



How can Afghanistan retake its position as a transit and transport hub between Central Asia and South Asia?

The geo-economic, geo-strategic and geo-political location of Afghanistan has been of significant importance historically. Its position in the ancient Silk Route, South Asia, and presence in the middle of important neighboring countries are the factors which have served as an advantage as well as disadvantage for the country depending on how effectively the opportunity has been exploited by the government. One of the important advantage has been the use of Afghanistan as transit and transport hub between Central Asia and South Asia. However, decades of war and political instability resulted in loss of this golden economic opportunity. After the fall of Taliban, the new government again focused on the revival of the lost opportunity. This is possible if the government can use the private sector as an engine to take the country towards self-sustainability by ensuring security and fighting corruption, political stability, provide the needed soft and hard infrastructure, and economic and regional integration.

Afghanistan is located at the heart of the ancient Silk Route. The northern route which splits in the west of Kashgher has a southern branch which heads down towards Balkh province. The southern route or Karakoram was mainly single route running from China through Karakoram mountains connects Pakistan and China. It then sets off westward, but with southward branches, it enables to complete the journey by sea from various points. Later, it passes through northern part of Pakistan over the mountain of Hindukush and then into Afghanistan where it joins the northern route again near Turkmenistan. Afghanistan's strategic location along the Silk Route connected it with the Middle Eastern and other Asian cultures.

Afghanistan's geographic location is again very strategic as it lies in the heart of Asia and surrounded by six countries. This makes the country land locked with no access to great waters. It has borders with Uzbekistan, Turkmenistan, and Tajikistan in the north, with Iran in the west, with Pakistan in the south-east, and China in the remote east. Further, although the country has no direct land contact with India, the proximity is very close to call both countries neighbors.

In the light of strategic context outlined above, Afghanistan is in great position to link the markets of South Asia, Middle East, Central Asia and China as a transit and transport hub. However, the government has to pave the way for the golden opportunity to be explored. As such, the

government would have to rely on the private sector as an engine to lead the country towards a self-sustaining economy. This is possible only if the government is able to create enabling environment for private sector development.

The efforts in the last decade to jump start the private sector have not met the expectations. The trade deficit is huge while the gap between imports and exports are increasing every passing year. The neighboring countries are important trading partners. Afghanistan's imports stood at \$ 8.7 billion in 2014, which included petroleum, base metals and related articles, food items, machinery and equipment. The share of total imports from the neighboring countries includes 14% from Pakistan, 11% Uzbekistan, 9.1% Iran and 9% from China. The remaining share of total imports is mainly contributed by other trading partners including Russia, Turkmenistan, Japan and Kazakhstan. On the other hand, the exports have been very low. The total exports in 2014 stood at \$ 514 million resulting in a total trade deficit of 8.2 billion.

The poor performance of Afghanistan reflected by above statistics does not mean the country lacks resources and production capacity. The country is blessed with fertile land, natural and human resources whether it's fresh and dried fruits, gemstones and minerals, saffron, carpets and many other potential products. The small and medium enterprises (SMEs) have made their efforts to make a slow but steady growth despite challenging environment. However, the support intervention in the last decade has been based on the quick fix interventions rather than sustainable solutions to barriers the private sector development.

The government has to develop strategies for strengthening of private sector by supporting the SMEs to ensure import substitution and decrease in trade deficit. A broad-based strategy which can produce results in short, medium and long terms to meet the sustainability needs of the economy of a fragile state. In this context, the government has to work on two fronts. On one hand, it can rely on the neighboring and other countries in the region extending technical trainings, exposure visits, and technology transfer. On the other hand, the government would need to pursue an aid for trade strategy with major donors including USA, Britain, Australia, and Canada. This is mainly because our products including dry fruits, raisin, pomegranates, Saffron, carpet and products from other potential sectors are not producing desired outcomes due to lack of access to international markets.

A consistent decrease in trade deficit and increase in the GDP driven by private sector can ensure a self-sustainable Afghan economy. This would lay down the foundation for Afghanistan to regain its position as transit and transport hub. This would offer great potential for economic growth for Afghanistan and other countries in the region. For instance, Frederick Starr & Adib Farhadi mention in their work titled *Finish the Job: Jump- Start Afghanistan's Economy*, "India estimates that if the political economy of the region improves and as little as 20% of [its] western trade is sent by roads, \$100 billion dollars-worth of goods will pass through Afghanistan." However, the government will be required to do extensive work on different fronts to be able to regain the transit and transport hub.

Infrastructure is a prerequisite for any country to become a transit and transport hub. The government needs to develop an effective transport strategy which would ensure to deliver the

needed soft and hard infrastructure. In this regard, the government has to adopt modern approaches. For instance, public private partnership (PPP) experimented in India, South Korea, Thailand and other countries in mega infrastructure projects have produced good results. However, the government would be required to start from the grass root level. At the moment, there is no law or regulation about PPP in the country. The mega infrastructure projects like rail road network in the country would require such modern approaches as this options has been implemented in many developed and developing countries.

Economic and regional integration is another front on which the government has to make considerable efforts. Afghanistan is already a member of regional and economic forums like South Asian Association for Regional Cooperation (SAARC), Economic Cooperation Organization (ECO), Shanghai Cooperation Organization (SCO). However, the participation of Afghanistan has not been very effective. One of the reasons is low capacity of government organization like Ministry of Commerce and Industries (MoCI), which are the lead for these platforms. The treaties and agreements have to be carefully designed to ensure maximum gains for the country. Apart from MoCI, other organizations like Export Promotion Agency of Afghanistan (EPAA), Afghanistan Chamber of Commerce and Industries (ACCI), and Afghanistan Investment Support Agency (AISA) have to play their role in economic and regional integration by attending and organizing expos, trade events, exhibitions, and other relevant interventions.

As is the fate of most landlocked countries, there are political handicaps facing Afghanistan. These handicaps have economic consequences for the country. A sudden deteriorating in the political relations affects the trade relations and mechanism. Afghanistan has mostly relied on Pakistan for imports and trades compared to that of Iran. These political relations have always affected the trade ties. This is one of the reasons why traders complain and face problems at the ports. For instance, the recent escalation of political tension between the two countries stirred anger among the nation resulting in boycott of Pakistani products. In response to public demand, the trade unions and organizations had to make public statements about stopping the import of Pakistani products.

In order to turn into a reliable and uninterrupted trade, transit and transport hub, it is important for Afghanistan to establish peaceful ties on one side. On the other side, there is need to create an environment in which the gates open for bilateral negotiations and dialogues are always open. In the meantime, the alternative routes should always be kept open. For instance, during 1950s and 1960s, when the political relations between the two countries interrupted the trade, Afghanistan started using the Russian routes as an alternative option. In the same way, including other countries in bilateral agreements like Afghanistan Pakistan Transit Trade Agreement (APTTA) can create a pressure on all the member countries to cooperate and respect the treaties or agreements when there is tension between any two countries.

The government also has to invest extensive amount of energy on controlling corruption and bureaucratic structures. The corruption is at the peak in the main transit points at the borders. This not only affects the trade, government revenue, and the development of private sector in the country. Due to poor control over the transit points and weak policies, the government has not been able reap the benefits of existing trade. At present, Afghanistan is ranked as 7th worst place in the world to do business by World Bank. A 2014 Wall Street Journal article on worst places to

do business started with this paragraph “You’d have to be heroic — or perhaps willing to break the law — to start a business in Venezuela, Afghanistan or Libya.” One of the ways to reduce corruption and bureaucracy is introduction of technology in the system. For example electronic systems to record and process customs collections would be an effective way to monitor the system. This would be even more useful if the same system is installed on both sides of the border. This will not only improve the system but also provide accurate data on trade and transit.

The instability in the country has brought insecurity for all sections of the society. Afghan feel insecure as they comes across terror incidents in schools, hospitals, on highways and government locations. Businessmen and investors find it difficult to convince themselves and engage in such circumstances. The current security situation in Afghanistan way beyond attracting international investors. The security situation on highways has worsened in the recent times due to increased number of kidnapping. The roads leading to and from the key transit points for example Kabul-Kandahar and Herat Kabul are not safe from security point of view. The government has to develop strategies to ensure security of highways as they are the main sources of transit. In this context, they can increase forces on side. On the other side, they can increase the forces on these routes. However, this would not be enough if Afghanistan is thinking about regaining its position as a transit and transport hub. The government has to make use of all its resources to settle down issues with militant groups across the country.

The improvement in security situation will facilitate and ensure implementation of mega energy projects like Turkmenistan, Afghanistan, Pakistan and India (TAPI) pipeline and Central Asia-South Asia (CASA) 1000 electricity transfer project. This will generate great impact on trade, transit circumstances and thereby on economic development of the country.

In today’s political economy, the economic giant and super powers play a significant role when it comes to exerting influence. In this context, USA and China can play a vital role in removing the bottlenecks and overcoming major challenges raised due to political relations between the countries. China has great interest to invest and revive the ancient silk route. They recently signed a contract of more than 40 billion dollars to establish China Pakistan Economic Corridor (CPEC). In the same way, the USA has great influence on the countries in the region. Through effective foreign policy and diplomacy, Afghanistan can enter invite these countries for strategic partnership and achieve broader economic goals.

In a nutshell, Afghanistan is owned with significant strategic position because of its location. This makes it a linking point between markets of Central Asia, South Asia, Middle East and China. Afghanistan has been traditionally benefitting economically from the transit routes on its surface. However, decades of war and change in the global and regional politics has deprived the country of this opportunity. Afghanistan can become market driven self-sustainable economy which will lay down the foundations for converting the country into transit and transport hub. The government would be required to do extensive work on infrastructure, reducing corruption, regional and economic integration, legislation, and finally using the influence of strategic partners.