



**2010 SPECA ECONOMIC FORUM**

**“STRENGTHENING REGIONAL COOPERATION  
IN CENTRAL ASIA: A CONTRIBUTION  
TO LONG-TERM STABILITY AND SUSTAINABLE  
DEVELOPMENT OF AFGHANISTAN”**

**BACKGROUND NOTE**

*The purpose of this document which is based on various publicly available sources of information is to summarize existing information and views on the issues discussed in it. The presentation of the material in this document does not necessarily reflect the views of the United Nations Economic Commission for Europe and the United Nations Economic and Social Commission for Asia and the Pacific.*

## ***Executive Summary***

*Regional cooperation has long been held as an important tool for the sustainable development of Central Asia. This paper aims at highlighting the advantages that Afghanistan's inclusion in regional cooperation initiatives in Central Asia would have on the region.*

*The agenda of the Economic Forum builds on the Afghan National Development Strategy (ANDS), which is the vision of the Government and the international development community for the future of the country.*

*In keeping with the direction provided by the structure of the Forum, the analysis of the present state of regional cooperation between Central Asia and Afghanistan is grounded in three main areas: trade and investment, infrastructure development and joint management of shared resources.*

*These three main areas are closely interlinked. The revival of regional and continental trade is the single most important potential engine for positive change in the region. Naturally, such revival cannot happen without heavy investment in the development of transport and transit infrastructure, i.e. roads, railways, electrical power lines, pipelines. Regionally coordinated energy infrastructure development is critical to allow the region to benefit from its abundant natural resources. The shared nature of such resources calls for a regional approach to tackle regional problems.*

*Data from the ANDS show that over the past years Afghan ministries have been able to spend sub-optimal percentages of their allocated development budget. This goes to show that heavy investment in infrastructure is not going to be effective without serious capacity- and institution-building.*

*With several projects already up and running, the UN Special Programme for the Economies of Central Asia (SPECA) - jointly supported by UNECE and ESCAP – provides a suitable framework for the implementation of human and institutional capacity-building activities in key areas of regional cooperation that could contribute to sustained stability in Afghanistan and to the development of Central Asia at large.*

## **1. BACKGROUND**

1.1. The idea that the stabilization of Afghanistan needs to be framed in a regional context is not new. More than five years ago already, when the security situation in Afghanistan looked more favourable, there were calls from several quarters to adopt a regional approach in facing the country's challenges<sup>1</sup>.

1.2. Over the past year and half, in the wake of the renewed international focus on Afghanistan, greater attention has been devoted to the idea of a robust non-military strategy that engages a broader set of regional actors. Indeed, looking at Afghanistan

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<sup>1</sup> S. Frederick Starr, "A 'Greater Central Asia Partnership' for Afghanistan and Its Neighbors", Central Asia-Caucasus Institute Silk Road Studies Program, Silk Road Paper, March 2005.

through a regional prism would help anchor the country in its geographical context as opposed to looking at it in isolation or in bilateral relationships.

1.3. Along the same line of thinking, the January 2010 London Conference on Afghanistan stressed the need for a “civilian surge” based on the development of trans-regional trade and transit, including progress in the field of energy and transport cooperation.

1.4. This orientation was reiterated at the July 2010 Kabul Conference on Afghanistan, where participants encouraged multilateral organizations and bilateral donors to promote integrated regional transport and energy infrastructure projects.

1.5. At present, a host of actors are conducting work in Afghanistan in the trade and transport sector as well as in the field of infrastructure development. For instance, the World Bank (WB) and the Asian Development Bank (ADB) are among the most significant international financial institutions involved in trade and transport development. The WB and UNCTAD are involved in trade facilitation and harmonization of customs procedures through the Emergency Customs Modernization and Trade Facilitation Project.

1.6. The United States, the People’s Republic of China, the Republic of India, the Islamic Republic of Iran, the Russian Federation, the Republic of Korea and several European countries have all contributed substantial sums to the region.

1.7. Against this backdrop, the Governing Council of the UN Special Programme for the Economies of Central Asia (SPECA) decided last year that SPECA should pay greater attention to Afghanistan. As follow-up to the outcome of the 2009 Governing Council session it was decided to devote the 2010 SPECA Economic Forum to discussing how regional cooperation could best contribute to the stabilization of the country.

1.8. This background paper is aimed to support the discussion at the 2010 SPECA Economic Forum between policymakers and key stakeholders from Central Asia and Afghanistan on challenges and opportunities for promoting the security, stability and development of the broader Central Asian region, including Afghanistan, through strengthened regional cooperation.

## **2. REGIONAL ECONOMIC COOPERATION AS A KEY FACTOR FOR ECONOMIC MODERNIZATION AND DEVELOPMENT OF CENTRAL ASIAN COUNTRIES**

2.1. At present, there are two complementary programmes on regional cooperation in Central Asia: the United Nations Special Programme for the Economies of Central Asia – SPECA and the Central Asia Regional Economic Cooperation Program<sup>2</sup> – CAREC.

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<sup>2</sup> CAREC is a partnership of eight countries - Afghanistan, Azerbaijan, the People's Republic of China, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, and Uzbekistan; and six multilateral institutions – the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF), the Islamic Development Bank (IDB), the United Nations Development Programme (UNDP), and the World Bank (WB).

2.2. Broadly speaking, while international development banks, including the CAREC programme, provide the hardware for regional cooperation in the form of loans for regional infrastructure development, SPECA provides the software for regional cooperation in the form of capacity- and institution-building activities in the areas of Trade, Transport and Border Crossing, Water and Energy, Statistics, Knowledge-based Development and Gender and Economy.

2.3. Established in 1998 by the presidents of several Central Asian countries and jointly supported by UNECE and ESCAP, SPECA today has seven member countries: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

2.4. The Programme aims to promote subregional cooperation among its members to help them address their common developmental challenges: all of them are land-locked; they follow divergent paths of economic development with a rapidly growing gap between the income levels of energy exporting and non-energy exporting states; and they all face the urgent task of modernizing and diversifying their economies in order to move away from their present reliance on energy and commodity exports and integrate into the world economy. These objectives can best be achieved by developing fully the potential of the region as a transport hub between Europe and Asia and its growing contribution to the energy security of China and the European Union.

2.5. In light of the importance of strengthening regional cooperation as a key precondition for the rapid, balanced and sustainable economic development of all these countries, this year's Economic Forum is an attempt to provide a platform for a comprehensive approach to strengthening cooperation between Central Asia and Afghanistan and to address the region's developmental challenges.

2.6. Whereas little can be achieved without a minimum level of security, any progress made on that front would be short-lived without being buttressed by a development effort to allow Afghanistan to build a sustainable future. Therefore, while not neglecting the decisive weight of the security dimension, it is imperative to focus on the "civilian development effort" that plays a significant role in improving the development perspective of Afghanistan, and to which Central Asian countries could actively contribute.

2.7. Through its institutional development and capacity-building activities, SPECA can effectively contribute to the stabilization and sustainable development of Afghanistan by: facilitating the participation of Afghanistan in existing regional institutions in Central Asia; facilitating the joint management of shared regional resources and thus help avoid potential conflicts; strengthening governance; and supporting the development of the economy, which in turn will strengthen the security in the country and in the Wider Central Asia<sup>3</sup>. A prerequisite to achieve this end is that SPECA activities be fully harmonized with and in fact be part and parcel of on-going international efforts. Therefore, the agenda of the Economic Forum builds on the Afghan National Development Strategy (ANDS), which is the vision of the Government and the international development community for the future of the country.

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<sup>3</sup> See more in Jones, Seth. 2008. The Rise of Afghanistan's Insurgency. State Failure and Jihad. *International Security*, Vol. 32, No. 4 (Spring 2008), pp. 7-40

2.8. The ANDS highlights regional cooperation as a tool for regional stability and prosperity, and for enhancing the conditions for Afghanistan to resume its central role as a land bridge between Central Asia and South Asia. Moreover, the ANDS lists regional cooperation as one of the priority sources for growth and employment creation: it identifies trade, electricity, transport and transit as the key areas where regional cooperation could produce quick win-win results. Institutional and human capacity development is mentioned as a key precondition for this.

2.9. In keeping with the direction provided by the ANDS and with the structure of the Forum, the analysis of the present state of regional cooperation between Central Asia and Afghanistan is grounded in three main areas: trade and investment, infrastructure development and joint management of shared resources. They offer plenty of opportunities for economic cooperation within and beyond the SPECA region that could be instrumental in anchoring Afghanistan's economic prospects within their regional context.

2.10. These three main areas are closely interlinked. Trade has been a main source of income in the region from the ancient time of the Silk Road. Afghanistan became relatively isolated from the rest of Central Asia since the 1930's due to: the tight USSR border; the civil war; and the Taliban regime. However, today's trade opportunities are numerous along what is sometimes called the "Modern Silk Road" but, while the border between Afghanistan and its northern neighbours is more open now, the situation is far from optimal (there are no safe roads and rail infrastructure is virtually non-existent). Significant border crossing problems remain including lengthy and inefficient customs procedures, rent-seeking activities, inadequate transport infrastructure and rising transport costs. This situation has led the authors of the UNDP Central Asia Human Development Report to call for the establishment of "borders with a human face", i.e. borders, or rather border policies, aimed at facilitating, instead of hindering, the movement of people and goods. While the removal of non-tariff barriers to trade and the harmonization of customs procedures are among the most important and cost effective steps to boost trade in the region, the need for investment in infrastructure cannot be overlooked.

2.11. Cross-border transport infrastructures in Central Asia have suffered from lack of maintenance since the fall of the Soviet Union and road development has been planned in a way to avoid crossing the often jigsaw-type borders of the region. In Afghanistan, most of the infrastructure has been hit hard by three decades of war and neglect and badly needs large-scale rehabilitation. Roads, railways and energy infrastructures are fundamental to allow for the faster transport and transit of goods and energy resources within the region and beyond. In this context, the region can benefit more from its natural resource abundance by having a better managed and regionally coordinated infrastructure. To be effective, the revamping of infrastructure needs to be accompanied by the creation of an appropriate legal and regulatory framework that favors cross-border economic activity and encourages private sector development.

2.12. The case for regional cooperation to boost trade and transit is evident when considering that almost 50 percent of Afghanistan's trade is with its five neighbours: Pakistan (see the July 2010 Afghanistan-Pakistan trade agreement); Iran; Tajikistan; Turkmenistan; and Uzbekistan<sup>4</sup>. Moreover, Afghanistan could be an important transit

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<sup>4</sup> Hedayatullah Wataynar, Head of the Directorate of Transit and trade Facilitation, Afghan Ministry of Commerce and Industry, "Transit Transport in Afghanistan" delivered at the Expert Meeting on "Regional

country in intraregional trade between its neighbours. Currently, the main transit routes for products going through Afghanistan's various border points are: from Turkmenistan to Pakistan (scrap metal), from Iran to Pakistan (vehicle spare parts), from Uzbekistan to Pakistan (cotton, scrap metal and iron rods), from Tajikistan to Pakistan (scrap metal), from Pakistan to Iran (wheat) and from Pakistan to Uzbekistan (cement). Afghanistan has the potential of developing into a "land bridge" between energy-rich Central Asia and energy-deficient South-Asia with its high potential for manufactured exports. Afghanistan's position as a cross road on a "Modern Silk Road" has been repeatedly highlighted in several presidential statements<sup>5</sup> (the most recent one being delivered by President Karzai at the Kabul Conference) and academic papers<sup>6</sup>. However, this potential will remain largely unexploited unless steps are taken toward ensuring security and safety, strengthening governance, and widening and deepening regional economic cooperation, including removing non-tariff barriers to trade, harmonizing customs procedures and standards including those allowing for the electronic transmission of trade-related data, among others.

2.13. For Afghanistan to fulfill its role as one of the land bridges and roundabout along a "Modern Silk Road", investment in trans-border infrastructure projects is indispensable. In particular, the 2007 Afghan National Development Strategy identifies two main transport and transit corridors:

- The North-South Transport Corridor connecting Tajikistan, Uzbekistan, and Turkmenistan with the Pakistani ports of Karachi, Qasim and Gawadar and further (through Wagah) with India and South Asia; and
- The East-West Transport Corridor, which connects Tajikistan, Uzbekistan and Turkmenistan with the Iranian ports of Cha Bahar and Bandar Abbas.

2.14. These corridors, however, are not the only infrastructure initiatives involving Afghanistan. The 2008 joint UNECE-ESCAP Study on Developing Euro-Asian Transport Linkages (EATL) provides a broad and articulated picture of the transport infrastructure needs in the wider Central Asian region.

2.15. The 2008 Study features road links connecting northern Afghanistan with its northern neighbours Uzbekistan, Turkmenistan and Tajikistan as well as with Iran to the West and Pakistan to the East. Of the six Regional Economic Cooperation corridors identified by CAREC, which feature significant similarities to the UNECE-ESCAP Euro-Asian Transport Linkages, at least four include Afghanistan, connecting it to Iran, Uzbekistan, Tajikistan and Pakistan.

2.16. Moreover, at the 2010 Kabul Conference investment in and expansion of railway and road linkages from Afghanistan's neighbours (Abadan and Cha Bahar in Iran to Heart, Zaranj to Delaram, Gwadar in Pakistan to Kandahar, Hairatan to Mazar-i-Sharif,

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Cooperation in Transit Transport: Solutions for Landlocked and Transit Developing Countries", 27-28 Sept. 2007.

<sup>5</sup><http://www.president.gov.af/Contents/72/Documents/2030/Statement%20by%20President%20Karzai%20at%20International%20Kabul%20Conference%20-%20English.pdf>

<sup>6</sup> S. Frederick Starr, Andrew C. Kuchins, "The Key to Success in Afghanistan – A Modern Silk Road Strategy", Central Asia-Caucasus Institute Silk Road Studies Program, Silk Road Paper, May 2010

Torkham to Jalalabad) was encouraged along with the international community's support for Afghanistan's integrated cross-country railway corridor.

2.17. Infrastructure investment also includes energy transport such as the planned TAPI (Turkmenistan, Afghanistan, Pakistan and India) gas pipeline and the completion of electrical transmission lines linking Central Asia (Tajikistan, Turkmenistan, Uzbekistan) to Afghanistan.

2.18. This investment in energy infrastructure is part of the more general need for regional cooperation in the joint management of shared resources. With much of its border with Tajikistan and Uzbekistan marked by the Amu Darya River, and hosting the headwaters of one of the most significant water bodies in the region (Amu Darya), Afghanistan is inextricably linked in the Central Asian water-energy nexus. Given the already complex situation in the five Central Asian countries, Afghanistan needs to be involved in any regional mechanism dealing with water management, especially in view of its plans to expand irrigated areas and develop hydropower along the Panj and Amu Darya rivers. At present, micro-hydro power is already being developed in Badakshan Province in North-eastern Afghanistan with German assistance.

2.19. Finally, a regional approach to the stabilization and development of Afghanistan seems to be the most sensible solution not only because of geographic reasons but also in light of the regional nature of the threats that affect Afghanistan and Central Asia as a whole. Threats to Afghanistan are regional in nature in that internal instability is aggravated by situations along the East (Pakistan's North-West Frontier) and South-East borders (Baluchistan). Afghanistan's domestic challenges (security, governance, economic) are not purely national.

2.20. In turn, threats to Central Asia from Afghanistan have a regional dimension too, with instability from Afghanistan potentially spilling over into bordering countries (Uzbekistan, Tajikistan and Turkmenistan) and beyond due to the presence of large Tajik, Uzbek and Turkmen ethnic groups in Northern Afghanistan. This explains why threats - which take the form of religious extremism, terrorism, drug trafficking and illegal migration to name but a few - are of cross-border nature and why stabilization efforts need to be of regional character, if they are to be effective.

2.21. The following sections analyze in greater detail the current situation in the three main areas for economic development referred to above.

### **3. TRADE AND INVESTMENT**

3.1. The single most important potential engine for positive change for Afghanistan and its neighbours is the revival of regional and continental transport and trade.

3.2. Central Asia and Afghanistan are located at the crossroads between the Middle East and Asia, Europe and both India and China, and between Northern Europe, Russia and the Indian Ocean. Historically, this region has been a trade hub until the flow of commerce was interrupted by the competition for dominance over the area between the British and Russian Empires. For almost a century, Central Asia and Afghanistan have followed different directions: first the tightly sealed USSR borders, then the civil war



followed by the Taliban rule in Afghanistan and the unrest along the border with Pakistan have systematically stifled all prospects for continental transport and trade.

3.3. In the absence of formal cross-border contacts during the Taliban period, some economic interaction was maintained in the form of illegal drug trafficking and unofficial trade in certain agricultural products, carpets and wool from Afghanistan, and light manufactured goods, automobiles and used clothing from Central Asia. Central Asian Governments shunned Afghanistan as a source of illegal drugs and support for Muslim extremists, including the Islamic Movement of Uzbekistan.

3.4. A major transformative by-product of the 2001 US-led Operation Enduring Freedom has been the reopening of Afghanistan's northern border to long distance trade for the first time since 1936, thus effectively removing the main barrier to trade. This action opened the way for the development of regional and continental transport, which could enable Afghanistan and its neighbours to move from the economic periphery to the center of a new, enlarged Central Asian economic region.

3.5. In fact, since the fall of the Taliban and the launch of the international effort to rebuild the Afghan economy, there has been renewed Central Asian interest in Afghanistan as a potential partner for trade. International donors have started to cooperate on transport investment programmes to revive old transit routes and create new ones through Afghanistan. This was also enhanced by the efforts by the US Government to redeploy military equipment from Iraq to Afghanistan. While officially recorded trade and reconstruction-related investment between Central Asia and Afghanistan rebounded quickly in the post-Taliban era (from a 2001 base close to zero), there are still significant economic opportunities in the region linked to Afghanistan's development that can be realized only through effective regional cooperation.

3.6. Tapping into the full potential of regional trade will not be easy to achieve but it is worth the effort, considering that prosperity generated by trade can contribute to social stability and therefore regional security. In fact, trade within Central Asia and between it and Afghanistan is still hampered by several physical and non-physical barriers: complex and opaque trade policies, weak border management/high costs from border delays, visa requirements, bribes, detours when crossing borders and clearing customs, poor transport infrastructures. Regarding Afghanistan in particular, the Afghan Ministry of Commerce and Industry's Directorate of Transit and Trade Facilitation has identified the following issues as the most serious bottlenecks in the country's transit transport: inadequate border facilities and management, reluctance and sometimes interdiction of foreign truckers to operate in Afghanistan leading to transshipment, high handling costs, long transit times and cargo damage and loss, trucking cartels, sub-standard vehicle conditions, arbitrary check posts, discriminatory collection of fees and unofficial charges resulting on top of all the other factors in long and costly waiting times.

3.7. In spite of the enormous efforts that many countries, international financial institutions and private sector companies are putting into building transport infrastructure (roads, railways, oil and gas pipelines), the lack of transport infrastructure or its poor state does not seem to be the main hindrance to trade and transit. In fact, according to the International Road Transport Union (IRU), "The road network in transit countries [to Afghanistan] has sufficient reserves of capacity to allow for the mass expansion of cargo

shipments.”<sup>7</sup>

3.8. Hence, the influx of investment in infrastructure risks being in vain unless there is progress in reducing the bureaucratic impediments at the borders and behind the borders which raise transport costs and transport times, thus stifling intra-regional and inter-regional trade. The IRU’s New Eurasian Land Transport Initiative found that delays at border crossings account for up to 40% of the total travel time between Europe and Asia and about a third of the freight charges. Moreover, an Asian Development Bank<sup>8</sup> report shows that transportation costs may represent 50% of the price of nationally produced goods in Kyrgyzstan.

3.9. A further bureaucratic obstacle to regional trade is the complexity of the regulatory framework and high tariffs at the borders within the region. After the fall of the Soviet Union, the five successor Central Asian countries have remained largely tied to Russia and the post-soviet space as far as trade is concerned. In this spirit, many bilateral and regional trade agreements have been signed with the aim to establish some form of a common economic space. However, rather than creating a functioning free-trade area, the Central Asian countries have become involved in various regional economic organizations and signed numerous bilateral trade agreements, which often overlap creating the so-called “spaghetti bowl” effect, i.e. a very complicated and sometimes conflicting and confusing set of entangled trade policy rules that prove hard to implement and provide a favourable ground for corruption and rent-seeking activities, and which hamper regional cooperation.

3.10. According to the Afghan National Development Strategy, Afghanistan, for its part, has signed 21 agreements in trade, transit, transport and investment with countries and organizations in the region. In 2002 it signed an Agreement on International Transport of Goods and Passengers by Road with Iran while in 2003 and 2004 it signed cooperation agreements on railway transport and on transit and transport with Uzbekistan. Moreover, in July 2010 it signed a bilateral trade and transit deal with Pakistan which would facilitate the access of Afghan goods to seaports and set import duties. The European Commission is seeking to build and boost economic and social cooperation between Pakistan and Afghanistan, targeting the eastern corridor from Kabul through Jalalabad and onto Torkham and North-West Frontier Province Pakistan.

3.11. In spite of the stark difference between Afghanistan and its northern Central Asian neighbours in terms of their recent and present economic situation - the five post-Soviet Central Asian countries have a common past in the USSR as centrally planned economies while Afghanistan is a Least Developed Country - more needs to be done to develop beneficial trade agreements between Afghanistan and its northern neighbours. A starting point could be harmonizing the existing spaghetti bowl situation among the former Soviet Central Asian Republics and complementing them with agreements with Afghanistan. In this regard, UNECE has carried out a brief analysis of the existing trade agreements in Central Asia which could be used to this effect.

3.12. Together with the need to establish a clear regional trade framework, comes the need to harmonize border regimes and customs procedures in order to guarantee a

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<sup>7</sup> International Road Transport Union (IRU), “Recommendations Prepared by IRU for the First Session of the Working Party on Afghan Transit”, October 2009

<sup>8</sup> ADB, “Connecting Central Asia. A Road Map for Regional Cooperation”, 2006.

reliable and safe environment for trade to flourish in. A further step in this direction could be the establishment of standards for the electronic transmission of trade related data. In this respect, having adopted and partially rolled out the ASYCUDA++ system (main Kabul Customs house and main border points with Pakistan) thanks to the World Bank/UNCTAD Emergency Customs Modernization and Trade Facilitation Project, Afghanistan seems to be ahead of its Central Asian neighbours. While a common use of the same platform would be optimal, the implementation of an electronic system for the transmission of trade related data in each country of the region, harmonizing the standards and codes on which those systems are based and aligning them to international standards, would be a significant step forward.

3.13. Under the UNCTAD trade facilitation project, the reactivation of the UNECE administered Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention, 1975) is under way. This convention essentially allows a vehicle or container to be sealed in the exporting country and remain unopened until it arrives at the importing destination. Freight forwarders and transport operators are being trained and organized under the aegis of IRU and FIATA. The Afghan Chamber of Commerce is being appointed (but not yet officially authorized) to issue TIR Carnets. However, before Afghanistan can implement international transit procedures in accordance with TIR requirements, domestic transit operations must be in place at all major border points, which will require the country-wide implementation of a computerized Customs system, for example, ASYCUDA. Moreover, bonded warehouses and a national insurance/guarantee scheme are essential for the security of national, regional and international transit transport operations. The realization of the trade potential requires the development of complementary logistic, financial and insurance services.

3.14. The key factor for improving regional cooperation in trade and transport facilitation remains political will which is often lacking in the region.

#### **4. INFRASTRUCTURE**

4.1. In a land-locked region with interwoven borders like Central Asia, trans-border infrastructure projects are fundamental for the development of transport corridors.

4.2. The post-Soviet Central Asian countries inherited highly integrated transport networks, which were built with little regard for the administrative borders between the Soviet Republics and were mostly oriented towards the Russian Federation. At the same time, transport infrastructure links with neighbouring countries such as Afghanistan, China, India, Pakistan and Turkey were poorly developed, allowed to deteriorate or shut down.

4.3. With the financial assistance provided by the international financial institutions that are members of CAREC, the Central Asian countries have carried out or are implementing several road projects within the framework of the CAREC continental corridors to improve their transport links with East and South Asia. These projects include rehabilitation of the roads from Dushanbe to the Kyrgyz border, Osh to Irkeshtan (PRC border), Osh to Bishkek, Bishkek to Almaty and Almaty to Astana.

4.4. On the Afghan side, the 2007 National Development Strategy identifies two main transport and transit corridors: the North-South Transport Corridor connecting Tajikistan, Uzbekistan, and Turkmenistan with the Pakistani ports of Karachi, Qasim and Gwadar and further (through Wagah) with India and South Asia; and the East-West Transport Corridor, connecting Tajikistan, Uzbekistan and Turkmenistan with the Iranian ports of Cha Bahar and Bandar Abbas.

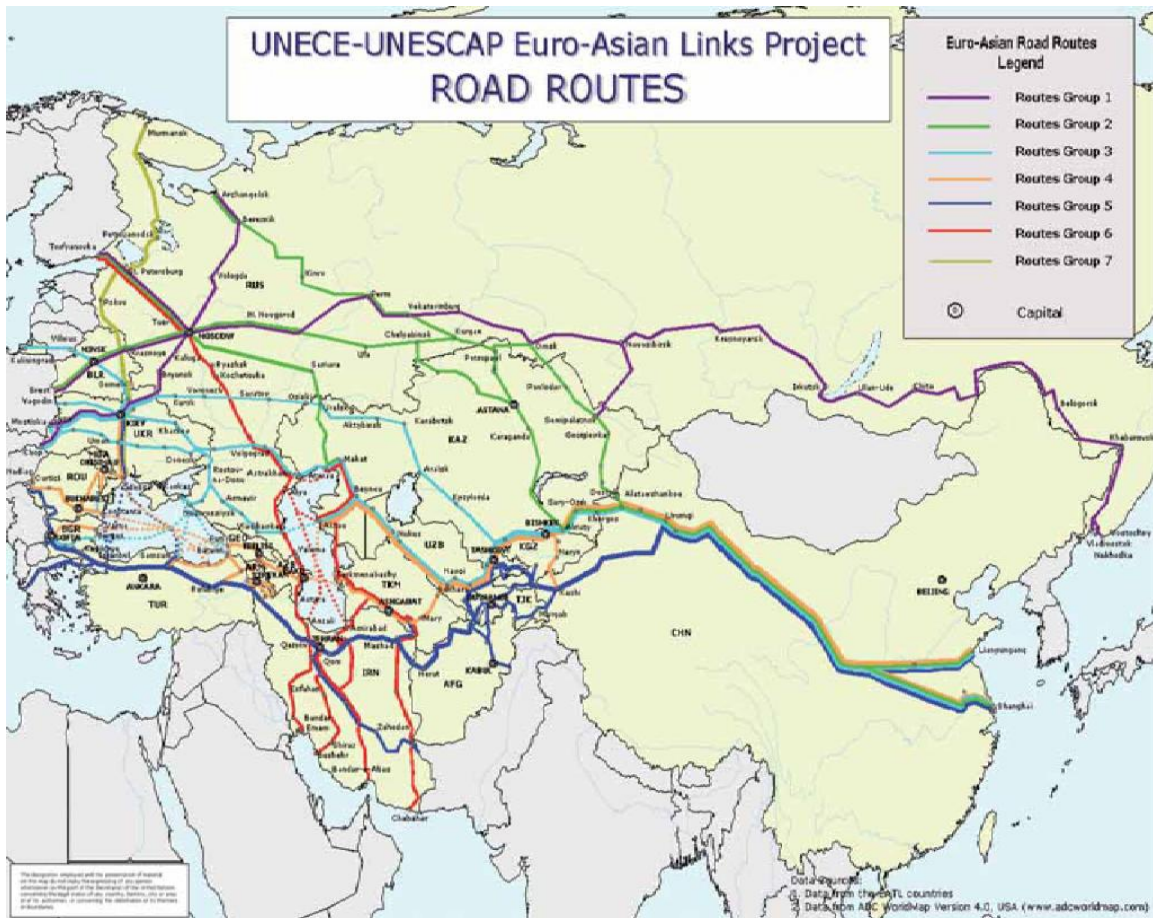
4.5. With the identification of these two transport corridors, Afghanistan is directly involved in the CAREC continental corridors programme as well as with the corridors identified in the UNECE-ESCAP 2008 EATL Study.



CAREC Regional Economic Cooperation Corridors

4.6. The North-South Transport Corridor ties in with CAREC corridor 5 between Dushanbe and Landi Kotal on the Afghan-Pakistani border and with CAREC Corridor 6c linking Zhaisan with Landi Kotal passing through Tashkent, Dushanbe, Kabul and Jalalabad.

4.7. The East-West Transport Corridor, in turn, ties in with CAREC Corridor 3b which links Veseloyars on the Russian-Kazakh border to Islam Qila in Iran through Almaty, Bishkek, Osh, Dushanbe, Mazar-i-Sharif and Heart.



UNECE-ESCAP Euro-Asian Transport Links – Road Routes

4.8. In Afghanistan, road development projects have been focusing on the rehabilitation of the Afghan Ring Road and system of roads that, much like spokes on a bike wheel, would connect it to key border crossings, which in turn are linked to regional and continental corridors. The lion’s share of the cost to re-develop Afghanistan’s road system has been borne by the United States, through USAID. However, Iran, India, Japan and Saudi Arabia, among others, have also been investing in transport infrastructure in Afghanistan.

4.9 . A good example of a project integrating internal road networks with neighbouring countries is the Indian-funded Zaranj-Delaram highway in Afghanistan. This 218 km-long highway connects the border town of Zaranj and the Afghan Ring-Road at Delaram and provides a corridor connecting western Afghanistan to the Iranian port of Cha Bahar, which is being built on the Gulf of Oman with Russian and Indian assistance. When completed, this project would allow reducing transport time from 12-14 hours to two hours and could contribute to a ten-fold increase in freight, with corresponding increases in state revenue from duties collected at Zaranj<sup>9</sup>.

4.10. As far as rail is concerned, whilst Afghanistan is surrounded by extensive rail infrastructure from the West, Northwest, North and East, in the country itself the situation is very poor. China has been playing a major role in rail infrastructure development in

<sup>9</sup> S. Frederick Starr, Andrew C. Kuchins, “The Key to Success in Afghanistan – A Modern Silk Road Strategy”, Central Asia-Caucasus Institute Silk Road Studies Program, Silk Road Paper, May 2010

Turkmenistan and Pakistan with the aim to connect its rail system in the west with the Pakistani port of Gwadar on the Arabian Sea. Kazakhstan, Turkmenistan and Uzbekistan have made large subsidized purchases of rolling stock from China. Chinese investment is also present within Afghanistan with a railroad which is aimed at facilitating the export of copper from the Aynak mine via Pakistan.

4.11. Iran, the Asian Development Bank and Japan have also contributed to the development of the region's railways. The Iranian Government is constructing a railway between Khawaf and Herat in western Afghanistan and has been considering a rail connection between Iran and Tajikistan via Afghanistan. The ADB is funding a USD \$165 million railroad project connecting Hairatan on the Afghan-Uzbek border to Mazar-i-Sharif on the Afghan Ring Road. Against the backdrop of these rail infrastructure development projects, there is as yet no agreed upon route for the missing trans-Afghan railroad lines, without which much of the hoped for trans-continental shipping will remain impossible.

4.12. It bears underscoring that linking Central Asia and Afghanistan through major transport infrastructure is a necessary precondition for the re-establishment of the region as a land bridge between Europe and Asia on an East-West axis and between Russia and South Asia on a North-South axis.

4.13. As Afghanistan is poorly endowed with energy resources, its access to external energy supply is paramount for the country's economic development. In terms of energy infrastructure, the development of the linkage of Afghanistan to the Uzbek power grid for the supply of electricity to Mazar-i-Sharif and Kabul was a major step forward which should be followed by the expansion of the Afghan grid to southern regions and its connection to the Pakistani grid. Afghanistan's northern neighbours (Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) have the potential to become major sources of electricity, first to Afghanistan and then to Pakistan. While this commerce, if it materializes, will be a key source of revenue to Tajikistan and Kyrgyzstan, it will also provide significant transit revenues to Afghanistan thus contributing to the strengthening of regional links.

4.14. Another significant energy infrastructure investment is the planned TAPI (Turkmenistan, Afghanistan, Pakistan, India) gas pipeline which would transport natural gas from Turkmenistan to Afghanistan, Pakistan, and India. According to the Afghan government's estimates, this could generate annual transit revenues worth USD \$ 300 million. A feasibility study for this project was compiled in 2005 by the ADB and its financing is still under consideration.

4.15. The recent discovery by the US Geological Survey of vast previously unknown mineral deposits of iron, copper, cobalt, gold and lithium in Afghanistan, estimated at a worth of nearly USD \$1 trillion<sup>10</sup>, is likely to trigger heavy investment in mining and transport infrastructure, should the exploitation of these natural resources be brought to fruition. Considering the infant state of Afghanistan's mining infrastructure, the challenge to develop the sector will be huge but so are the opportunities that are likely to stem from it.

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<sup>10</sup> <http://www.nytimes.com/2010/06/14/world/asia/14minerals.html>

4.16. A major challenge for infrastructure development in Central Asia and Afghanistan is the coordination of various projects from a regional perspective. In this regard, the blueprint provided by the UNECE-ESCAP 2008 Study on the Euro-Asian Transport Linkages and by the CAREC Programme for the development of transport corridors is a step in the right direction. However, much remains to be done to avoid investment in new transport infrastructure projects that are primarily aimed at avoiding transit through neighbouring countries. The objective should be improved coordination of national road and rail infrastructure projects, focused on improving the region's transport links with other parts of the world.

4.17. Finally, at the operational level, given the high cost of infrastructure development, the use of public-private partnerships (PPPs) could be considered, especially with regard to roads. Broadly speaking, public initiatives need to ensure that good conditions are created for the involvement of private investors in this area. These efforts would benefit from a regional approach that multiplies economic benefits and provides increased predictability.

## **5. JOINT MANAGEMENT OF SHARED RESOURCES**

5.1. The uneven distribution of natural resources in Central Asia, with water-rich Kyrgyzstan and Tajikistan on one side, energy-rich Turkmenistan, Uzbekistan and Kazakhstan on the other, and water-scarce but mineral resource rich Afghanistan calls for development of cooperation in the interest of all countries.

5.2. Central Asia's water resources are of critical importance to the region's economy, people and environment. Due to the arid regional climate, irrigation is indispensable for agricultural production, but at the same time hydropower plays a decisive role in energy production in some countries contributing, for instance, more than 90% of total domestic energy generation in Kyrgyzstan and Tajikistan.

5.3. The region's basic water infrastructure was put in place in the 1960s during which time an extensive network of canals and reservoirs was constructed in order to increase cotton production. In the USSR, power grids in the region were integrated under a single network so that in the summer upstream republics could export electrical power stemming from water releases for downstream irrigation, while in the winter they would be supplied with energy while reservoirs were being filled up.

5.4. Since the 1960s the region's growing water consumption has reduced water levels in the Aral Sea, which is fed by the Syr Darya and Amu Darya river systems. Presently, less than 10% of the previous water volume remains in the sea.

5.5. With the independence of the post-Soviet Central Asian countries, frictions have arisen over the joint management of water and energy inherited from the Soviet system. Water flow to downstream states has decreased in summer months while the flow is used to generate hydropower in winter. In dry years, this is significantly affecting irrigation and cotton production. There have been attempts to establish mechanisms for energy-water exchange between upstream and downstream countries, but these have so far not worked very well.

5.6. Although in early 1990s five States of Central Asia had established the Interstate Commission for Water Coordination and the International Fund for the Saving of the Aral Sea, these organizations have failed to develop an effective regional mechanism for sustainable water management. Combined with inter-state tensions over disputed borders, competition over the region's energy resources and internal instabilities, water disputes have the potential to generate cross-border tensions.

5.7. Donors, international organizations and international financial institutions are actively supporting the improvement of water management, including the facilitation of transboundary cooperation and introduction of integrated water resources' management in the region. The SPECA Work Plan includes support for the strengthening of the regional legal and institutional framework for cooperation as well as work on dam safety, water quality and energy efficiency which is an important aspect also from a water management and water savings point of view.

5.8. With Afghanistan's projected increased water use stemming from its plans for agricultural development in its north eastern region, and its growing need for electricity, the entire Central Asian water resource system could come under additional strain.

5.9. Agricultural growth and productivity in Afghanistan is fundamental for sustainable economic development. According to the ANDS, Afghanistan needs to improve rural livelihoods through rehabilitation and reconstruction work on small, medium and large traditional irrigation schemes and by building new ones. Since technical know-how and managerial competence are all in short supply, there is a need to develop national capacity for water resources management.

5.10. Around 8% of the Amu Darya's flow is generated on Afghan territory, and Afghanistan is entitled to withdraw up to nine billion cubic meters from the Panj River according to a 1946 agreement with the Soviet Union. While at present Afghanistan diverts only two billion cubic meters to feed irrigation networks in the Afghan portion of the Amu Darya basin, if development plans are realized, water withdrawals from Afghanistan could rise up to 10 billion cubic meters, thus adversely affecting Turkmenistan and Uzbekistan, the two main irrigation water consumers on the Amu Darya.

5.11. This potentially negative combination could easily worsen the already challenging water situation in the region and calls for the swift introduction of efficient water use technologies and regionally agreed upon, sound water management practices both in Afghanistan and across the region. Information and data exchange on water flows originating in the country should be improved and Afghanistan needs to actively participate in the joint management of water resources that is shares with other Central Asian States.

## **6. THE WAY FORWARD AND THE ROLE OF SPECA**

6.1. Against this backdrop, the institutional setup provided by SPECA offers significant opportunities to develop and initiate cooperative responses to regional developmental challenges in Central Asian countries and Afghanistan.



6.2. While many donors focus on big-ticket infrastructure projects, SPECA provides a framework for dialogue and cooperation on human and institutional capacity-building across the three clusters identified above, as well as for broader cooperative initiatives. Much work on these issues is already being done but the region at large would stand to benefit significantly from closer cooperation among all the SPECA member countries.

6.3. SPECA provides a suitable framework for building and strengthening the capacity of policymakers and experts from Central Asia and Afghanistan to work together in key areas of regional cooperation that are mirrored in the SPECA Project Working Groups. It can thus draw on the potential of Central Asian experts and of know-how adapted to local conditions to develop relevant human and institutional capacity in Afghanistan. It can also facilitate the participation of Afghan experts in the work of relevant regional organizations and institutions in Central Asia.

6.4. SPECA activities include, among others, the development of Euro-Asian transport linkages, including the possible extension of the TER (railway) and TEM (road) networks into the region; the development of the institutionalized cooperation between the Kazakh and Kyrgyz Governments in the management of water installations on the Chu-Talas Rivers; a project on dam safety for Central Asia; and trade facilitation through the introduction of electronic data corridors based on UNECE norms and standards.

6.5. Problems hindering regional cooperation in Central Asia are often political. SPECA offers a neutral UN umbrella and a broad range of international legal instruments of which UNECE is the custodian to strengthen confidence and resolve bilateral and regional disputes. It combines technical assistance with high-level political consultations – like the recent round-trip by the Secretary-General to Central Asian capitals and frequent visits by the Executive Secretaries of the two Regional Commissions to SPECA member countries. The UN Regional Centre for Preventive Diplomacy also works closely with the two Regional Commissions supporting SPECA in building the political will to develop mutually advantageous solutions to complex regional problems. Putting issues of economic and environmental cooperation in the broader context of regional security, stability and sustainable development is expected to help these high-level efforts to generate the necessary political will to resolve complex issues that hinder regional cooperation.

6.6. At the project level, donor support will continue to play an important role in revamping infrastructure in the region, both through the provision of direct financing and the preparation of feasibility plans that can be later considered by private investors, including those with regional implications. Some projects may be developed as public-private partnerships (PPPs), an area in which the UNECE has accumulated considerable expertise. The potential of this form of collaboration is great but the requirements for effective PPPs are significant, including the presence of skilled public servants that can deal with these complex matters. UNECE has a rich experience in providing policy advisory services and capacity-building activities in this area, often with a regional dimension.

6.7. Moreover, UNECE and ESCAP cooperate on the EATL II project which, according to an already agreed upon strategy and action plan, aims at assisting participating countries to develop efficient, safe and secure Euro-Asian land and land-

cum-sea transport links and at fostering co-operation in the field of transport to facilitate international trade and tourism. Further expected outcomes are the strengthening of national capacities to deal with international transit, including border crossing; the harmonization of national transport legislation developed on the basis of UN conventions and agreements; and the further development of the Geographic Information System (GIS) database. The successful implementation of this multistakeholder project would contribute to the sustainable economic development of participating countries by enabling them to reap the benefits of trade. This could help reduce poverty, especially in the landlocked low-income economies of the Caucasus and Central Asia.

6.8. Afghanistan and Central Asian countries face similar challenges in the area of water resources management: they need to develop human and institutional capacity for integrated water resources management and facilitate the widest possible introduction of water-saving technologies in irrigated agriculture. The participation of Afghan experts in the work of relevant Central Asian regional organizations would allow the joint management of shared water resources and addressing issues related to climate change at the regional level. The development of such cooperation would also give an opportunity to deepen the knowledge on available water resources and its variability in the upper part of the Amu Darya basin. In the longer term the inclusion of Afghanistan as a full partner in the future legal and institutional framework for cooperation on the Amu Darya river is an obvious objective. An example of SPECA capacity and institution-building in this field is the € 1.4 million programme “Regional Dialogue and Cooperation on Water Resources Management”, which makes use of a large group of local policymakers and experts as well as the International Fund for Saving the Aral Sea (IFAS) and other regional organizations to design and implement a comprehensive programme on the modernization of legal frameworks and strengthening of regional institutions for water resources management.

6.9. In light of the recent discovery by the United States Geological Survey of unexploited natural resources in Afghanistan worth more than \$ 1 trillion, the application of the United Nations Framework Classification for Fossil and Mineral Reserves and Resources (UNFC) in the country could gain momentum beyond the interest that Afghan officials flagged in 2009. The application of UNFC in Afghanistan would be an important step towards ensuring a fair exploitation of resources since the wealth that can be built from the extraction and sale of minerals and petroleum depends to a large extent on the manner in which the partnership between Government and industries in extractive activities is managed over time.

6.10. Joint capacity-building programmes for Central Asia and Afghanistan would produce additional advantages. The Soviet Union made highly effective efforts to promote the equality of men and women. Independent Central Asian countries continue – e.g. through the provision of compulsory education, support to women NGO-s as well as the adoption of relevant legislation – the empowerment of women. Regional or bilateral capacity-building events that include women from Central Asian countries and Afghanistan would effectively demonstrate to the latter the impressive progress towards full gender equality in countries with the same ethnic and religious background. In addition, strengthening cooperation between Afghanistan and Central Asia will create new economic opportunities for both men and women.

6.11. In conclusion, all SPECA member countries would profit from a more active involvement of Afghanistan in regional cooperation in Central Asia. Improved trade and transport links with a large neighbouring country, better transit routes to seaports would provide long-term benefits to Central Asian economies. A significant contribution to the stability and sustainable development of Afghanistan will strengthen the security and stability of neighbouring Central Asian countries too – a key precondition for their continued rapid economic development. For SPECA to effectively strengthen cooperation between Central Asia and Afghanistan, its activities need to be closely coordinated with the programmes and projects of partner organizations and institutions. The Economic Forum is expected to identify areas where cooperation between SPECA and its partners can be further strengthened.

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