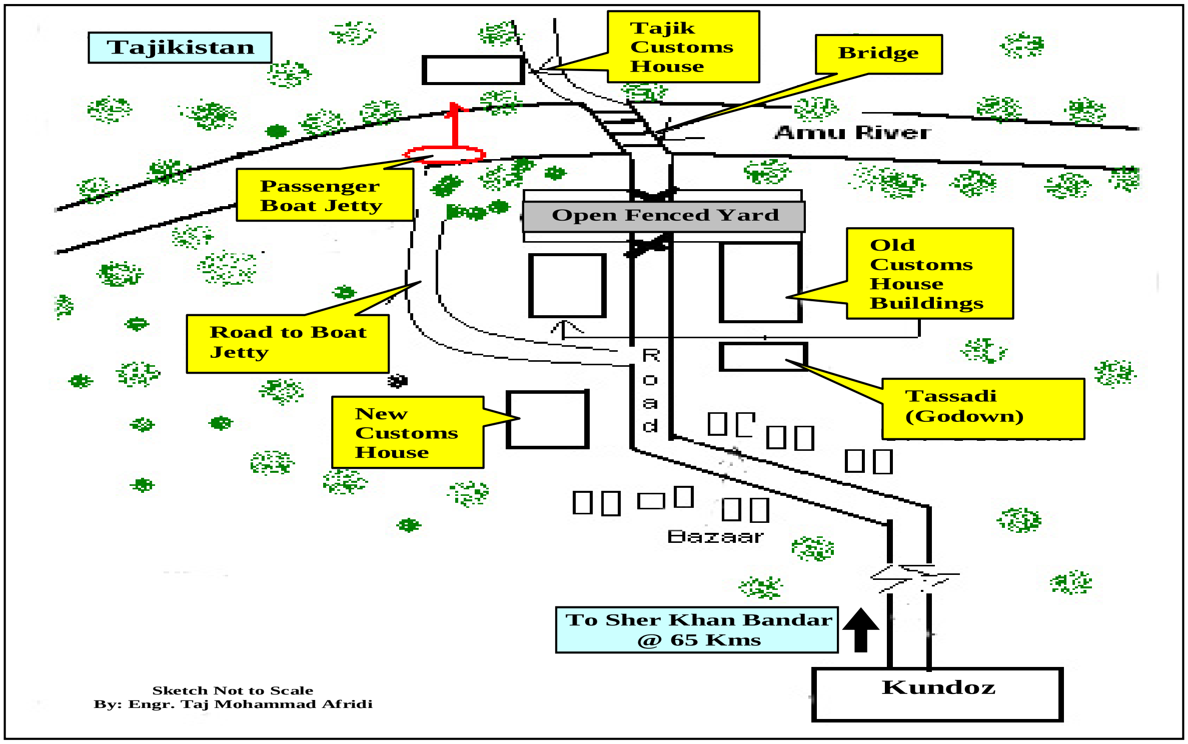
Last but not least, it is estimated that around one third of products crossing the border in terms of origins come from local sources—either agricultural produce or locally available products. These products are sold, among others, in a bazaar located nearby a newly built customs house (see Figure 2). In terms of value, the main commodities crossing the border are timber and liquefied petroleum gas going inbound and potatoes and cement going outbound.

---

[6] Resolution # 397 of the Government of Tajikistan, dated October 2, 2002, "On measures to facilitate and improve border trade in the Republic of Tajikistan."

[7] Meat and food products are subject to phyto-sanitary inspections.

Figure 2: Layout of the Sher Khan Bandar BCP



Although both BCPs, with their respective bridges, provide a vital North-South link for Central Asia (to ports in Iran and Pakistan in the south) and Afghanistan (to Central Asia and Russia in the north), their impact on cross-border exchanges has been different. There appears to more cross-border business activities at the Sher Khan Bandar BCP than at the Hairatan BCP despite a higher level of economic development in Uzbekistan's contiguous region than in the Tajik one. While lack of efficient facilities to manage border, control incoming and outgoing goods in Hairatan may be partly to blame, policies on the other side of the border also influence cross-border trade. From this perspective, the Tajik regime appears to be friendlier to trade, although it remains wanting on several counts.[8]

4. Barriers to cross-border trade and their implied welfare cost

Cross-border trade hinges critically on: (a) *free movement of people*, i.e., the ability of people to routinely cross the border without paying a large unofficial payment; (b) *free movement of goods*, i.e., the ability of people to routinely cross the border with goods without having to pay bribes on top of prohibitive tariffs, taxes or duties and border charges; (c) *free movement of vehicles*, i.e., the ability of people to cross the border with their own passenger vehicles or with light vehicles from bordering regions; and (d) *quality of infrastructure* including conditions at BCPs. They are intertwined: for instance, visa-free entry will not fully unleash cross-border business activities if people cannot move in their vehicles and have to go through costly customs procedures or physical facilities impose further restrictions on flows of goods and people through borders. In a nutshell, unless all of the above

[8] In 2003, the Government of Tajikistan launched a program designed to facilitate cross-border trade with Afghanistan. The program has enabled the opening of BCPs together with bazaars located within Tajik territory and removed some restrictions on the movement of people and goods entering bazaars (see *Cross-Border Trade within the Central Asia Regional Economic Cooperation*, World Bank, Washington D.C. 2007). These measures do not seem to have been applied on the Tajik side of the Sher Khan Bandar BCP as yet.

conditions hold, cross-border trade would be reduced in volume, with communities suffering a large welfare cost, and may even be suppressed.

The above conditions are not fully met in either of the surveyed BCPs. As for *free movement of people*, there are significant impediment preventing people from moving across the border. A valid passport with visa and ID card are required. Since passports, however, are stamped every time individual crosses the border, their pages are rapidly filled providing a disincentive for crossing the border more often. It is also worth mentioning that usually visas are expensive (typically multiples of a local average monthly wage) and difficult to obtain for local residents, given that respective consulates are distantly located. There is no facilitating regime for either frequent travelers or residents of border districts.

Free movement of goods is hampered by many restrictions—some of them due to regulations, and others informal. Goods crossing the border mostly come from Tajikistan and Uzbekistan into Afghanistan and include fuel, LPG, construction steel bars, timber, shoes, soap, glass sheets, etc. Goods leaving Afghanistan are mostly those that form part of the transit trade passing through Afghanistan, comprising cement, used clothing, citrus fruits etc. Afghani exports mostly include raisins and potatoes, seasonally. Traders drive this trade with wholesalers intermediating between them and retailers.

Regulatory restrictions are more severe in Uzbekistan than in Tajikistan and they are more relaxed for goods entering Afghanistan. Individuals going to Uzbekistan cannot bring more than US$50 worth of goods from neighboring countries: the limit was further lowered to US$25 last July.[9] As mentioned earlier, Tajikistan exempts 35 products brought from Afghanistan from customs duties and other taxes, whereas Afghanistan places limit of 55 kilograms on goods brought by an individual into the country. Restrictions banning the entry of trucks registered across the border further raise the transaction cost by expenditures associated with downloading and loading cargo.

Movement of vehicles is highly curtailed. Cars require special documentation including not only a vehicle registration card but also a government permit. Trucks cannot cross into respective customs territories. Their cargo has to be offloaded and then loaded on importers' trucks following the completion of a customs inspection. The process not only takes long time but is also very costly.

Hence, the regime governing movement of people and goods from Afghanistan are wanting on all three counts. The existing regime prevents people from moving in their vehicles and erects significant barriers to the development of commercial ties between adjacent regions. The claims of the customs and border guard officials at Hairatan and Sher Khan Bandar of smooth and easy passage for individuals and goods with virtually no waiting time, thanks to light traffic at the BCPs, are ill-founded. Interviews with traders and taxi and truck drivers point to very long waiting times exacerbated by offloading and reloading of goods and time consuming other border procedures. In addition, frequent adages further increase waiting time at both BCPs.

As for the quality of infrastructure, despite significant improvements over the last couple of years, problems related to erratic supply of energy persist leading to significant delays. In the absence of backup generators for powering electrical equipment at the BCP, especially cranes that are used to offload and load cargo on railway at Hairatan and trucks at Sher Khan Banda, frequent electricity adages (particularly acute at Hairatan) lengthen time spent at the border prolonging final clearance for days.

Furthermore, taxi drivers complain of lack of boarding and lodging facilities especially badly needed during the times when they wait for days for their goods to be offloaded for inspection and subsequent re-loading.

The combination of restrictions cutting across "three freedoms" and exacerbated by wanting infrastructure creates an environment conducive to bribe extraction. While some informal payments

[9] See the *Custom Committee resolution No 1196-1* of July 11, 2008.

reduce the length of time and the cost to comply with regulations (e.g., issuance of phyto-sanitary and other official certificates and permits), others amount to pure extortion. For instance, the police do not allow taxi drivers to sleep in the vicinity of the BCPs unless they are bribed. The waiting time is long averaging about 44 hours with huge dispersion (the lowest estimate was 16 hours and the highest of 84 hours). Furthermore, truck drivers have to pay bribes charged per truck: their levels vary depending on a load carried. The highest bribes or 'rishwat' are for cement (US$250 per truck) followed by timber (US$110), potatoes (US$100) and liquefied petroleum gas (US$90).

The customs officials and border guards deny prevalence of any unofficial payments; however, all other respondents point to systematic unofficial payments. There appears also to be consensus among respondents about rent seeking-driven harassment by local police at the BCPs, while waiting for goods customs clearance.

In all, these are rather adverse conditions for the emergence of livelihood opportunities that cross border trade conducted on a daily basis usually creates. Although goods flow through the border, these are not conditions favorable to the development of intensive commercial links between bordering regions. As a result of these restrictions, it comes as no surprise that very few Afghan individuals or families have been found to benefit from border trade livelihood opportunities by crossing the border daily to take and bring back small quantities of goods.

The cost of these lost opportunities is significant. The experience from other countries amply demonstrates that cross-border trade not only benefits traders' lives and incomes, but also strengthens local production, and fosters service provision (such as storage facilities, transportation, and ancillary services in local bazaars). The employment and income effects of cross-border trade are more significant in rural areas in remote locations, such as at the Afghan-Tajik.[10] Hence, demand and supply of goods and services generates income and employment for people working in bazaars and for activities associated with bazaars and trade.

Some CAREC members (Kazakhstan, Kyrgyzstan, and Tajikistan), who are simultaneously members of EURASEC (Eurasian Economic Community) have largely removed barriers to cross-border trading. No similar progress has been achieved in trade of other 'neighboring' pairings in including Afghanistan—Tajikistan and Afghanistan--Tajikstan. A notable example is an arrangement sanctioned by the agreement between China and Kazakhstan, hereafter referred to as the "Korgas" model. Positive welfare effects for population in contiguous region appear to have been quite significant. One should also include in them an increased availability of cheaper imports for consumers living in other areas of respective countries (for details, see Box 1).

[10] See *Cross-Border Trade within the Central Asia Regional Economic Cooperation*, World Bank, Washington D.C. 2007.

Box 1: The “Korgas” model

The Chinese-Kazakh Korgas BCP illustrates advancing cross-border cooperation beyond the level implied by the national framework, arrangements encouraging development of cross-border trade, and with benefits accruing to residents of contiguous regions in both countries.

Cross-border trade benefits from two key measures: First, residents of the Kazakh Panfilov district bordering China can enter China without any visa if they stay no longer than one day. The waiving of the visa requirement is important, as visas can be only obtained in Almaty, about 300 kilometers from Jarkent, and are expensive.

Second, some cargo brought into Kazakhstan from China is duty-free. Cargo whose weight does not exceed 50 kilograms and value not exceed US$1,000 can be brought into Kazakhstan without paying any border charges. Concerning large shuttle trade, shipments of agricultural products up to 10 tons and shipments of industrial products to 2 tons and the value not exceeding US$10,000 are subject to a simplified customs procedure with a flat rate of 17 percent (14 percent VAT and 3 percent customs fee) ad valorem.

Thanks to these government measures, cross-border trading has become the most important source of employment generation in Jarkent, the largest city in the Kazakh Panfilov district. Conservative estimates indicate that 3,250 people work directly in cross-border trade activities. Traders estimate that each of them generates an additional one- to two-person employment: one seller in the market and one person for warehousing or local transport. Cross-border trade in Jarkent involves almost 20 percent of the active population, as compared to 10 percent for agro-processing, 7 percent for industry, and 7 percent for agriculture. Combined with official data for transport, mainly dedicated to serve Korgas by minibuses and taxis, almost 30 percent of Jarkent’s active population depends on cross-border trade. Taking into account the total dependency ratio in Kazakhstan, one inhabitant out of six in Jarkent directly depends on income generated by cross-border trade activities.

In terms of income generation, cross-border trade is as profitable as any other economic activity, despite the fact that traders work for only two-thirds of the year. Traders state a 25 to 30 percent gross margin on any transaction, which signifies yearly margins for the community of local traders of US$3.31 million, or over US$1,650 for two-thirds of the year. Traders are obviously better paid than sellers and those in charge of transporting goods to the bazaar. In order to take this into account, calculations are made for two salaries. This is comparable to an average yearly salary in Jarkent of US$2,100.

5. Conclusions and recommendations

Neither does the Afghan-Tajik nor the Afghan-Uzbek pairing have at the surveyed BCPs any arrangements explicitly supporting the development of cross-border economic ties. Although the government of Tajikistan plans to establish free trade zones in some areas bordering Afghanistan, no further progress has been made except for setting up bazaars in the vicinity of some BCP.

The existing arrangements governing the movement of goods and people out and into Afghanistan neither facilitate standard trade nor provide any incentives to the development of cross-border trade. Despite significant improvements in border infrastructure in Afghanistan, the conditions of exit and entry have not changed. For individuals, visas are required: this combined with the practice of large stamps registering in passport each passage through the border discourages the movement of people. Furthermore, bans on entry of trucks including light trucks and special permits for passenger cars erect further barrier to traveling abroad. Although Afghan formal customs regulations are fairly liberal allowing for the development of shuttle trading, barriers to moving in a vehicle across border significantly hamper its expansion.

Cross-border trade, also critically dependent on regulations across the border, does not appear to have taken off on a large scale, albeit some signs of more intensive activities can be traced at the Afghan-

Tajik BCP at Sher Khan Bandar. While this should not suggest that there is none in the Afghan-Uzbek pairing at the Hairatan BCP, the crux of the matter is that the potential for this trade seems to be much larger considering the level of development of bordering regions.

The “Korgas” model, combining liberalization in movement of people and goods restricted to residents of contiguous regions, might be considered for adoption by governments of Afghanistan, Tajikistan, and Uzbekistan. But this would call for bilateral negotiations. Unilaterally, governments may remove some barriers by, for instance, stamping entry and exit on a separate sheet of a paper issued by border authorities rather than in a passport thus reducing the frequency of its renewal. They should take measures that would significantly cut the waiting time, improve parking facilities for vehicles awaiting customs clearance and penalize bribe-taking. They may also remove regulations prohibiting light vehicles from crossing the border and the need to request a government permit for the entry of passenger automobiles. But these measures will do little to boost cross border exchanges, if not reciprocated by the government on the other side of the border.

To sum up, all three governments should consider the removal of barriers to cross border trade related to the movement of individuals, of goods, and of light vehicles.

- The first would be addressed by the implementation of the Korgas model for residents of bordering areas, with visa-free entry permitted for up to two days.
- The second might be addressed by significantly lowering, if not eliminating, border charges on cargo not exceeding permissive limits.
- The third would involve opening BCPs to light vehicular traffic (mini-buses and vans) for residents of bordering districts. Allowing minibuses and passenger vehicles registered in bordering regions to ply freely within certain geographical limits would go a long way to relieving constraints on cross-border trading.