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Afghanistan and Regional Trade: More, or Less, Imports from Central Asia?

Saeed Parto, Jos Winters, Ehsan Saadat, Mohsin Usyan, and
Anastasiya Hozyainova





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Abstract

Since 2002 one main focus of the international donor organizations active in Afghanistan has been to address the necessity for closer trade ties between Afghanistan and Central Asian countries. The research sought to establish whether products from Central Asia, including those originating in Russia, meet the expectations of Afghan importers and, if so, whether Afghan importers would be willing to switch to Central Asian suppliers for higher quality, healthier, and safer products. The research finds that under certain conditions there is a reasonable possibility that Afghan importers would switch from their current suppliers to Central Asian suppliers.

Keywords

Central Asia, Afghanistan, Regional Trade, Regional Trade Policy

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Executive Summary

Since 2002 one main focus of the international donor organizations active in Afghanistan has been to address the necessity for closer trade ties between Afghanistan and Central Asian countries. A substantial part of the earlier literature on post-2001 development in Afghanistan is focused on rehabilitating and expanding cross-border transportation infrastructure between Afghanistan and the Central Asian countries, revitalizing key economic sectors in Afghanistan, assisting in the harmonization of border systems, and rationalization of trade agreements to support improved security and governance. Despite these efforts to expand trade with Central Asian countries, Pakistan remains the single largest trade partner and the most convenient source and transit route for much of the imports including arms, fuel, and food for international forces present in Afghanistan.

The research sought to establish whether products from Central Asia, including those originating in Russia, meet the expectations of Afghan importers and, if so, whether Afghan importers would be willing to switch to Central Asian suppliers for higher quality, healthier, and safer products. The research finds that:

- Imports of some products such as cooking oil or medicines from Russia and Central Asian countries, Indonesia, and Malaysia have a reputation of being of high quality. However, trade between Afghanistan and Central Asian (and other) countries continues to be hampered by corruption, inefficient formal institutions, product labeling language, and unfamiliarity of Afghan traders with Central Asian and Russian products.
- Transportation is not seen as a major issue by Afghan importers with the exception of fuel importers, possibly on security grounds since fuel tankers are frequent targets of ambush by anti-governmental elements. Except for petroleum-based imports, which appear to have inelastic demand, competitive pricing is a pre-condition for Afghan importers to switch import sources particularly for products with small profit margins such as salt. The three main issues associated with imports from Central Asian countries are high product and transportation costs and limited or unavailable supplies.
- With the exception of Kabul Airport, all entry points are associated with extremely high levels of corruption, particularly in the cases of Aqina (Turkmenistan border), Spin Boldak (Pakistan border), and Torghandi (Turkmenistan border) but also the major entry points of Hairatan (Uzbekistan border), Islam Qala (Iran border), Miran Shah (Pakistan border), and Torkham (Pakistan border).
- There is some evidence of sub-standard products being produced, largely in Pakistan but also in Iran, specifically targeting the unregulated and unprotected Afghan market. China's indiscriminate flooding of international goods markets with sub-standard quality and challengingly low prices also affects the Afghan consumer. The main reasons for importing from Pakistan and Iran are comparatively lower transportation costs, the existence of social networks, and language. The main reason for importing from China is low costs.

- Major contributing factors to the prevalence of sub-quality imports in Afghanistan's consumer markets are the public demand for low priced consumables due to widespread poverty and generally low income among the vast majority of Afghans, impotency of the regulatory / control mechanisms to enforce public safety standards, and systemic corruption which undermines most attempts to institute and enforce quality standards.
- Despite the open trade regime instituted in Afghanistan since 2001, the Government of Afghanistan exercises some control on key imports such as salt, where the state has a direct stake in production, and imports deemed improper on religious grounds.
- Central Asian countries continue to have strong trade ties with Russia. If not through local production capacity, Central Asian countries are, through their strong trade ties with Russia, in a position to provide Afghanistan with certain products by re-exporting them from Russia.
- There is significant willingness by Afghan importers to consider alternative supply sources in Central Asia due to the increased tensions between Pakistan and the United States (and by default, Afghanistan), combined with Pakistan's own natural disaster- and politics-related instability.
- Assistance with acquisition of visas and product familiarization for Afghan importers are likely to facilitate increased trade between Afghanistan and Central Asian countries.

Recommendations to the Governments of Central Asia:

1. Forums such as RECCA and similar economic conferences should be used to develop visions and plans for infrastructure development to link Afghanistan with Central Asia.
2. With some insignificant exceptions, the bulk of petroleum-based products in Afghanistan is imported from international suppliers transiting through Pakistan. Measures should be taken to allow Afghan importers to purchase supplies directly from Central Asian producers, and not through intermediaries, as a means to reduce costs. This will require actions by the Government of Afghanistan as a major buyer and/or bi-lateral agreements between governments to give Afghan importers a "preferred" or exempted small buyer status.
3. Regional dialogue should be facilitated on the issues around distribution of gains from increased trade activity, the role of private sector actors in nurturing and perpetuating (and fighting) corruption, and the adverse public health impacts of poorly regulated or unregulated flows of goods particularly in foodstuffs and pharmaceuticals.
4. Quality control mechanisms should become integral to current and future trade agreements between Afghanistan and Central Asian countries.
5. Better marketing strategies aimed at the Afghan market, including labeling in Dari, trade fairs, trade delegation visits, and business to business initiatives should be formally initiated and facilitated.
6. Serious consideration should be given to programs and agreements to ease visa requirements for Afghan traders.

Recommendations for further research:

1. Conduct a feasibility study to establish whether Central Asian countries and their producers and suppliers are willing and able to act as suppliers of domestically produced and re-exports of Russian made products to Afghanistan.
2. As a counterpart to this research, additional research will need to be undertaken to examine Afghanistan's current productive capacities and potentials for exports into the Central Asian markets. Particular attention should be paid to closer links with Tajikistan where there are some kinship ties, close geographical proximity, and shared language with Afghan Dari speakers.
3. Conduct a study to identify why Afghan women traders seem to be shying away from import business and establish pathways for mainstreaming women's participation in regional trade.

1. Introduction

Since 2002 one main focus of the international donor organizations active in Afghanistan has been to address the necessity for closer trade ties between Afghanistan and Central Asian countries. A substantial part of the earlier literature on post-2001 development in Afghanistan is focused on rehabilitating and expanding cross-border transportation infrastructure between Afghanistan and the Central Asian countries, revitalizing key economic sectors in Afghanistan, assisting in the harmonization of border systems, and rationalization of trade agreements to support improved security and governance.¹ Despite these efforts to expand trade with Central Asian countries, Pakistan remains the single largest trade partner and the most convenient source and transit route for much of the imports including arms, fuel, and food for international forces present in Afghanistan.²

Since early 2011 Pakistan's central role in trading with Afghanistan has come under question due to two key developments. First, the allegedly complacent attitude of the Pakistani establishment toward, and even harboring of, pro-Taliban and Al Qaeda elements and, second, the current socio-economic and political crisis within Pakistan itself due to internal political strife and the devastating natural disasters in 2008 and 2011. For Afghan traders it has also become more difficult to transit through Pakistan since, according the terms negotiated for the Afghanistan-Pakistan Trade and Transit Agreement (APTTA) in 2011, traders are obliged to insure their cargo, which for many is a lengthy bureaucratic process and can lead to spoilage of perishable consumables.³ Pakistan's reduced role as the key trading partner with Afghanistan provides a significant opportunity for Afghanistan to explore options to diversify its current skewed reliance on Pakistan.

The scoping study conducted in preparation for this research showed that imports include low quality petroleum-based fuels from Iran, counterfeit pharmaceuticals from Pakistan, China, and Iran, and substandard synthetic and metal products from Iran, China, and Pakistan. The scoping study also found that Afghan importers viewed products from the Soviet era as having better quality. Based on the scoping study salt, baby food, fuel, cooking oil, and pharmaceuticals were identified as having substandard imports among them. The rationale for the selection of these products was that if products from Central Asia, including Russian re-exports, meet international standards, the Afghan consumers will have access to higher quality, healthier, and safer products and thus will be less exposed to health risks associated with poor quality imports. This research was conducted to investigate the opportunities and constraints for re-sourcing the imports of the selected products to Central Asian countries.⁴

¹ See, for example, Alam, M. and H. Iwasaki (2004). *Technical assistance to the Islamic Republic of Afghanistan for cross-border trade and transport facilitation*. While expanding the transportation infrastructure is necessary for efficient trading between Afghanistan and Central Asia, it is not sufficient.

² The author is grateful to Richard Pomfret and Bohdan Krawchenko for their useful comments.

³ The insurance was meant as a counter-smuggling measure and to ensure that goods destined for Afghanistan would not be sold in Pakistan. It is difficult for Afghan transportation companies to obtain this insurance from Afghan or Pakistani insurers. Not having insurance leads to delays. See, for example, <http://m.afghanistan-today.org/article/?id=197>.

⁴ "Imports", in this case, includes re-exports of quality Russian products from Central Asian countries to Afghanistan.

The findings from this research are intended to contribute to the discussion of recent calls for closer ties between Afghanistan and its northern neighbors and the prospects of a lesser role being played by Pakistan as the key transit artery for imports destined for Afghanistan. The broader premise for this research is that increased trade within the region and involving Afghanistan would likely create conditions conducive to intensified value adding regional economic cooperation and, by extension, cooperation on political and security grounds. The creation of such conditions is crucial, particularly given the uncertainties about the post-2014 prospects when the bulk of the foreign military forces currently in Afghanistan are expected to have departed. To this end, this paper takes stock of the current and historical flows of imports of selected products into Afghanistan and identifies potential import niches that could be utilized by suppliers in Central Asian countries.⁵

The remainder of this paper is structured as follows. Section 2 describes the objectives and methodology for this research. Section 3 provides a background discussion of the regulatory and operational environment and some of the relevant key issues of regional trade. Section 4 reports on the flows and sources of the five selected products. Section 5 discusses the feasibility of trade substitution. Section 6 and 7 present the conclusion and recommendations.

2. Objectives and Methodology

The research set out to:

1. Estimate demand (volume and value) of the selected products
2. Identify the sources and flows (amounts) for the selected products
3. Identify, in collaboration with project colleagues from Tajikistan, Kyrgyzstan, and Kazakhstan the alternatives to be considered for import substitution
4. Identify constraints and opportunities for trade substitution with CA countries for the selected products, and
5. Estimate demand for trade in equivalent substitutes from Tajikistan, Kyrgyzstan, and Kazakhstan..

Estimation for the demand, Objective 1, was only possible based on the existing data from which it is possible to generate illustrative graphs as presented in Figures 3 to 7. These figures also depict the sources and flows of the 5 selected products based on officially available data. Objective 3 was met through a scoping study that preceded this research and consultations with the project team in Bishkek, Kyrgyzstan. Objective 4 was met based on an analysis of the primary data collected for this research. Objective 5 was met qualitatively and not numerically. As the remainder of this paper shows, it is possible to identify the potential for trade between Afghanistan and Central Asian countries but difficult to provide quantitative measurements of the demand largely due to unavailability of comprehensive data and the unreliability of the existing data.

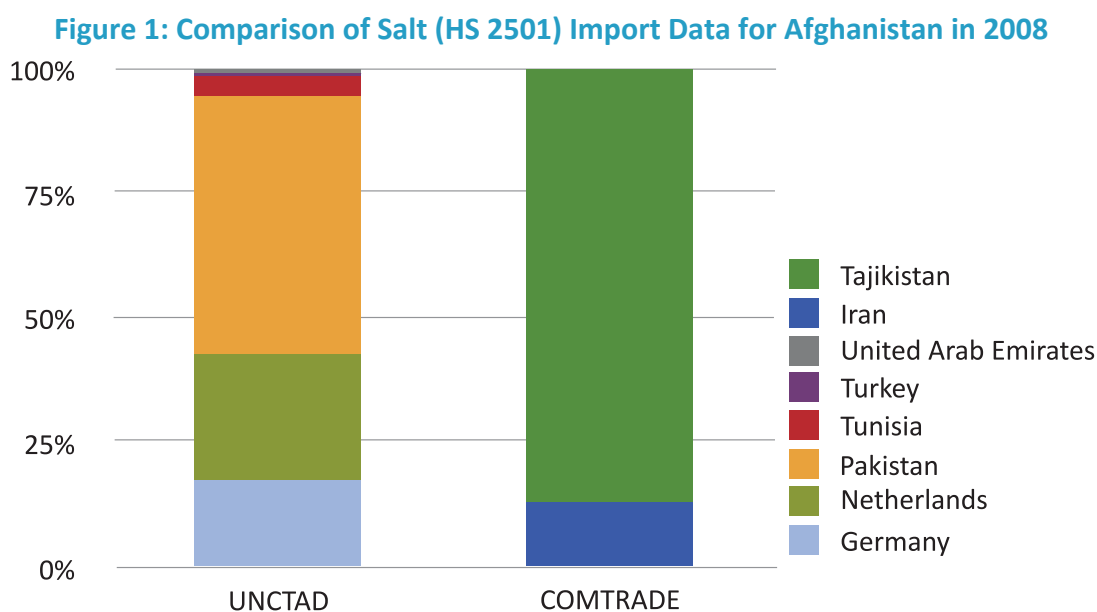
⁵ It should be noted that the focus for this research is import source switching for Afghanistan and, thus, far less attention has been paid to conditions of and requirements for strengthening domestic productive capacity. As a counterpart to this research, additional research will need to be undertaken to examine Afghanistan's current productive capacities and potentials for exports into the Central Asian markets.

Primary data were collected through a scoping study and a survey during December 2011 and January and February 2012 in a number of locations in Kabul city focusing on imports of salt, baby food, petroleum fuel, cooking oil and pharmaceuticals. The selection of the products for this study was based on contextual knowledge of the researchers and information gathered through interviews as part of the scoping study involving public health officials and professionals, traders, and trade associations. The key criterion for product selection was actual or perceived adverse impact on public health of certain imported products. A second key selection criterion was the potential for import substitution through re-sourcing to suppliers in Central Asian countries.⁶ The tools employed for this research are outlined below.

Scoping study

APPRO conducted a scoping study consisting of an expansive review of the available trade databases (Appendix 1), available literature, site visits, and interviews. The review of secondary sources was conducted to establish what was known about the adverse health impacts of imports, trade relations between Afghanistan and other countries in the region, and trade flows of the selected products. The review was organized as an annotated bibliography (available as a separate document) and used to provide the background and context for this research.

Interviews were conducted in three phases. In the first phase, November 2011 to January 2012, interviews were held with doctors and other health professionals to identify products that might have actual or potential adverse health effects. In the second phase, January 2012, the traders of the selected products were interviewed to gain an understanding of the trading process for each product. In the third phase, February 2012, surveys were conducted with importers of the selected products.



⁶ According to UNCTAD data these countries are by and large net importers (except for petroleum based fuels). This criterion includes, therefore, re-exportation to Afghanistan of imported products from Russia, Ukraine, and Eastern European countries.

The scoping study revealed a number of issues with the reported trade numbers. The first major issue is that no trade data from Iran is included in the IMF DOTS database. (See Figure 2, for example). However, a cursory look at the products available in Afghan bazaars reveals a significant number of Iranian goods, including books, construction material, pharmaceuticals, glass, plastics, and foodstuffs. Other databases available from UNCTAD and COMTRADE include import and export data on Iran. This points to the second issue identified during this research: officially reported or collected statistics are not only incomplete but also contradictory at times. Figure 1 compares 2008 data on salt imports to Afghanistan from COMTRADE and UNCTAD databases. Based on COMTRADE Afghanistan imports salt from only two countries – Tajikistan and Iran, while UNCTAD data suggest that salt was imported from a diversity of source countries in the same year. Moreover, official trade statistics do not include smuggled values and volumes, both high by all accounts for Afghanistan’s imports and exports.

Key-informant interviews

Individual traders, importers/wholesalers, trade representatives, trade association officials, relevant government officials, and international organization officials were interviewed to gather contextual detail for the selected products and establish the feasibility of trade substitution. The interviews were conducted as part of the scoping study, during focus group discussions, and at the end of the research to verify some of the key findings.

Bazaar surveys

The surveys were carried out to establish the demand and supply conditions and the possibilities of re-sourcing selected imports. The geographical location for the study was Kabul as the major trading hub for Afghanistan while the population for the survey was made up of the traders of the five products. There are no conclusive or reliable records of traders in any of the selected, or other, products in Afghanistan. For personal protection and tax evasion purposes, Afghan traders tend to be secretive or not forthcoming with information about their businesses.⁷ It was therefore not possible to identify and delineate the population size. As a result, a non-probability sampling approach was adopted based on opportunity and snowballing. The total number of surveyed importers was 69 (see Table 1).

Table 1: Survey Sample Based on Traders

#	Importers	Number of Surveyed Traders
1	Baby food	7
2	Fuel	5
3	Pharmaceuticals	32
4	Cooking Oil	18
5	Salt	7
	Total	69

⁷ In addition to being secretive many traders were simply too busy, away from Kabul, or rumoured to be involved in illegal trading and thus not willing to engage. The employees of these traders did not engage in the survey due to not having clearance from their employers. Officially available lists of traders are incomplete, inaccurate, and overlapping.

A conscious effort was made to identify female traders / importers of the selected products but none were identified. Other research has documented, however, that women do play a significant role in economic activity in certain value chains but not those of the products selected for this research.⁸

3. Afghanistan's Trade: An Overview

3.1. Operating and Regulatory Environment

The Government of Afghanistan's approach to trade is largely liberal with minimal restrictions. Import bans are maintained on only a few products, largely on religious grounds, and there are no seasonal restrictions, quotas, or other non-tariff barriers on imports. Imports of salt are, however, subject to strict restrictions due mainly to the fact that the Government of Afghanistan wishes to protect a state-owned salt mine in Takhar province in northern Afghanistan.⁹ Locally produced salt is said to be contaminated with heavy metals and mud and hence there remains a strong preference for Pakistani salt. This restriction by the Government has created a market for smuggled salt.

In official communiqués by international donors and the Government there is much reference to reform in business licensing procedures since 2001 as a major milestone toward supporting private sector development in Afghanistan and facilitating trade with its neighbors. Reportedly, the import license application process, which prior to reform in 2006 involved 42 steps, 58 signatures, and several weeks of processing now requires only three steps, six signatures, and two days to process.¹⁰

The main licit exports out of Afghanistan are dried fruits and nuts, carpets and galeems/ rugs, and wool. There are, in addition, exports of limited quantities in fresh fruits, cotton, animal by-products, gemstones, and more recently, saffron. The main imports are capital goods, construction materials, foodstuffs, pharmaceuticals, textiles, other manufactured goods, electricity, and petroleum products. Figure 2 shows the increasingly dominant role of Pakistan as the major source country for imports into Afghanistan since 2002,¹¹ albeit with a major reduction since 2009. Figure 2 also shows a diversification of source countries since 2001 and an overall increase of imports. This is due to the integration of Afghanistan into international markets, the presence of international forces and organizations, and improved recording of import flows.

⁸ Women play major roles in the production of dried fruit and nut exports and saffron cultivation, processing, and exports. See, for example, Parto, S. et al. (2011), "Gender and the Agricultural Innovation System in Rural Afghanistan: Barriers and Bridges", available from: <http://www.appro.org.af/Publications.html>.

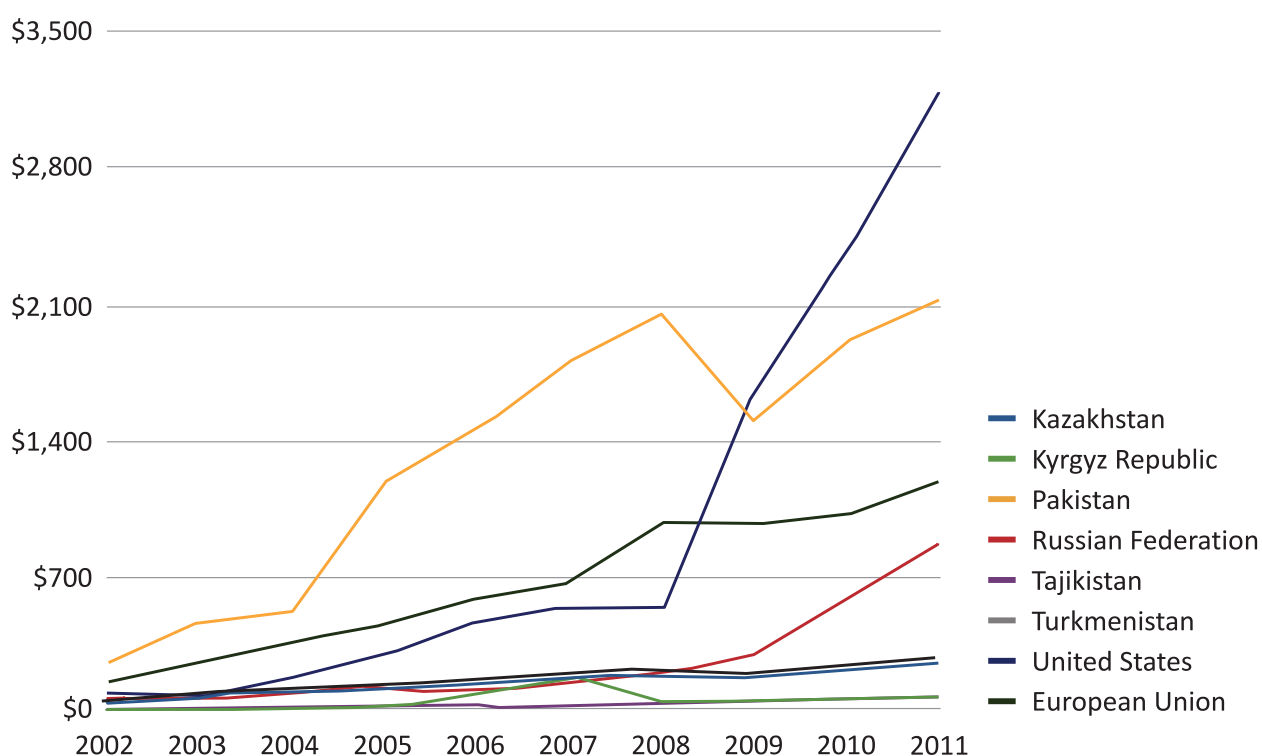
⁹ See, for example, Levitt, M., L. Kostermans, L. Laviolette, and N. Mbuya (2011), "Malnutrition in Afghanistan: Scale, Scope, Causes, and Potential Response". (Washington: World Bank).

¹⁰ CAREC (2007). *Quantitative Restrictions on Trade*. Revised version of paper presented at the Seventh Trade Policy Coordinating Committee Meeting of the Central Asian Regional Economic Cooperation Program 6 September 2007 Manila, Philippines. Later research in 2011 by APPRO shows, however, that the number of steps in the licensing process has gone up to over twenty.

¹¹ This trend started during the Taliban regime (1996-2001) when Pakistan was the prime trade partner, and the first of three nations that officially recognized the Islamic Emirate of Afghanistan. The other two countries were the United Arab Emirates and Saudi Arabia.

Recognizing Afghanistan's reliance on imports and poorly maintained or tampered records at the border crossings, international donor programming since 2002 has placed particular emphasis on improving and expanding customs facilities and practices at major border crossing points.¹² In 2005 work began to implement the Automated System for Customs Data (ASYCUDA), which is currently ongoing. The Five Year Master Plan of the Afghan Customs Department (Ministry of Finance) reports an estimated total project expenditure of 202 million USD for strengthening and expanding the customs system.¹³ Key areas of intervention and reform according to the Five Year Master Plan are minimizing leakage in duty collection through rationalization of laws, procedures, and automated processes to facilitate clearance of goods and minimize corruption among system users and operators.¹⁴

Figure 2: Total Imports to Afghanistan 2002-2011 (in million \$ US)



Source: IMF DOTS database

Reportedly, due to the above reforms Afghanistan currently has one of the most sophisticated customs systems in the region.¹⁵ The achievements since 2003 include the construction of infrastructure facilities at major border points, enactment of a modern customs legislation, harmonized system for the classification and coding of goods, development of a single customs form for customs declarations, computerization of transit procedures through implementation of ASYCUDA in 2005, import-related exemptions policy and procedures,

¹² For a detailed discussion on and assessment of reform in Afghanistan's customs system see Parto, S. and E. Saadat (2011), *Customs Reform in Afghanistan: Moving Between Introduced and Pre-existing Structures*, available from: www.appro.org.af

¹³ Afghanistan Customs Department (2007). *Afghan customs Department: A Five Year Strategic Plan (2007-12)*. (Kabul: Government of Afghanistan).

¹⁴ Afghanistan Customs Department (2007).

¹⁵ Parto and Saadat (2011).

automated data collection, and production of customs statistics among others. This said, there are serious problems with incorrect recording of trade data by customs officials in Afghanistan, corruption within the customs system, and, more generally, various coordination / cooperation related regional issues that cannot be addressed through technology or procedural change on the Afghanistan side alone.¹⁶

Major internal challenges for the Afghan customs system include lack of electricity and/or generators or lack of fuel for generators, lack of adequate running water and sanitary facilities, low salaries of customs staff, deteriorating security, and the emergence of a parallel, “shadow”, customs system.¹⁷ Also, despite major reform there remain a number of key challenges for importers particularly in terms of the number and complexity of procedures for clearance, licensing, and payment of duty.¹⁸ Finally, the available data on trade flows are incomplete and unreliable.

3.2. Regional Trade Links and Key Issues

There have been a number of initiatives to promote regional trade with Afghanistan. A main assumption in much of the impetus to promote trade and private sector development has been the potential for Afghanistan to act as a land bridge between Central Asia and South and West Asia¹⁹ or a transport hub for the movement of regional goods and even a key segment of a “New Silk Road.”²⁰ The support for this assumption comes from the fact that trade among Central Asia Regional Economic Cooperation (CAREC) countries, excluding Azerbaijan, has been growing on average at almost 40% per year since 2002.²¹ The value of intra-CAREC trade

¹⁶ See, for example, Lewis, D (2010), “High Times on the Silk Road: The Central Asian Paradox”, *World Policy Journal*, 27(1): 39-49 and Parto and Saadat (2011) for further details and discussion.

¹⁷ See, for example, Committee on Foreign Relations (United States Government) (2011), *Central Asia and the Transition in Afghanistan*. A majority staff report prepared for the use of the committee on foreign relations United States Senate, 112th Congress, 1st session, December 19, 2011, UNECE- United Nations Economic Commission for Europe (2010), *Strengthening Regional Cooperation in Central Asia: A contribution to long-term stability and sustainable development of Afghanistan*, Background Note: 2010 SPECA ECONOMIC FORUM. ESCAP - United Nations Economic and Social Commission for Asia and the Pacific, and Parto and Saadat (2011).

¹⁸ Havrylyshyn, O. (2010). *Trade and Institutional Environment: The International Experience and a Proposed Agenda of Measures for CAREC Countries*, Reference Document For Session 4 of the Trade Policy Coordinating Committee.

¹⁹ Baylay, A. (2005). *Report on border and customs related facilities and procedures in Afghanistan*. CSATTF – ADB.

²⁰ See, for example, American Institute of Afghanistan Studies and Hollings Center for international Dialogue (2008), *Afghanistan’s other neighbors: Iran, Central Asia, and China*. Conference Report; Starr, S.F. (2007), “Regional Development in Greater Central Asia: The Afghan Pivot”, in Rotberg et al. (eds.), *Building a new Afghanistan*; and Committee on Foreign Relations (United States Government) (2011).

²¹ The Central Asia Regional Economic Cooperation Program (CAREC) was set up as a partnership of 10 Central Asian countries (Afghanistan, Azerbaijan, China, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan) to facilitate project-based cooperation in transport, trade, energy, and other key sectors of mutual interest among Central Asian countries. CAREC is supported by 6 multilateral institutions (Asian Development Bank, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and the World Bank) mandated to promote development through regional cooperation, leading to accelerated growth and poverty reduction.

in 2006 was 28 billion USD, five times its 2002 value. Similarly, the share of Afghanistan's total trade with CAREC member states was nearly 26% higher in 2006 than in 2002. Except for Uzbekistan whose CAREC trade was growing at rates below those with other countries, intra-CAREC trade increased more than 50% in 2006 over 2002.²² (See Table 3).

Trade between Afghanistan and Central Asian countries has further potential to grow, however, particularly given the desire by the Central Asian economies to shift from land routes via Russia towards ports in the Arabian Sea and Persian Gulf. If the pre-requisites for this shift are in place, i.e. much better and integrated infrastructure, formal institutions, harmonized regulatory frameworks such as trade agreements and customs unions, a more collaborative Iranian government, and a less crisis-ridden Pakistan, all countries involved will stand to benefit.²³ To this end the Aga Khan Foundation has invested heavily in border bridge free markets, in the greater Badakhshan area for example, while other international donors have invested in completing a rail connection between Mazar-e Sharif and the Uzbek border and road corridors to connect Afghanistan with the Central Asian countries in the larger CAREC framework.

Table 3: Share of contiguous CAREC countries in total trade turnover 2000-2006

	2000	2001	2002	2003	2004	2005	2006	Index 2006 2002=100
Afghanistan	3.9	3.5	2.6	2.1	3.6	2.3	3.3	126
China	0.4	0.4	0.4	0.5	0.5	0.6	0.7	174
Kazakhstan	7.5	7.6	10.2	12.3	10.5	17.8	16.8	164
Kyrgyzstan	32.6	33.1	33.8	31	41.2	51.7	60.5	179
Tajikistan	21.4	19	15.8	15.9	15.7	15.9	23.7	150
Uzbekistan	15.4	13.4	13.1	10.8	12.4	11.2	10.5	80

Source: WB (2007)²⁴

A question that warrants some reflection is, if increased trade between Afghanistan and the CAREC countries is a viable and practical option, why has it not yet – to the extent wished for – happened? In answering this question a relevant policy task is to investigate the conditions under which increased trade may be made possible. It has been argued that uncoordinated trade and monetary policies, outdated transportation infrastructure, and *ad hoc* levies are among the key historical causes of weak trade links among Central Asian countries.²⁵ These causes have been reinforced with the international military engagement in Afghanistan, sustained regional religious extremism, and the problems of drug trafficking in the broader context.

²² World Bank (2009). *Deepening Integration in Border Regions within CAREC: The Asiaregio* (Washington DC: World Bank) p. 6.

²³ Most of these pre-requisites have also been cited by Alam and Iwasaki (2004).

²⁴ These figures are cited in the World Bank (2007) report as being “based on the author’s own calculations from IMF DOTS data”.

²⁵ See Spechler, M.C. (2002). “Regional Cooperation in Central Asia”, *Problems of Post-Communism*, 49(6): 42-47

Despite increased openness in terms of reduced tariff and non-tariff barriers and increased trade turnover as a percentage of GDP over the last ten years, trade with Central Asian countries continues to be hampered by corruption and inefficient formal institutions. Further, the collapse and loss of the larger (and protected) Soviet market, reduced and outdated production capacity and thus inability to compete in open trade, access to revenue from natural resources by some of the CAREC member countries, and short term oriented outlooks of some of the national leaders have resulted in the current situation where, as much as possible, individual countries are setting themselves up for energy and food self-sufficiency.²⁶

As an aside, the silk route through the northern ex-Soviet republics is widely used for drug trafficking from Afghanistan. Unlike many other places in the world afflicted by drug trafficking, criminality and killings around drug trade are low in Central Asia. There are three paradoxes related to this.²⁷ First, it appears that the more drugs are trafficked through Central Asia, the fewer people are arrested with criminal charges. Secondly, substantive donor money allocated to fighting drug smuggling in Afghanistan and Central Asia has to date had little or no effect. In effect, the more money is spent on preventing drugs trafficking, the deeper the problem appears to become. Thirdly, it is assumed that drug trade benefits insurgents in Afghanistan and Central Asia more broadly but this is not supported with reliable evidence. The main reason for this is the active connivance of state institutions controlled by corrupt senior security officers, government officials, and parliamentarians who have effectively nationalized drug transit through the region. State control has created the stability, which seems to have beset the drugs trade in Central Asia. Efforts by international community through support for better state institutions at border crossings have strengthened state control over the trafficking routes. As a result, serious crackdown on drug trafficking is likely to have serious political and violent implications.²⁸

The pessimism of the above perspective notwithstanding, the current constraints to increased trade between Afghanistan and Central Asian economies may be summed up as follows:²⁹

- regional insecurity,
- narcotic trafficking and production,
- distance from major world markets,
- being landlocked,
- aging trucking fleets,
- tariff and non-tariff barriers to trade,
- trans-shipment at borders,
- slow transition to market economies,
- weak private sector,

²⁶ See Spechler (2002).

²⁷ Lewis, D. (2010). "High Times on the Silk Road: The Central Asian Paradox", *World Policy Journal*, 27(1): 39-49.

²⁸ Lewis (2010).

²⁹ Alamgir, M. (2005). "Report on the Economic Impact of Central-South Asian Road Corridors," Central and South Asia Transport and Trade Forum (CSATTF). Report prepared for the Second Ministerial Conference on Transport and Trade in Central and South Asia, (Manila, Philippines: Asian Development Bank) and Aziz, M. (2006) "Afghanistan", in *The New silk roads*. Silk road studies publication, available from: www.silkroadstudies.org

- central government domination of activities and decisions,
- restriction on capital movement,
- weak investment laws and inadequate legal and regulatory frameworks,
- inadequately harmonized trade and customs procedures,
- poor information and communication technology,
- inadequate information and barriers to information exchange,
- weak institutions (in terms of operational efficiency, capacity, and human resources), and
- inadequate development or absence of key services such as banking and finance, insurance, bonded warehousing, marketing, standards certification, and telecommunication.

Despite these seemingly endless and insurmountable constraints, it is conceivable that the supplies for international forces based in Afghanistan may be re-routable through Central Asia. Much more difficult is the re-routing for Afghan importers of consumer goods, however, because of the path dependency centered on Pakistan as the main artery for imports destined for Afghanistan and the apparent lack of readiness by Central Asian exporters to target the Afghan market.³⁰

While much attention has been paid to increased trade, market liberalization, private sector development, and regional strategizing based on the “New Silk Road”, less has been stated or done with respect to the distribution of gains from increased trade activity, the role of private sector actors in nurturing and perpetuating corruption, and the adverse public health impacts of poorly regulated or unregulated flow of goods particularly in foodstuffs and pharmaceuticals. Another key neglected issue is regional economic integration of Afghanistan as a deterrent to local and regional disorder. For Afghanistan, dependency on imports including foodstuffs and pharmaceuticals is likely to continue for many years to come. There is negligible value adding industrial activity or capacity to manufacture the many consumer goods currently being imported. Moreover, some of the manufacturing capacity has been seriously undermined or destroyed recently due to the inability of Afghan manufacturers to compete against cheap imports from China in particular, but also from other countries.

To sum up, in charting pathways for increased trade between Afghanistan and Central Asia key issues to consider are the distance of Afghanistan and Central Asian countries from important world markets, landlocked boundaries, poor / deteriorating regional infrastructure, scarcity of functioning trade accords, and curse of natural resources for the resource rich countries which often results in diminished incentive to engage in productive economic activity regionally or otherwise. Other key issues are acute and endemic corruption in private and public sectors in Afghanistan in particular, less than democratic governments in most of Central Asia, and weak government in Afghanistan.

The key conclusion that could be drawn from the above summary is that reorganizing trade among Central Asian countries to increase regional cooperation to include Afghanistan is at

³⁰ The lack of readiness is discussed in detail in the analysis section of this paper.

best a long term goal and not a problem to be fixed with short term measures such as financial aid, technology transfer, capacity building, or even infrastructure development programs. As a systemic goal, integrated regional cooperation through trade under the current conditions will need to be demand driven and based on in-depth knowledge on specific, and significant, products. In the current context significance is perhaps best measured through such proxies as the adverse health impact of certain imports. Research findings from studies designed on this basis can then be used to generate input for policies to address unifying issues such as public health or regional welfare.

Following this line of reasoning, this research investigated re-sourcing possibilities for Afghanistan of specific imports with actual or potential adverse public health impact to Central Asian countries. The next section presents what is known about the selected products based on the available data, supplemented with additional findings based on interviews with key informants.

4. Findings on Selected Products

Worldbank / UNCTAD TRAINS datasets are used in this section because they provide the disaggregated level of 4-6 digit HS code.

4.1 Pharmaceuticals

Officially, pharmaceuticals are imported mainly from Pakistan, Iran, and China with some limited quantities from India, Turkey, Saudi Arabia, and European countries. The survey of importers in Kabul showed, however, that India, Pakistan, China, Germany, and Iran are the key trade partners in this area (Table 2, above). Importers are all private sector concerns and make their own arrangements with the suppliers. Key informant interviews revealed that there were also smuggled imports of substandard pharmaceuticals from mainly Pakistan, China, and Iran.³¹ Key informants made references to factories producing both good and substandard quality medicine, or using mixes of good and substandard quality ingredients in compounded medicine. Spoilage due to inappropriate storage was also mentioned as another reason for low quality supply in the Afghan market.

³¹ This finding is confirmed in Paterson, A. and A. Karimi (2005). "Understanding markets in Afghanistan: A study of the Market for Pharmaceuticals." Afghanistan Research and Evaluation Unit (Kabul: AREU) (Kabul: AREU). Available at: www.areu.org.af

Figure 3: Largest Source Countries for Pharmaceutical (HS - 3003/4) Imports (in million \$ US)

Source: World Bank / UNCTAD TRAINS

The main reasons for importing from Pakistan and Iran are comparatively lower transportation costs, the existence of social networks, and language. One pharmaceutical importer reported that he and his fellow traders had been to pharmaceuticals trade fairs in Kyrgyzstan, Uzbekistan, and Tajikistan and had positive impression of the quality. However, the key deterrent to importing from Central Asian countries was the labeling of the pharmaceuticals in Russian and not in a language accessible to the consumers (or the traders). As one trader put it,

...we went to some of their [trade] exhibitions, especially in Uzbekistan, Tajikistan, and Kazakhstan. They don't have many factories that produce medicine. They import most of the medicine from Russia. The problem is that the labels of the medicine were in Russian, but English is the foreign language that we are familiar with....³²

Another trader complained that the problem with pharmaceuticals in the Afghan market was not so much with the medicines as with bad doctors. There are recurring reports of wrongly prescribed medicine by poorly trained or unqualified Afghan doctors. Also, because of low salaries and prevalent corruption, many doctors would prescribe not based on medicine quality but brand in order to earn commissions. Reportedly there are substandard and/or bad quality antibiotics, contraceptives, and heart and blood pressure drugs, all of which can have serious adverse health impacts.

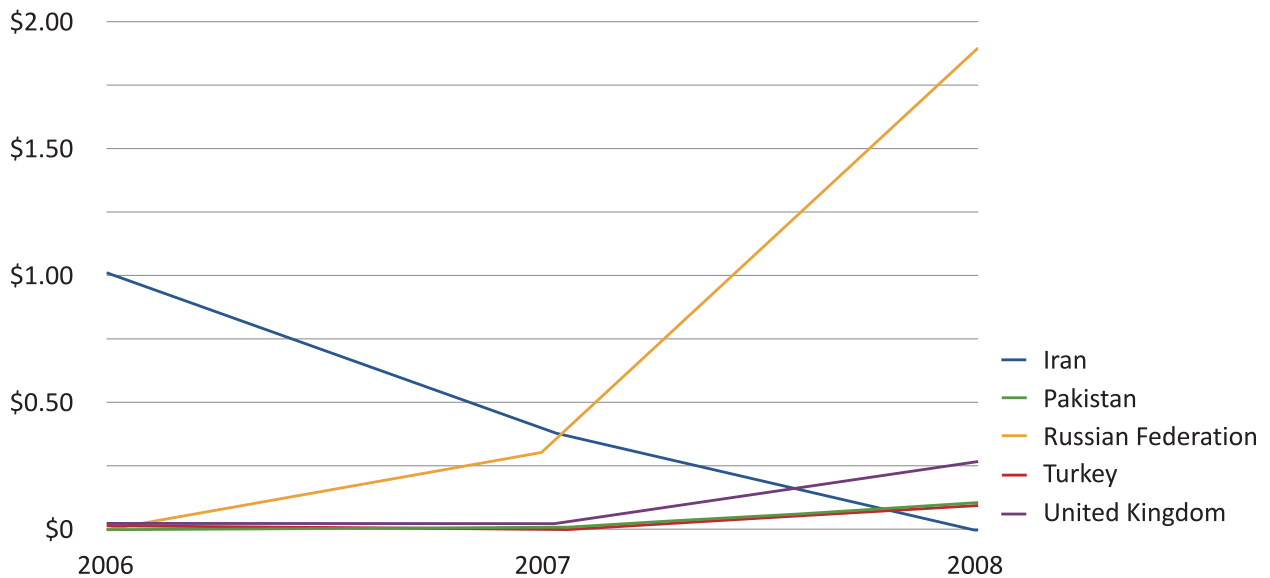
4.2 Cooking Oil

Official data shows that Iran, Pakistan, the Russian Federation, Turkey, and the United Kingdom are the key sources of cooking oil imports into Afghanistan. In contrast, the survey data show that cooking oil is imported mainly from Pakistan with limited quantities from

³² Interview with traders in Kabul, February 11, 2012.

Iran, Russia, Indonesia, and Malaysia (Table 2, above). The imports from Russia and Central Asian countries, Indonesia, and Malaysia have a reputation of being of high quality. Malaysian and Indonesian oil imports are in addition lower costing than other high quality cooking oils.

Figure 4: Largest Source Countries for Sunflower Oil (HS – 1512) Imports (in million \$ US)³³



Source: World Bank / UNCTAD TRAINS

One of the traders claimed that Pakistani produced oil for the Pakistani market was of the highest quality but not available for sale in the Afghan market. Instead, certain cooking oil producers are licensed to produce specifically for the Afghan market and are exempt from paying taxes to the Pakistani Government. The quality of this latter type of oil is allegedly much lower than the quality of the former. The sub-quality cooking oil is sold in Afghan markets and is popular because it is cheap. The cooking oil imports from all other countries, particularly from Russia, are said to be of the highest quality:

I have Iranian liquid cooking oil and Russian liquid cooking oil, they don't freeze in cold weather. ... but this kind of oil is expensive...the quality of Russian liquid oil is the best, but it is very expensive.³⁴

There is little or no smuggling of cooking oil into Afghanistan largely because of the high risk of spoiling if shipments are delayed and not stored properly. The reason for most people buying cheap cooking oil with suspect quality as in vegetable ghee and unrefined cooking oil is poverty and not having sufficient money for basic foodstuffs. The best solution to this problem, one trader suggested, is for Afghanistan to have its own, government regulated, cooking oil production. However, without adequate basic infrastructure such as steady and

³³ Figure 4 only shows imports of HS 1512 which includes refined and unrefined sunflower seed oil, cotton seed oil, and safflower oil. Sunflower seed oil is one of the most common cooking oils used in Afghanistan and therefore used as proxy. Other commonly used oils include corn-oil, soy-bean oil, rape-seed oil (canola), and palm oil or mixes thereof. Vegetable ghee is also commonly used in cooking, but is not included.

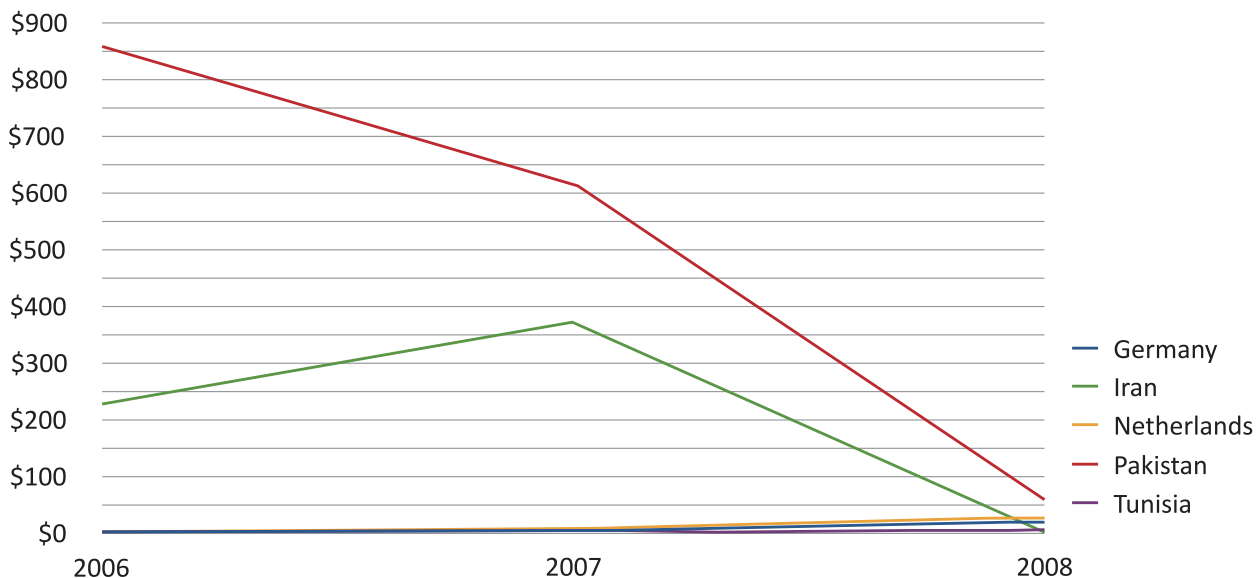
³⁴ Interview with trader in Kabul, February 15, 2012.

reliable electricity and a restructured agricultural sector this is not a viable possibility in the immediate future.³⁵

4.3 Salt

Data on salt available from official sources is particularly difficult to understand. As Figure 1, above, illustrates it is difficult to establish the supply sources for salt imports based on the officially available datasets. The survey results show, however, that salt rock is smuggled mostly from Pakistan from a salt mine in Meran Shah (Table 2, above). Smuggling takes place because of an official restriction on salt imports into Afghanistan.³⁶ Salt rock is ground and packaged in Afghanistan by Afghan producers. Some domestic producers receive financial aid from international aid organizations to ensure that the final product has all the necessary minerals such as iodine.

Figure 5: Largest Source Countries for Salt (HS – 2501) Imports (in thousands \$ US)



Source: World Bank / UNCTAD TRAINS

As Figure 5 suggests, imports of salt plummeted in 2008, mainly due to government restrictions on salt imports. Pakistan is the country of choice for smuggled imports of salt partly due to the existence of social networks, short geographical distance, and low transportation costs. Salt imports from Central Asian countries are associated with higher costs. Some traders have imported high quality and hygienically packaged salt from Russia but the price is higher and consumers seem to show no preference for it. There is some regional variation in terms of sources of packaged salt. In northern Afghanistan people tend to use Afghan salt, in the east and south Pakistani salt, and in the western provinces Iranian salt.

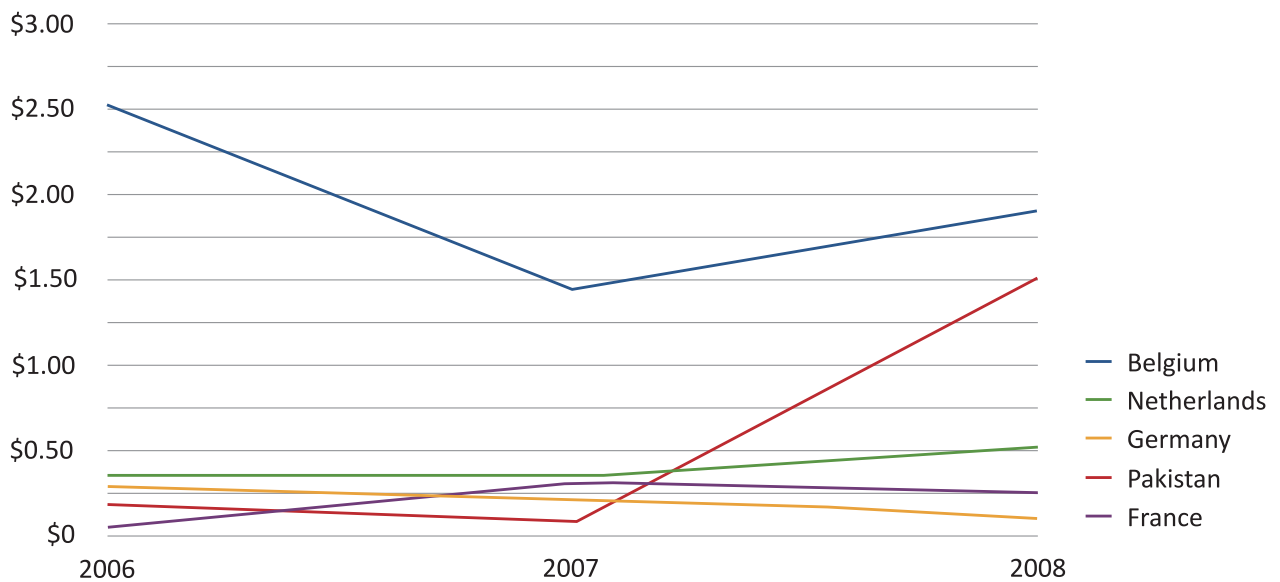
³⁵ On infrastructure-related production problems, see Parto et al. (2007), "Enabling or Disabling? The Operating Environment for Small and Medium Enterprises in Rural Afghanistan" (Kabul: AREU), available from: www.areu.org.af.

³⁶ Levitt, E., K. Kostermans, L. Laviolette, and N. Mbuya (2011). "Malnutrition in Afghanistan Scale, Scope, Causes, and Potential Response." (Washington: World Bank).

4.4 Baby Food

Officially, European countries and Pakistan are the key sources for imported baby food into Afghanistan (Figure 6). The survey shows, however, that baby food is imported mostly from Pakistan, India, Ireland, New Zealand, Russia, and UAE (Table 2, above).

Figure 6: Largest Source Countries for Prepared Baby Food (190110) Imports (in million \$ US)

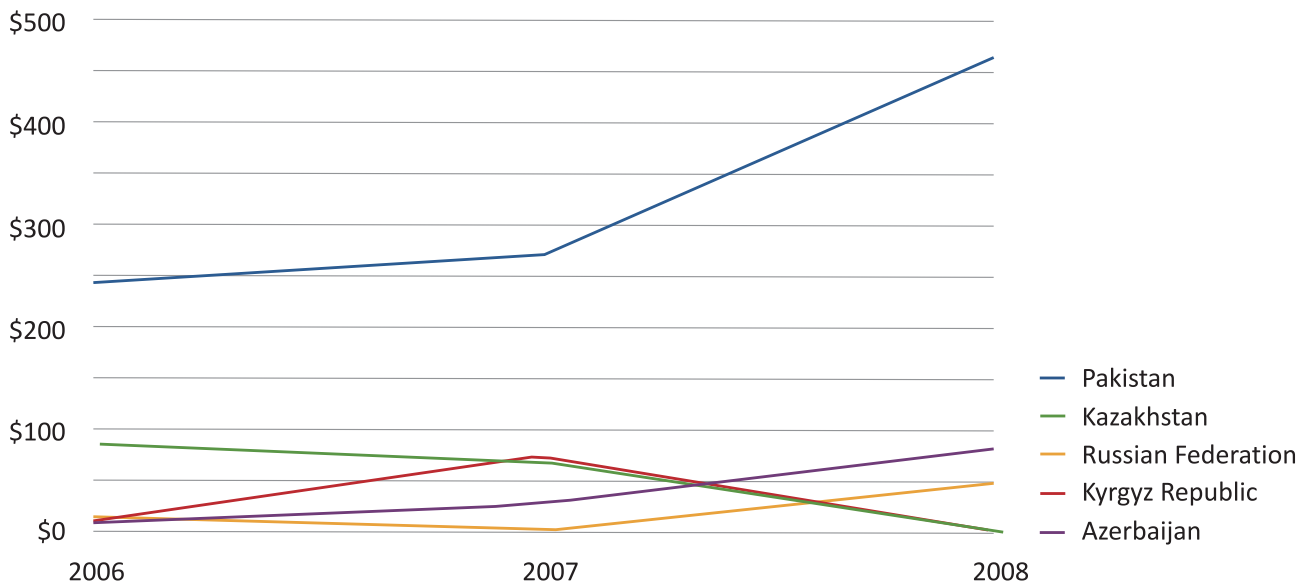


Source: World Bank / UNCTAD TRAINS

MoPH tests random samples of imported products, including foodstuffs, at border entry points. Ministry officials also sample and check packaged consumables and other products from the vendors in various markets to ensure quality and adherence to public health standards. According to MoPH officials, however, the ministry does not have the infrastructure and sufficient personnel for effective monitoring of all the food products being offered in the market.

4.5 Petroleum-based Fuels

Petroleum-based fuels are imported through Pakistan and mainly from unknown sources (Figure 7). Legal and contraband fuel also enters Afghanistan from Iran and the neighboring Central Asian countries.

Figure 7: Largest Source Countries for Petroleum (HS – 2709/10) Imports (in million \$ US)

Source: World Bank / UNCTAD TRAINS

With imports from Central Asia, the problem is not with the original quality of the imported fuel but tampering by some traders to increase the volume by adding used oil and other soluble petroleum-based fuels.³⁷ This usually causes damage to motorized vehicles and equipment, contributes to air pollution / poisoning, and causes respiratory diseases among the very young and the elderly. Also, some of the fuel importers complained that Central Asian fuel refineries would not deal with Afghan importers directly and prefer, instead, to deal with large domestic purchasers who would then sell smaller volumes to Afghan buyers.

4.6 Summary

Afghanistan is a major importer of salt, cooking oil, baby food, petroleum-based fuels, and medicine. The demand is increasing for cooking oil, baby food, and fuel but is steady for medicine and salt. Pakistan remains the key trading partner with Afghanistan and the source of 15% of baby food imports, 60% of fuel imports, 30% of pharmaceuticals and cooking oil, and the sole source for the imports of salt rock (Table 2). Of note in these amounts is fuel, particularly considering that Pakistan is not a producer of fuel and acts only as the transit route for fuel imports into Afghanistan. Pakistan also appears to have a monopoly for salt rock supplies due to proximity and the high quality of its salt rock.³⁸

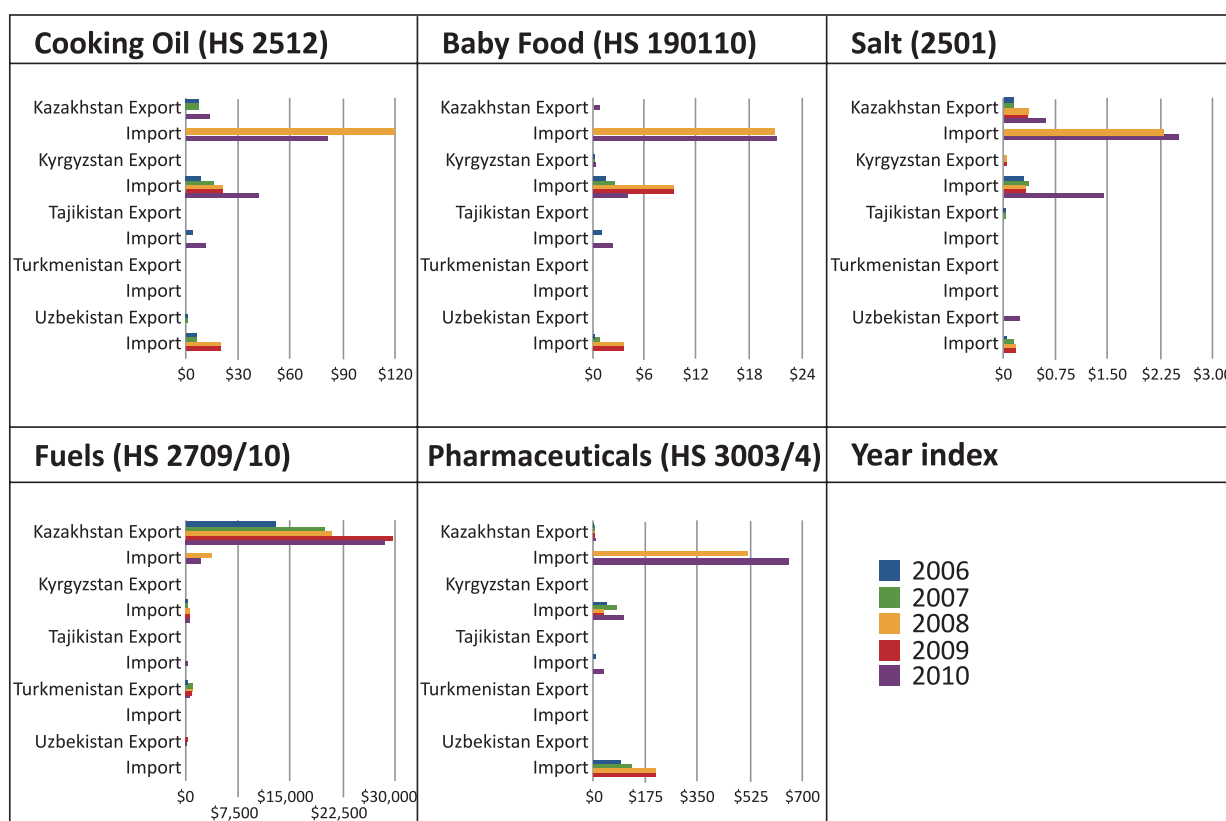
³⁷ See also Paterson (2005). "Understanding markets in Afghanistan: A study of the market for petroleum fuels." (Kabul: AREU) available from: www.areu.org.af

³⁸ Interviews with importers confirm that Pakistan offers the best quality and price for salt rock imports. Given the relatively low value of salt rock, the close proximity of Pakistan to Afghanistan also plays a key role in making Pakistan the sole supplier.

5. Re-sourcing Constraints and Opportunities

All central Asian countries are net importers for the five selected products in the years 2006-2010, except for petroleum-based fuels of which Kazakhstan and Turkmenistan have large reserves (Figure 8). To varying extents, all Central Asian countries export cooking oil, salt, prepared baby food and medicine. The values of the imports for these products into Central Asian countries are much higher, however, suggesting that exports from Central Asian countries of these products are likely to include a significant component of re-exports.³⁹

Figure 8: Total Import / Export (million USD) for Selected Products / Countries (2006-2010)



Source: World Bank / UNCTAD TRAINS database

Central Asian countries continue to have strong trade ties with Russia. Table 4 shows the import and export values of the five selected products for Russia. Russia is a net exporter of petroleum-based fuel products and cooking oil. Russia’s import and export values are more balanced and generally lower than the Central Asian countries, pointing to local production capacity in Russia for the 5 selected products.

The survey asked the respondents about problems they faced at various points of entry to Afghanistan. Figure 9 depicts the main problem categories and the percentage of respondents who reported problems. With the exception of Kabul Airport, all entry points are associated with extremely high levels of corruption, particularly in the cases of Aqina (Turkmenistan border), Spin Boldak (Pakistan border), and Torghandi (Turkmenistan border) where all

³⁹ In the UNCTAD database there were no records for imports to Turkmenistan for the five selected products.

respondents reported bribes as being a major problem.⁴⁰ Hairatan (Uzbekistan border), Islam Qala (Iran border), Miran Shah (Pakistan border), and Torkham (Pakistan border) were also reported by well over 50% of the respondents as having corruption as a major issue. None of the traders interviewed reported importing from Tajikistan though this contradicts evidence of some trading activity between Afghanistan and Tajikistan.

Table 4: Import / Export of Selected Products for Russia (2006-2010 in 1,000 USD)

		2006	2007	2008	2009	2010
Oil	Export	182	245	539	529	320
	Import	-	133	177	177	119
	Net	-	112	362	352	201
Baby Food	Export	9	7	40	29	23
	Import	-	104	169	169	192
	Net	-	-97	-129	-139	-169
Salt	Export	0	1	3	1	3
	Import	-	43	60	60	67
	Net	-	-42	-57	-58	-64
Fuel	Export	122,907	160,777	184,958	212,577	189,585
	Import	-	1,244	2,314	2,314	2,260
	Net	-	159,533	182,644	210,263	187,324
Medicine	Export	96	82	225	165	201
	Import	-	5,516	7,469	7,469	9,274
	Net	-	-5,433	-7,244	-7,304	-9,073

Source: World Bank / UNCTAD TRAINS database

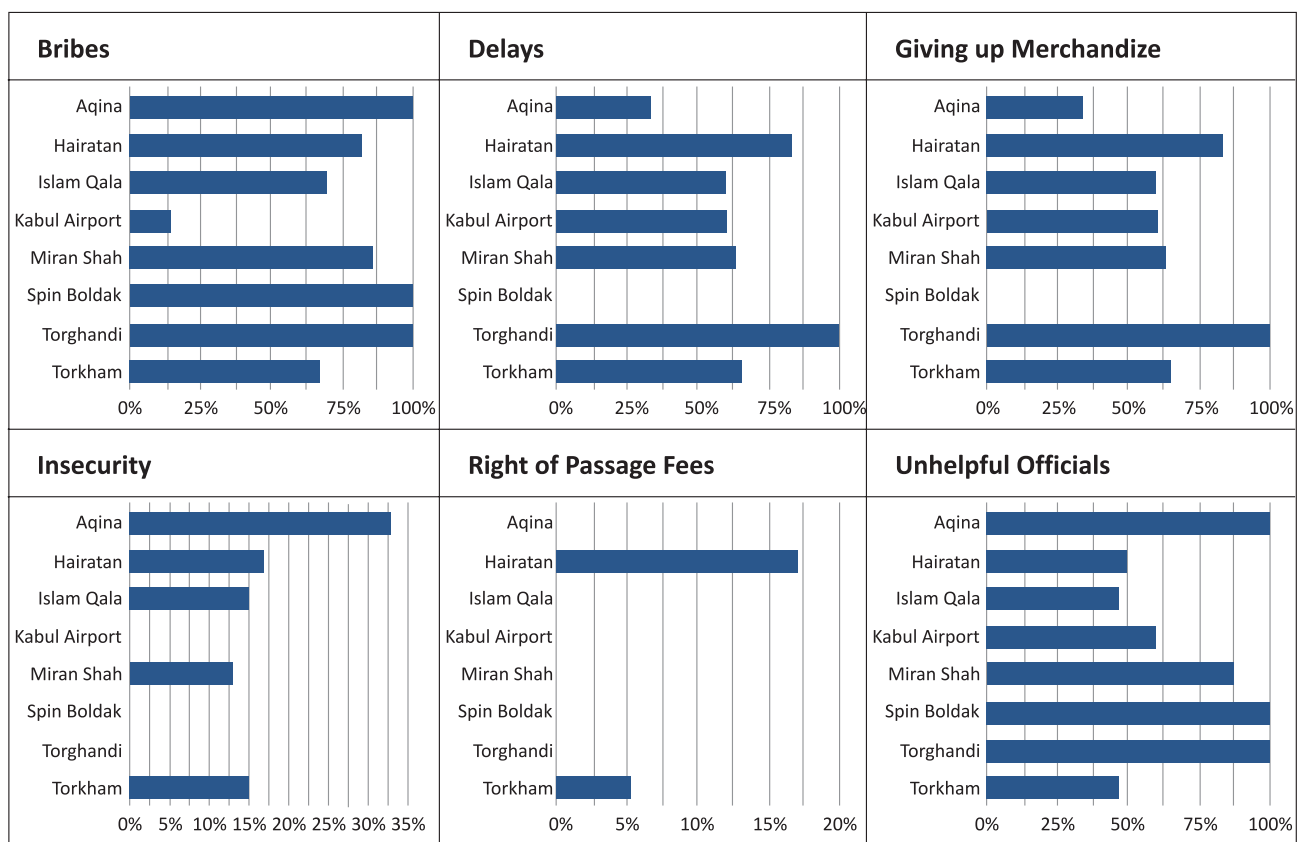
Bribes at border entry points are not always monetary and can be taken or offered in kind as a percentage of the merchandise being imported. Hairatan (Uzbekistan border) ranks the highest by the respondents for in kind bribes, followed by Islam Qala (Iran border), and Torkham (Pakistan border). The number of respondents associating Hairatan, Islam Qala, and Torkham with in kind bribes were also high, between 55 and 80%, but even more significant given the fact that these three crossing points are the most frequently used by the importers and collectively account for the bulk of all imports into Afghanistan.

Except for Spin Boldak there are significant delays at border entry points, with Hairatan and Torghandi ranking the highest according to the respondents. Lack of security is

⁴⁰ While this finding might suggest that more use should be made by the importers of Kabul Airport due to lower level of corruption, it has to be noted that air freight costs tend to be substantially higher than land transportation, rendering transportation by air as economically unviable for lower value imports.

reported as a major issue at Aqina and to a lesser extent at the three major entry points of Hairatan, Islam Qala, and Torkham. Other studies have highlighted right of passage fees for merchandize being transported to Kabul.⁴¹ According to the respondents imports arriving through Hairatan and Torkham are subject to a “municipality” fee imposed arbitrarily by the provincial authorities in Nangarhar (for Torkham) and Balkh (for Hairatan). These semi-formal charges are in addition to various arbitrary amounts demanded of the truck drivers along the way at the many checkpoints they have to cross prior to arriving in Kabul. Finally, there are varying levels of complaint regarding the helpfulness of Afghan border officials with Aqina, Spin Boldak, and Torghandi being the most severe cases.

Figure 9: Problems at Ports of Entry



n=90

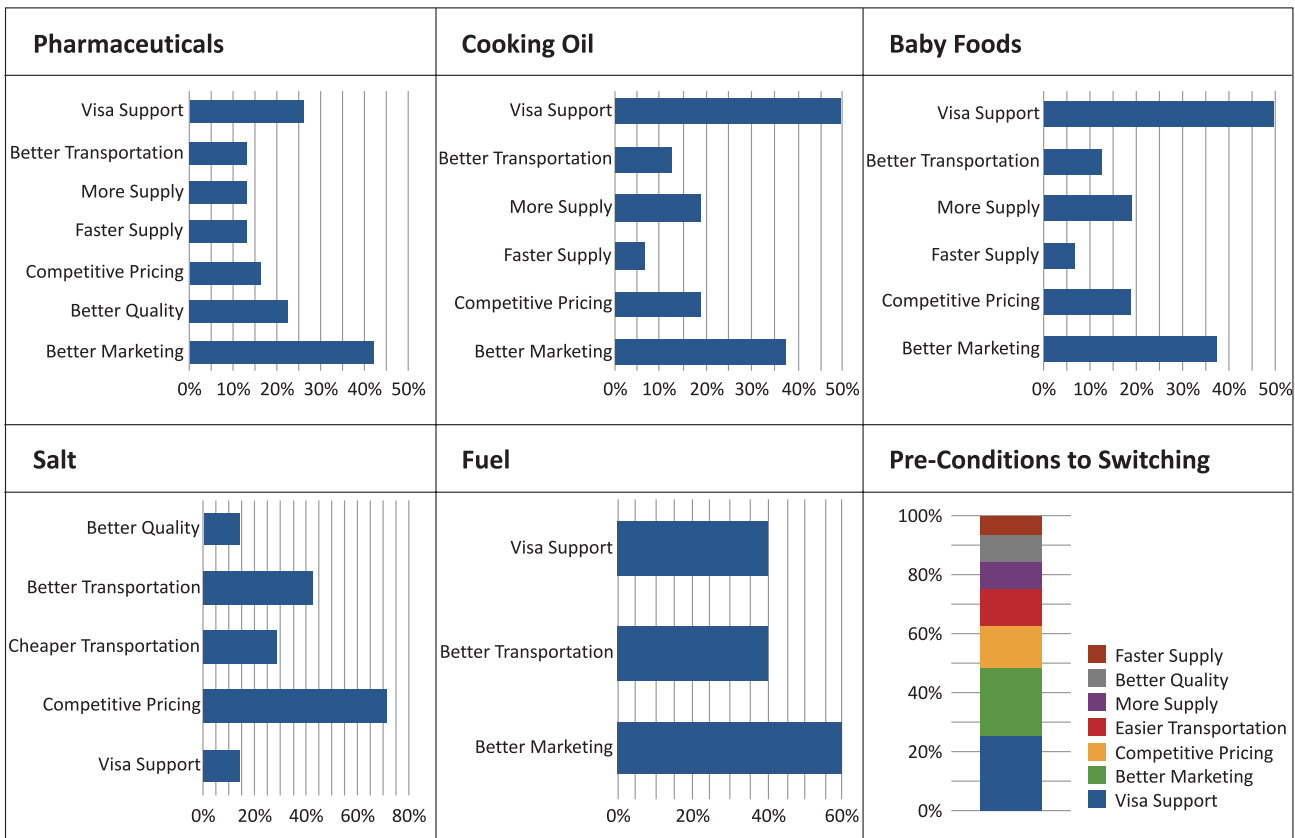
The importers of pharmaceuticals, cooking oil, baby foods, and fuel pointed to assistance in acquiring visas as one of the main pre-conditions in considering switching supply sources.⁴² Assistance with better marketing was underlined by a significant number of the respondents for imports of pharmaceuticals, cooking oil, and fuel (Figure 10). Marketing, in this case, was expressed in terms of Afghan consumer familiarity with products from Central Asia and

⁴¹ See Parto and Saadat (2011) for details.

⁴² Torkham and other entry points in eastern Afghanistan bordering Pakistan are almost open with minimal or no border control. Many Afghans travel through these points without visa though running the risk of being harassed by Pakistani police who turn a blind eye in return for receiving petty bribes.

familiarity of Afghan importers with Central Asia produced products. Perhaps surprisingly, given the poor state of Afghanistan’s infrastructure, better transportation was not seen as a major issue by a large number of the respondents importing pharmaceuticals, cooking oil, baby foods, and salt rock. Transportation was flagged as an issue only by the fuel importers. It has to be noted that “better” transportation in the case of fuel imports may imply better security in transportation since fuel trucks are favorite targets for the anti-government forces in Afghanistan with fuel convoys being regularly attacked particularly between Torkham (Pakistan border) and Kabul but also on other routes.

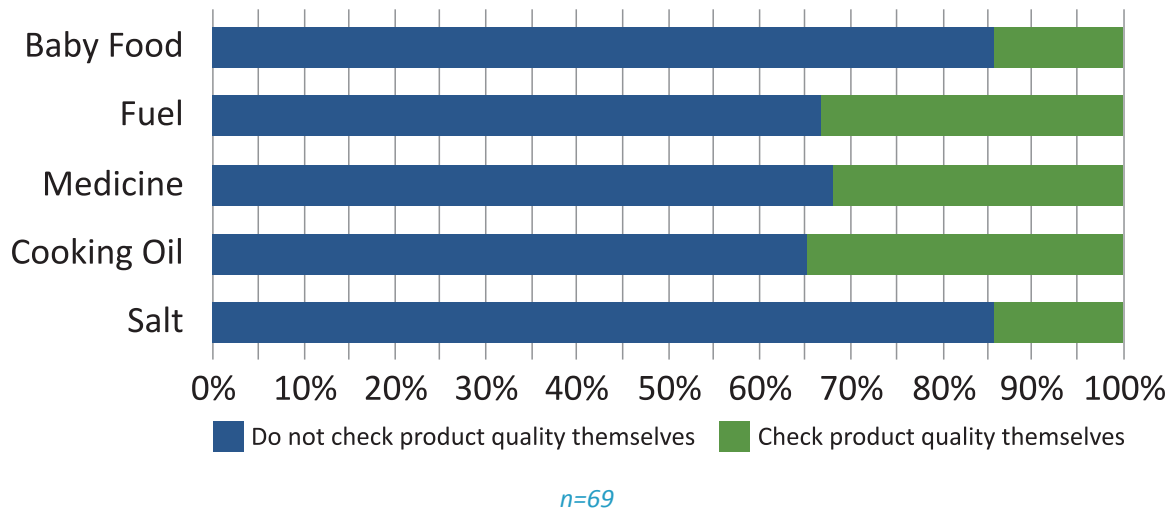
Figure 10: Pre-conditions to Switch Import Source



n=69

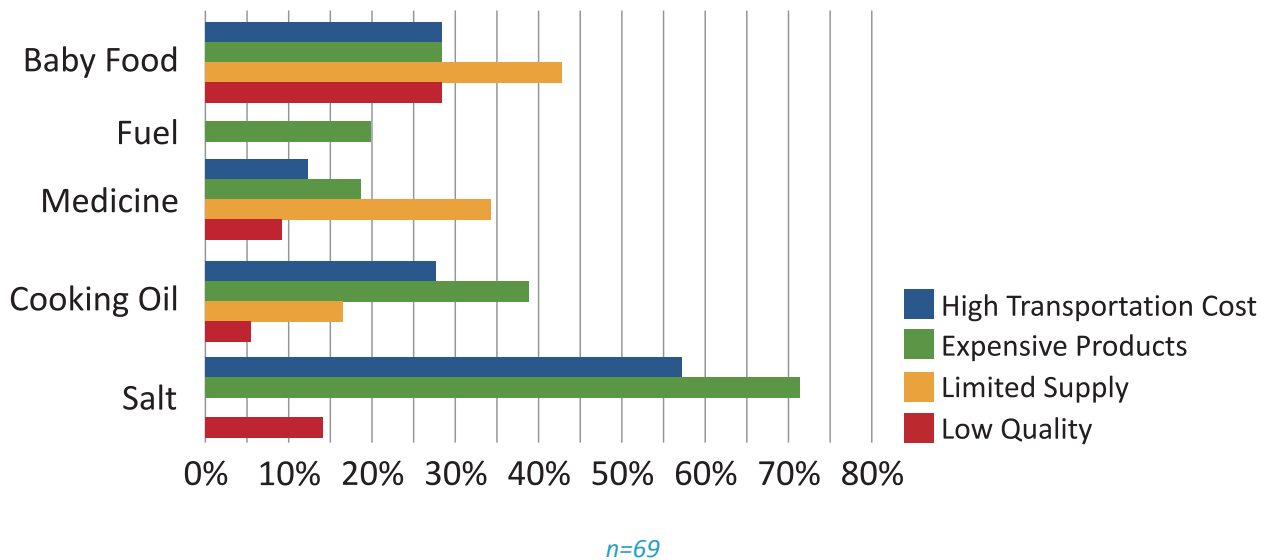
Except for fuel, competitive pricing was mentioned as a pre-condition to switch import sources particularly for the products with small profit margins such as salt. The unimportance of product quality is confirmed by the finding that the overwhelming majority of importers do not check the quality of the products they import (Figure 11).

Figure 11: Quality Control Mechanisms



The importers were asked about actual or perceived issues associated with imports sourced from Central Asian countries. The only import where quality was flagged as an issue was baby foods and, to a lesser extent, salt rock. The two main issues associated with imports from Central Asian countries were identified as high product and transportation costs.⁴³ Limited supplies or unavailability of supplies were also identified as a major issue (Figure 12).

Figure 12: Actual or Perceived Issues Associated with Importing from CA Countries



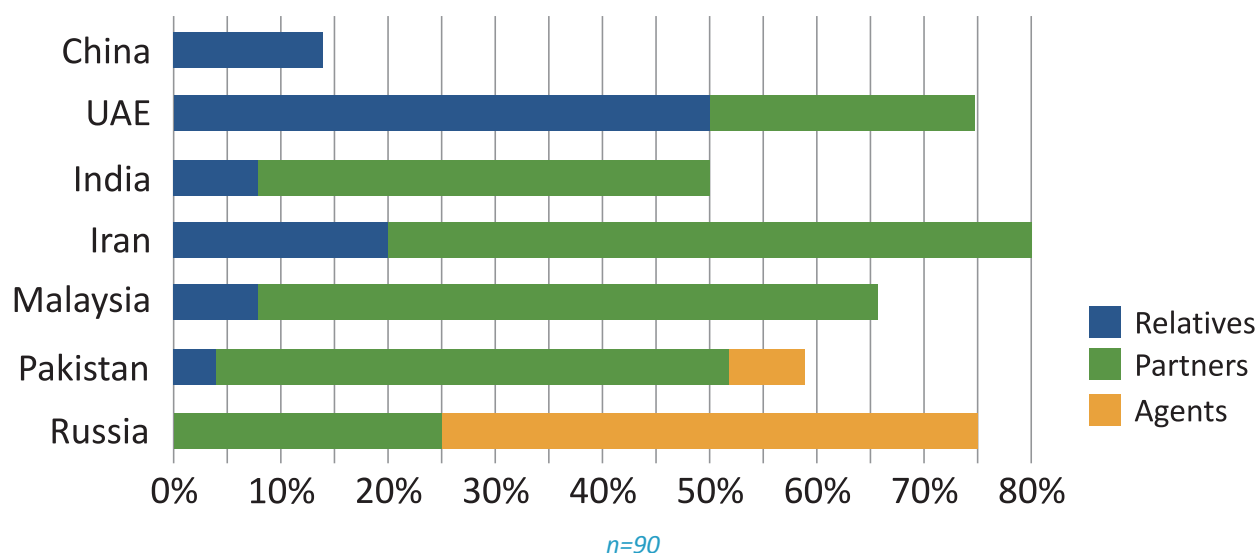
To identify additional reasons for imports from the existing sources the importers were asked about the mechanisms through which they conducted their business transactions. Transactions for imports from China are conducted partially through relatives residing in

⁴³ Higher prices for Central Asia produced products being stated as a major barrier (Figure 11) appear to contradict the findings reported in Figure 9, where product price is not a major pre-condition for switching supply sources. While this contradiction needs to be more closely investigated, one may speculate that in Figure 9 price is of lower importance relative to other important considerations such as visa requirements, transportation, and marketing.

China but mainly by the importers themselves. Imports from the United Arab Emirates are secured mainly through relatives, around 50%, and partners, around 25%. The importers have fewer relatives in India as facilitators and rely mostly on business partners for over 40% of their imports. Imports from Malaysia are secured mostly through Malaysian business partners while for imports from Pakistan and, to a much larger extent, Russia trading companies or agents are used to secure supplies (Figure 13).

The familiarity of Afghan traders and importers with Central Asian countries has lessened significantly since the 1992. During the 1980s Afghan traders were familiar with Soviet products and much importing was done through Soviet Central Asian suppliers. The general unfamiliarity with Central Asian products and suppliers is for the most part attributable to weakening or demise of the trade networks under the Soviet rule and the transformation in the Central Asian economies from centrally planned to market-oriented economies.⁴⁴ Transformation was not limited to Central Asian countries, however. In the aftermath of 2001, many Afghans with connections in Pakistan and ability to capitalize on the massive flows of aid funds into Afghanistan, also through Pakistan, started their own importing ventures which bypassed importing networks long established by the more traditional traders in Central Asia and other neighboring countries. There is some concern among Afghan importers with supply sources in Pakistan that the increased tensions between Pakistan and the United States (and by default, Afghanistan), combined with Pakistan's own natural disaster- and politics-related instability are affecting their business operations seriously enough that they are willing to consider alternative sources of supply.

Figure 13: Trade Facilitation Means



The traders engaged for this research complained about the emergence of a new and less than honest and opportunistic class of importers who have undermined longstanding business ethics such as concerns about product quality and public welfare. The corruption plaguing the customs system is often pointed to by the older and more traditional traders as

⁴⁴ The break up of the Soviet system was followed with a relatively long period of uncertainty, a proliferation of private sector actors, and the opening of trade routes to outside the Eastern bloc.

the reason for product quality not being checked and as a case in point for the detrimental impact of the opportunistic traders on consumer wellbeing.⁴⁵ All the traders interviewed for this research and findings from other research strongly suggest that corruption at customs border points is also a major factor contributing to smuggling or importation of sub-quality products since customs officials can be easily persuaded, for a price, to turn a blind eye to improper importation documents or sub-quality products. Similarly, the traders who wish to import foodstuffs of adequate quality and do not have connections or access to high-ranking officials are often stalled at customs points for non-payment of the requested bribes by customs officials or other officials who often request a bribe to approve foodstuff samples. Non-foodstuffs such as petroleum-based fuels are also subject to extortion by inspecting officials.

The traders, despite the findings presented in the preceding paragraphs, are not entirely powerless. One trader reported,

We used to import cooking oil from a production company based in Pakistan. Our retailers told us that the customers were complaining about the quality of the oil. A group of us [cooking oil importers] went to the supplier and told them that unless they increased the quality, we would switch to another supplier. The company complied and we started receiving high quality cooking oil and everyone was happy.

Major contributing factors to the prevalence of sub-quality imports in Afghanistan's consumer markets are the public demand for low priced consumables due to widespread poverty and generally low income among the vast majority of Afghans, impotency of the regulatory / control mechanisms to enforce public safety standards, and systemic corruption which undermines most attempts to institute and enforce quality standards.

According to some of the longer standing Afghan traders, had trade relations been maintained between Afghan and Central Asian / Russian traders as they had been until the fall in 1991 of Najibullah's government in Afghanistan, such (mostly) Russian-made imports as basic and processed foods, iron products, home ware, building construction materials, petroleum-based products, textiles, and other finished goods would have continued to flow to Afghanistan from Central Asia. The currently low trade volumes between Afghanistan and Central Asia are attributed to a loss of older trading networks, poor knowledge of newer Afghan traders of Central Asia and Russia sourced products, and a lack of interest in the Afghan market by Central Asian and Russian traders and exporters. At the same time there is an understanding among Afghan traders that with the disintegration of the Soviet Union the availability of Russian-made products in Central Asian markets diminished very significantly, rendering Central Asian countries less attractive as supply sources for Afghan importers.

Pointing to the importance of renewing trade links between Afghan importers and Central Asian suppliers, a number of Afghan traders interviewed for this research suggested strongly that rebuilding the old trade networks would need to be initiated by willing Central Asian and Russian exporters through such means as trade fairs in Afghanistan and Central Asia. If

⁴⁵ See Parto and Hozyainova (2011), "Corruption and Private Sector Development: Higher, or Lower, Transaction Costs to Conduct Business?" available from: www.appro.org.af

sponsored by the governments of Central Asian countries and Russia, trade fairs and exhibits aimed at forging trade links with Afghanistan would likely increase the possibility of regional cooperation based on economic complementarities, often a reliable basis for sustainable regional cooperation on economic and other fronts.⁴⁶ But, the Afghan traders wishing for closer ties with Central Asian and Russian suppliers also believe that the current trade regime in Afghanistan is governed by the presence and priorities of the international forces based in Afghanistan. As one trader put it bluntly, "...as long as the foreign forces are in Afghanistan, they will not allow Afghanistan to do more trade with Central Asia."⁴⁷

Re-sourcing imports to Afghanistan to Central Asia is likely to be a difficult task. The reasons for this difficulty are at least fourfold. First, at their heights, the numbers of Afghan refugees in Pakistan and Iran were four and two million, respectively. Not all these refugees have returned to Afghanistan since 2001 and many remain in their host countries. In addition, since around 2008, there are reports of returnees migrating back to Iran and Pakistan due to being unable to resettle in Afghanistan. The continued presence of Afghan émigrés in Pakistan and Iran has provided Afghan traders with strong and reliable social networks for trading / importing purposes. Second, Afghan Pashtu speaking traders feel at ease in their dealings with Pakistani Pashtu speaking suppliers while Dari speaking Afghan traders prefer to maintain trade relations with their Farsi speaking counterparts in Iran. Third, when asked about switching supply sources to Central Asia, many traders respond that language is a main barrier since, at best, products found through Central Asian suppliers are marked in Russian and not in a language that Afghan traders could understand. Fourth, numerous Afghan importers report difficulty in obtaining Afghan passports and visas for travelling to Central Asian countries and contrast this to the relative ease of movement, particularly between Afghanistan and Pakistan.⁴⁸

⁴⁶ Interview with traders in Kabul, June 5, 2012.

⁴⁷ Interview with traders in Kabul, June 4, 2012.

⁴⁸ Based on interviews with traders and trade associations in Kabul, February 2012.

6. Conclusion

With Pakistan falling out of favour with many international organizations as the choice transit country for land access to Afghanistan and Iran not being prospected as a close (formal) trading partner, there is a unique opportunity for the Central Asian countries to seize the moment and seek ways to act as the new transit routes to and from Afghanistan and, more importantly, to provide quality substitutes for the generally lower quality imports. Establishing the transit routes is for the most part a function of major regional infrastructure programs and agreements. The provision of quality substitutes is, however, a much more manageable task. This research focused on five products. The opportunities identified for increased trade between Afghanistan and Central Asian countries are not limited to these products, however.

Products such as plain and manufactured steel, construction materials, fuels, home ware, cooking oil, and conserved and basic foods from Russia and Central Asian countries have a reputation of superior quality dating back to the 1970s, 1980s, and early 1990s. Since 1992 there has been a general weakening of the links between Afghanistan and Central Asian countries due to the Afghan civil war and its continuing crisis-ridden aftermath. Most traders do not have adequate knowledge about or access to supply sources in Central Asian countries for local products or Russian origin re-exports. Most traders are aware of their poor knowledge of Central Asia as the potential source of many of their imports with some suggesting that the old linkages between Afghan traders and Central Asian suppliers could be revived through intensification of coordinated efforts such as marketing, trade exhibitions, and product and produce fairs organized by Afghanistan and Central Asian countries. Efforts could also be intensified for the use multi-lingual labeling, particularly for Central Asian products aimed at the Afghan market.

Afghan traders face enormous difficulties such as delays and financial and in-kind bribes at all border crossing points. Quality seems not to be a major concern for the majority of the traders or the consumers while imports from Central Asian countries are associated with relatively higher costs, partially associated with inadequate transportation networks. A few of the traders argued for more regional investment in infrastructure such as roads and rail links to reduce transportation time and cost for Afghan importers. While this is an enormous undertaking by any one regional government, it is possible to work toward a more expansive and integrated transportation system through funds from international entities such as the Asian Development Bank, the World Bank, and major international development organizations with a stake in the region such as USAID. Advocacy for such infrastructure will need to be justifiable on longer term economic benefits which are very likely to surpass the shorter term costs.

A possible explanation for the bulk of the fuel supplies coming into Afghanistan to transit through Pakistan, apart from the preference of the international military forces, is the combined effect of purchase price and relatively low transportation costs. Central Asian fuel producers may have a disadvantage in transportation costs but not necessarily for their product prices. Given the fact that Afghan importers deal through intermediary agents to purchase their fuel from Central Asian producers, measures could be taken to allow Afghan importers to purchase supplies directly from Central Asian producers.

All the importers engaged during this research felt, to one degree or another, that they were locked into importing from Pakistan and Iran. Customs union(s) and/or trade agreements between Afghanistan and Central Asian countries, and associated visa issuance arrangements, were raised by a number of the traders as pre-requisites for increased trade links between Afghan importers and Central Asian producers.

Despite the strong trade linkages with Pakistan and higher costs associated with Central Asian products there is significant interest among Afghan traders in trading with Central Asian countries. Building on this interest will require increased familiarity of the Afghan importers with Central Asia produced products and increased awareness of the Afghan consumer. The key conclusion from this study is that reorganizing the trade regime in Central Asia to facilitate increased regional cooperation and include Afghanistan is at best a long term goal and not a problem to be fixed with short term measures such as (more) financial aid, technology transfer, capacity building, or even infrastructure development programs.

7. Recommendations

To the Governments of Central Asia:

1. Forums such as RECCA and similar economic conferences should be used to develop visions and plans for infrastructure development to link Afghanistan with Central Asia.
2. With some insignificant exceptions, the bulk of petroleum-based products in Afghanistan is imported from international suppliers transiting through Pakistan. Measures should be taken to allow Afghan importers to purchase supplies directly from Central Asian producers, and not through intermediaries, as a means to reduce costs. This will require actions by the Government of Afghanistan as a major buyer and/or bi-lateral agreements between governments to make Afghan importers a “preferred” or exempted small buyer status.
3. Regional dialogue should be facilitated on the issues around distribution of gains from increased trade activity, the role of private sector actors in nurturing and perpetuating (and fighting) corruption, and the adverse public health impacts of poorly regulated or unregulated flows of goods particularly in foodstuffs and pharmaceuticals.
4. Quality control mechanisms should become integral to current and future trade agreements between Afghanistan and Central Asian countries.
5. Better marketing strategies aimed at the Afghan market, including labeling in Dari, trade fairs, trade delegation visits, and business to business initiatives should be formally initiated and facilitated.
6. Serious consideration should be given to programs and agreements to ease visa requirements for Afghan traders.

For further research, the following areas should be given priority:

1. Conduct a feasibility study to establish whether Central Asian countries and their producers and suppliers are willing and able to act as suppliers of domestically produced and re-exports of Russian made products to Afghanistan.
2. As a counterpart to this research, additional research will need to be undertaken to examine Afghanistan’s current productive capacities and potentials for exports into the Central Asian markets. Particular attention should be paid to closer links with Tajikistan where there are some kinship ties, close geographical proximity, and shared language with Afghan Dari speakers.
3. Conduct a study to identify why Afghan women traders seem to be shying away from import business and establish pathways for mainstreaming women’s participation in regional trade.

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Appendix 1: Available Trade Databases for Afghanistan

Name	Type data	Source
1. Afghanistan Central Statistics Office (CSO)	Collects trade data through district offices. Publishes statistical trade yearbook. Latest 2009/2010	Only hardcopy in AREU library.
2. United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)	Aggregate Trade data (Value imports, value exports). Derives own numbers from WTO, IMF, EUROSTAT, World Trade Atlas, and COMTRADE data. Data from 1990-2010	http://www.unescap.org/stat/data/swweb_syb2011/DataExplorer.aspx
3. European Commission	Trade data EU27 with Afghanistan. Disaggregated into different classification systems of commodities (e.g. HS, SITC), value and quantity. Collects each month up to 2011.	http://epp.eurostat.ec.europa.eu/newxtweb/mainxtnet.do
4. National Risk and Vulnerability Assessment (NRVA)	National survey 2007/8. Uses all sorts of indicators, amongst others a module on migration and labour force characteristics (employment in trade)	http://ec.europa.eu/europeaid/where/asia/documents/afgh_nrva_2007-08_full_report_en.pdf
5. UNCOMTRADE (UNSD)	Disaggregated by HS, SITC, and BEC. Data for 2008-2010.	http://comtrade.un.org
6. Asian Development Bank (ADB)	Aggregated values. 2002-2010.	https://sdfs.adb.org
7. OECD – UNSD	Import and exports in value per trade partner. In HS-2 1988-2010	http://stats.oecd.org
8. UNCTAD	Import and export values per partner	http://unctadstat.unctad.org
9. World Trade Organization (WTO)	Only aggregate trade flows in value. Up to 2010	http://stat.wto.org
10. World Bank – UNCTAD Trade analysis information system (TRAINS)	Commodities disaggregated into HS-2-4. Provides data for 2004/6/7/8.	http://databank.worldbank.org
11. International Monetary Fund – Direction of Trade Statistics (IMF-DOTS)*		
12. Trademap	Uses trade data from UNCOMTRADE. Disagregate available for HS-2-4 for the years 2008-2010.	www.trademap.org
13. United States Department of Agriculture Foreign Agricultural Service (USDA FAS)	Trade and production data of agricultural products	http://www.fas.usda.gov/
14. Statistical, Economic and Social Research and Training Centre for Islamic Countries	Collection of economic indicators from different sources	http://www.sesric.org/baseind.php

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