

Afghanistan's Trade with CAREC Neighbors

Evidence from Surveys of Border Crossing Points in
Hairatan and Sher Khan Bandar

The views expressed in this presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this presentation and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.

Outline of presentation

- Background of the project and its coverage
- Major findings
- Afghanistan's CAREC trade:
 - in general, and
 - as seen through evidence collected at BCPs
- Two BCPs compared: what does it imply about trade regimes of bordering countries?
- Barriers to cross border trade and welfare losses
- What can be done to remove them?

Background of the project and its coverage

- Because of technical difficulties, the 2007 CAREC cross border trade did not include Afghanistan
- At the request of the government of Afghanistan, similar surveys as in 2007 were conducted in May-June 2008
- Two BCPs with Afghanistan's CAREC neighbors were covered
- The survey, financed by the Swiss Government, were conducted by Pakistan-based consultancy "Infra-D Consulting."

Major surveys' findings

- Very few Afghan individuals or families have been found to benefit from border trade livelihood opportunities because
 - There is very little cross-border trade, albeit some signs of more intensive activities were traced at the Afghan-Tajik BCP at Sher Khan Bandar
 - The existing arrangements governing the movement of goods and people out and into Afghanistan neither facilitate trade nor provide any incentives to the development of cross-border trade.
- Very burdensome and time-consuming customs procedures
- Informal payments: predictable and stable, however

Afghanistan's CAREC trade (IMF DOT)_1

- No data available in IMF DOT on Uzbekistan's trade with Afghanistan.
- After an initial surge in 2003-04, Afghanistan trade with CAREC countries has been flat
- The share of CAREC countries in Afghanistan's total trade contracted from its peak level of 8.3 percent in 2004 to 6.9 percent in 2006

Afghanistan's CAREC trade (IMF DOT)_2

- the share of CAREC in total imports was 7.3 percent in 2006 and this share in exports was 1.5 percent
- Afghanistan's largest export market in CAREC is Tajikistan
- Afghanistan major source of imports in CAREC is Kazakhstan closely followed by China
- The export coverage of imports was 8% for total trade, 2% for CAREC, and 23% for Tajikistan

Afghanistan's CAREC-oriented exports





Trade as seen through BCPs

- it is mostly a one-way trade with Afghan imports towering over its exports;
- the range of products exported from Afghanistan to Tajikistan and Uzbekistan is limited (mainly raisins, potatoes, cement);
- 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.

Hairatan and Sher Khan Bandar in a comparative perspective

- Similarities:
 - Both have bridges and overall good infrastructure with recently built new customs facilities
 - Both are potentially the most important gateways for land-locked Central Asia connecting them to seaports in Karachi, Pakistan, and Iran's Bandar-Abbas
 - Both provide 'bridge' to culturally and ethnically bonded populations of Northern Afghanistan and those of Uzbekistan and Tajikistan.
 - Both are transit corridors with little cross-border trading



Differences between two BCPs

- Hairatan has the railroad terminal while Sher Khan Bandar does not
- Hairatan links regions at a higher level of economic development, larger population and better infrastructure than Afghan and Tajik contiguous regions



Yet, more traffic at Sher Khan Bandar

- Although few people cross daily at both BCP, more at Sher Khan Bandar (twice as many as at Hairatan)
- No small traders at Hairatan, while quite a few at Sher Khan Bandar
- More cars at Hairatan but fewer boats and trucks

	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	Hairatan	Sher Khan Bandar
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

Since conditions on the Afghan side the same, explanation lies across border

- Tougher rules governing entry of people into Uzbekistan than in Tajikistan
- Tajikistan exempts up to 50 kilograms worth less than US\$1,000 as well as 31 products brought from Afghanistan from customs duties and other taxes,
- While 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

Barriers to cross border trading in Afghanistan

- Expensive visas required for each border crossing: no facilitating regime for either frequent travelers or residents of border districts
- Customs duties and other border charges impede trade in goods
- *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.
- Bribes, collected by all border services, significantly raise the cost of moving across borders

Welfare losses against gains: the Chinese-Kazakh “Korgas” model

- **Favorable conditions for cross border trade**
 - no visas for residents of bordering areas
 - and liberal rules on products imported by them
- **lead to significant welfare gains** as demonstrated by an estimate for Jarkent, the largest city in the Kazakh Panfilov district, bordering China.



Employment and income effects of Kazakhstan's cross border trade with China

- 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.
- One inhabitant out of six in Jarkent directly depends on income generated by cross-border trade activities

Three Recommendations to three governments

- The implementation of the Korgas model for residents of bordering areas, with visa-free entry permitted for up to two days.
- Significantly lowering, if not eliminating, border charges on cargo not exceeding permissive limits.
- Opening BCPs to light vehicular traffic (mini-buses and vans) for residents of bordering districts.