

Trade and Transport Facilitation Audit Afghanistan Country Report

2018



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Contents

1. Background.....	1
1.1. Afghanistan’s International Trade	4
1.2. Afghanistan’s Trade with South Asia: Composition and Magnitude	5
2. Trade and Transport Logistics and Transit Regime.....	7
2.1. Transit Trade between Afghanistan and Pakistan: Documents	15
3. Trade Institutions.....	16
3.1. Regional Cooperation Forums and Afghanistan	19
4. Literature Review: Theoretical underpinnings and Evidence.....	19
4.1 Progressive reduction in tariffs.....	19
4.2 Fragmented production networks amid declining tariffs.....	20
4.3 Production networks as driver of economic growth: A discussion	20
4.4 Non-tariff barriers and trade costs	23
4.5 Trade facilitation: Policy tool in trade led development	28
4.6 Economic corridors in connecting landlocked countries.....	31
4.7. Fundamental challenges of landlocked Afghanistan	32
5. Survey Objectives and Methodology	35
5.1. Survey Analysis.....	36
5.1.1. Publication of Trade Related Rules and Regulations.....	36
5.1.2. Rules and Procedures for Exports and Imports	38
5.1.3. Number of documents, Signatories (signatures) and Days required for Importing and Exporting to South Asia as well as Developed Countries	39
5.1.4. Customs and Online Procedures.....	41
5.1.5. Advance Ruling and Pre-Arrival of Import Shipments	41
5.1.6. Risk Assessment, Physical Inspection and Customs Valuation.....	42
5.1.7. Customs Procedures	43
5.1.8. Time for Inward and Outward Consignments	45
5.1.9. Customs Efficiency	45
5.1.10. Trade-related Infrastructure and Services.....	46
5.1.11. Treatment of Goods in Transit.....	49
6. Prioritization of Trade Facilitation Measures and Investment Requirements	54
7. Conclusion and Policy Recommendations	56

References 58
Annexure..... 65

1. Background

Afghanistan consists of an area of roughly 650,000 square kilometres, or over four-times that of Nepal. The country lies strategically at the crossroads of what were once major trade routes connecting regions and countries - Central Asia, South Asia, Middle East, China and Europe. Landlocked, on its north are Uzbekistan, Turkmenistan and Tajikistan, in the extreme north-east lies China, on the west is Iran while on the east and south is Pakistan.

Afghanistan has a population of around 30 million making it the 40th most populous nation-state. Over three-quarters of this lives in widely-dispersed rural settings; indeed, the population density is only 40 per sq.km compared to 200 in Nepal. Over 40 per cent of the population is involved in agriculture, a sector which contributes about a third of the GDP. Over a third of the overall population is below the poverty line with sizable heterogeneities across provinces (World Bank, 2017). Malnutrition is high and Afghanistan performs poorly in nearly all social development metrics reflected in Afghanistan's 169th rank among the 188 countries surveyed for the Human Development Index 2016 (UNDP, 2017). The share of the manufacturing sector in the GDP is around 20 per cent¹, most of it dedicated to low-value added activities like milling, food processing and cement production (ADB, 2017). Indeed, areas like Kabul, Kandahar, Helmand and Herat are home to scores of marble quarries (ibid.). The country is rich in minerals like copper, iron ore and coal. However, obstructions due to near-perpetual violence and high trade costs result in an almost permanent shortage of raw materials for the existing processing activities (ibid.). This has impeded the manufacturing sector from expanding.

Afghanistan has seen over four decades of war and destruction that has wreaked havoc. This has brought insecurity, morbidity, mortality, mutilation, displacement, malnutrition and unemployment for millions of its citizens. While it is beyond the scope of this paper to analyse in depth the conflict dimension (which no doubt impacts severely the economic relations and outcomes), the paper, perhaps superficially, does review the conflict and development literature. Marton (2018), for instance, traces the origins of current strife to the fall of monarchy in 1973 which the author argues was precipitated by several droughts in the 1960s and early 1970s affecting disproportionately areas like southern Afghanistan. This work observes that because specific regions were disproportionately impacted, the drought and its impact resulted in severe discontent among specific groups.

The other strand in the conflict literature focuses on exclusion and oppression of minorities; that perpetual socioeconomic strife and contestations have trammelled establishment of authority and order (See Koehler et al, 2017). Koehler et al (2017) link Afghanistan's conflict with its ethnic diversity, presence of multiple tribes and presence of militias among several clans and groups. In their work, they trace the roots of the existing extremely powerful clans

¹ The share of manufacturing compares to Bangladesh and India, but several researchers contest the figures and data quality in Afghanistan.

and their militias to the 19th century when the Afghan state armed various groups to fight the British. A contested space that Afghanistan is, a weak state functions alongside the non-state institutions and organizations (Böhnke, Koehler, & Zürcher, 2017). Unlike the state which does not raise much taxes from the income earners (less than 3 per cent income-earners pay taxes to the state), non-state institutions and organizations collect agricultural levies from over 70 per cent of the farmers (ibid). Minimal revenues obviously mean severe under-delivery of public services whether it education, health or governance.

An absence of credible state authority, order and monopoly of violence and full-blown war and destruction for several decades means that Afghanistan reels under not just hunger and deprivation, but also rampant corruption and extremely adverse forms of rent-seeking such as rapidly expanding narcotic economy (World Bank, 2017). The adverse forms of rule-violation and rent-seeking such as large-scale smuggling of goods among others invariably threaten rule of law and order. While the rather atrocious and catastrophic scale of war and destruction is no longer the case, peace and stability has been dangerously volatile, more so in the recent years amid declining international troops presence since 2012 as well as ODA (ibid.).

The wars and fighting have resulted in diminished economic activity; for instance, exports have had a secular decline in the recent years (Hameed, 2012). On the other hand, the fragile law and order has resulted in all sorts of rent-seeking and rule-violating behaviour; for instance, there is burgeoning trade in opium (90% of the world's opium is produced in Afghanistan²). The Afghan neighbourhood has also been volatile, especially Pakistan, since 9/11. Iran, the other neighbour, has been reeling under economic sanctions from the US. The precarious conditions within, and in the neighbourhood, make it difficult for landlocked Afghanistan to trade and transit. While Pakistan accounts for roughly a third of its transit trade (Ahmed & Shabbir, 2016), boundary disputes over interpretations of the Durand Line among other conflicting interests³ mean Pakistan has often resorted to tightening the transit regime (ibid.). It accuses Afghanistan for not doing enough to curb smuggling which Pakistan argues threatens its domestic manufacturers. Pakistan and Afghanistan share an over 2,400 km porous border.

Economic growth in 2015/16 stood at 2.2 per cent, which is a modest increase from the 2014/15 level. Since 2012 there has been a decline in consumer, as well as investor, confidence due to a rising perception of insecurity (World Bank, 2017). This is unlike the 2003 to 2012 phase a relatively stable period in this war-ridden country when there was on average a nine per cent GDP growth. Since 2013 and with the rising insecurity perception, economic growth has crashed while there has been a decline in foreign aid (ibid.). Compared to 2015, there was a slight rebound of GDP growth in 2016; so driven by improved agricultural output (ADB, 2017). Using firm registration data as a proxy to assess economic

² See World Bank, 2017

³ See (Fair, 2014)

activity, the recent *World Bank Afghanistan Development Update* observes improvement in business sentiment in the first half of 2017 (World Bank, 2017).

While developing governance capabilities is critical, the developmental challenges are no less daunting for the otherwise resource-rich country. Since governance capabilities will not improve without credible growth and development, simultaneous improvements in both the country's security environment and economy are essential. Over 400,000 annual labour entrants require jobs in an economy where official unemployment figures stand at over 20 per cent. Agriculture and other economic activities need to be incentivized to not allow further expansion of the already significant narcotic economy; indeed, production of opiates already accounts for 15 per cent of the GDP. The same was half that size in 2015 (*ibid.*). While manufacturing sector accounts for roughly 20 per cent of the GDP, among the highest in the region, much of it is low-value added, such as cement production. On the other hand, obstructions are common owing to high trade costs and transport disruptions. Indeed, there is a continual shortage of raw materials and other inputs that go into production activities.

On the trade front, exports, amounting to roughly 570 million US dollars, are mostly low-value added goods and commodities, in line with Afghanistan's economic structure. This is less than 10 per cent of the country's total imports, according to 2015/16 figures (see ADB 2017). Its major exports are carpets (roughly 40%) and fresh as well as dried fruits (both around 40% of the total exports). Even the miniscule volume of exports remains vulnerable to price fluctuations, for example the carpet prices received have been extremely vulnerable (*ibid.*). Prima facie, it appears that the quantity of carpets exported have doubled from the 2013 level. However, the export earnings have remained constant (*ibid.*). India and Pakistan are the two most import export destinations accounting for roughly 80 per cent of the total exports. On the other hand, major sources of imports are Iran, Pakistan and China. These three import destinations account for around half of the overall Afghan imports (2016/17 figures, ADB, 2017).

Against this backdrop, the objectives of this study are:

1. Greater understanding of the bottlenecks in conducting trade with South Asia; issues such as inefficiencies in transportation and related logistics.
2. Comparative analysis of Afghanistan's trade logistics with respect to SAARC countries.
3. Identification of major trade routes and corridors in Afghanistan- existing or under implementation/construction.
4. Analysis of Afghanistan's export, import and transport policies as well as mapping its membership in multilateral and regional conventions and agreements.
5. Identifying and analysing institutions in implementing the trade and transport facilitation reforms.

6. Mapping the trade and transport facilitation reforms in Afghanistan with a focus on SAARC trade.
7. Assessing the bottlenecks in trade procedures, both within the border and on the border, via a comprehensive primary survey of stakeholders' experiences in trade.
8. Understanding the priority areas of interventions into trade facilitation reforms.

1.1. Afghanistan's International Trade

Table 1 presents Afghanistan's trade direction as well as magnitude (2008-16). The major export destinations include Pakistan, India, Iran, China, Saudi Arabia, Germany, Iraq and Russian Federation, while commodities like fruits, nuts and oil-seeds almost make up Afghanistan's entire export basket. This is in line with the largely agrarian production structure of the economy. Based on the officially reported export figures, like almost all developing countries, there are sizable informal exports. So, while Ahmed et al (2016) reports that commodities like Afghan carpets are extremely popular in Pakistan, official export figures show almost no carpet exports (HS 5701) to Pakistan meaning that much of it is moved informally. The other dimension in unreported trade is Afghanistan's illicit trade of opium. Afghanistan is reportedly⁴ producing 90 per cent of the world's output. It appears that there are incentives to expand the drug's production,⁵ as the benefits are multiple-times greater than planting cereals. Predictably, Afghanistan has been a net importer of food grains.

Between 2008 and 2016, Afghanistan's overall exports, showing an exceedingly volatile performance, increased by a mere 10 per cent (See Table-1). Exports to India, for instance, has increased by 70 per cent from the 2008 level, while in percentage terms, it is Germany that has seen the largest growth, roughly 700 per cent. Exports to Pakistan, its major trading partner in terms of share and volume, has remained largely the same in that period.

Table 1: Major Exports in US\$ thousand (% share of total exports in parenthesis)

Countries	2008	2012	2014	2015	2016
Pakistan	264316 (48.9)	201393 (47)	188424 (33.02)	226569 (39.65)	283317 (47.50)
India	132002 (24.4)	69713 (16.3)	159980 (28.04)	188870 (33.05)	230038 (38.56)

⁴ <https://www.npr.org/2016/07/06/484894669/afghan-governor-wants-government-to-control-poppy-crop>

⁵ <https://www.theguardian.com/world/2016/oct/23/afghanistan-opium-production-soaring-un-office-on-drugs-and-crime>

Iran	18203 (3.4)	26606 (6.2)	33352 (5.84)	29162 (5.10)	18823 (3.15)
China	1943 (0.4)	4796 (1.1)	15453 (2.70)	10151 (1.77)	4754 (0.79)
Saudi Arabia	2198 (0.4)	1706 (0.4)	506 (0.08)	910 (0.15)	1138 (0.19)
Germany	682 (0.1)	1580 (0.4)	1884 (0.5)	1526 (0.4)	4406 (0.73)
Iraq	5915 (1.1)	NA	NA	17021 (2.97)	11185 (1.87)
Russian Federation	NA	NA	NA	18508 (3.23)	3486 (0.58)

Source: ITC, Trade Map 2018.

While in 2008, Pakistan, China and Japan were the top import destinations, in 2016, the top import destinations are Iran followed by China and United Kingdom. Imports from the three countries account for over 50 per cent of the country's overall imports.

Table 2: Major Imports US\$ thousand (% share of total imports in parenthesis)

Countries	2008	2009	2012	2014	2016
Pakistan	482427 (16)	307469 (9.2)	883021 (14.2)	1327931 (17.2)	1198759 (18.3)
China	429159 (14.2)	360064 (10.8)	713659 (11.5)	1038198 (13.5)	1092708 (16.7)
Japan	367900 (12.2)	336767 (10.1)	600504 (9.7)	258848 (3.4)	248691 (3.8)
Iran	175291 (5.8)	177265 (5.3)	498586 (8)	1497080 (19.4)	1265139 (19.36)
Germany	64707 (2.1)	144487 (4.3)	258011 (4.2)	53231 (0.69)	29431 (0.45)
India	105438 (3.5)	106162 (3.2)	118134 (1.9)	107664 (1.4)	152877 (2.3)
United Kingdom	10041 (0.3)	15783 (0.5)	30819 (0.5)	6096 (0.08)	7995 (0.12)

Source: ITC Trade Map, 2018.

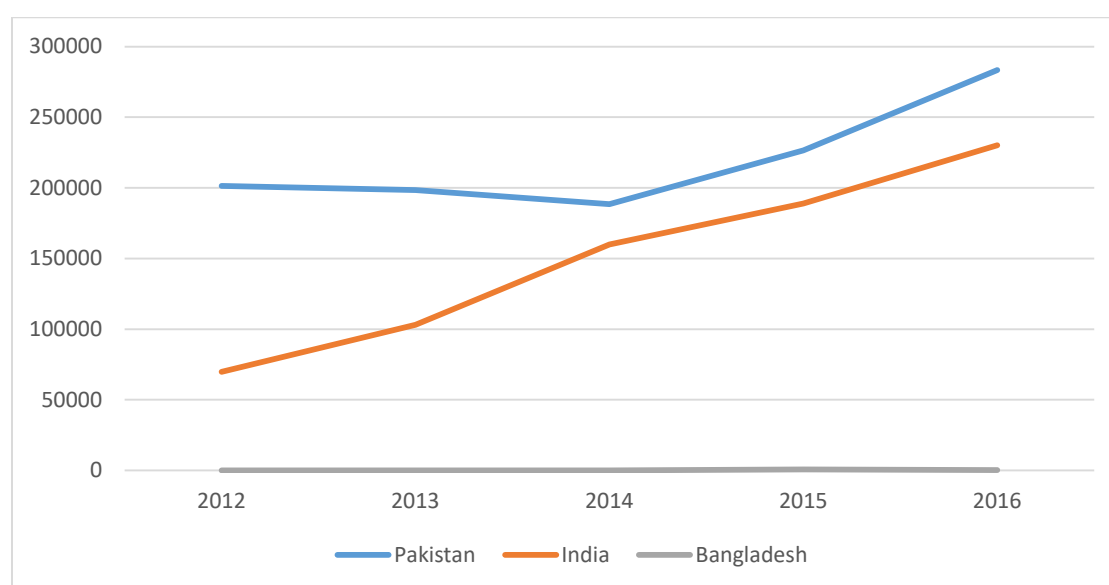
1.2. Afghanistan's Trade with South Asia: Composition and Magnitude

Afghanistan has undergone a rapid transformation, including in trade, following the 9/11, 2001, attacks in US. Imports from US surged roughly 400 per cent between 2008 and 2016

reaching over 70 million US dollars, or just over one per cent of total Afghan imports of 2016. Imports from China have grown at over 10 per cent on average since 2008. From Iran, import figures have expanded eight-fold. In terms of the overall import share, Iran's has risen from five per cent to around 20 per cent in Afghanistan's overall imports between 2008 and 2016.

Exports to SAARC in 2016 is about 25 per cent greater than the 2008 level. Since, India and Pakistan account for nearly all of Afghanistan's exports (for instance, Pakistan itself accounts for over 55 per cent of Afghanistan's overall exports to SAARC), the chart does not list countries other than Pakistan, India and Bangladesh whose export share is miniscule (2016, Figure 1).

Figure 1: Export to SAARC (US \$ thousand)



Source: ITC Trade Map, 2018.

Table: 3, Major commodities exported and the destinations: SAARC Countries (US \$ '000)

HS Code	Product label	Afghanistan's exports to Pakistan 2016
0808	Grapes	74800 (20%)
5201	Raw Cotton	57800 (16%)
2701	Coal Briquette	57200 (15%)
HS Code	Product label	Afghanistan's exports to India
1301	Insect Resin (Rosin)	70700 (25%)
0804	Tropical Fruits	59500 (21%)
0808	Grapes	54500 (19%)

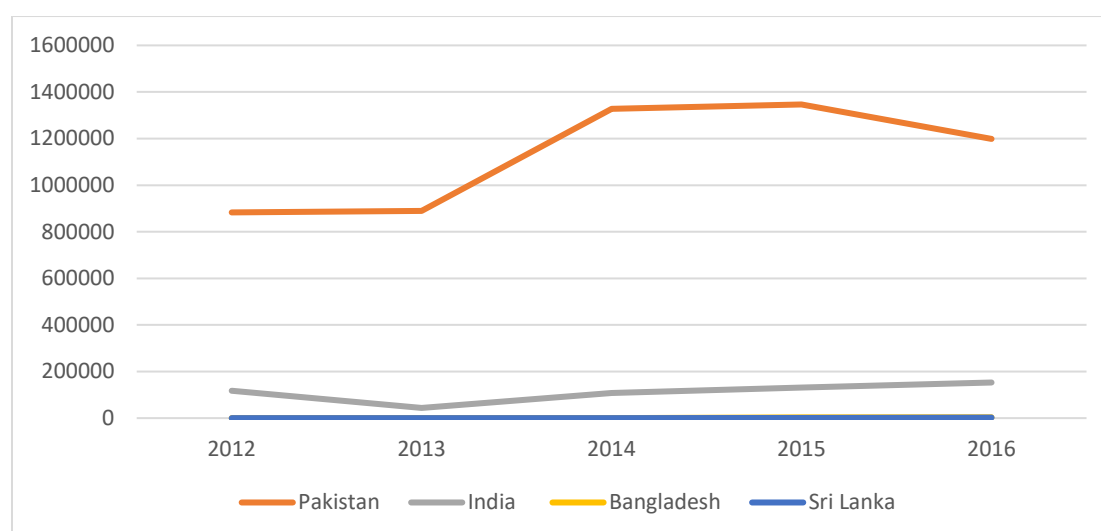
Source: Observatory for Economic Complexity Data, see <https://atlas.media.mit.edu/en/>, (Accessed 28.03.2018).

Afghanistan's major export items to Pakistan are grapes, raw cotton and coal briquette, together making up roughly 50 per cent of its total export earnings in 2016 (Table 3).

Exports to India have grown by over three-fold between 2012 and 2016, or an average growth of roughly 26 per cent per annum. The major products in 2016 were insect resin, tropical fruits and nuts.

In terms of imports, Pakistan remains Afghanistan's biggest source of imports within SAARC, accounting for roughly 90 per cent of SAARC-origin imports (2012-2016 average). Afghanistan's merchandise imports from Pakistan grew by just over six per cent on average between 2012 and 2016. The major imports from Pakistan are wheat, machinery and vegetables, among others. India was Afghanistan's second largest source of imports in SAARC in 2016, with its share being roughly 12 per cent. From 2012 to 2016, Afghanistan's imports from India increased at just over five per cent on average. Textile braids and pharmaceuticals are some of the major imports.

Figure 2: Afghanistan's Imports from SAARC, In US\$ '000



Source: ITC Trade Map, 2018.

2. Trade and Transport Logistics and Transit Regime

Trade and transport infrastructure and trade-related transaction costs: Quality of trade and transport infrastructure and logistics as well as regulations (customs procedure for instance) concerning the movement of goods across borders, the efficiency with which they are applied determine trade costs (WTO, 2015). Trade costs significantly impact export competitiveness as inputs cost higher (WTO, 2015). Since production networks and global value chains have expanded and their salience increased if countries are to export, inputs, often intermediate goods, increasingly come from specialised producers from across the

globe⁶. While trade costs are generally exorbitantly high across much of South Asia, even in the relatively developed countries like India (See Razzaque & Basnett 2014), Afghanistan's predicament is further worsened due to a host of structural and cyclical reasons discussed earlier (ADB, 2017). The country has so far struggled not just to develop even the most immediate infrastructure but has also failed to protect and maintain existing infrastructure (ibid.). This section looks at the trade and transport facilitation dynamics - trade infrastructure and logistics and other hard aspects as well as those related to regulatory and procedural or soft aspects - in Afghanistan. While the discussion that follows is based on recent existing literature, in the sections that follow, the analysis has been supplemented by a primary survey.

According to a recent estimate by the ADB (2017), trade costs in Afghanistan are 50 per cent greater than in other countries of Central Asia despite its strategic position. Indeed, Afghanistan was a major conduit in the historical Silk-Road connecting Central Asia, Middle East, Europe, China and the Indian subcontinent.

Among recent connectivity efforts, Afghanistan is part of several - Central Asian Regional Economic Corridor (CAREC), Belt-Road Initiative and the India-Iran-Afghanistan Chabahar transit. Of the six corridors proposed under CAREC Trade and Transport Facilitation Strategy 2020, Afghanistan features in four. Trains have been plying between China's Jiangsu Province and Afghanistan's Hairatan (near the Uzbek border) via Uzbekistan; an initiative under Belt-Road Initiative. However, its functioning has been far from smooth. Owing to the fragile Afghan security conditions, Uzbekistan has been reluctant in allowing entry of goods-laden wagons from Afghanistan to enter the Uzbek territory during the train's return journey to China (See Amini, 2016). The Afghan-Uzbek trade near Hairatan occurs via Amu Darya through ships. Uzbekistan apparently has some preference for the Amu Darya ship route over the train route (ADB, 2017). Needless to say that the proposed corridors under the CAREC 2020 program require infrastructure development. To do that, security and order is essential.

Perpetual conflict has resulted in crippled trade and transport infrastructure for several decades which obviously is a major factor in relatively greater trade costs. However, trade-related transaction costs are relatively higher also because Afghanistan is landlocked. Much of Afghan trade occurs through its 12 Border Check Points (BCPs). A recent trade and transportation sector study by ADB (2017)⁷ has called the BCPs '*choke points*,' because they reduce the speed of trade and raise transaction costs severely. Indeed, and as evidence earlier, the study estimates that trade costs in Afghanistan's BCPs are 50 per cent costlier compared to the other CAREC corridors. While infrastructure and logistics quality is a part of the explanation, the soft aspects - cumbersome customs and security procedures on the borders (on both sides, for example Afghan-Uzbek or Afghan-Pak trade), excessive

⁶ No wonder nearly half the global merchandise trade is in intermediate goods (Banga, 2013)

⁷ This work borrows significantly from the publication

paperwork and documentation (due to slow progress in computerization and a poor degree of harmonization of procedures), among others issues, raise trade costs in Afghanistan (ibid.).

While tackling infrastructure issues will enhance efficiency, how customs procedures among other regulations are applied are also critical. BCPs either lack or are supplied with poor quality support infrastructure such as banking facilities and cold-storage. Predictably, and essentially a structural issue, the modern inspection technologies are rarely brought into use (ADB, 2017).

Resource endowments and trade infrastructure: Afghanistan is rich in natural resources – commodities such as copper, coal and iron ore (World Bank, 2017). Hydrocarbons are another aspect of its resource endowment (ADB, 2017). The government’s development plans and policy documents have emphasized its significance (MoE, 2008). In highlighting the role that natural resource extraction and trade can play in the development of the country, it has been widely acknowledged that railways, need to be developed to move such commodities (ADB, 2017). A major market that Afghanistan eyes is China. With its rapid growth and structural transformation over the past four decades, China has emerged as one of the world’s major industrial hubs and hence among the major markets for commodities and minerals.

The Chinese too have shown interest in mining minerals and resources. The reserves are said to be worth three trillion US dollars (ADB, 2017). A state-owned Chinese firm won the bid to mine copper in Mes Aynak Copper Mine, but is unable to begin operations due to Afghan fears over the destruction of aquifers and ancient artefacts (World Bank, 2017). Despite ambitions to develop the nearly non-existent railways (for instance, initiatives like the formation of an Afghan Railway Authority), aimed at, primarily moving mineral and commodities, progress remains slow. Few railway lines that exist are for cargo movement and lie along the border areas of Afghanistan. The 75 km Hairatan (Uzbek border) – Mazar-i-Sharif line was completed in 2011. It is used to import items like fuel and construction materials from Uzbekistan, but Afghanistan does not appear to be sending much goods on the return journey, rendering the operation a loss-making endeavour; potentially even non-viable (ADB, 2018). The line was built and operated by Uzbekistan Railways while the Afghan Railway Authority has contracted to fill the revenue shortfalls (ADB, 2017). It appears that the revenues have actually gone down between 2012 and 2014 (ibid.). Hairatan features also on the Belt-Road network.

A recent ADB study (2017) posits that the current low-capacity utilisation of the Hairatan to Mazar-i-Sharif line is due to cumbersome procedures on both sides of the border. Naibabad, 24 km west of Mazar-i-Sharif, is the end of the rail link but lacks customs office and banks to collect duties and railway revenue (ibid.). While a state entity is responsible for loading and unloading of wagons, the process is inefficient and hence costly, with a sizable margin for improvement (ibid.). Hairatan-Mazar-i-Sharif is among the three railway lines, the other two being Torghundi in Herat, bordering Turkmenistan, and Aqina, also bordering Turkmenistan. While some border areas have railway links, there are potential challenges in connecting other borders due to incompatibility in gauge width. Pappas (2009) highlights

that Afghanistan needs to consider the gauge systems that exist in the neighbouring countries.

Several future railway projects are being discussed, such as the one under the Chabahar Port (Iran) project that provides Afghanistan sea-access via Iran. This Chabahar port project railway line located 76km southeast of the Hormuz strait connects Chabahar with Zahedan near the Afghan border. Pakistan Railways has also conducted a feasibility study on extending the Pakistani rail track 97 km north of Chaman bordering Kandahar. The outcome of the study is yet to be officially published.

Roads and land border infrastructure : The consensus is that, given the high transaction costs in trade, movement of goods and people must be made more efficient and low-cost (MoE, 2008). Afghanistan's National Development Strategy (ANDS) 2008-2013 outlines the development of an integrated road network as one of its major plans for efficiency and greater connectivity (MoE, 2008). The proposed transport sector reforms are, among others, to create institutions as well as reforming existing ones, to develop a credible maintenance program, and more crucially to incentivize investment (ibid.). Addressing the transport and trade infrastructure challenges, both hard and soft, requires, not just building anew but also maintaining the existing structures (ADB, 2017). Indeed, the National Development Strategy 2008-2013 targets the completion of a fully-upgraded ring-road and its credible maintenance (ibid.).

Most of the major roads were built in the 1960s, with assistance from the US and then Soviet Union but much of these are in ruins due to wars in the 1980s and the 1990s. The highway connecting the principal cities of Herat, Kandahar, Ghazni and Kabul, with links to highways in neighbouring Pakistan, forms the country's primary road system. The "Ring Road" connects the country's four major cities to facilitate domestic commerce. The existing stock of regional, national, provincial, rural and municipal roads is between 90,000 to 140,000 km long. Data on the existing quality and condition of the roads or the traffic is unreliable making strategizing and planning for roads challenging. Amid such scant knowledge, donor-support becomes difficult to mobilize (ADB, 2017). Apart from wars and conflict, and dilapidating roads and bridges, the treacherous mountainous terrain further raises the cost of not just trade, but also creating infrastructure.

Much of landlocked Afghanistan's trade occurs through the 12 land Border Check Points such as Aqina, Herat, Jalalabad, Mazar-i-Sharif and Spin Boldak, among others. The BCPs, through a host of mechanisms, raise trade costs. Cumbersome customs procedures, for instance, minimal computerization of tasks (hence excessive paperwork) and poor rate of harmonization, (not just on Afghanistan's part but also on the other sides) are major encumbrances that raise transaction costs (ADB, 2017). Along the BCPs, there are few trade facilitation support mechanisms. In general, the roads are poor, but a recent ADB study finds that the roads around the BCPs are further worse (ADB, 2017). Within the road infrastructure, the Salang Tunnel, built in 1967, is among the most strategic points connecting the north and south. In the absence of the tunnel, the 10-hour travel time would increase seven-fold, to over 72 hours (see ADB 2017). Despite its strategic nature, the tunnel

remains poorly maintained—lighting is inadequate, ventilation poor and road-surface dilapidated. It is in need of significant repairs.

Air transport: Traffic at the Karzai International Airport, although built recently, already exceeds its capacity. A new airport is being planned outside Kabul (ADB, 2017). Air transport services are provided by the national carrier, Ariana Afghan Airlines. Several private companies (Kam Air, East Horizon, Spice Jet, Safi Airways, Emirates, Turkish Airlines, Gulf Air, Indian Airlines, Pakistan International Airlines (PIA), Aasman, Fly Dubai) also operate. Further investments are needed in constructing and upgrading the airports across the country (Norling, 2006). Recently, with the help of the Japanese government, Kabul Airport terminal is being extended.

Afghanistan's transit regime: Afghanistan has been using Pakistani ports, such as the Port of Karachi, for transit trade. The Chabahar port in Iran, being built and managed by countries like India, stands as an alternative. The trade-ties between Afghanistan and Pakistan go back several hundred years, when cities of Balkh, Bagram, Kabul, Kandahar and Peshawar were major transit and trade hubs along the ancient silk-road (Parsa, 2017). The first Afghan-Pakistan Trade-Transit Agreement was inked in 1965 to govern the transit and trade regime between Afghanistan and Pakistan. Currently the transit regime is governed mainly by the Afghan-Pakistan Transit and Trade Agreement (APTTA) 2010 edition. The APTTA outlines and regulates operational procedures to be followed by the two countries in regulating as well as facilitating transit trade. Article 3 and 4 of APTTA, for example, state that Afghanistan can access Karachi, Qasim and Gwadar ports. That Wagah can be used for overland trade with India. Afghan trucks are required to unload goods on the Wagah border to be then loaded by Indian truckers. Along with Pakistan, Afghanistan has also been granted access to Ai-Khanum and Sher Khan Bandar (with Tajikistan), Aqina and Torghundi (with Turkmenistan), Islam Qala and Zaranj (with Iran) and Hairatan (with Uzbekistan).

Parsa (2017) reports that the volume of trade between Afghanistan and Pakistan dropped by over 25 per cent between FY2016 and FY2017. The transit trade also fell by over 20 per cent in the same period⁸. The fall in Afghan-Pak trade is not just confined to 2016 and 2017. In fact, Pakistani exports to Afghanistan have fallen by over 35 per cent between FY2011 due to rising transaction costs, which are a result of, for instance, innumerable border closures (creating uncertainty) and a host of non-tariff barriers (Ahmed & Shabbir, 2016).

To the border closures and consequent uncertainty in movement, the Pakistan side has often alleged instances of trade deflection of goods in transit, which has incurred revenue losses and impacted indigenous businesses (Ahmed & Shabbir, 2016). Gul et al (2017) report that informal trade almost equals its formal counterpart. The figure was said to be roughly 2.5 billion US dollars in 2005. Revenue losses due to smuggling are worth over two billion dollars annually (Khan et al 2017). While there is evidence that the transit mechanism has often

⁸ Based on Parsa (2017) where the data used in from the Observatory of Economic Complexity data (<https://atlas.media.mit.edu/en/>).

caused injury to Pakistan, it has been argued that Pakistan has also been using the Afghan transit requirements as a bargaining chip, especially when Afghanistan has attempted to supersede Pakistan in expanding economic and political relationships (Parsa, 2017, Daily Times 2017). Recent developments, however, might alter the transit and trade relationship between the two countries. China's One Belt One Road Initiative (OBOR) project in Pakistan, or the China-Pakistan Economic Corridor (CPEC), aims to make Tajikistan a gateway for Pakistan to access Central Asia, essentially bypassing Afghanistan. On the other hand, the development of Iran's Chabahar Port by several countries including India enables Afghanistan to transit via Iran bypassing Pakistan. Despite these developments, both Afghanistan and Pakistan, share an over 2400 km porous border and are intertwined and connected in complex ways. Hence, the trade and transit relationship is here to stay.

Pakistan has repeatedly blocked Afghanistan's sea access by closing Torkham and Spin Bodlak Passes in recent years. In October 2017, loaded trucks, mainly carrying perishable goods such as fruits, were detained and tariffs were abruptly raised without any prior announcements. In retaliation, Afghanistan banned the entry of Pakistani trucks into the country and ruled that Pakistani trucks should unload goods at the border (Parsa, 2017). Prior to this, Pakistani trucks could cross the border and travel into Afghan territory.

The APTTA agreement, beginning in 2011, has a five-year validity after which both parties, based on mutual agreement, may propose and negotiate amendments. It also stipulates automatic renewal for further five years (Parsa 2017). Tajikistan has recently been invited to sign APTTA+1.

Immediately after APTTA was signed, there was a decline in Afghan transit trade via Pakistan. There are a host of explanations for this. Between 2011 and 2014, there was a fall in Afghan imports (S. A. Khan et al., 2017) when law and order worsened in Pakistan due to a deteriorating US/NATO-Pakistan relationship. Both trade and transit trade has seen a decline between 2011 and 2017 and in this, it appears, trade-related transaction costs are a major explanation. Takrim et al (2017) analyses Afghanistan's trade costs while using Pakistan as transit. They find that container costs during transit-trade via Pakistan were at least 40 per cent greater, compared to that via Iran. Further transaction costs are raised by the fact that Port handling and other charges were found to be twice that Pakistani traders paid (Gul et al 2017).

While a bilateral transit agreement was first signed between Iran and Afghanistan in the early 1970s, a recent revision took place in 2005. A sizable portion of Afghanistan's trade with India, which absorbs about 40 per cent of Afghan exports, is being channelled through Iran. However, past studies by World Bank (2004) have documented much greater costs in trading via Persian Gulf. As can be seen, the estimates are over a decade old. The ongoing infrastructure interventions may cut costs. Pappas (2009) notes that Iran's efforts to reform cross-border trade infrastructure and trade facilitation measures with Afghanistan will reduce Afghanistan's reliance on Pakistan. In recent years, Iran has invested in the north-western regions of Afghanistan and has been building cross-border roads and related transport infrastructure.

Moreover, a further boost in transit alternatives for Afghanistan comes from India-Iran cooperation, which involves several joint-infrastructure projects on the Afghan-Iran border. India and Iran have been involved in building rail networks as well as roads to connect the border areas of Iran and Afghanistan. Recently, Iran, India and Afghanistan reached an agreement, which may possibly boost transit-trade via Iran (Khan et al., 2017). Indeed, the Chabahar port is already operational and its handling capacity is set to expand (Amirthan, 2016). Chabahar will enable India to bypass Pakistan to trade with Afghanistan (Zahidan-Mealak-Kandahar-Herat Ringroad).

About 50 per cent of Afghan trade is done with its five neighbours namely Pakistan, Iran, Tajikistan, Turkmenistan and Uzbekistan. Many of the transit routes reel under security issues.

Agreements in trade and transit: Afghanistan itself is developing new trade routes as well as infrastructure, and entering into bilateral and multilateral agreements which may potentially alter current trade and transit patterns. The country acceded to WTO in 2016, and has subsequently signed dozens of bilateral trade and investment agreements (Parsa, 2017). Over the past decades, it has been part of several regional trading blocs, including South Asian Association for Regional Cooperation (SAARC) and Economic Cooperation Organization (ECO). Its development partners have assisted the country in being part of regional arrangements such as Central Asia Regional Economic Cooperation (CAREC) and Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000). Similarly, currently, Afghanistan has an observer status in the Shanghai Cooperation Organisation (SCO).

Comparative logistics performance using Global Performance Indicators: Table 4 shows the logistic performance indicators (LPI) for Pakistan, Afghanistan, Bangladesh, Bhutan, India and Sri Lanka. The overall LPI score and ranking show that Afghanistan is well below other South Asian countries. Afghanistan is performing poorly in all the components of LPI compared to other South Asian countries. It only ranks better than Bhutan and Bangladesh in customs and better than Bhutan in timeliness.

Table 4: Logistics Performance Indicators (LPI) 2014 and 2016, Scores and Rank

Country	Overall LPI score		Customs score		Infrastructure score		International shipments score		Logistics quality and competence score		Tracking and tracing score		Timeliness score	
	2014	2016	2014	2016	2014	2016	2014	2016	2014	2016	2014	2016	2014	2016
Afghanistan	2.07	2.14	2.16	2.01	1.82	1.84	1.99	2.38	2.12	2.15	1.85	1.77	2.48	2.61
India	3.08	3.42	2.72	3.17	2.88	3.34	3.2	3.36	3.03	3.39	3.11	3.52	3.51	3.74
Pakistan	2.83	2.92	2.84	2.66	2.67	2.70	3.08	2.93	2.79	2.82	2.73	2.91	2.79	3.48
Sri Lanka	2.7	NA	2.56	NA	2.23	NA	2.56	NA	2.91	NA	2.76	NA	3.12	NA
Bangladesh	2.56	2.66	2.09	2.57	2.11	2.48	2.82	2.73	2.64	2.67	2.45	2.59	3.18	2.9
Bhutan	2.29	2.32	2.09	2.21	2.18	1.36	2.50	2.61	2.30	2.30	2.28	2.20	2.28	2.7

Country	Overall LPI Rank		Customs Rank		Infrastructure Rank		International shipments Rank		Logistics quality and competence Rank		Tracking and tracing rank		Timeliness rank	
	2014	2016	2014	2016	2014	2016	2014	2016	2014	2016	2014	2016	2014	2016
Afghanistan	158	150	137	138	158	154	156	125	152	139	159	155	149	137
India	54	35	65	38	58	36	44	39	52	32	57	33	51	42
Pakistan	72	68	58	71	69	69	56	66	75	68	86	67	123	58
Sri Lanka	89	NA	84	NA	126	NA	115	NA	66	NA	85	NA	85	NA
Bangladesh	108	87	138	82	138	87	80	84	93	80	122	92	75	109
Bhutan	143	135	140	128	132	151	131	108	111	131	140	131	158	129

Source: The World Bank (2018)

Ease of international trade using global performance indicators: Table 5 exhibits the **Ease of Trading Across Borders (ETAB)** 2018 information for Afghanistan. ETAB, a component of the Ease of Doing Business surveys, reports the time and costs, for example, of preparing documents or transporting good for international trade, incurred by a sample of firms. Information pertaining to countries in South Asia and Germany has been presented below:

Table 5: Ease of Trading across Borders 2015

Indicator	Nepal	India	Pakistan	Sri Lanka	Bangladesh	Afghanistan	South Asia	Germany
Documents to Export (number)	11	7	8	7	6	10	8	4
Time to Export (days)	40.0	17.1	20.7	16	28.3	86	33.4	9
Cost of Exports (US \$ per container)	2,545.0	1,332.0	765.0	560	1,281.0	5,045	1,922.9	1,015
Documents to Import	11	10	8	7	9	10	9	4
Time to Import (days)	39.0	21.1	18.4	13	33.6	91	34.4	7
Cost of Import (US\$ per container)	2,650.0	1,462.0	1,005.0	690	1,515.0	5,680	2,117.8	1,050
Overall Rank	108	142	128	99	173	183		14
Trading across borders rank	171	126	108	69	140	184		18

Source: International Finance Corporation and the World Bank (2015).

2.1. Transit Trade between Afghanistan and Pakistan: Documents

The 2011 Afghanistan-Pakistan Transit Trade Agreement (APTTA) aims to facilitate the movement of goods between and through their respective territories and to ensure efficient and effective administration of transit goods. The other purpose of the agreement is to bring about simplification, transparency and harmonization of documentation and procedures relevant to traffic in transit. The routes used for transit traffic through Pakistan and Afghanistan shall include (GoP and GoA 2010)⁹:

- Maritime ports in Pakistan
- Airports in Afghanistan and Pakistan, for air to air transit only
- Transit rail/road corridors through Pakistan and Afghanistan
- Land customs stations between Afghanistan and Pakistan or between one contracting party and a third country (in this case India)

Processing of documents at any Pakistani port can be proceeded only after the filing of an Import General Manifest (IGM) by the Afghan importer—generally filed before the arrival of a vessel—by the shipping line and submitted electronically to Customs Department in Pakistan. The importer must send all the original shipment documents, that is contract, letter of credit, invoice, packing list, bill of lading, certificate of origin, insurance policy and other relevant documents along with a letter of authority to Customs Agent licensed by Pakistan's customs for cargo clearance. The importer, in some cases, is required to endorse the bill of lading in the name of the nominated Customs Agent. Provisions regarding transit and inland customs clearance include the following:

Vehicle-operators shall carry a transit and inland customs clearance document¹⁰. The document by the inland customs clearance should be for each transport unit and that document will be valid for one journey only and shall specify the period and geographical scope of validity. The original copies of the Transit and Inland Customs Clearance Document should be handed over to customs officials and the following:

- Those issuing and guaranteeing authority
- Transport operator
- Country of transit customs administration through the territory of which the carriage is to be performed
- Inland customs authority office of the county of destination and,
- The audit department in the respective countries

Specific documents required for transit are as follows (MOCI 2014)¹¹:

⁹ Government of Pakistan (GoP) and Government of Afghanistan (GoA) Afghanistan-Pakistan Transit Trade Agreement 2010.

¹⁰ This should include guaranteeing and receipts of the payments of customs duties and taxes, fines and interests.

¹¹ <http://moci.gov.af/en/page/8605>

1. Temporary Admission Document (TAD): TAD provides evidence of temporary admission to the host country. There are two types of TAD, one for land customs stations and the other for seaports.
2. Bank Guarantee on Carrier Vehicle in Transit: Transporters must provide a bank guarantee covering part or all of the duties and taxes on the truck
3. Customs Security on Goods in Transit: This customs security is necessary in cases of trade with South and Central Asia, but this is not for exports from either Afghanistan or Pakistan.

Some Other requirements are:

4. Trucks need to be containerized with the customs department seal
5. Trucks in transit are required to possess third party liability insurance.
6. Tracking devices on trucks along with certain other requirements for vehicles
7. Other compulsory documents include:
 - (i) Bill of lading/delivery order
 - (ii) L/C
 - (iii) Import license issued by Afghanistan's Customs Authority
 - (iv) Certificate of Origin (COO)
 - (v) Insurance of goods, if applicable
 - (vi) Invoice (Original)
 - (vii) Packing list (Original)

Additional documents for specific cargo, such as plant quarantine/health/phytosanitary certificates for plants, lab test report for food products, analysis report for chemicals and health certificate where applicable.

3. Trade Institutions

Afghan Customs Department: Afghan Customs Department has 17 inland Customs Depots and 11 functioning border control points.¹² The department has implemented three strategic five-year plans to improve import and export clearance procedures. The first plan covered the period 2003-2007, the second plan 2007-2012 and the currently ongoing third plan 2014-2018. The department has a dedicated Customs Training Academy (CTA) with internationally recognized database experts on board to improve the quality of trade statistics. CTA has overseen the introduction of ASYCUDA World. Afghan Customs is a member of World Customs Organization as well as World Trade Organization. It represents the Afghan government in forums concerning trade facilitation issues. Customs Department is also in charge of constructing and managing customs infrastructure and facilities.

The World Bank has completed its Second Customs Reform and Trade Facilitation Project in Afghanistan. The project involved computerization of operations regarding customs clearance; installation of executive information systems; development of alternative ways

¹² Available at: <http://customs.mof.gov.af/en/page/1027>

for cross-border customs-to-customs cooperation; provision of customs infrastructure; and technical assistance to support the development of a suitable framework- regulatory, administrative and institutional- for customs (World Bank 2015).¹³

Ministry of Commerce and Industries: Trade divisions within the Ministry of Commerce and Industries (MoCI) consist of units for International Trade, Transit and Trade Facilitation, Export Promotion (EPAA), Exhibition Facilitation and Central Business Registry (CBR).

Transit and Trade Facilitation Directorate (TTFD) has the responsibility to:

- Develop policies, infrastructure and co-ordination systems to ascertain efficient transit arrangements
- Support growth of transit related services
- Supervise framework for licenses provided to freight forwarders and international carriers. Supervise traffic management at the ports
- Develop policy to deal with issues regarding land and air-based cargo
- Eliminate barriers which hinder effective cross-border and transit corridor operations

General Directorate for International Trade provides consultation on trade agreements regarding negotiation and supervision, pursues tariff reduction and chalks out a cogent trade policy for Afghanistan. Export Promotion Agency Afghanistan (EPAA) promotes exports through several policy initiatives, such as providing information regarding exports to the private sector, facilitating attendance at international trade fairs and exhibitions, building capacity of traders in marketing and facilitating exporters in obtaining Certificates of Origin. It has recently set up a One-Stop or One-Window solution for export documentation. The Business Licensing Directorate is responsible for the administration of licenses for traders, freight operators and brokers operating on behalf of the ministry.

Afghanistan-Pakistan Transit Trade Coordination Authority (APTTCA) oversees the implementation of Afghanistan-Pakistan Transit Trade Agreement (APTTA). This committee meets twice a year and is co-chaired by Deputy Minister of Commerce and Industries, Government of Afghanistan, and Secretary of Commerce, Government of Pakistan.

Responsibilities of this committee include:

- Monitoring and implementation of the agreement
- Uniform interpretation and application of the agreement by both parties
- Formulation of measures and monitoring of unauthorized trade

¹³ Available at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/SAR/2014/03/05/090224b0822f95dc/1_0/Rendered/PDF/Afghanistan0000Report000Sequence008.pdf

- Resolving disputes pertaining to the agreement
- Authorizing and enabling research and analysis on issues related to transit trade; and
- Any other issue for credible implementation of the agreement

APTTCA Secretariat comprises officials of the Ministries of Commerce of the agreement's contracting parties (MoC 2014).

Afghanistan National Standards Authority (ANSA): It formulated Strategic Plan 2011-2015 with the help of USAID. ANSA oversees the development of technical infrastructure for standardization, metrology, accreditation and conformity assessment systems to boost trade. (Strategic Plan 2011-2015 for Development of a National Quality Infrastructure, 2011)¹⁴.

Afghan Ministry of Foreign Affairs: Ministry of Foreign Affairs has established Steering Committee on Regional Cooperation (SCRC). It has established Secretariat for Regional Economic Cooperation Conference on Afghanistan (RECCA) within Centre for Regional Cooperation. RECCA Secretariat is responsible for preparation and supervision of RECCA conferences.

Ministry of Transport and Civil Aviation (MoTCA): MoTCA formulated the Ministry of Transport and Civil Aviation Strategy in 2007. The strategy aims to provide access to air transport services to all. It is responsible for oversight and regulations based on standards of International Civil Aviation Organization (ICAO). The ministry is responsible for developing and managing the basic infrastructure required for domestic and international air transport (Ministry of Transport and Civil Aviation Strategy, 2007).¹⁵

Afghanistan Railway Authority (AfRA): AfRA was established in 2012. The completed projects include the railway track linking Uzbekistan and Afghanistan. The 75-km rail link, connecting Hairatan on the Uzbekistan-Afghan border to the city of Mazar-i-Sharif in northern Afghanistan, started functioning in 2011. Asian Development Bank (ADB) provided funds for this project. Security posts along the railway have also been constructed. Another project (Khawaf – Herat Railway line stretching 191 km) links Afghanistan with Iran and is set to be completed soon¹⁶.

One of the first steps taken to expand the Afghan railway system was Memorandum of Understanding (MoU) signed by Afghanistan, Turkmenistan and Tajikistan, in March 2013, for a railway line to link the three countries. One of the projects links Shirkhan Port

¹⁴ Available at: http://www.ansa.gov.af/en/wp-content/uploads/others/Strateg_Plan.pdf

¹⁵ Available at: [http://motca.gov.af/Content/files/MoTCA%20Strategy%20-%20English\(2\).pdf](http://motca.gov.af/Content/files/MoTCA%20Strategy%20-%20English(2).pdf)

¹⁶ <https://pakobserver.net/iran-herat-rail-line-complete-2017-end/>

(bordering Tajikistan) with the northern city of Mazar-i Sharif (northern Afghanistan) by the Bandar railway line (220Km in length). All three projects are being funded jointly by the Afghanistan government and Asian Development Bank.

3.1. Regional Cooperation Forums and Afghanistan

Afghanistan became a member of the WTO in June 2016.¹⁷ Afghanistan has also been party to several regional cooperation agreements, most of them signed after 2001. These include: Kabul Declaration of Good Neighbourly Relations (2002), Dubai Declaration (2003), Berlin Agreements (2003) and Bishkek Declaration (2004), among others, and these agreements revolve around transit and trade facilitation (Watanyar, 2007). Various other agreements have been signed under Central and South Asia Transport and Trade Forum (CSATTF) initiated by ADB. At the 14th South Asian Association for Regional Cooperation (SAARC) summit held in New Delhi in April 2007, Afghanistan became the eighth member of the regional body hoping to make a significant contribution to its technical committees as well as working groups. Afghanistan has an Observer status in Shanghai Cooperation Organization (SCO) and became a member of Central Asian Regional Economic Cooperation in 2005 (Fourth Ministerial Conference CAREC 2005).

4. Literature Review: Theoretical underpinnings and Evidence

4.1 Progressive reduction in tariffs

Beginning in the 1980s, autonomous policies, multilateral trade negotiations under the aegis of GATT, and later WTO, and a rapidly growing number of regional and preferential trade agreements have led to a progressive reduction in tariffs in the developed as well as the developing countries, including in LDCs (Bhagwati, 2014). In South Asia, Razzaque & Basnett, (2014) find that there are still high tariff walls for many goods on Sensitive Lists, but tariffs have been greatly reduced by measures like the SAFTA trade liberalisation program. Progress has been achieved in reducing some portion of trade related transaction costs, or trade costs (Rahman, 2015a). The decline in tariff barriers to trade, aided by, *inter alia*, improvement in logistics and communication technologies, has facilitated cross border trade and transactions. However, tariff is only one component in the overall trade costs (Arvis, et al, 2012). The paper, in later sections, investigates the other components that make up the transaction costs in trade.

¹⁷ https://www.wto.org/english/thewto_e/acc_e/a1_afghanistan_e.htm

4.2 Fragmented production networks amid declining tariffs

In recent decades, production has shifted from traditional assembly lines to fragmented and de-localised production networks - also called value chains (Ravenhill, 2014). The fragmentation of production across countries has boosted network trade, where trade in intermediate goods is growing faster than in the finished goods (Banga, 2013). While enhancing profitability¹⁸ is the most significant driver of outsourcing specific activities of leading firms (Ravenhill, 2014), declining tariffs also explain the rising fragmentation in production (Arvis et al, 2012). Other factors that explain the growth in value chain production are resource endowments, specialisation, and production capabilities like technological and managerial capabilities of the supplier firms and even cultural connections (ibid.). Banga (2013) says that GVC growth has emerged as the new development challenge as it has further complicated the trade-led development debate. Value chain-based production is a norm today (Gereffi & Fernandez-Stark, 2016). Network trade accounts for over half (US\$ 4.5 trillion or 51 percent of total) of the manufacturing exports in 2010 (Banga, 2013).

It is widely accepted that participation in scattered production networks – regional or global - offers opportunities to increase the potential for rapid and sustained economic growth (Kaplinsky & Morris, 2008). However, institutional and infrastructural weaknesses and minimal managerial and technical capabilities haunt LDCs and developing countries. Even in East Asia, considered one of the most integrated regions with highly developed and sophisticated production networks, LDCs such as Lao PDR and Cambodia are the least integrated (Serieux, 2014). The significance of production networks can be understood from the strength and resilience of East Asian tigers. They were able to recover from two major economic crises, thanks to development and expansion of production networks (Kimura & Obashi, 2016). How does participation in production networks drive economic growth?

4.3 Production networks as driver of economic growth: A discussion

In production networks, leading firms outsource their activities to suppliers or contracted firms. The outsourced functions can be production or service related¹⁹, but are mostly about

¹⁸ The GVCs first emerged when Japanese firms put up production bases in several East Asian countries (later in Southeast Asia as well) to access locational advantages and endowments. The intermediate products then were assembled in another country. The delocalization helped Japanese firms become more competitive vis-à-vis their western counterparts. The method was later adopted by other global firms as well. Refer to Banga (2013) for a detailed discussion.

¹⁹ The outsourced services (known as business process outsourcing) such as in accounting and computer application development requires not just formal education (often university level) but also significant training into

manufacturing. To understand how production networks have become crucial to development, it is pertinent to shed light on how manufacturing drives growth and development.

Rodrik (2015) posits that manufacturing leads to rapid and sustained productivity growth from the inherent technological and managerial progress it brings about. Production can unleash technical progress resulting in rapid productivity gains, because production processes are not merely about input being transformed into output. Input to output transformations involve productive capabilities (knowledge to operate and organise machines, perform specific tasks on them and coordinate disparate agents within and outside the firm). These capabilities are not discussed as such in the conventional production function (Andreoni & Gregory, 2013). Productive capabilities required in production, needs to be learnt, but the very nature of such learning is such that mere formal training and education does not suffice. In the learning, there is a significant portion of the tacit learning component, Stiglitz et al (2015) posit that not all learning in manufacturing activities is codified. It remains hidden in, among other things, routines, workers and work-floor organisation. Some formal training and education is indeed required, but a significant portion of effective learning needs to be largely acquired during the production process itself (Cimoli et al., 2015).

Hirschman (1958) theorizes that in manufacturing, each sector is linked with the rest of the economic system through backward and forward linkages. The output of one sector becomes the input for the other, and it is the linkages that drive growth and development. Kaldor, (1966), as cited in Thirlwall (1983), says that the faster the output growth in manufacturing, the greater the manufacturing productivity growth. According to Kaldor's theory, productivity growth in the economy depends upon the expansion of the manufacturing sector and shrinking of agriculture and services, which have productivity growth constraints (LEWIS, 1954). Szirmai (2012) confirms through an empirical study that countries like South Korea, which saw a rapidly growing manufacturing sector and declining agriculture share of GDP had a per capita income 30 times greater in 2009 (7% plus economic growth for almost three decades), in less than four decades. The late developers such as China, growing at over seven per cent annually for 40 years or so, have experienced similar manufacturing led growth and structural change (Joshi, 2015).

According to Gereffi (1999), in early stages of development, countries embark upon low technology labour intensive manufacturing. This is essentially the way today's developed economies became industrialised nations. In global value chains, the developing country firms, or new entrants in the value chain, begin with activities requiring a minimum of

areas like IT. The outsourcing of services has high participation barriers and suffers from inherent constraints like minimal number of jobs and slow productivity growth.

managerial and technical capabilities- such as cut, make, trim (CMT) functions in apparel manufacturing (Stiglitz et al, 2013). Stiglitz et al (2013) argue that developing countries' firms with limited or no manufacturing capabilities need to learn the technical and managerial capabilities. This requires significant investments and calibrated industrial policy interventions. The more complex the technology is, the greater the investments required will be. This makes the learning of sophisticated technologies for developing country firms rather unfeasible for a host of reasons, such as resources as well as previous manufacturing capabilities, even though the margins for sophisticated products are much greater (Khan, 2013).

For developing countries, learning production capabilities hinges significantly on whether their firms penetrate and participate in the global value chains (Kaplinsky et al, 2008). However, so far either the developed or only the rich and advanced developing countries such as the Asian drivers – India and China – dominate the global value chains while others continue to struggle to penetrate in the GVCs (ibid.). According to the OECD – TiVA²⁰ initiative statistics, which specifically addresses trade in value addition, few developing economies feature in the data. Included are 40 high income countries and no LDCs among 57 nations due mostly to their insignificant share in global value chains (Ugarte et al, 2015). Several factors such as organisational and technological capabilities to engage in production competitively, institutional environment, a minimum of soft and hard infrastructure²¹ and a host of not so rational considerations by global producers determine production and FDI locations. The presence of Diaspora often explains FDI considerations.

The development, functioning and expansion of value chains require intermediate good to pass through several countries and varying jurisdictions at low transaction costs. These costs significantly determine not just the participation (Kowalski et al, 2015), but also the formation and sustainability of value chains. Razzaque et al (2014) posit that exorbitant trade costs, even though tariffs have been largely reduced, prevent the formation of regional production networks in South Asia. LDCs will find it virtually impossible to integrate into production networks unless they enter regional value chains (Razzaque & Basnett, 2014). The development and expansion of regional value chains hinge significantly on smooth, efficient, predictable and timely cross border movement of goods (Serieux, 2014). Trade

²⁰ “The goods and services we buy are composed of inputs from various countries around the world. However, the flows of goods and services within these global production chains are not always reflected in conventional measures of international trade. The joint OECD – WTO Trade in Value-Added (TiVA) initiative addresses this issue by considering the value added by each country in the production of goods and services that are consumed worldwide. TiVA indicators are designed to better inform policy makers by providing new insights into the commercial relations between nations” – Quoted from OECD-WTO TiVA Initiative URL.

²¹ Policies and the overall institutional environment is the soft infrastructure while by hard infrastructure we mean physical infrastructure – *inter alia*, roads, rail, electricity, banking and border infrastructure

facilitation measures have emerged as a recent policy intervention instrument in addressing the challenges to cross-border movement and transfer of goods (WTO 2015, Rahman 2015a)

4.4 Non-tariff barriers and trade costs

Trade facilitation measures (TFMs) aim to reduce trade costs. However, credible trade facilitation intervention requires a robust understanding of what makes up and drives the trade costs.

Although many tariff issues have been addressed in international trade, non-tariff obstacles, or non-tariff barriers (NTBs),²² such as cumbersome procedures, still hinder it (WTO, 2015). Since cross border movement requires finished goods, inputs and intermediate goods²³ to pass through separate jurisdictions, inefficiencies translate into delays, uncertainty and unpredictability thereby raising transaction costs and reducing competitiveness. This is mostly because of poor physical and institutional infrastructure, and lack of coordination and harmonisation of border procedures (such as valuation, inspection, documentation and clearance). For a typical LDC producing low-value, low-margin export product, exorbitant trade costs will further add to the already poor productivity and manufacturing potential. Such inefficiencies and the resultant delay and unpredictability of movement translates into trade costs which makes imports and exports both dearer.

Kowalski et al (2015) estimate that over 60 per cent of trade costs relate to non-tariff policy measures - trade procedures, transit access and documentation, regulations, currency fluctuations and inability to install ICT mechanisms, such as Electronic Data Interchange (EDI), among others. Several non-tariff barriers are often policy induced. Such policies may

²² Generally, all measures other than tariffs are classified as non-tariff barriers. While NTBs, mostly discretionary and meant to intervene in trade flow, can take several forms. Price control measures – administered export prices, antidumping measures. Finance measures – advance import deposit, cash margin requirements, advance duty payments, refundable deposit measures, multiple exchange rates. Standards and quality related measures – licensing requirements, licensed requirements linked with local production, local content requirements. Seasonal temporary prohibitions such as on firms.

²³ Kimura et al (2016) posit that exports of intermediate goods (citing the case of East Asia) is a credible indicator of production network participation. Intermediate goods – machinery parts form a significant proportion of total intraregional exports in East Asia.

be aiming at protecting local firms or safeguarding health. Local production can be protected through the pricing policy, e.g. antidumping measures or market entry through licensing, partnership and local content requirements or using financial tools like requiring imports to advance deposits. Standards or quality requirements can be set up to protect local production or consumer health. Weak infrastructure, inept border officials, unsound policies and regulations of transit and customs and inappropriate information dissemination, among others, lead to competitiveness deterioration (Rahman, 2015b).

For landlocked countries such as Afghanistan, facility of transit is vital. However, congested ports and high transportation costs owing to distance, regulations or poor-quality connectivity raise the trade costs significantly. The predicament for landlocked least developed countries (LLDCs) is even greater and poses a major policy challenge. Transit and port access provisions are vulnerable to politics. There are several instances where port access for landlocked countries has been disrupted by transit countries. Afghanistan has been blamed for trade deflection in transit by Pakistan in the past before abruptly raising tariffs without prior notice (Parsa, 2017). India has disrupted Nepal-India border several times for political reasons. The most recent one was between October 2015 and April 2016 (See WB, 2016). China did a similar thing to Mongolia in December 2016.

The transit mechanism, a lifeline for the poorest of countries that need to rely on transit to import their necessities, such as drugs and fuels, gets used for political and ideological differences (NDU/WB, 2016). Instances of such actions are numerous. Indeed, there may well be some justification for creating stringent norms for transit, especially when the transit trade relates to conflict ridden states like Afghanistan. Poor infrastructure, inefficient application of procedures, among several other BCP challenges, and lack of warehouses or banking facilities at the BCPs further raise trade costs.

Trade costs are among the major drivers of geographic concentration of economic activity as well as a firm's competitiveness. By now, it can be inferred with reasonable clarity that tariffs are only one component contributing to trade costs and, mostly, have been addressed. Several empirical as well as qualitative tools have been used to identify components making up trade cost, such as the Gravity model. The other elements are infrastructure, institutions, coordination in border procedures, among others many of which are structural issues associated with the level of development of a country. An evidence for this is the finding that trade costs appear to be going down with rising income per capita (Arvis et al, 2012).

Other sources of trade costs are: distance from the port or the major market, nature of goods such as perishability, absence of regional trading agreements, minimal embedded autonomy and quality and costs of logistics, among others. Recent estimates suggest that trade costs in developed countries are around 170 per cent ad valorem (tariff equivalent), while they are

predictably far higher for developing countries (ibid.). On a positive note, Arvis et al (2012) find that trade costs in developing countries have declined by almost five per cent between 1996 and 2009. The progress in developed countries, however, has been greater.

South Asia is home to three landlocked LDCs, namely Afghanistan, Bhutan and Nepal. It remains one of the least integrated regions in the world with intraregional trade at around five per cent of the region's total trade. This is comparable to the Maghreb region at six per cent (ibid.), but far below that of East Asia, where intraregional trade is over 35 per cent of its total trade (World Bank, 2016). The fragmentation of most of South Asia is a post-colonial phenomenon. The region was almost entirely integrated till mid 1940 (Basnett et al 2014). To integrate the region, the SAARC Preferential Trading Arrangement or SAPTA, came into force in 1995. It was followed by South Asian Free Trade Area (SAFTA), which came into effect in 2006, with the aim of enhancing market access and boosting exports by abolishing all customs duties on intraregional trade of goods (Rahman et al, 2015). However, the intraregional trade, despite double-digit growth since the 2000s, remains around five per cent of the region's total trade (Basnett et al, 2014).

Several arguments have been forwarded for the minimal intraregional trade among SAARC countries. Most SAARC countries have a similar export basket and rely on demand from western countries. A cursory observation of the import basket of a major market like India that accounts for over 80 per cent of total SAARC, trade shows that it mainly imports either commodities such as fuel and precious metals or sophisticated manufactured goods. This partly explains why India's trade with South Asia is less than one per cent of its total imports. Razzaque & Basnett (2014) suggests that excessive trade costs emanating from weak infrastructure and minimally harmonised cumbersome border procedures coupled with inefficient and corrupt practices often in the garb of administrative compliances, significantly explain the minimal intra-regional trade. Often distance and language related differences increase trade costs, but in the case of South Asia, such cultural and geographical proximity apparently does not help. While steps such as Sanitary and Phytosanitary measures (SPS) aim to secure health, they are often used to protect domestic producers.

LLDCs in South Asia have far greater trade costs. This is apart from the weak infrastructure behind borders as well as limited institutional capabilities for efficient policies and regulations, not to mention their greater distance to ports, congested ports and delays in transit inflate trade costs by over 50 per cent (ibid.). Greater trade costs are also a result of damaged goods while in transit (Taneja et al, 2014). In the case of Bangladesh, Sattar (2014) documents a host of delays while shipments pass through Indian states. One major reason given is inappropriate dissemination of information regarding SAFTA concessions, by the central government to its state counterparts. Para-tariffs or special duties imposed upon imports further raise transaction costs. There are recent instances - in Bangladesh (Sattar,

2014) and also in Nepal which has recently notified 14 para-tariff measures (Taneja et al, 2014).

In the case of Nepal, while the 1996 trade treaty with India offered a number of concessions, the 2002 treaty²⁴ marked the beginning of restrictive trade treaties with that country. It covers only goods trade in which India provides customs duty as well as Quantitative Restriction (QR) exemptions to listed imports on a reciprocal basis (Kharel et al, 2014). The exempt list includes manufacturing sector imports but bars items on the negative list. Along with the rules of origin requirements, the treaty has provisions of instant safeguard mechanisms where, among other things, normal tariffs as well as other duties would be imposed. Several instances of discretionary NTBs such as ban on Nepali garlic exports and delay in pharmaceuticals exports have been evidenced. The reason for the ban was that Chinese garlic was finding its way into India (ibid.). The pharmaceuticals had to face delays in India as the Nepali tests and certifications were not recognized.

Another factor raising trade costs is Nepal's need to access India's ports. Kolkata is the nearest port but it cannot handle mother ships. Hence, the shipments are to be routed through deep water ports such as Colombo, raising costs (Pandey et al., 2014). Over two thirds of the trade of South Asian LLDCs, such as Nepal and Bhutan, is with India and much of it takes place overland. However, poor facilities at land customs such as lack of warehouses, foreign exchange centres, and crowded and poor-quality roads lead to further delays and this means added costs. The ever-rising informal trade in South Asia may be a response to these severe obstacles and costs in the formal trading process.

Afghanistan, for its part, has been using Pakistani ports, such as Karachi, while Chabahar Port in Iran, being built and managed by, inter alia, countries like India, stands as an alternative. Trade-ties between Afghanistan and Pakistan go back several hundred years when cities of Balkh, Bagram, Kabul, Kandahar and Peshawar were major transit and trade hubs along the silk-road (Parsa, 2017). The first Afghan-Pakistan Trade-Transit Agreement came about in 1965. The current transit and trade regime between Afghanistan and Pakistan is governed mainly by Afghan-Pakistan Transit and Trade Agreement (APTTA) 2010. The treaty outlines and regulates operational procedures to be followed by the two countries in regulating as well as facilitating transit trade. Articles 3 and 4 of APTTA, for example, state that Afghanistan can access Karachi, Qasim and Gwadar Ports along with the Wagah land port for overland trade with India. In return, Pakistan has been granted access to Ai-Khanum and Sher Khan Bandar (with Tajikistan), Aqina and Torghundi (with Turkmenistan), Islam Qala

²⁴ The Nepal – India Trade Treaty, recently renewed in October 2016, has a validity of 7 years. Please check the 2016 treaty text as well as the 2009 one.

and Zaranj (with Iran) and Hairatan (with Uzbekistan). Parsa (2017) cites Observatory of Economic Complexity data to show that the volume of trade between Afghanistan and Pakistan has dropped by over 25 per cent between FY2016 and FY2017. Transit trade has also fallen by over 20 per cent in the same period. Pakistan's exports to Afghanistan have fallen by over 35 per cent since FY2011 and this has been attributed to rising transaction costs due to innumerable border closures creating uncertainty and a host of non-tariff barriers, among other things (Ahmed & Shabbir, 2016).

Pakistan has often alleged instances of deflection of trade goods in transit resulting in revenue losses and detriment to indigenous businesses (Ahmed & Shabbir, 2016). Gul et al (2017) have used 2005 data to report informal trade almost equalling formal trade at roughly 2.5 billion US dollars. The same study also shows that smuggling has led to revenue losses worth over two billion US dollars annually (Khan et al 2017). While there is an amount of injury caused to Pakistan by the transit mechanisms, there is also evidence that the country has been using Afghan transit requirements as a bargaining chip (Parsa, 2017, Daily Times 2017). Recent developments, however, might alter the transit and trade relationship between the two countries. China's One Belt One Road Initiative (OBOR) project in Pakistan, or the China-Pakistan Economic Corridor (CPEC), aims to make Pakistan's gateway to access Central Asia through Tajikistan, bypassing Afghanistan. On the other hand, the development of the Chabahar port (Iran) by India would enable Afghanistan to transit via Iran, thus bypassing Pakistan.

Pakistan has repeatedly blocked Afghanistan's sea access by closing Torkham and Spin Bodlak passes in recent years. In October 2017, loaded trucks, many carrying perishables like fruits, were detained and tariffs were abruptly raised without prior announcement. In retaliation, the Afghan government banned the entry of Pakistani trucks beyond the border to deliver goods. Pakistani trucks were required to unload the goods at the border (Parsa, 2017).

A reduction in trade costs has the potential to enhance trade, allocate resources efficiently and bring about export competitiveness via a host of mechanism such as access to inputs and intermediate goods at global prices and hence a greater possibility to enter production networks. Trade facilitation measures, part of WTO 2013 Trade Facilitation Agreement, reached in Bali, are being projected as a major policy tool in trade-led development. The agreement focuses on issues like transit facilitation, thus making it especially relevant for countries like Afghanistan and Nepal. What are the trade facilitation measures and how do they cut trade costs and facilitate cross-border movement of goods?

4.5 Trade facilitation: Policy tool in trade led development

There is no internationally agreed definition of trade facilitation measures (TFMs) as such.²⁵ It may be because of the rather broad set of reforms that TFMs encapsulate. TFMs focus upon simplification and harmonization of customs procedures (valuation, inspection, testing, and documentation among others), improved border cooperation (coordination in procedures, information sharing and dissemination, infrastructure sharing, capacity building), infrastructure reforms (measures like constructing warehouses, computerization and single window solutions) and predictable and efficient transit mechanisms (WTO, 2015). Maur (2008) refers to trade facilitation measures as the sum of efforts undertaken at national, regional and multilateral levels to reduce transaction costs in trade. In the otherwise stalled Doha Development Agenda discussions, the trade facilitation agreement (TFA) issue came up during the 2013 Bali ministerial conference. The agreement embodies²⁶ research and analysis into why the poorest countries are not able to implement TFA. It addresses critical constraints towards integration by providing technical assistance and capacity development. TFA is applicable to all countries across income groupings, but has an *a la carte* approach, called the Special and Differential Treatment (S&D) in TFA adoption and implementation for developing countries and LDCs (Hoekman, 2014).

This paper has documented in the previous section that pharmaceutical exports from Nepal had to be retested in India and obtain a standards clearance. Often the sample has to be sent to urban centres as the testing facilities are not available on the border. Such delays translate into additional transaction costs. Rahman et al (2015) argue that TFMs pertaining to testing and certification reduce trade costs. TFMs should include mutual recognition of certifications by countries. However, it is often the case that developing countries either do not have testing and certification facilities, or such facilities are minimally equipped in terms of personnel, equipment and technology. Weak technological and managerial capabilities, institutional development levels, and infrastructure, among other things, are structural features of developing countries (Nissanke, 2013). These weaknesses translate into poor policies and even poorer implementation. The predicament of LDCs is starker. TFMs with regard to testing facilities and certifications for countries like Afghanistan and Nepal will mean capacity building in terms of technical capabilities of personnel, equipment and physical infrastructure (WTO, 2015). Initiatives like South Asian Regional Standards Organisation (SARSO) Dhaka is a step in the right direction (Basnett et al, 2014). Rahman et

²⁵ For a comprehensive discussion on definitional issues around trade facilitation, see World Trade Report 2015.

²⁶ Along with special and differential measures to implement TFA, initiatives such as preferential rules of origin treatment for LDCs, implementation of duty free quota free market access initiatives (For a discussion, see Hoekman, 2014).

al (2015) evidences the reforms in Bangladesh to show that TFMs' benefits far outweigh their costs. The development and management of ports, reduction in the number of documents and signatures required and the implementation of computerisation and programs like ASYCUDA²⁷ in Bangladesh (electronically handles customs declarations, accounting, transit and suspense procedures) resulted in substantial gains such as increase in exports, export competitiveness and FDI.

A significant structural weakness developing countries like Afghanistan grapple with is poor infrastructure and underdeveloped markets and institutions. However, even the relatively advanced developing countries such as India, it appears, grapple with severe infrastructure deficit. Poor quality of roads, absence of multimodal transportation, congestion and procedural delays at ports lead to added costs in moving containers. Minimal competition among transport/logistics companies²⁸, Rahman et al (2015) posit, raise transportation costs in countries, denting not just their export competitiveness but also their potential entry into value chains.

Basnett et al (2014) suggest that aspects such as documentation, fees, valuation, inspection, standards, enhanced border cooperation, computerisation and harmonisation of such procedures need to be targeted. Integrated single window solutions can be a measure in this direction. Razzaque et al (2014) find that South Asia's border procedures and documentation are poorly harmonised and that goods are being inspected by different authorities on both sides even in transit, instead of being inspected at loading and unloading points. Reforming border procedures will require border cooperation but, more than that, there must be a single agency to coordinate national bodies overlooking inland-revenue, customs and security, among others.

It has been documented that border officials – revenue, customs and security - are often not aware of their obligation under regional and international agreements (ibid.). A national coordination body overcomes that, by informing the various departments and ministries about trade related obligations. In fact, the relevant stakeholders should be trained on regulations and policies for efficient processes. Taneja et al (2014) find that one of the major

²⁷ "ASYCUDA is a computerised customs management system which covers most foreign trade procedures. The system handles manifests and customs declarations, accounting procedures, transit and suspense procedures" – quoted from UNCTAD (<http://www.asycuda.org/aboutas.asp>)

²⁸ Called syndicates, it appears that lack of competition and a complete monopoly as service sole service providers has translated into higher fares.

reasons of added trade costs is the damage caused to goods in transit. It may often be the case that perishables require a slightly favourable treatment from both sides.

Trade related procedures vary from country to country. While harmonisation is the eventual goal, some differences will persist when it comes to NTBs such as safeguard mechanisms. Information on trade procedures and policies needs to be published regularly and any changes in the rules need to be notified well in advance. Not doing so raises trade costs substantially (Sattar, 2014). The information should also be routinely exchanged among border officials so that firms on both sides of the border are aware of the policies and measures. Often, differences in language and currency raise trade costs. TFMs in this regard should ensure that information is available in a language that the other parties understand.

4.5.1 The Greater Mekong Sub-region (GMS) case²⁹ in trade and transportation facilitation reforms

The region is made of five countries and two Chinese provinces and is home to over 300 million people. It has three LDCs - Myanmar, Lao PDR and Cambodia. The three LDCs are labelled ASEAN laggards. In a 1992 economic program, trade and transport facilitation was listed as one of the priority interventions even though there was no formal integration of the sub-region as such. The institutions implementing the program were overseen by specific working groups. The aim of the trade and transport facilitation topic was to enhance connectivity and a sense of community.

In 1995, priority transport links with a potential to reduce transportation costs and time were established. In 2003, the countries signed a cross-border transportation agreement for smooth cross-border movement of vehicle and people. Formalities were reduced – common standards were devised and regulations were harmonised. It was later found that between 2000 and 2006, travel time between Lao PDR and Vietnam had been reduced by over 75 per cent. Notable here is the fact that Lao PDR is a landlocked but water resource rich nation.

The **GMS** case shows that harmonisation of charges, issuance of regional licenses for vehicle movement and greater land and water connectivity leads to reduced travel time and, hence, less trade costs even for landlocked countries. A major issue documented by Sattar (2014) is that, today, customs and other border officials are trained and oriented almost solely towards revenue maximisation. They often even engage in corrupt practices and rent seeking (ibid.). TFMs should be designed in such a way that the officials grasp the welfare

²⁹ The depiction here borrows heavily from Serieux (2014) which has also been cited elsewhere in the study.

enhancing and developmental impacts of reducing trade costs. In a way, the officials and the bureaucracy need to develop, what is called in economics, embedded autonomy.

Given the benefits of TFMs, countries need not wait for others to respond as even unilateral measures would improve export competitiveness (Hoekman, 2014). With reduced trade costs, consumers and producers do not have to pay premiums for goods. Hoekman (2014) posits that even unilateral TFMs enable countries to improve their terms of trade by reducing trade costs and hence are welfare-enhancing, e.g. import cost of inputs. Getting inputs at global prices, or competitive prices, has been instrumental in manufacturing-led development for many countries such as Bangladesh (Khan, 2013a).

4.6 Economic corridors in connecting landlocked countries

Venables (2007) argues that the development of economic corridors across a region is critical not only for trade, but also for shaping its economic, geography. Regional transport corridors attract other economic activities that can increase and broaden economic development (ibid.). The author argues that development of corridors will have a major impact on connecting landlocked countries to international gateways. The importance of economic corridors has also been studied by D'Souza (2009). D'Souza links efficient border corridors in South Asia to overall competitiveness, productivity growth, and future trade potential of the region. D'Souza (2009) also contends that for any economic corridor, whether in a landlocked country or a coastal one, good quality infrastructure must be available for efficient trade.

Literature linking trade and overall economic development of landlocked countries, summarized by Aziz (2009) and Geenhuizen & Rietveld (2002), argues that landlocked countries, in general, would find it difficult to grow and develop. They face major geographical disadvantages. Geenhuizen & Rietveld (2002) further highlight a major drawback for LLDCs-- heavy reliance on transit countries for international market access. Indeed, LLDCs grow, on average, 1.5 per cent slower than coastal countries (ibid.). LLDCs perform badly when it comes to achieving rapid and sustained economic growth mainly due to their low participation in both international and regional trade. Limao & Venables (2001) argue that most of the landlocked developing countries' infrastructure is deficient and lack transit corridors, compared to coastal countries. Structural dynamics impede infrastructure expansion and maintenance, hampering their regional and international trade. All this turns into a vicious cycle of sorts.

Landlocked LDCs, whether Nepal or Afghanistan, face delays and elements of uncertainty pushing transport costs up. The negative effects of being landlocked include increased prices

for essential imports and reduced export revenue. For example, freight costs of landlocked countries account for 12 per cent of the value of imports, compared to seven per cent and four per cent for coastal countries (Byard et al. 2006). An Asian Development Bank (2009) study, which focuses on landlocked countries of South Asia, suggests that poor and inadequate physical infrastructure in the region causes these countries to have low regional trade and high transportation costs. In Newly Industrialized Economies (NIEs), i.e. Hong Kong, Singapore, China, etc. and India, it costs an average of US\$608 to export a 20-foot container. The average cost for the same is US\$1,029 for a landlocked country of South Asia.

The UNCTAD (1999) discussion board on landlocked countries buttresses the argument that movement of goods in LLDCs requires proper transport infrastructure in their own territories as well as in their transit neighbours. The quality of infrastructure and trade costs are a major trade impediment. Indeed, Venables et al (2001) estimate that nearly 60 per cent of the overall transportation costs in LLDCs emanate from their own infrastructure within their respective territories. A similar argument regarding trade costs and limited regional trade is made by Nordås and Piermartini (2004). They observe that the transport costs in LLDCs may well be higher than the tariffs costs. In highlighting the role of improved infrastructure, they evidence that, better physical infrastructure and regional cross-border corridors have had a significant impact on the patterns of regional and international trade for Sub-Saharan countries. The next part concentrates on Afghanistan as a landlocked country, between the Central Asian and South Asian landmass, and discusses the advantages and disadvantages of the country's landlocked status.

4.7. Fundamental challenges of landlocked Afghanistan

Several of Afghanistan's Central Asian neighbours, such as Turkmenistan and Tajikistan, are themselves landlocked. Hence, its main sea trading route is either through Pakistan or Iran. Afghanistan uses Pakistani ports such as Port of Karachi. Chabahar Port in Iran is an alternative for Afghanistan. India and Iran are involved in building rail and road networks to connect the border areas of Iran and Afghanistan. Recently, the three countries reached an agreement to boost transit-trade via Iran (S. A. Khan et al., 2017). Indeed, the Chabahar port is already operational and its handling capacity is set to expand (Amirthan, 2016). Chabahar will enable India to bypass Pakistan, with which it has a rocky relation, to trade with Afghanistan via Iran (Zahidan-Mealak-Kandahar-Herat Ringroad).

Being landlocked certainly translates into higher prices of imports and inputs used in production. It reduces export revenues due to reduced competitiveness - a point highlighted by Byrd & Kitain (2006). Their analysis focuses on Central Asian countries where they conclude that Afghanistan faces comparable trade costs and restrictions as do the other landlocked developing countries in Central Asia and the world. Based on the study, they list

other factors contributing towards Afghanistan's high trade costs and low regional trade such as excessively high transportation costs, poor physical infrastructure and lack of transit corridors between Afghanistan and its neighbouring countries.

Pappas (2009), analysing Afghanistan's geographical isolation, claims that it is a competitive disadvantage as more than 70 per cent of the time is spent on shipping goods, due to paperwork and inspections. A combination of geographical location and non-tariff barriers exacerbate trade costs and also cause low trade levels.

The Doing Business report (2010) highlights similar factors that prevent smooth and efficient trade for Afghanistan. It maintains that the tariffs, quotas and the cost of passing through Pakistan or Iran, to access the sea cause high transit costs and that extensive amount of time is involved in bringing goods to the country as well.

Pappas (2009) also highlights that man-made barriers, corruption and lack of transparency in the system discourage trading across border and thus marginalizes Afghanistan's regional trade. The country's physical infrastructure is the most important factor of Afghanistan's minimal trade and high trade costs. Thus, Afghanistan needs to invest immensely in trade-related infrastructure (World Bank, 2004).

For landlocked Afghanistan, the development of physical connectivity—construction of roads, bridges and further enhancement of other transit corridors, both at domestic and international levels, is key to achieving successful movement of goods between Afghanistan and its neighbours (Starr et al. 2010). Starr et al (2010), further elaborate that a large part of Afghanistan's population relies on agricultural production for subsistence. They say that infrastructure improvement is crucial for stimulating trade and commerce, both regionally and internationally. Airways, railways or roadways are the only effective and efficient means of moving goods across the country.

Starr & Kuchins (2010) emphasize that the development of transit infrastructure in Afghanistan would yield three times more trade in comparison to other landlocked countries. This study elaborates the potential for landlocked Afghanistan to promote regional trade. It is the physical infrastructure (cross border roads, transit routes, and bridges) in the region that create bottlenecks in the evident advantage of regional trade expansion.

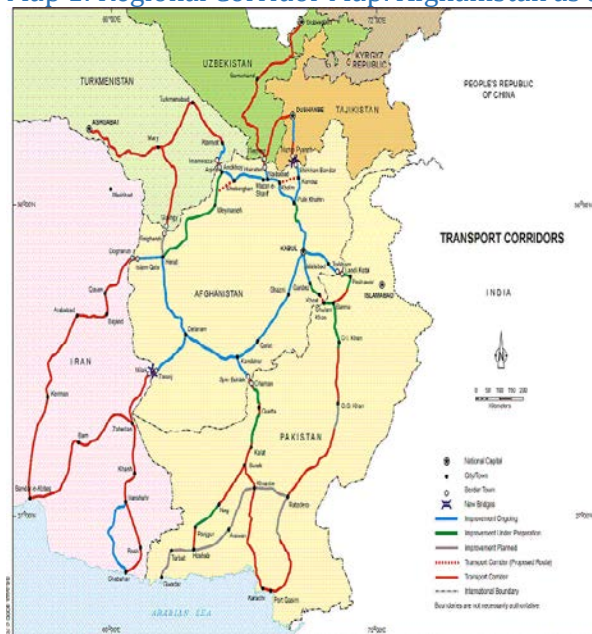
Literature also discusses the potential of Afghanistan to act as a land bridge between Central and South Asian countries. Landlocked, Afghanistan has the potential to provide many opportunities for both itself and the region. ADB (2009) and other studies predict substantial economic benefits in the coming 10 years if Afghanistan is connected through improved

physical and transport infrastructure. Aziz (2010) evidences that improved physical infrastructure and economic corridors between Afghanistan and its neighbours can promote export and import and decrease prices in Central Asia by 7 to 10 per cent. As a result, overall trade can increase by 15 per cent, or 12 billion dollars, over the next five to ten years for South and Central Asian regions as a whole.

Aziz (2009) stresses the importance of regional trade and adds that improved physical infrastructure and transportation is fundamental to enable Afghanistan to connect with the rest of the region. There are possibilities for developing off-road corridors, or cross-border facilities, both in the northwest and southwest of Afghanistan and turn it into a trading hub. A similar assessment made by ADB (2009) says that the benefits, from developing economic corridors across Afghanistan's bordering areas, can promote regional trade in the long run. This empirical study has found 52 potential economic corridors through Afghanistan to connect Central Asian countries. By far the most important of them could be five seaports in Pakistan and Iran.

The same ADB (2009) report further adds that, of the 13,586 kilometres of road needed for regional trade, 3,657 kilometres is in Afghanistan. In the long run, Afghanistan's regional trade would increase substantially with the improvement of these economic corridors. Aziz (2009) agrees that the development and building of these corridors and roads will increase Afghanistan's exports by 202 per cent and imports will increase by 54 per cent over the next five years. Map 1 indicates Afghanistan as a land-bridge between Central and South Asian countries.

Map 1: Regional Corridor Map: Afghanistan as a land bridge



Source: ADB 2005

5. Survey Objectives and Methodology

Efforts have indeed been made towards trade and transport facilitation via policy measures. On this, secondary sources, such as Ease of Trading Across Borders of the Doing Business and World Bank's Logistics Performance Index, also global performance indicators that help us see the relative standing of countries, provide useful insights and comparative pictures. Indeed, the global performance indexes such as Ease of Doing Business have been critiqued and considered less useful for developing countries³⁰. We supplement the secondary comparative assessments with a primary survey that aims to assess progress in the current trade and transportation dynamics – logistics quality, border procedures and associated costs and information availability among others. This survey is geared towards recording the experiences and perceptions of the stakeholders in trade – importers, exporters and customs officials, among others. The methodology employed in this National Trade and Transport Facilitation Audit/Assessment work has been outlined in detail in World Bank (2010).

The survey focuses on the following key trade facilitation areas:

- (a) publication of trade related rules and regulations;
- (b) rules and procedures for exports and imports;
- (c) quality and efficiency of trade related infrastructure and services;
- (d) treatment of goods in transit; and
- (d) use of Information and Communications Technology (ICT) to facilitate exports and imports.

Respondents include freight forwarders, transport operators, exporters, importers and officials and relevant representatives from Customs Authority, Chamber of Commerce and Ministry/Department of Commerce. The questionnaire used for the survey is attached in Annex 1.

The timing of this survey warrants a special mention. During the survey, elections were being conducted in Afghanistan while announcements were made regarding the United States' troops withdrawal. These factors can have a bearing on the business community and, hence, the responses and perception of the business/trading community, not to mention the trading relations of Afghanistan with the region.

The study does aim to identify the inherent inefficiencies in cross-border movement of goods and, in doing so, to suggest key trade facilitation interventions. A product specific survey was conducted at two major customs points. One is Torkham, which is the busiest point among

³⁰ See Doshi, Kelley, & Simmons (2019) and Hallward-Driemeier & Pritchett (2015).

the Pakistan-Afghanistan BCPs. It connects Nangarhar Province of Afghanistan with Pakistan's Federally Administered Tribal Areas (FATA) and Khyber Pakhtunkhwa. The other is Spin Boldak on the Durand Line where a highway connects Kandahar in Afghanistan and Chaman and Quetta in Pakistan.

At each customs point, the survey focused on their major export and import products, subject to availability of the stakeholders. The products are almost evenly categorized into agricultural and non-agricultural goods. Below is the list of products for which the survey was conducted at the two customs points. The products have been selected keeping in mind the number of respondents available, so that appropriate stratified random sampling could be undertaken. The products and commodities are: cement, rice, dry and fresh fruits, sugar, oil, saffron, carpets and rugs.

Table 6 presents the distribution of respondents.

Table 6: Categorical Distribution of Respondents

	Number	Percentage
Exporter	24	40.0
Importer	19	31.7
Road Carrier/freight forwarders	2	3.3
Customs authority	6	10.0
Chamber of commerce	4	6.7
Ministry/Department of Commerce	4	6.7
Others	1	1.7
Total	60	100.0

5.1. Survey Analysis

5.1.1. Publication of Trade Related Rules and Regulations

Nearly three-fourths (77 per cent) of the 60 respondents reported that they were aware of a government customs portal providing information on the trade procedures, while just over a fifth (21.7 per cent) said they did not know if a national customs website existed. Less than two per cent of the respondents said there was no website as such (Figure 3). Figure 4 captures the responses on whether the information on the customs portal - import/export procedures, customs clearance regulations, applicable fees and charges, average release time and change in regulations - was adequate. Of the 77 per cent respondents who had visited the website, 90 per cent reported adequate information on import and export regulations and customs clearance procedures. When asked about the availability of information on applicable customs duties and applicable fees, 85 per cent and 67 per cent of the 60

respondents, respectively, reported that the information was available. About details on clearance time and change in regulations, over 50 per cent of the total respondents said that such information was available.

From the above, it appears that most respondents were aware of the customs page and that they found the information provided adequate. Statistics also tells us that for several components in the overall information pack, containing critical details such as knowledge on clearance duration, a large proportion of the respondents showed no knowledge. As there are internet access issues, an alternate strategy/platform, complementary to the customs URL, needs to be developed to provision information and guidance.

Figure 3: National customs website that provides a minimal set of information related to customs duties, other applicable fees, and export, import and transit procedures

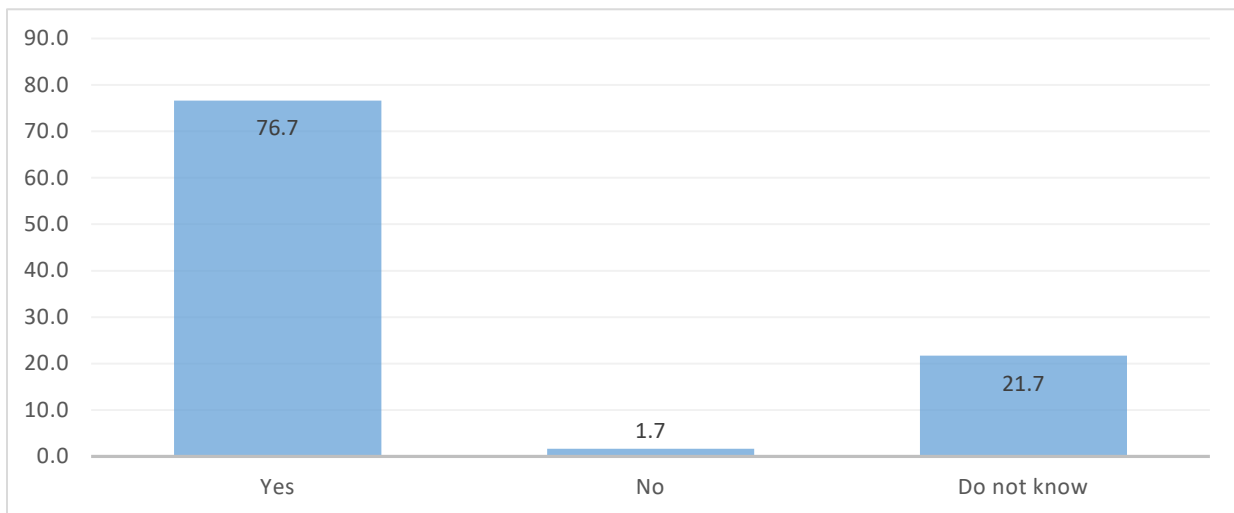
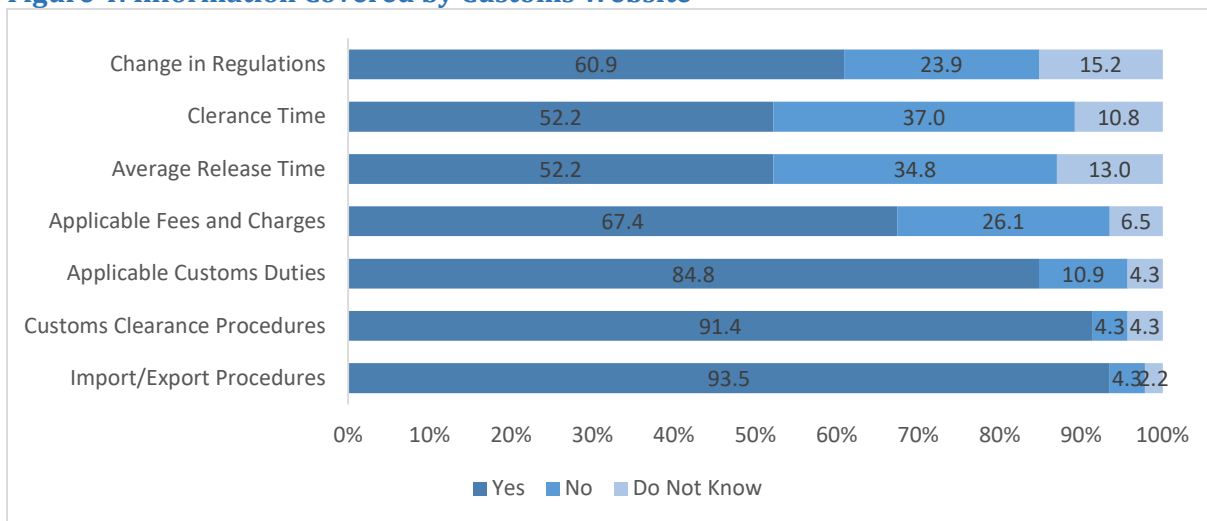


Figure 4: Information Covered by Customs Website



When asked about the quality of the information on procedures and regulations on the customs website, there was a mixed response. A majority reported that quality and efficiency

was just average. Regarding quality of information on relevant fees/charges and release time, over 40 per cent of the 60 respondents found both pieces of information inadequate. Meanwhile, 37 per cent said that the information quality was not good enough for the traders.

Figure 5: Efficiency of Information on Customs Website (%)

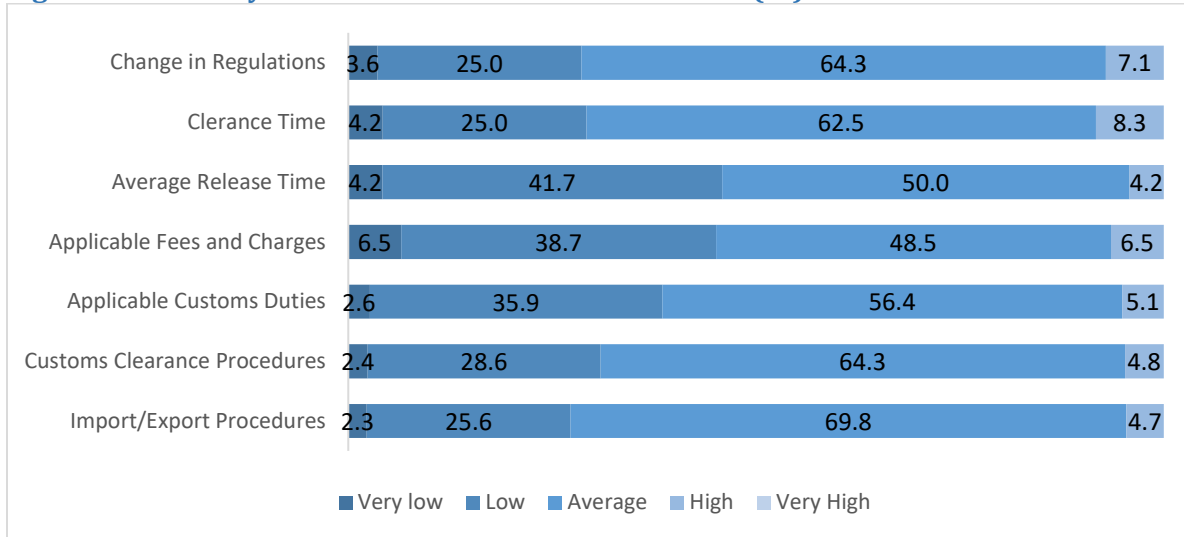
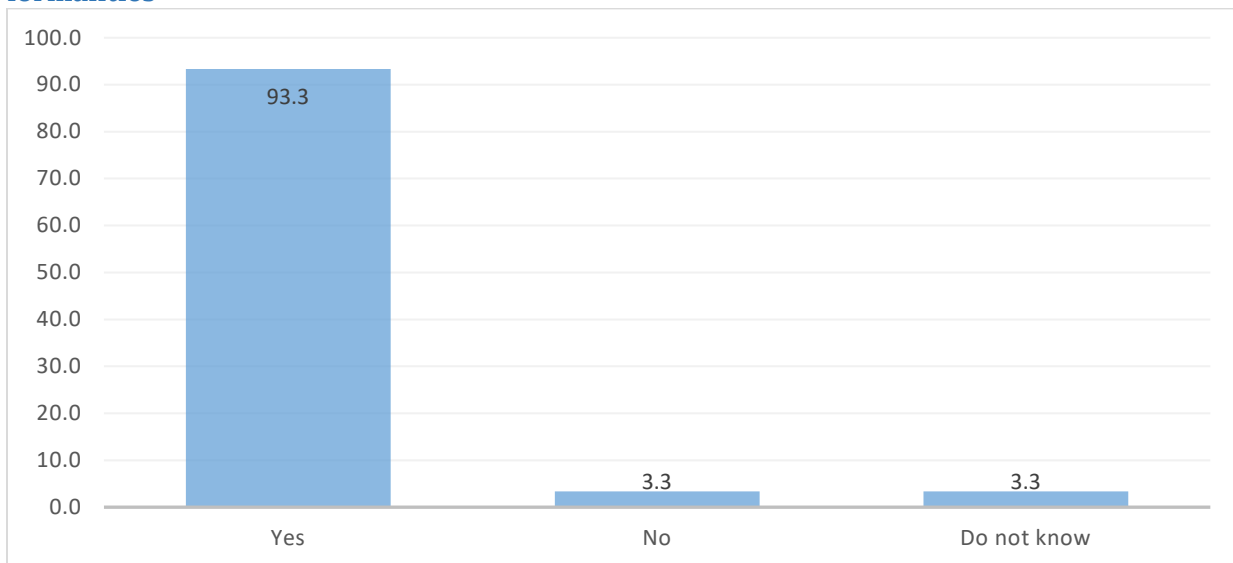


Figure 6 presents the responses concerning the availability of an inquiry point regarding import procedures and formalities. Over 93 per cent of the respondents were aware of such inquiry points.

Figure 6: Inquiry point to address queries regarding export-import procedures and formalities



5.1.2. Rules and Procedures for Exports and Imports

Most respondents reported that the relevant agencies like Quarantine Services, Security Agencies, Plant Health Directorate etc., (See Figure 7) were largely present at both the border points, that is, Spin Boldak and Torkhum, and were reasonably well-known. Some respondents reported knowledge about the existence of anti-narcotics agencies. When they were asked about coordination among all these agencies, a majority said that it was poor. Only 21.7 per cent of the 60 respondents stated that there was decent coordination among agencies (Figure 7 and Figure 8).

Coordination among border-agencies is an essential component if transaction costs related to trade are to be reduced. But, during crises, times when the transit providing countries behave opportunistically, for example by raising tariffs (Parsa, 2017) or imposing embargoes (NDU/WB, 2016), coordination will be hard to achieve. Alternatives, such as port access via Iran presents an opportunity for countries like Afghanistan when problems arise in the Pakistan transit route.

Figure 7 : Presence of Border Management Agencies

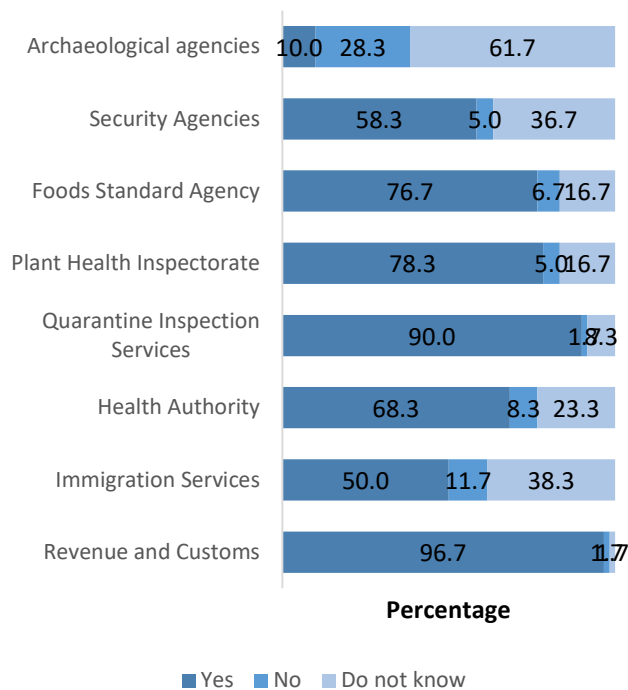
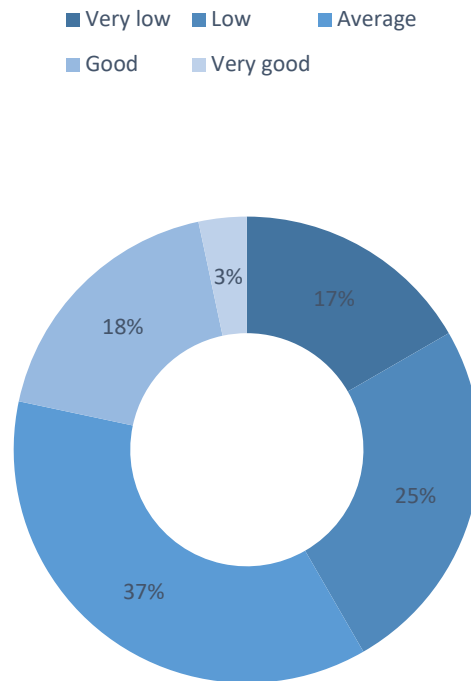


Figure 8: Coordination between border management agencies.



5.1.3. Number of documents, Signatories (signatures) and Days required for Importing and Exporting to South Asia as well as Developed Countries

To export to South Asian countries, a minimum of two to three documents are required by Afghan traders. This was reported by 64 per cent of the respondents. The maximum number of documents required could go up to 25 in some cases. In exporting to developed countries,

the minimum number of documents required ranges between two to five. Several respondents reported that the maximum number of documents required for developed countries ranged from four to seven (see Annexure for details).

When asked how many signatures are required in exports to South Asian countries, the majority said that a minimum of three to ten and maximum of five to fifteen signatures may be required. In the case of developed countries, again, the responses suggest convergence. The similarity in figures is because most goods, which pass through Spin Boldak and Torkhan, must pass via Pakistan, irrespective of whether the destination of goods is any South Asian state or a developed country (see annexure for details).

Around 85 per cent of the respondents suggested that the minimum number of days required to export to South Asian countries is one to three. A majority of the respondents reported a similar number in the case of developed country exports. Around 82 per cent of the respondents said that the maximum number of days ranges from two to five for exports to developed countries, while 64 per cent believed that three to five days were required. Hence, the survey results indicate that in terms of the number of documents, signatures and the number of days, there is not much difference, whether they are exporting to developed countries or South Asia (see annexure for details).

Similarly, importers were asked about the number of documents, signatures and days required for importing from South Asia and also from the developed countries. Ninety seven per cent said the number of days for import from South Asian countries ranged from two to five. Similar figures were reported for developed countries by 91.2 per cent of the respondents. Again, 89 per cent reported that the maximum number of documents for South Asian countries ranged from three to seven; around 79 per cent said that the same number of documents were needed for importing goods from developed countries (see annexure for details).

Regarding the number of signatures, 47.2 per cent of the respondents said that five signatures were required for importing from South Asian countries, while 36.1 per cent said that a minimum of 10 signatures were required. Similar is the case with importing from developed countries. Respondents, who said that the minimum number of signatures required was five, made up 39.4 per cent, while 33.3 per cent said 10 was the minimum requirement. When inquired about the maximum number of signatures for South Asian countries, a good number of respondents stated that it ranges from five to 15. For imports from developed countries, a majority reported that the maximum number of signatories ranged from 10 to 20 (see annexure for details).

Regarding the number of days taken to import, 80.6 per cent said that it took a minimum of one to three days to import from South Asian countries, 79 per cent reported the same number for importing from developed countries as well. A good number of respondents said that the maximum number of days required for importing goods ranged from two to five days for South Asian and developed countries (see annexure for details).

Documentation and signature requirements are among the most important challenges that hamper regional trade and cooperation. Cumbersome procedures cause problems for exporters and importers. The new government in Afghanistan needs to come up with policies and regulations that are trade-friendly and that can facilitate traders through less documentation requirements.

5.1.4. Customs and Online Procedures

Almost all the respondents said that customs officials do not accept documents without proper authentication. Figure 9 shows that customs declaration cannot be submitted online. Similarly, there is no online processing of customs declaration. Likewise, Figure 10 shows the responses regarding online submission and processing of supporting documents, demonstrating that it is not possible, as reported by more than 90 per cent of the 60 respondents.

Figure 9: Customs Declaration

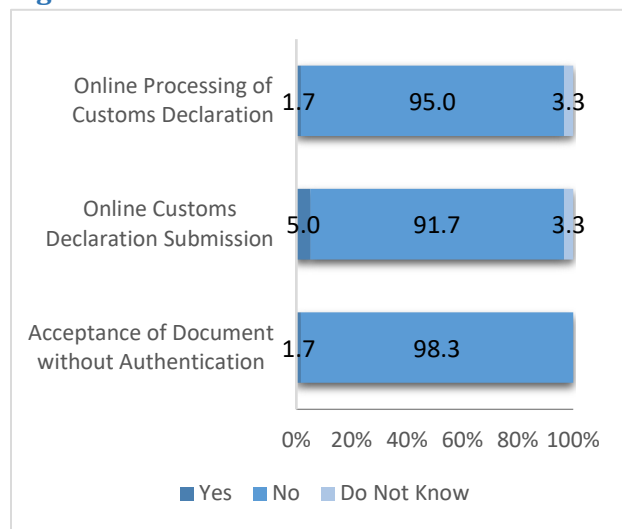
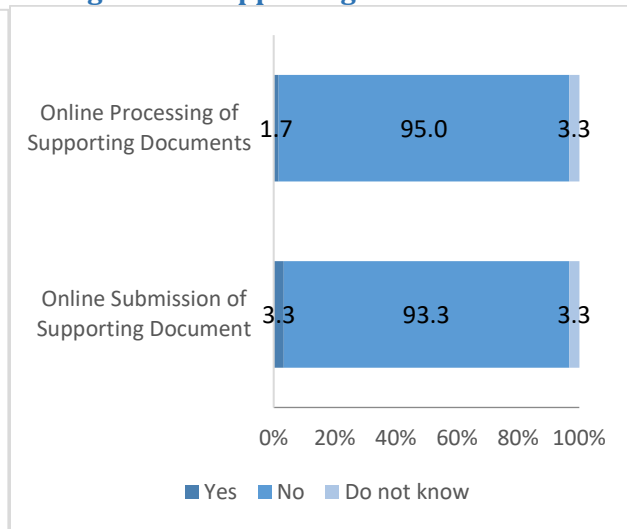


Figure 10: Supporting Documents



5.1.5. Advance Ruling and Pre-Arrival of Import Shipments

Of the 60 respondents, 51.7 per cent said that advance ruling³¹ and pre-arrival processing of import shipments are not done. Just over a third (33.3 per cent) reported that advance ruling and pre-arrival of shipment are available. Under a sixth (15 per cent) did not have any information regarding advance ruling and pre-arrival processing (Figure 11). When asked about the efficiency of pre-arrival shipment processing, 21.7 per cent reported that it was average, 10 per cent said that it was not very effective and three per cent said that it was effective. When asked about the validity of advance ruling, most of the respondents reported that it was valid for seven to 10 days (Figure 12).

³¹ Advance Ruling: Binding decisions by customs at the request of the person concerned on specific particulars in relation to the intended importation or exportation of goods. Advance rulings can be requested with regard to the classification, the origin or the customs value of the goods in preparation for importation or exportation.

Advance ruling and clearance of import shipments is an important indicator in trade facilitation. Though advance ruling and pre-arrival processing of shipment is possible, most are not aware about it. The government needs to upgrade their website to better inform the traders regarding these regulations.

Figure 11: Advance Ruling and Pre-Arrival processing Shipments

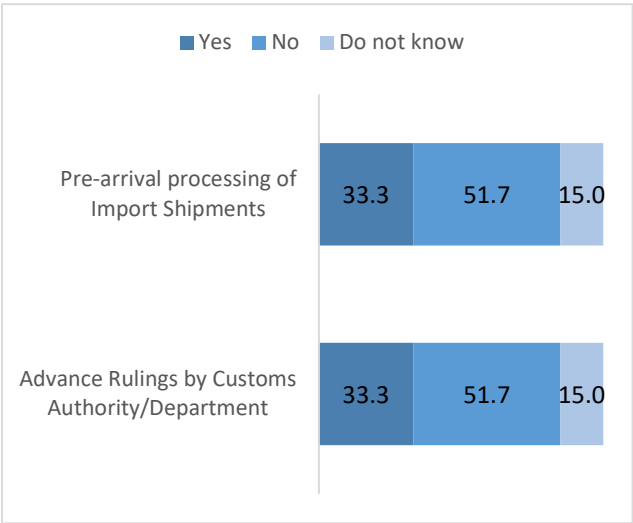
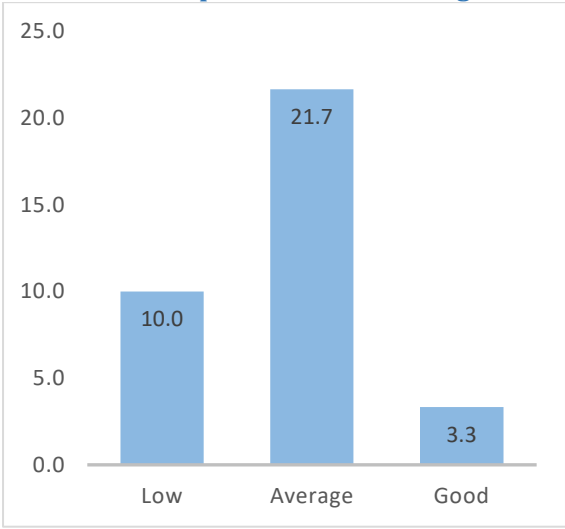


Figure 12: Effectiveness of Pre Arrival of Shipment and Processing



2.1.6. Risk Assessment, Physical Inspection and Customs Valuation

Risk Assessment Techniques are used by different countries for inward consignments. The techniques basically relate to the systematic application of procedures and practices which provide customs with all the necessary information to identify hazards, evaluate risk and incorporate appropriate measures to manage and mitigate the risk process or activity. Around 62 per cent of our respondents were not aware of such mechanisms; just over a third (33.3 per cent) from among representatives of government departments reported that it was not practised. Only five per cent reported that it was actually done (Figure 13).

A majority of the respondents said, between five to 25 per cent of the goods were physically inspected by customs officials (Figure 14).

When asked about the basis of valuation for customs duty, 100 per cent of the respondents said that it was either done on the transaction value or transaction value of similar goods. This means that, in Afghanistan, customs valuation of goods is supportive of traders.

Figure 13: Risk/Threat Assessment Technique

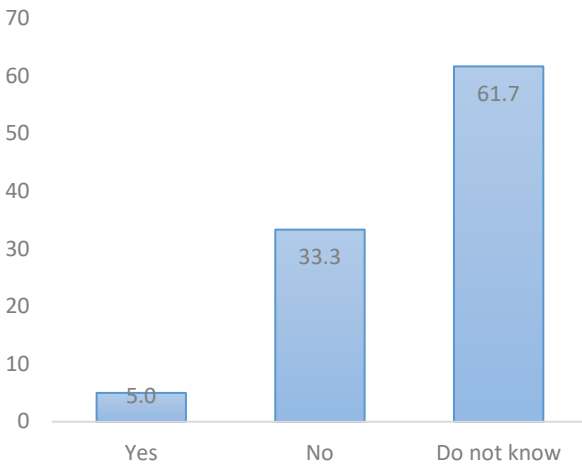
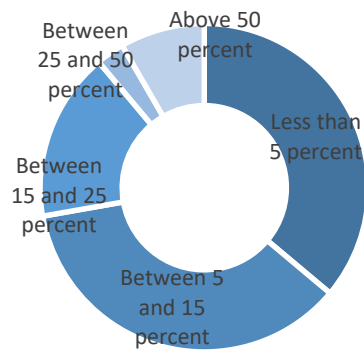


Figure 14: Physical Inspection of Inward Consignments



2.1.7. Customs Procedures

Around 53 per cent, or 32 respondents, said that goods were not released on guarantee until final clearance was done, 44 per cent said that the goods do get released after a guarantee. The rest of them said that they did not know.

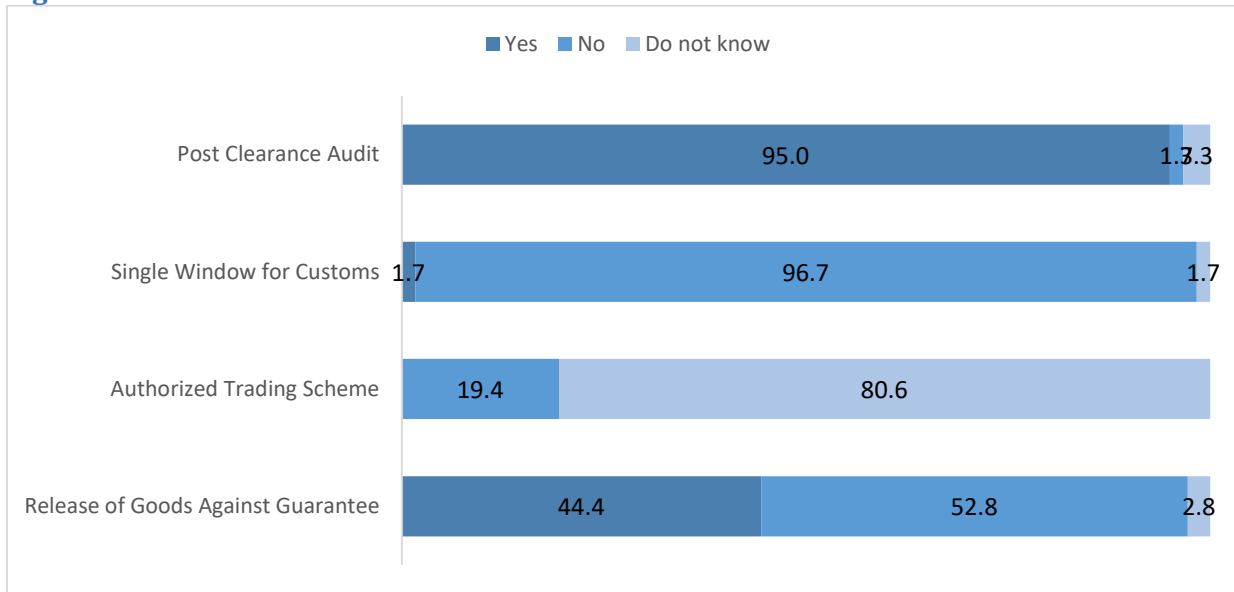
Most did not know about any authorized trading scheme³² in Afghanistan. Around 20 per cent of the respondents said that there was no authorized trading scheme working in the country. Almost all of respondents also replied in the negative when asked about single window operations at the border customs.

“Customs officials do engage in post-clearance audit,” was the response of 95 per cent of the respondents (see Figure 15).

Customs procedures are the most direct way of impacting trade facilitation measures in the country. Customs rules and regulations in Afghanistan are still new and most of the respondents are either not aware of them or they are not satisfied with those in place. There are no single window customs operations for traders. Single windows are of great importance in saving time and cost.

³² The "authorized trader" status provides access to simplified procedures, where the customs reduces the level of controls and relies more on internal controls applied by the trader to ensure compliance with all relevant laws and regulations. The status is provided to those traders who meet the criteria specified by the customs, including having an appropriate record of compliance with customs requirements and have satisfactory commercial records.

Figure 15: Customs Procedures



Figures 16 and 17 give a detailed overview of post-clearance audit³³ of goods and the effectiveness of such audit. Between five to 25 per cent of the goods undergo post clearance audit. And, Figure 17 clearly shows that respondents were not satisfied with the procedure and functioning of the audit.

Figure 16: Percentage of Consignments for Post Clearance audit

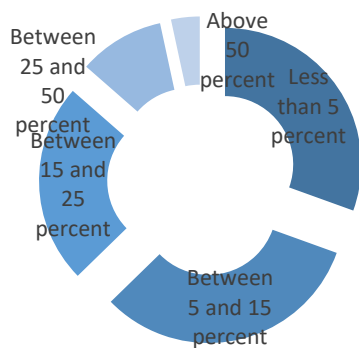
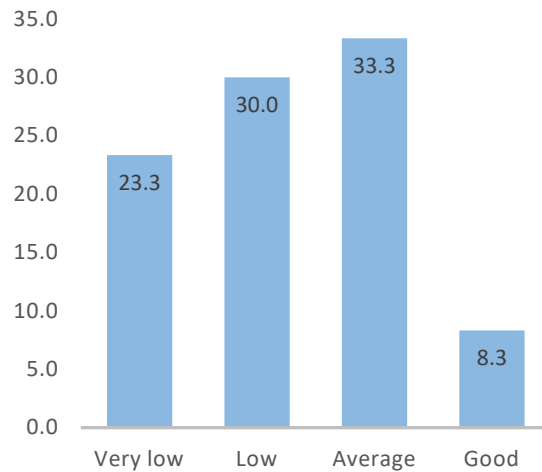


Figure 17: Effectiveness of Post Clearance Audit

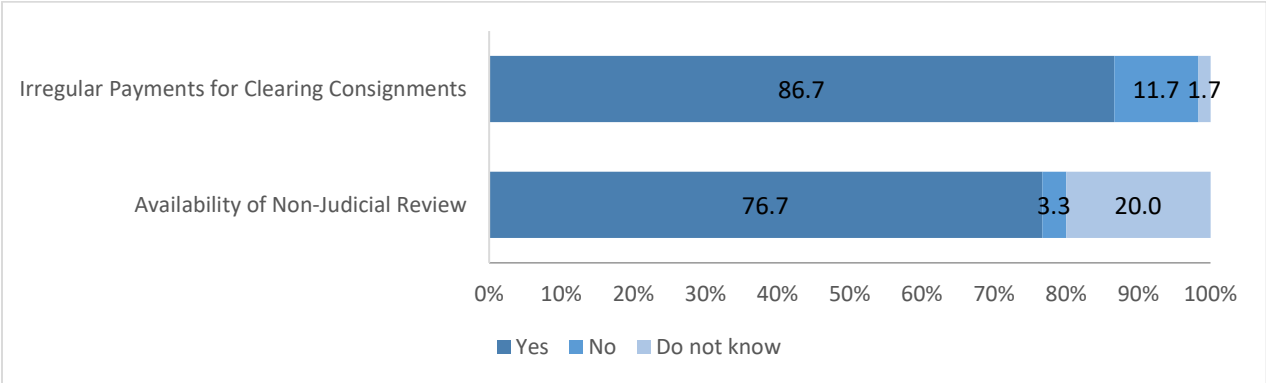


³³ **Post clearance audit:** Measures by which customs officials satisfy themselves as to the accuracy and authenticity of declarations through the examination of the relevant books, records, business and commercial data held by persons concerned.

There is non-judicial review available if the stakeholders are not satisfied with the decisions of customs or other border management agencies. Figure 18 shows that nearly 77 per cent of the respondents said, “Yes” as their response to the availability of such a review. Twenty per cent did not have any knowledge of such a mechanism. One thing that is of concern is that 87 per cent of the respondents said that they have to bribe customs officials and other border management agencies to clear their goods at Torkhum and Spin Boldak and that the frequency of these payments ranges from five to 50 per cent of the traded consignments.

Bribes and irregular payments for clearing consignments are now a regular part of the consignment costs in Afghanistan. Some of the respondents reported that they had to take into account the irregular payments for inward and outward consignments. These payments do shake the confidence of the traders and, at times, result in late arrival and departure of goods from the ports.

Figure 18: Non-Judicial Review and Irregular Payments



5.1.8. Time for Inward and Outward Consignments

Eighty per cent of the respondents said that it took between one to three days to clear out-bound consignments from dry ports in Afghanistan. Five days are required to clear the consignments from airports. Once the goods are dispatched, it merely takes a day to cross the border points of Torkhum and Spin Boldak into Pakistan.

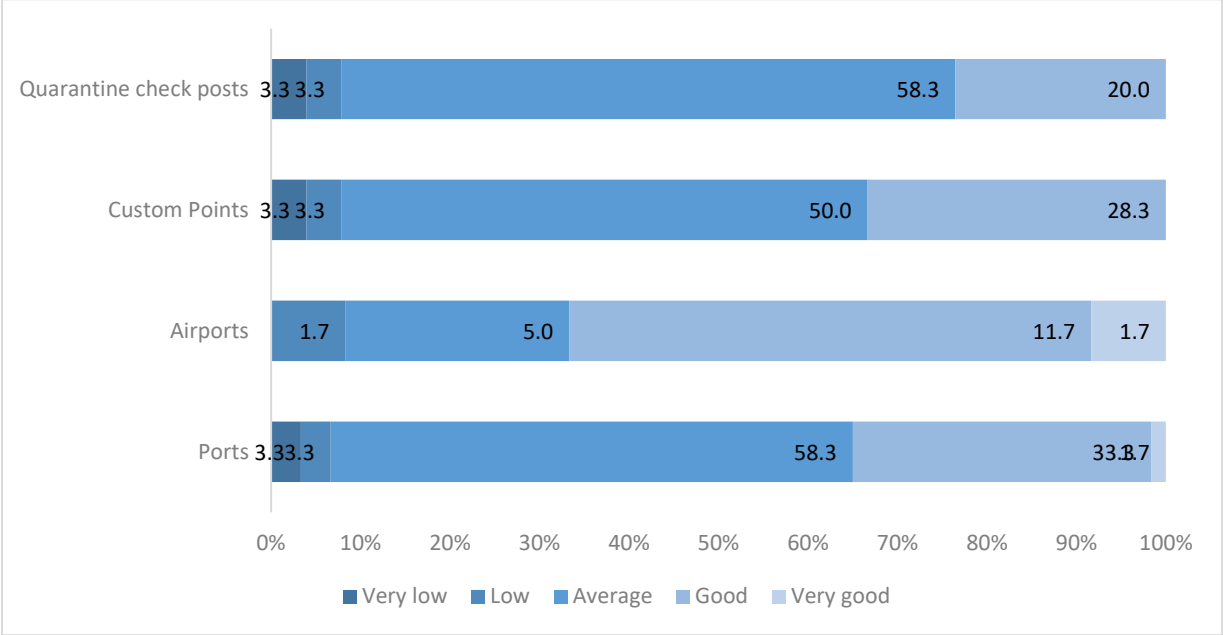
For inward bound consignments, the number of days ranged from one to five, as reported by almost 88 per cent of the respondents. From the airport, it takes one to six days for clearance and delivery. All the respondents said that it took one to two days to clear the customs points and quarantine check-posts at the border.

5.1.9. Customs Efficiency

Figure 19 shows the customs efficiency at different points. “Customs efficiency at border ports was just average,” said 58.3 per cent of the 60 respondents. A similar figure, 58.3 per cent, said that quarantine check posts were efficient, 28.3 per cent reported that they were

efficient at customs points and 11.7 per cent of the respondents said that customs efficiency was good at airports. Customs efficiency, as we see from the figure below, is average for different points. As explained above, customs procedures and efficiency play a critical role in trade for the country. Efficiency can be enhanced by strict rules and regulations and through proper training.

Figure 19: Customs Efficiency



Source: SDPI Survey Unit.

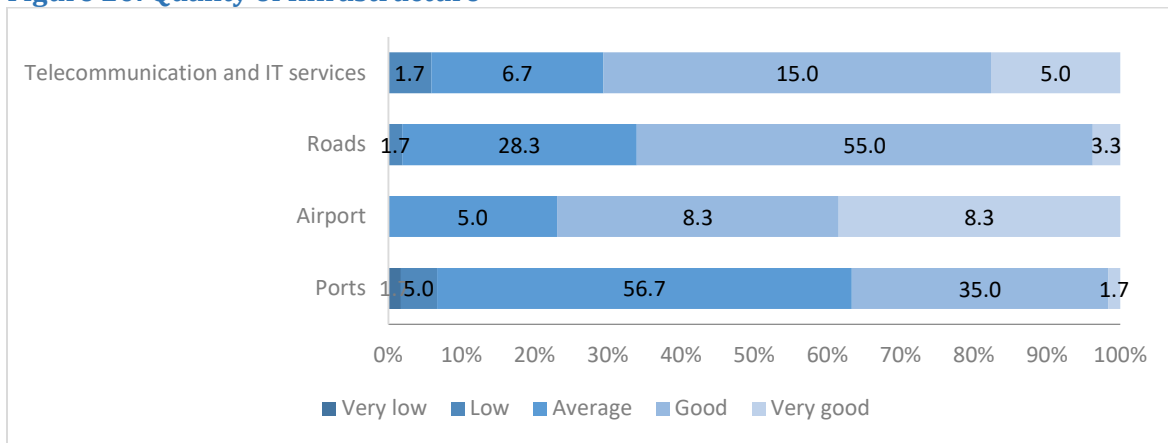
5.1.10. Trade-related Infrastructure and Services

Trade-related infrastructure and services are relatively poor in Afghanistan compared to other South Asian countries. Figure 20 below shows the responses for quality of infrastructure in Afghanistan. Of the 60 respondents, 56.7 per cent said that the quality of dry ports in Afghanistan was average, while 35 per cent believed it was good. For airport services, responses were mixed, while most respondents did not have much information about airport services. Surprisingly, 55 per cent of 53 respondents reported that the quality of roads was satisfactory. For information technology and telecommunication services, we had very few responses. Those who replied said that it was good and had been improving over the years.

Figure 21 gives the efficiency of trade related services. It is observed from the figure that the efficiency of roads, customs clearance agents, quality/standards, inspection agency, visa services and health/SPS agencies, as reported by the respondents, is average. Only a few respondents seem to be satisfied with banking services regarding trade facilitation. The protracted war has demolished Afghanistan’s physical infrastructure. “Ports are in the worst possible condition,” reported the respondents. The government must, first, try to improve the facilities at all dry ports and then focus on the roads. Railways only connect

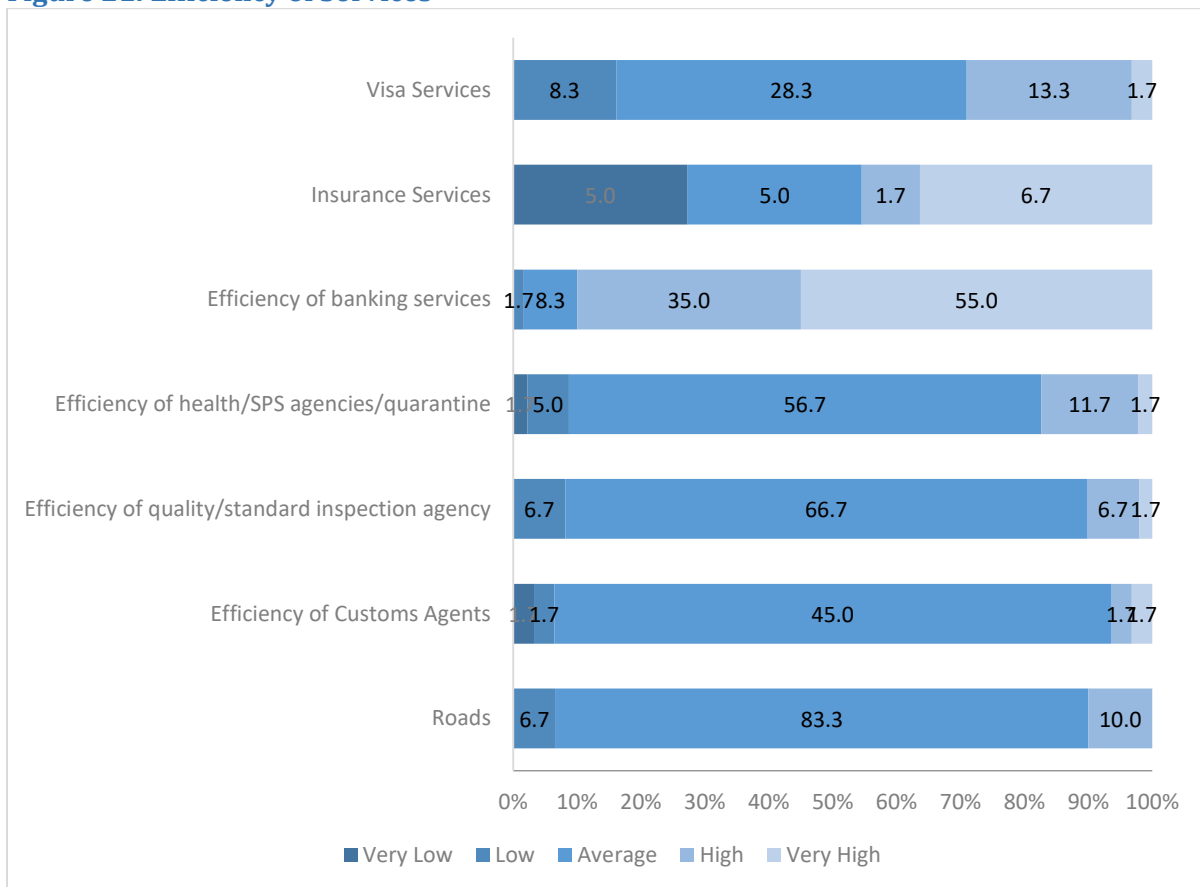
small parts of the country, so, there is a huge potential to expand the railways network. The government must try for public-private partnership to develop the railways in the country.

Figure 20: Quality of Infrastructure



Source: SDPI Survey Unit

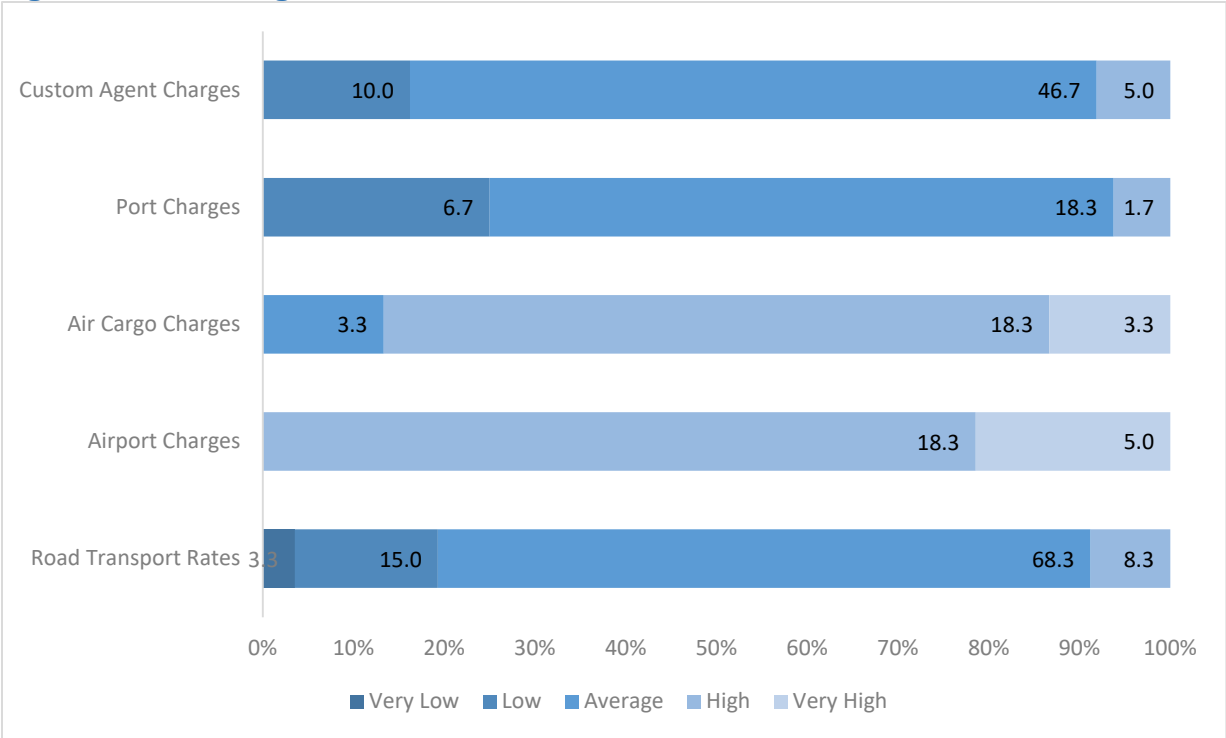
Figure 21: Efficiency of Services



Source: SDPI Survey Unit

Figure 22 shows that roads are the most cost efficient way of transportation in Afghanistan due to non-availability of railways and expensive air cargo services. Also, 46.7 per cent reported that customs clearance agent charges were average.

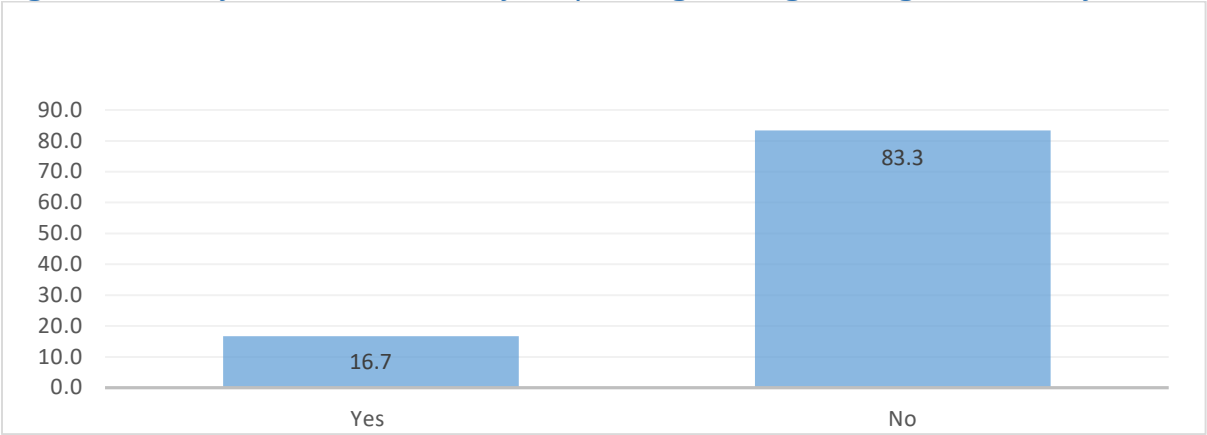
Figure 22: Cost of Logistics Services



Source: SDPI Survey Unit

Only 10 out of 60 respondents have had to bear losses on their cargo during the last five years. They said that the loss was due to accidents, rough handling, delays in documents, political issues, security issues and bribery issues at the ports.

Figure 23: Have you ever incurred any loss/ damage of cargo during the last five years

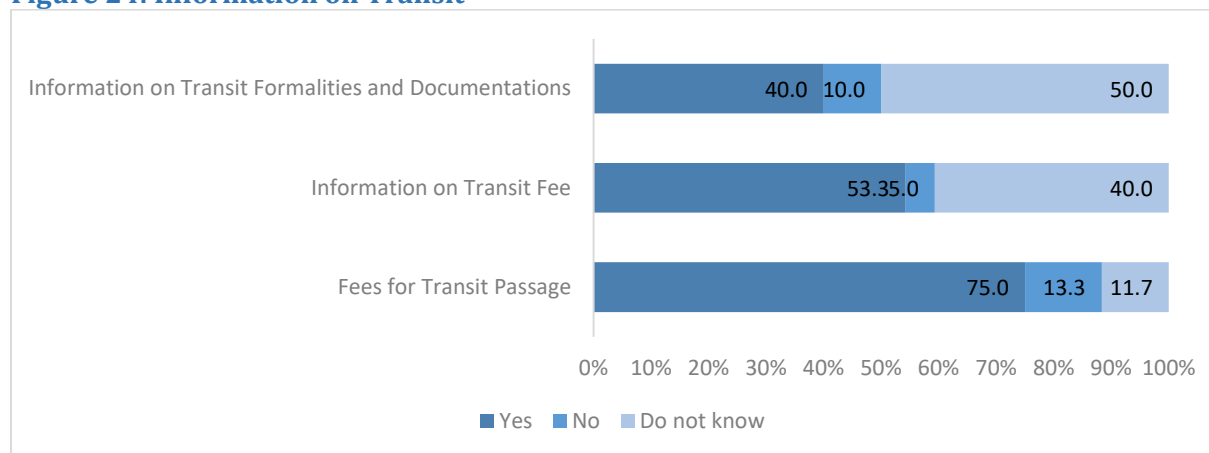


5.1.11. Treatment of Goods in Transit

Most of the goods in and out of Afghanistan use the transit route of Pakistan, though this is rapidly changing in recent years. This is the major reason for the border points with Pakistan to be selected for this survey. Afghanistan has been facing problems during transit such as delays at Karachi and Gwadar Ports, apart from extra charges demanded by Pakistani authorities. Costs have been rising ostensibly demotivating Afghan traders from engaging in trade via Pakistan (Ahmed & Shabbir, 2016).

Of the respondents, 75 per cent said that a fee is charged for transit passage through Pakistan on both inward and outward Afghan consignments (Figure 24). Only 13.3 per cent said that there was no transit fee, while 11.7 per cent did not have any information on transit fees. Out of 45 respondents, 53.3 per cent said that information on transit fee was available, while 40 per cent did not have knowledge about it. When asked about transit formalities and documentation, 40 per cent of the respondents said that information is available, but a majority said that they have no knowledge of it. A tenth of the respondents said that there was no such information available. When asked about the requirement of additional documents, a mixed response was received, with the number of documents varying from one to seven.

Figure 24: Information on Transit



Source: SDPI Survey Unit

Figure 25 shows responses regarding three aspects - pre-arrival processing of goods in transit, electronic submission and processing of transit documents. Of the 60 respondents 48.3 per cent denied any pre-arrival processing of transit goods, 33.3 per cent did not have any knowledge on the topic while 18.3 per cent confirmed the existence of pre-arrival processing of goods in transit. Secondly, the responses show that there is no electronic submission of transit documents (93.3 per cent of the total respondents said that there was no electronic submission). There is no electronic processing of transit documents either, as 90 per cent of them negated that too.

The Government of Afghanistan is trying to develop an electronic system for the processing of documents in collaboration with the Pakistani authorities.

Figure 25: Pre-Arrival and Electronic Submission and Processing of Transit Documents

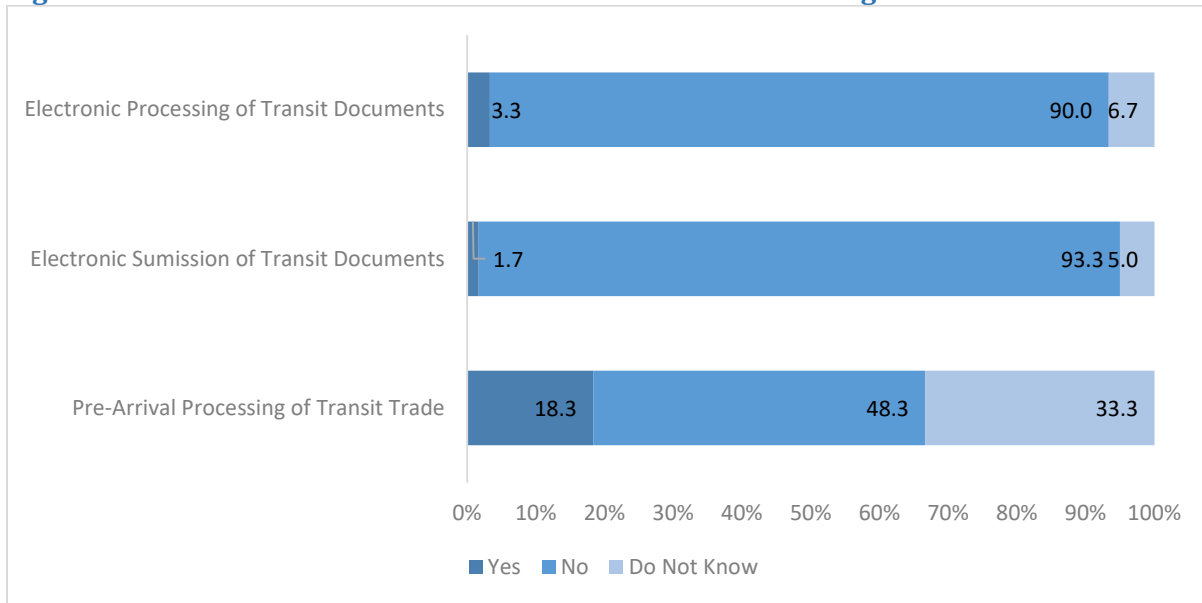


Figure 26 shows the responses regarding physical verification of goods in transit. It can be observed that 86.7 per cent of the 60 respondents said that goods were physically verified before they enter Afghanistan, 84 per cent said that five to 15 per cent of consignments were physically verified (Figure 27).

Figure 26: Physical Verification of Goods in Transit

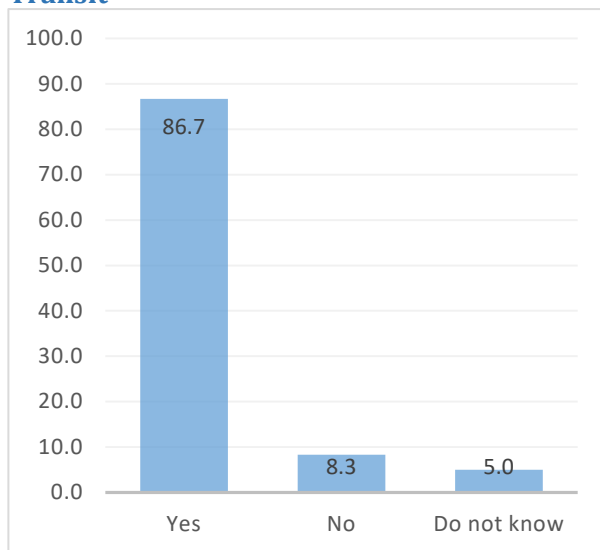
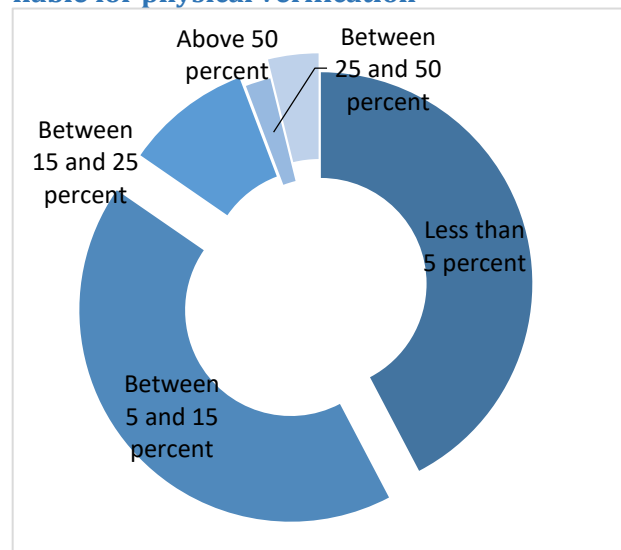


Figure 27: Proportion of Consignments liable for physical verification



Out of the 60 respondents, 60 per cent said that there was a transport guarantee provided by importers and exporters for their goods in transit, while 28.3 per cent reported that there was no need for a guarantee (Figure 28). When those who responded positively were asked about the kind of guarantee required, they replied that it could be in the form of money or bank guarantee. Thirty per cent of the 60 respondents said that the value of transit guarantee

was equal to the applicable duties and charges, while 67.8 per cent of them did not know of the exact value of the guarantee (Figure 29). It usually takes one to four days to release the transit guarantee.

Figure 28: Guarantee for Goods in Transit

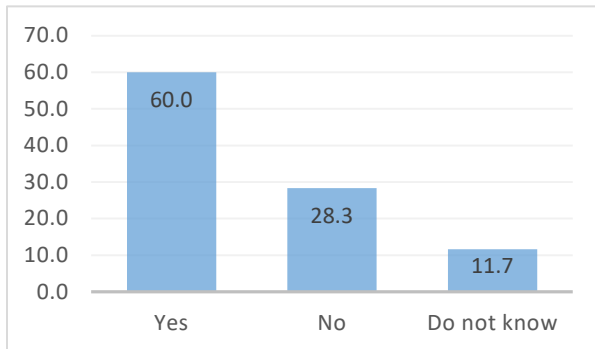
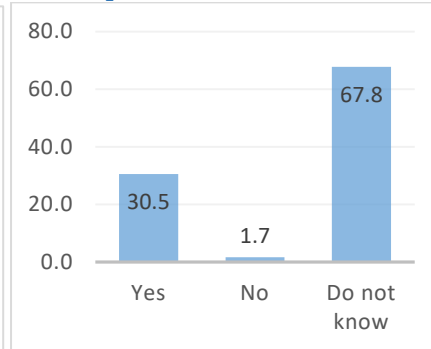


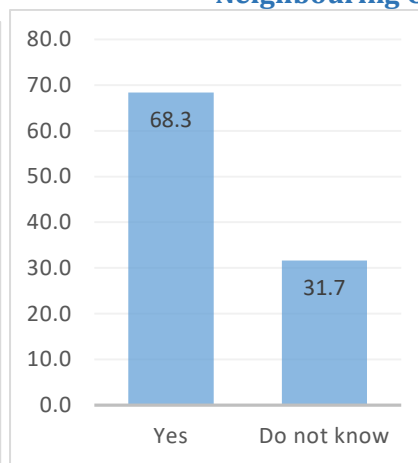
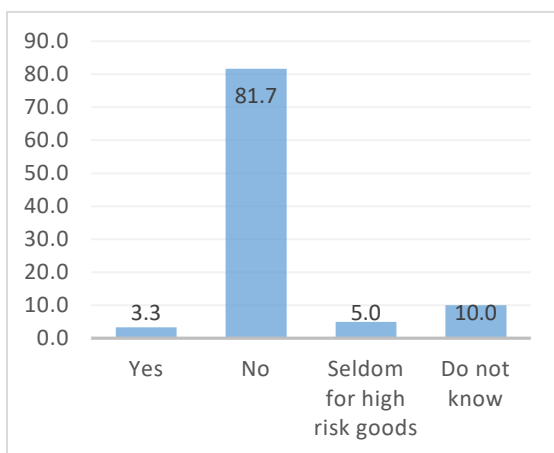
Figure 29: Value of Transit Guarantee Equivalent to Duties and Charges



When asked about the need for escorts for the goods in transit, 3.3 per cent said, “Yes”, 81.7 per cent said, “No”, five per cent of them said that escorts are needed in case of high value or risky goods and 10 per cent of the respondents did not have any information on that (Figure 30).

Out of the 60 respondents 68.3 per cent were aware of Afghanistan’s transit agreements with neighbouring countries, while the rest did not know (Figure 31). The major transit trade agreements highlighted by our respondents were Afghanistan-Pakistan Transit Trade Agreement (APTTA), Pakistan-Dubai-India and Tajikistan Transit Trade Agreement and Turkmenistan-Afghanistan-Pakistan-India (TAPI) agreement. They further highlighted their difficulties in importing from India. Indian goods have to go to Dubai first and then only to Pakistan before they enter Afghanistan. This is because Pakistan does not allow direct transit for goods travelling to Afghanistan from India. In fact, there is only one transit trade agreement- APTTA.

Figure 30: Does Transit Goods Require Customs Escorts **Figure 31: Transit Agreements with Neighbouring Countries**



When asked about the position of Afghanistan being signatory to international conventions related to transit, over 83 per cent of the respondents said that they did not have any knowledge about it; and 6.8 per cent of those who said “Yes” could not tell the exact names of these conventions.

Figure 32: Is Afghanistan Signatory to International Conventions Related to Transit?

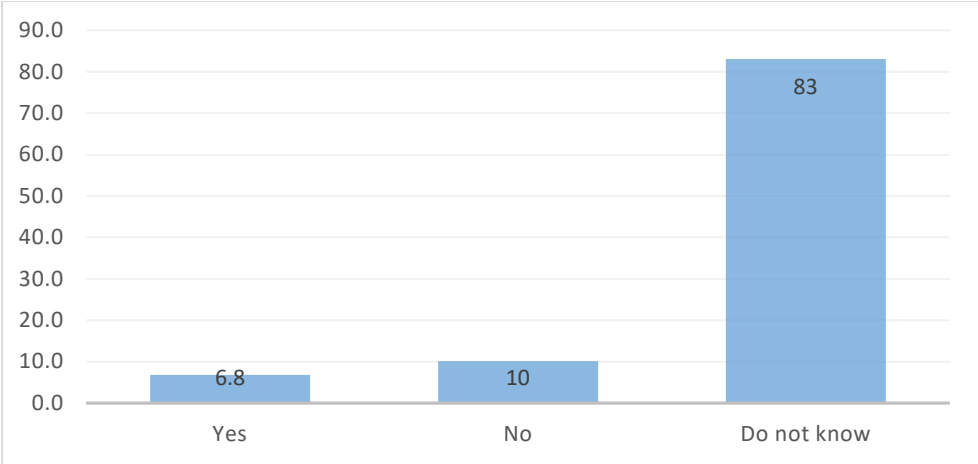
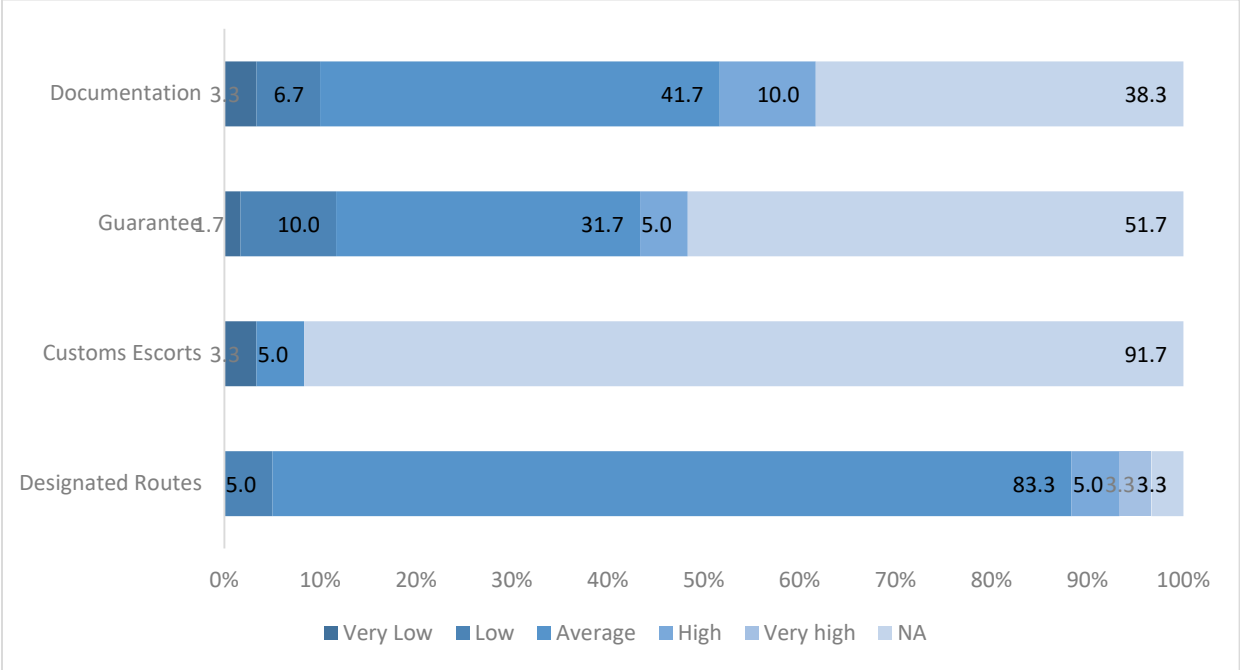


Figure 33 shows a very low number of responses regarding difficulties in transit operations. In any case, most of the responses were not applicable. Some of the respondents said that the difficulty level was average only in the cases of documentation and guarantee.

Figure 33: Difficulty in Transit Operations



Insights on Afghan Trade from an established export-oriented Afghan firm

A long informal discussion was conducted with Zemarai Rasouli Ltd Company to get information on trade facilitation issues faced by Afghanistan. Zemarai Rasouli is a private Afghan Company based in Kabul. The firm was established thirty-five years ago and is in the business of dried fruits.

The Rasouli Group is rather credibly informed of Afghanistan's trade and transportation dynamics with the neighbouring countries. They export goods to third countries as well, using the transit trade mechanism via the neighbouring countries. According to one of their representatives in Darab Market of Kabul, there are many challenges in achieving smooth, efficient and low-cost trade. Poor quality infrastructure, adverse security climate, absence of credible architecture – both technical and procedural – in standards and certifications and lack of transparency and consistency in procedures in areas like transportation are some of the major difficulties that the firm faces. They face problems in transit and often have to pay bribes to speed up the bureaucratic process.

According to the firm representatives, the Afghan government does not tax exports to foreign countries, which is encouraging, as it helps the local exporters take a greater initiative towards export growth. Despite efforts, security related challenges disincentivize investment.

On whether there is coordination among border authorities and agencies, the firm said coordination was low. According to the firm, experience and resources allow it to get things done, though with sizable transaction costs. For a new exporter, however, business would be difficult.

It takes two to five days to export goods. Once the documents are prepared, traders do not, in general, face problems if there are no political tensions with the neighboring countries that lead to disruptions and transit impediments. The firm points out that online processing of customs declaration would be helpful for Afghan merchants in ex-ante planning.

Currently, the Afghan customs does not accept non-authenticated, or copies, of the original documents. Further, the merchants cannot submit their documents online, ostensibly preventing them from declaring and completing in advance the clearance of their goods. However, the problem may get solved soon. Afghanistan is about to sign the Convention on International Transport of Goods under the cover of TIR (Transports Internationaux Routiers or International Road Transports) Carnets (TIR Convention). This should provide the single window system. Most exporters and importers raised concerns regarding post-clearance audit (PCA). According to the firm, PCA is a corrupt system. Even the customs authorities in Torkham indicated that post-clearance audit is not a process that helps the merchants and importers/exporters as it creates an opportunity for bribery and corruption.

6. Prioritization of Trade Facilitation Measures and Investment Requirements

The priority areas, as mentioned by our survey respondents, that need urgent attention of the government for trade facilitation are:

1. Better coordination between border management agencies
2. Control of irregular payments and bribes
3. Credibly enforceable transit agreements with neighbouring countries (Turkmenistan and Iran)
4. Reduction in the required number of/time for export/import documents
5. A decrease in the time taken to clear inward/outward bound goods

It is important to note that the priority areas mentioned by the respondents are of a soft nature. Their first priority area is improvement in coordination among border management agencies. This problem can be noticed in the majority of South Asian countries.

The second issue highlighted by the respondents is the issue of irregular payments and bribes. Out of 58 respondents, 88 per cent termed this issue a major hurdle in trade facilitation. They said that it impacted smooth flow of consignments.

The third priority area raised is transit trade agreements with neighbouring countries. Currently, Afghanistan has such an agreement with Pakistan only.

As mentioned in the survey analysis, a number of documents are required for trade, which, in turn, increases the time needed for trading. The fourth priority area is the reduction in the required number of/time for export/import documents. Interventions here should certainly help all countries in their efforts for trade facilitation.

The fifth, reduction of time taken by consignments, had a similar response. This relates to the fact that most of the goods come through ports in Pakistan, which already takes a good number of days. Then, these goods are subject to other documents for the Afghan authorities.

Table 8: Prioritization of Trade Facilitation Measures

	Very Low/Low		Average		High/Very High	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Coordination between border management agencies	1	1.7	7	11	51	86.4
Irregular payments/bribes	1	1.7	6	10.3	51	87.9
Transit agreement with neighbouring countries	4	7.1	16	28.6	36	64.3
Decrease the number/time required of export/import documents	1	1.7	28	46.7	31	51.7
Time taken to clear	1	1.7	28	47.5	30	50.8

inward/outward goods						
Fees, documents and formalities for transit passage	2	3.4	30	50.8	27	45.8
Post clearance audit	4	6.8	29	49.2	26	44.1
Inquiry point regarding export/import procedures and formalities	7	11.9	33	55.9	19	32.2
Pre-arrival processing of import documents	4	8.9	23	51.1	18	40
Physical verification of transit goods	4	6.8	37	62.7	18	30.5
Physical inspection by customs	7	12.1	34	58.6	17	29.3
Pre-arrival processing of transit goods	2	3.8	33	63.5	17	32.7
Electronic/Online submission of customs documents	1	4.8	5	23.8	15	71.4
Publication of trade related rules and regulations	4	6.7	43	71.7	13	21.7
Issue and validity of advance ruling	1	3.1	18	56.3	13	40.6
Decrease the cost of using logistics services	1	3.8	16	61.5	9	34.6
Quality/efficiency of ports	4	6.7	48	80	8	13.3
Efficiency of quality/standard inspection agencies	13	22.8	37	64.9	7	12.3
Efficiency of health/SPS agencies/quarantine	10	19.6	34	66.7	7	13.8
Decrease loss and damage of cargo	1	7.7	6	46.2	6	46.2
Single Window			4	44.4	5	55.6

Table 9: Investment Requirements

Objective	Proposed Project	Investment Required (USD Million)	Budget Details
Coordination between border management agencies and reducing time to clear goods	Integrated Customs Post	1.224	4 customs officers, 1 project director, data server, IT infrastructure. Total 2 border point/offices. Rates have been obtained from counterpart offices in Chaman and Torkhum
Irregular payments/bribes	Extending automated customs software to Spin Boldak	2.2	Cost of software. Rates taken from counterpart software on Pakistan side
Decrease the number/time required of export/import documents	Introducing on-line submission of trade documents	3.012	One MIS Unit will: set up web portal, 1 data server, hire 3 IT staff, 1 project manager
Total cost of 2 border points		6.436	

7. Conclusion and Policy Recommendations

This study examines trade and transport facilitation reforms in Afghanistan with particular reference to South Asian countries. It focuses on: a) comparing Afghanistan’s trade and transport-related policies and infrastructure with other economies in the region, and b) identifying trade and transport-related bottlenecks in Afghanistan and assessing the benefits of removing those bottlenecks. Additionally, the study provides some informed guestimates regarding the required investment to remove these bottlenecks.

A stakeholder perception survey was conducted to dig into the problems facing trade facilitation in the country. The survey respondents have highlighted priority areas that need to be addressed for trade and transport facilitation in Afghanistan. Their prioritised measures include deepening of transit-trade agreements with neighbouring countries, better coordination among border management agencies, check on irregular payments (bribes), a reduction in the time required for preparing import and export documents and reducing the time taken to clear inward and outward-bound goods.

Therefore, it is recommended that Afghanistan develop a long term comprehensive trade and transport facilitation strategy, which can be implemented in collaboration with the security agencies. The development community’s continued support will be required to provide financial and technical assistance for a prudent implementation of this strategy.

Afghanistan has a vast potential to become an economic corridor in the region. Many of its present-day trade problems are argued to have their roots in the country's landlocked status. This argument can be turned around if connectivity is made the main driving force of economic development of the country as it is strategically situated in the middle of some very resource rich nations and also a vast market. Therefore, it is important that Afghanistan becomes part of a maximum number of regional and multilateral trade agreements. The potential of trade-led investments is also enormous, particularly in medium-scale manufacturing and mining sectors. For this, a closer coordination is recommended between investment promotion authorities, Ministry of Commerce and the Central Bank.

Improvements in transit facilitation also lead to improved trade. It is therefore important that the government brings down transport-related costs and look for ways to open up more transit routes. Inviting international private businesses in both transport and transit can help this cause.

Afghanistan's customs regime is found to be cumbersome by its regional trade partners. A simplified tariff law and streamlined customs procedures need to be planned to remove trade distortions. All procedures should be available online and documentation may be automated to reduce the incidence of irregular payments.

Internally the government requires greater coordination between the central bank, the revenue authority, and Ministry of Commerce. A high-powered working group may set key milestones with a sub-group given the responsibility to monitor the milestones at short and medium intervals.

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Annexure

Annex1

Minimum number of documents required for South Asian countries (export)

	Valid	Percent
Valid	1	12.2
	2	31.7
	3	31.7
	4	7.3
	5	9.8
	6	2.4
	7	2.4
	10	2.4
	Total	100.0
Total		

Maximum number of documents required for South Asian countries (export)

	Valid	Percent
Valid	2	5.1
	3	7.7
	4	17.9
	5	33.3
	6	10.3
	7	12.8
	8	2.6
	10	5.1
	15	2.6
	25	2.6
	Total	100.0

Minimum number of documents required for developed countries (export)

	Valid	Percent
Valid	1	9.8
	2	29.3
	3	22.0
	4	4.9
	5	26.8
	6	2.4
	7	2.4
	12	2.4
	Total	100.0

Maximum number of documents required for developed countries (export)

	Valid	Percent
Valid	2	2.6
	3	5.1
	4	10.3
	5	30.8
	6	7.7
	7	23.1
	10	15.4
	20	2.6
	25	2.6
	Total	100.0

Minimum number of signatures required for South Asian countries (export)

	Valid	Percent
Valid	2	7.3
	3	17.1
	5	34.1
	10	26.8
	12	2.4
	13	2.4
	15	4.9
	17	2.4
	20	2.4
	Total	100.0

Maximum number of signatures required for South Asian countries (export)

	Valid	Percent
Valid	5	12.5
	7	12.5
	8	5.0
	10	25.0
	12	5.0
	15	12.5
	17	5.0
	18	2.5
	20	15.0
	25	5.0
	Total	100.0

Minimum signatures required for developed countries (export)

	Valid	Percent
Valid	2	7.3
	3	14.6
	5	31.7
	7	2.4
	10	29.3
	12	2.4
	13	2.4
	15	2.4
	17	2.4
	20	4.9
	Total	100.0

Maximum signatures required for developed countries (export)

	Valid	Percent
Valid	5	10.0
	7	10.0
	10	22.5
	12	10.0
	15	17.5
	17	2.5
	20	20.0
	25	7.5
	Total	100.0

Minimum days required for South Asian countries (export)

	Valid	Percent
Valid	1	22.0

Maximum days required for South Asian countries (export)

	Valid	Percent
Valid	1	2.6

2	46.3
3	17.1
4	2.4
6	2.4
7	2.4
10	4.9
15	2.4
Total	100.0

2	10.3
3	35.9
4	25.6
5	12.8
10	7.7
21	2.6
30	2.6
Total	100.0

Minimum days required developed countries (export)

	Valid Percent
Valid 1	19.5
2	46.3
3	17.1
4	2.4
7	2.4
10	9.8
15	2.4
Total	100.0

Maximum days required developed countries (export)

	Valid Percent
Valid 1	2.6
2	7.7
3	35.9
4	17.9
5	10.3
6	2.6
7	5.1
8	2.6
10	7.7
17	2.6
21	2.6
45	2.6
Total	100.0

Minimum documents required for South Asian countries (import)

	Valid Percent
Valid 2	19.4
3	47.2
4	5.6
5	25.0
10	2.8
Total	100.0

Maximum documents required for South Asian countries (import)

	Valid Percent
Valid 2	2.8
3	13.9
4	25.0
5	27.8
6	11.1
7	11.1
10	2.8
12	2.8

15	2.8
Total	100.0

Minimum documents required for developed countries (import)

	Valid Percent
Valid 2	15.2
3	42.4
4	3.0
5	30.3
6	6.1
10	3.0
Total	100.0

Maximum documents required for developed countries (import)

	Valid Percent
Valid 2	3.0
3	6.1
4	9.1
5	30.3
6	15.2
7	18.2
8	3.0
9	3.0
10	6.1
15	6.1
Total	100.0

Minimum signatures required for South Asian countries (import)

	Valid Percent
Valid 2	2.8
3	2.8
5	47.2
6	2.8
7	5.6
10	36.1
20	2.8
Total	100.0

Maximum signatures required for South Asian countries (import)

	Valid Percent
Valid 3	2.8
5	11.1
6	2.8
8	5.6
9	2.8
10	36.1
12	16.7
15	13.9
20	5.6
30	2.8
Total	100.0

Minimum signatures required for developed countries (import)

	Valid	Percent
Valid	2	3.0
	3	3.0
	5	39.4
	6	6.1
	7	6.1
	10	33.3
	12	3.0
	15	3.0
	20	3.0
	Total	100.0

Maximum signatures required for developed countries (import)

	Valid	Percent
Valid	3	3.0
	5	9.1
	7	3.0
	8	6.1
	9	3.0
	10	33.3
	12	12.1
	15	15.2
	20	12.1
	30	3.0
	Total	100.0

Minimum days required for South Asian countries (import)

	Valid	Percent
Valid	1	13.9
	2	38.9
	3	27.8
	4	5.6
	5	5.6
	7	2.8
	10	2.8
	12	2.8
	Total	100.0

Maximum days required for South Asian countries (import)

	Valid	Percent
Valid	1	2.8
	2	11.1
	3	22.2
	4	16.7
	5	25.0
	6	2.8
	7	2.8
	8	2.8
	10	5.6
	15	5.6
	20	2.8
	Total	100.0

Minimum days required for developed countries (import)

	Valid	Percent
Valid	1	15.2

Maximum Days required for developed countries (import)

	Valid	Percent
Valid	1	3.0

2	36.4
3	27.3
4	6.1
5	6.1
10	3.0
12	3.0
25	3.0
Total	100.0

2	9.1
3	21.2
4	12.1
5	18.2
6	3.0
7	6.1
8	3.0
10	12.1
15	6.1
25	3.0
35	3.0
Total	100.0