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SAARC's POTENTIAL ROLE IN PROMOTING ECONOMIC DEVELOPMENT IN AFGHANISTAN

Abstract

The South Asian Association for Regional Cooperation (SAARC) has been playing a significant role to enhance economic development of the member states of the organisation. Afghanistan's inclusion as the eighth member to SAARC has offered the country an opportunity to begin a process of regional integration in order to facilitate its peace, political stability, and economic development. Likewise, the entry of Afghanistan in SAARC provides the organisation a gateway to Central Asia and beyond. Therefore, Afghanistan's association with SAARC has reciprocal benefits for the country and the organisation as well. This paper takes an attempt to explore the potential role of SAARC to promote economic development of Afghanistan. It reveals that there is a range of economic potential that can be tapped from SAARC, which includes greater trade and investment, regional connectivity to remove isolation, alleviating poverty, attaining food security, and better utilisation of energy resources. Given this backdrop, this paper suggests that to achieve maximum benefits from SAARC, Afghanistan should reset policy mechanisms, foster trade and investment, infrastructural development, improve customs clearance, and other facilitation measures including multi-modal transport. It should also develop its fiscal and tariff structure as well as improve trade negotiation skills to get benefit from SAFTA in which the other SAARC members can provide assistance. Moreover, greater confidence building, peace, and stability are required in Afghanistan to attract attention by the major players, both members and observers of SAARC, in economic development in Afghanistan.

1. Introduction

South Asian Association for Regional Cooperation (SAARC) is aimed at promoting economic development of its member countries. It believes in forging regional economic cooperation by expanding its horizon.¹ Afghanistan's access

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to SAARC is important to reduce its isolation and inaugurate a process of regional integration in order to maintain peace and economic progress of the country.

SAARC has been trying to play a significant role to increase intra-regional trade, enhance regional connectivity, reduce poverty, ensure energy and food security in order to facilitate economic development of its member states. Now the question is what role SAARC can prospectively play to promote economic development of Afghanistan? More specifically, this paper looks into the following questions. Does Afghanistan's membership in SAARC indicate mutual benefits for the country as well as the organisation? What is the current state of economic development in Afghanistan? What are the arrangements of SAARC to promote regional economic development? In what sectors SAARC can play a significant role for economic development in Afghanistan?

This paper reviews existing literature and uses 'analytical narratives', a tool of case study method, to address the research questions. While 'analytic' means setting up of conceptual framework, 'narratives' indicates using of qualitative and also quantitative evidences.² A major limitation in this paper is lack of information and consultation of published information materials. Therefore, existing literature have just been enough for providing general concluding remarks. Thus, this paper has been organised as follows. After the brief introduction, Section Two briefly discusses the question of mutual benefit due to Afghanistan's membership in SAARC. Section Three reviews the recent economic development in Afghanistan in terms of some commonly used indicators, while Section Four analyses the existing mechanism of SAARC toward facilitating development of its members. Section Five suggests a set of policy recommendation for SAARC to promote economic development in Afghanistan. Finally, concluding remarks have been made in Section Six.

2. Does Afghanistan's Membership in SAARC Indicate Mutual Benefit for the Country and the Organisation?

Since the collapse of the Taliban administration, both political stability and economic development are the main priorities of Afghanistan. What seems rationale to revitalise Afghanistan's economy is to come out of protectionist policies and improve relationship with its contiguous neighbours and international communities. Therefore, Afghanistan's interest to join SAARC was aimed to articulate its political and economic solidarity. Besides ending isolation and beginning a process of regional integration, thrust for economic benefit was also a strong driving force for Afghanistan to be associated with SAARC.

¹ Razia Sultana, "Expansion of SAARC: Implications for South Asia", *BISS Journal*, Vol. 28, No. 2, 2007, p. 150.

² Lee J. Alston, "The Case for Cases Studies in Political Economy", *The Political Economist*, Vol. 12, Issue. 4, 2005, p. 8.

Afghanistan's access to SAARC is important for the bloc. There is insignificant amount of energy trade within South Asia or with energy-rich Central and West Asia.³ Afghanistan could be a key transit for energy, providing a route for imports of hydropower from Central Asia, and natural gas from Central Asia and Iran. On the other hand, Afghanistan itself has natural gas reserves estimated to be nearly 100 billion cubic meters, and the country produces about 20 million cubic meters per year; all of it is consumed internally.⁴ Therefore, Afghanistan's access to SAARC could possibly mean a major energy gain for the bloc. Simultaneously, the access may make the idea of connectivity even more crucial to South Asia, and provide SAARC a gateway to Central Asia and beyond. It would also enable SAARC to identify and develop sub-regional and regional projects, and draft appropriate regional agreements to build a series of corridors linking South Asia and eventually the bloc with Central and West Asia.⁵ Therefore, fresh impetus to regional connectivity linking South Asia to Central Asia and beyond may facilitate transit-border transport networks, expansion of regional trade, and free flow of people and ideas.

3. An Overview of Afghanistan's Economic Development

For a decade or so, Afghanistan has been experiencing volatility in economic developments and 'significant strides'⁶ in financial sector owing mainly to infusion of 'international assistance'⁷, revitalisation of agricultural sector, service sector growth, and recent reconstruction and development efforts. Therefore,

³ Razia Sultana, *op. cit.*, p. 154.

⁴ Sudeshna Sarkar, "SAARC: Afghanistan Comes in from the Cold", available at <http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?ots591=4888CAA0-B3DB-1461-98B9-E20E7B9C13D4&lng=en&id=53216>, accessed on 24 July 2010.

⁵ India, Afghanistan and Iran have an agreement in place for development of over 200 km highway linking Afghan town of Delaram with Zaranj in Iran. See, *Ibid.*

⁶ For example, 13 commercial banks are now fully licensed, a leasing and financing company has begun operations, and 13 microfinance institutions are providing services to almost 200,000 active clients in 20 Afghan provinces. Therefore, the Afghan government is now able to meet two thirds of recurrent costs in the civil sector out of its own revenues.

⁷ Afghanistan's economy is highly dependent on foreign assistance. Two thirds of national budget and about 90 per cent of public investment are financed by donor community. These investments are, to a very large extent, managed by donors directly, in other words without being channelled through Afghanistan's national budget. Therefore, international community remains committed to Afghanistan's development, pledging over US\$ 57 billion at three donors' conferences since 2002. More than 50 international donors are operating in Afghanistan to ensure aid effectiveness. While major international organisations providing assistance to Afghanistan are ADB, UNDP, etc., important bilateral donors are the US, the UK, Japan, Germany, India, etc. Until 2010, total contribution of Germany to Afghanistan is some US\$1.4 billion. The German government has also cancelled bilateral debts owed by Afghanistan amounting to about €65 million. On the contrary, contiguous neighbour, India had not only extended almost US\$200 million immediate financial assistance to Afghanistan soon after ouster of Taliban but also now is ready to spend US\$1 billion as aid for Afghanistan in the next two to three years.

average growth in the last five Fiscal Years (FY) observes double digits (see Table 1), whereas international organisations, such as International Monetary Fund (IMF) predicts 15 per cent growth in

Table 1: Afghanistan: Economic Indicators, 2005-2009

| Economic indicator | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|-------|-------|-------|------|-------|
| GDP growth (% change per year) | 16.1 | 8.2 | 12.1 | 3.4 | 15.1 |
| GDP (real growth rate) | - | - | 12.1% | 3.4% | 3.4% |
| CPI (% change per year) | 12.3 | 5.1 | 13.0 | 26.8 | -10.0 |
| Unemployment rate (%) | 40 | - | - | 35 | - |
| % of population living below national poverty line | - | - | 42.0 | - | 36 |
| Fiscal balance (% of GDP) | 1.0 | -2.9 | -1.8 | -3.7 | -2.1 |
| Export growth (% change per year) | 9.2 | 0.9 | 1.3 | 18.9 | -2.4 |
| Import growth (% change per year) | 20.5 | 10.0 | 16.2 | 12.1 | 3.5 |
| Current account balance (% of GDP) | -2.8 | -4.9 | 0.9 | -1.6 | -3.6 |
| External debt (% of GNI) | 162.0 | 146.2 | 19.8 | - | - |
| External debt (billion US\$) | - | - | - | 2.7 | - |

- = data not available, GNI = Gross National Income, GDP = Gross Domestic Product, CPI = Consumer Price Index

Source: Asian Development Outlook 2010; The World Factbook, 2010.

FY 2010. This is because of Afghanistan's links with international capital markets, almost no direct impact of global economic crisis on the country, and increasing trade with close neighbours (see Table 2).

Table 2: Afghanistan's Trading Commodities and Partners

| | | | |
|--|---------------------|--------|--|
| Export commodities ----- Opium, fruits and nuts, hand-woven carpets, wool, cotton, hides and pelts, precious and semi-precious gems | Exports to | | |
| | India | 23.50% | |
| | Pakistan | 17.70% | |
| | US | 16.50% | |
| | Tajikistan | 12.80% | |
| | Netherlands | 6.90% | |
| Imports Commodities ----- Machinery and other capital goods, food, textiles, petroleum products | Imports from | | |
| | Pakistan | 36% | |
| | US | 9.30% | |
| | Germany | 7.50% | |
| | India | 6.90% | |

Source: Calculated from IMF, *Direction of Trade Statistics*, Yearbook 2010.

Despite progress in some socio-economic aspects, major constraints for the overall economic development of Afghanistan remain unattended or are on rise owing to various causes. Endemic poverty across a large segment of total population, with two thirds of the population living below or just above the country's official poverty line, continues to be a major barrier to development.⁸ In some provinces, poverty rate is as high as 90 per cent. On the other hand, lack of rural entrepreneurship, non-existent market linkages, lack of access to financing and technology options are the significant hindrances to promote private sector vibrancy, job creation, and poverty reduction. The scenario becomes much worsened with unpredictable climatic and geographical conditions combined with low revenue collection, high levels of corruption, poor public infrastructure, poor law and order situation, high prevalence of crime, weak governance and long years of conflict followed by rapid population growth.⁹ All these resulted in uncontrolled and unsustainable use of natural resources. The destruction of resource base and degradation of ecosystem services coupled with proliferation of illicit poppy economy and vulnerability to natural disasters in the major parts of Afghanistan are of serious concerns. All these pose threat to double Afghanistan's efforts to establish an economy that welcomes trade and investment, and facilitate achieving Millennium Development Goals (MDGs). Therefore, considerable support for the government's capacity and institution building remains high on Afghanistan's agenda for overall economic development.

4. SAARC's Arrangements to Promote Economic Development of its Members

The unprecedented rise in global food and fuel price, shortage of foodstuffs and ever-increasing uses and demand of energy are challenging to poverty alleviation in South Asia. On the contrary, insignificant intra-SAARC trade and inadequate arrangements for regional connectivity are the key impediments towards enhancing regional cooperation. Therefore, increasing trade and connectivity, poverty alleviation, and attaining energy and food security have been the major imperatives of SAARC to promote economic development in South Asia.¹⁰

Trade

Trade integration among the member countries of a region is a key to economic development. Such realisation induced SAARC Preferential Trading

⁸ Available at http://www.adb.org/Documents/Fact_Sheets/AFG.pdf, accessed on 20 July 2010.

⁹ Available at <http://www.undp.org.af/WhatWeDo/ee.htm>, accessed on 25 July 2010.

¹⁰ Ishtiaque Selim and Mohammad Jasim Uddin, "15th SAARC Summit: SAFTA, Food Security and Energy", *BISS Journal*, Vol. 29, No. 4, 2008.

Arrangement (SAPTA) in 1995. Later on, SAARC initiated regional approach of Free Trade Area (FTA) in 1997, and then decided establishing South Asian Free Trade Area (SAFTA) by 2001. However, SAFTA was not signed until 2004 due to political instability in the region. Though framework agreement of SAFTA was signed in 2004, it came into force on 1 June 2006. SAFTA consists of six core elements, such as trade liberalisation programme, rules of origin, institutional arrangements, safeguard measures, special and differential treatment for LDCs, and dispute settlement mechanisms. It stipulates trade with zero customs duty of almost all products in South Asia by 2016 (see Table 3). To implement SAFTA and to facilitate and enhance intra-regional trade, SAARC has recognised the need to address major barriers (sensitive lists of items, non-tariff and para-tariff measures) standing in the way of effective trade liberalisation. It has revised sensitive lists giving special consideration to least developed countries (LDCs), and called for creating regional customs union by 2012 and economic union by 2020. SAARC has also underscored the need for taking some concrete measures to adopt common tariff nomenclatures and harmonise customs procedure. Recently the bloc has signed SAARC Agreement on Trade in Services and called for early ratification of the agreement.

Table 3: Schedule of Tariff Reduction under SAFTA

| Countries | Existing tariff rates | Tariff rates under SAFTA agreement | Time schedule |
|---|-----------------------|------------------------------------|---------------|
| SAFTA first phase | | | |
| India, Pakistan and Sri Lanka | More than 20% | Reduce to 20% | 2 years |
| | Less than 20% | Annual Reduction of 10% | 2 Years |
| Bangladesh, Nepal, Bhutan, Maldives and Afghanistan | More than 30% | Reduce to 30% | 2 years |
| | Less than 30% | Annual Reduction of 5% | 2 Years |
| SAFTA second phase | | | |
| Pakistan and India | 20% or below | 0-5% | 5 Years |
| Sri Lanka | 20% or below | 0-5% | 6 Years |
| Nepal, Bhutan, Maldives and Afghanistan | 30% or below | 0-5% | 8 Years |

Source: Sharif M. Hossain and Ishtiaque Selim, "Regional Cooperation in South Asia: Future of SAFTA", *BIISS Journal*, Vol. 28, No. 2, 2007, p. 397.

Food Security

Declining productivity of grains and inadequate food reserve has compelled most of the South Asian countries to depend on imported grains. Therefore, SAARC has taken a series of initiatives to face food insecurity, such as

- Signing an Agreement on South Asian Food Security Reserve in 1987 to provide a cushion against food shortages and scarcity situations in the region;
- Finalising a deal to establish SAARC Food Bank (SFB) in 2007 for extending cooperation among SAARC countries and meeting emergency

food crisis owing to destruction of crops by natural calamities or other such reasons;

- Adopting 'Colombo Statement on Food Security' to evolve and implement a short to medium term regional strategies to ensure food security in South Asia;
- Putting emphasis on early drawing up of SAARC Agriculture Prospective 2020, and stressing on early operation of SAARC Food Bank with an initial food reserve of over two million tons of rice and wheat;
- Directing SAARC Agriculture Ministers to pursue regional cooperation in agriculture covering all sub-sectors to enhance overall agricultural productivity;
- Calling for regional efforts on increased sharing of best practices, technologies, techniques, and materials;
- Giving importance on quality seeds in enhancing productivity and directing early consideration of the concept of a regional seed bank, regional testing and certification of seeds, and a framework for transfer of plant genetic material and seeds; and
- Establishing SAARC Agriculture Centre (SAC) to take regional projects in order to increase food production and ensure food security.

Energy Security

Since Organisation of Petroleum Exporting Countries (OPEC) embargo on oil exports in 1973, energy has been one of the major global security concerns. With the recent increase in oil price, energy insecurity turns out to be more critical than ever. The impact of the price hike has also been felt in the SAARC countries, which are mainly dependent on imported oil and where per capita energy production capacity is only 0.1 kilowatt.¹¹ Therefore, energy security issue emerges as one of the key priorities in regular meetings of SAARC. It has taken various steps to reinforce intra-SAARC energy cooperation under SAARC Integrated Programme of Action (SIPA) and has approved establishing of SAARC Energy Centre (SEC) to develop energy resources through promoting regional energy trade, developing renewable and alternative energy resources, and enhancing energy efficiency in the region. It has stressed on concerted effort for conserving use of conventional energy, building up of renewable energy resources, and has given importance to development of regional and sub-regional energy resources in an integrated manner for tapping potential in this sector.

SAARC has also suggested for sharing of expertise, capacity building, technology transfer, and infrastructure development. Furthermore, it has called

¹¹ *Ibid.*

for developing and sharing of regional hydroelectric potential, grid connectivity, and gas pipelines. It has also urged for commissioning a definite survey to determine actual quantum of energy resources, and to devise a way in which energy could be used for maximum benefits of the member states. Likewise, SAARC has envisaged a network of trans-regional oil and gas pipelines and has emphasised the need to undertake studies for developing regional energy projects, promoting regional energy trade, efficiency, conservation and development of labelling and standardisation of appliances, and sharing of knowledge and technologies. Besides, it has called for creating a web portal on energy conservation for exchanging information and sharing of best practices among the SAARC member states.

Regional Connectivity

SAARC, over the last two decades recognised the importance of improving intra-regional connectivity, particularly physical, economic, and people-to-people connectivity to have smooth flow of goods and services, technologies, knowledge, capital, culture, and ideas for sustaining South Asia's economic growth and its competitiveness. It has completed SAARC Regional Multimodal Transport Study (SRMTS), and called for early implementation of the recommendations contained in the study in a gradual and phased manner and through mutual consultations among its member states. It has also directed Inter-Governmental Group on Transport to identify and develop sub-regional and regional projects based on prioritised recommendations of the SRMTS and to develop appropriate agreements on regional connectivity. Furthermore, SAARC has made progress of drafting Motor Vehicle Agreement (MVA) and has directed its member states to expedite work on examining technical inputs related to Regional Transport and Transit Agreement and Regional Multilateral Railway Agreement. Recently, it has called for collaborative efforts to achieve greater intra-regional connectivity. It has declared 2010-2020 as the 'Decade of Intra-regional Connectivity in SAARC' to expedite negotiations with a view to finalising two agreements on motor vehicles and railways.

Alleviating Poverty

Almost in all the Summits, SAARC has prioritised the issue of poverty alleviation and has taken efforts to integrate poverty alleviation programmes into the development strategies of its member states. In the last six Summits, the efforts become more apparent.

Table 4: SAARC Initiatives to Alleviate Poverty

| SAARC Summits | Initiatives |
|----------------------|---|
| 11th Summit | Agreed to reconstitute Independent South Asian Commission on Poverty Alleviation (ISACPA) to review progress made in cooperation on poverty alleviation and suggest appropriate and effective measures |
| 12th Summit | -Declared poverty alleviation as overarching goal of all SAARC activities |
| 13th Summit | -Approving Plan of Action on Poverty Alleviation (PAPA) -Decided to declare 2006-2015 as 'SAARC Decade of Poverty Alleviation' -Endorsed SAARC Development Goals (SDGs) -Decided to replace three-tier mechanism by a two-tier one comprising Ministers and Secretaries dealing with Poverty Alleviation -Decided to establish a SAARC Poverty Alleviation Fund (SPAF) -Agreed that SPAF shall function within SADF to be reconstituted as SAARC Development Fund (SDF) to serve as umbrella financial institution for all SAARC projects and programmes |
| 14th Summit | -ISACPA elaborated SDGs to make progress in attaining MDGs -Agreed that national plans for poverty alleviation should aptly mirror regional consensus reached at SDGs and PAPA -Decided that resource mobilisation to achieve SDGs would remain a high priority in Decade of Poverty Alleviation -Directed translation of highest regional level political commitment into action to create opportunities for productive employment and greater access to resources for poor -Directed that SDF be made operational at earliest, -Agreed that resources for SDF would be mobilised both from within and outside the region |
| 15th Summit | -Committed to continue to share each other's experiences and success stories of pro-poor poverty reduction strategies such as micro-credit systems, community-driven initiatives, raising of consciousness of the poor on their right to resources and development -Signed Charter of SDF, finalised its by-laws, and called for early ratification of SDF Charter -Launched projects on women empowerment, maternal and child health and teachers' training under SDF -Reiterated commitment to expedite financial contributions to SDF |
| 16th Summit | -Emphasised on deepening regional efforts on poverty alleviation -Called for expeditious mainstreaming of SDGs in national processes and completion of Mid-term Review of SDGs -Operationalisation of SDF projects with primary focus on poverty alleviation and social development |

Source: Compiled from 11th to 16th SAARC Summits' Declarations.

In addition to the five pillars of economic development, SAARC has emphasised on promoting efforts to enhance intra-SAARC investment. Towards achieving

economic integration, it has directed that Draft Agreement on Investment Promotion and Protection would be early finalised, and SAARC Arbitration Council would also be operationalised immediately.

5. SAARC's Potential Role in Promoting Economic Development in Afghanistan *Enhancing Trade*

SAARC provides Afghanistan an access to trade under SAFTA. Article 8 of SAFTA posits that states shall take steps to secure transit facilities for efficient intra-SAARC trade, particularly for the land-locked countries, whereas Article 7(6) of SAFTA stipulates that imports from the LDCs will be duty free.¹² Similarly, there are Special and Differential (S&D) treatment, Mechanism for Compensation for Revenue Loss (MCRL), and Technical Assistance clauses in SAFTA to enhance exports from the LDCs.¹³ All the dispensations would increase Afghanistan's exports and trade opportunities. In addition, Agreement on Trade in Services would facilitate Afghanistan's trade liberalisation. However, what benefits Afghanistan would gain from implementing SAFTA may have trade implications for the country, India and Pakistan as well. Since, the two countries have greater stake in Afghanistan's trade, and if SAFTA is fully effective, Afghanistan, India and Pakistan will be linked for a common fortune by overcoming geophysical barriers.¹⁴ Therefore, Afghanistan's trade may possibly observe a sharp change (see Tables 4 to 6) as far as SAFTA is concerned.

Table 5: Share of Bilateral/Regional Trade as a Percentage of World Trade in 2006

| | Export | | | | | | | |
|-------------|----------------|--------|-------|----------|-------|----------|--------------|-----------------|
| | Bangl adesh | Bhutan | India | Maldives | Nepal | Pakistan | Sri Lanka | Afgha nistan |
| Bangladesh | - | 0.03 | 1.15 | 0.00 | 0.01 | 0.50 | 0.08 | 0.008 |
| Bhutan | 0.00 | - | 75.31 | 0.00 | 0.00 | 0.48 | 0.00 | 0.00 |
| India | 1.60 | 0.10 | - | 0.06 | 1.09 | 0.64 | 1.88 | 0.14 |
| Maldives | 0.00 | 0.00 | 0.76 | - | 0.00 | 0.00 | 11.81 | 0.00 |
| Nepal | 0.39 | 0.00 | 67.83 | 0.00 | - | 0.31 | 0.003 | - |
| Pakistan | 1.52 | - | 2.66 | 0.02 | 0.01 | - | 1.10 | 7.65 |
| Sri Lanka | 0.23 | 0.00 | 9.32 | 0.45 | 0.00 | 0.58 | - | 0.03 |
| Afghanistan | 0.96 | 0.00 | 22.00 | 0.00 | 0.00 | 21.02 | 0.49 | - |

¹² Satyajit Mohanty, "Afghanistan in SAFTA: Issues and Implications", available at <http://www.ipcs.org/article/afghanistan/afghanistan-in-safta-issues-and-implications-2101.html>, accessed on 10 July 2010.

¹³ *Ibid.*

¹⁴ Available at <http://www.cassindia.com/fullarticle.asp?recno=167>, accessed on 20 July 2010.

| Import | | | | | | | | |
|-------------|----------------|--------|-------|----------|-------|----------|--------------|-----------------|
| | Bangl adesh | Bhutan | India | Maldives | Nepal | Pakistan | Sri Lanka | Afgha nistan |
| Bangladesh | - | 0.07 | 12.49 | 0.00 | 0.01 | 0.94 | 0.06 | 0.01 |
| Bhutan | 0.00 | - | 69.08 | 0.00 | 0.00 | 0.17 | 0.01 | 0.00 |
| India | 0.07 | 0.06 | - | 0.00 | 0.33 | 0.10 | 0.34 | 0.03 |
| Maldives | 0.00 | 0.00 | 11.18 | - | 0.00 | 0.38 | 5.65 | - |
| Nepal | 0.60 | 0.00 | 61.75 | 0.00 | - | 0.11 | 0.03 | - |
| Pakistan | 0.28 | 0.00 | 2.39 | 0.01 | 0.01 | - | 0.24 | 0.22 |
| Sri Lanka | 0.09 | 0.00 | 19.55 | 0.22 | 0.00 | 1.22 | - | 0.00 |
| Afghanistan | 0.02 | 0.00 | 5.06 | 0.00 | 0.00 | 37.50 | 0.07 | - |

Source: Calculated from IMF, *Direction of Trade Statistics* database, available at: elibrary-data.imf.org, accessed on: 12 September 2011.

Table 6: Share of Regional Trade in South Asia's Trade with the World, 2008 (%)

| Import | | | | | | | | | |
|-----------------|-----------------|----------------|--------|-------|----------|-------|--------------|------------------|-------|
| | Afghani stan | Bangl adesh | Bhutan | India | Maldives | Nepal | Pakist an | Sri Lanka | SAARC |
| Afghanistan | 0.00 | 0.05 | 0.00 | 6.99 | 0.00 | 0.00 | 36.35 | 0.00 | 43.38 |
| Bangladesh | 0.01 | | 0.06 | 14.69 | 0.00 | 0.37 | 1.24 | 0.07 | 16.44 |
| Bhutan | | | | | | | | | |
| India | 0.04 | 0.10 | 0.06 | | 0.00 | 0.19 | 0.12 | 0.15 | 0.66 |
| Maldives | 0.00 | 0.00 | 0.00 | 9.21 | | 0.00 | 0.35 | 4.51 | 14.08 |
| Nepal | 0.00 | 0.22 | 0.00 | 55.25 | 0.00 | | 0.12 | 0.01 | 55.59 |
| Pakistan | 0.20 | 0.19 | 0.00 | 3.69 | 0.01 | 0.01 | | 0.15 | 4.26 |
| Sri Lanka | 0.00 | 0.08 | 0.00 | 18.94 | 0.12 | 0.00 | 1.41 | | 20.56 |
| SAARC | 0.06 | 0.11 | 0.05 | 2.70 | 0.01 | 0.16 | 0.77 | 0.15 | |
| Export | | | | | | | | | |
| | Afghani stan | Bangl adesh | Bhutan | India | Maldives | Nepal | Pakis tan | Sri Lan ka | SAARC |
| Afghanista n | | 0.27 | 0.00 | 23.54 | 0.00 | 0.00 | 17.70 | 0.00 | 41.52 |
| Bangladesh | 0.02 | | 0.02 | 2.34 | 0.00 | 0.04 | 0.58 | 0.08 | 3.08 |
| Bhutan | | | | | | | | | |
| India | 0.20 | 1.45 | 0.06 | | 0.07 | 0.87 | 0.87 | 1.40 | 4.91 |
| Maldives | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | 8.54 | 8.54 |
| Nepal | 0.00 | 9.16 | 0.00 | 54.83 | 0.00 | | 0.42 | 0.01 | 64.42 |
| Pakistan | 8.62 | 1.25 | 0.00 | 1.45 | 0.02 | 0.02 | | 0.85 | 12.21 |
| Sri Lanka | 0.00 | 0.18 | 0.00 | 4.48 | 0.68 | 0.00 | 0.74 | | 6.09 |
| SAARC | 1.00 | 1.32 | 0.05 | 0.72 | 0.08 | 0.70 | 0.80 | 1.21 | |

Source: Calculated from IMF, *Direction of Trade Statistics* database, available at: elibrary-data.imf.org, accessed on: 12 September 2011.

Table 7: Intra-regional Trade Share in South Asia

| | Afghanistan | Bangladesh | India | Maldives | Nepal | Pakistan | Sri Lanka |
|-------------|-------------|------------|-------|----------|-------|----------|-----------|
| Afghanistan | - | 0.01 | 0.08 | 0 | 0 | 2.72 | 0.01 |
| Bangladesh | 0.09 | - | 0.66 | 0 | 0.15 | 0.44 | 0.16 |
| India | 6.3 | 7.98 | - | 9.72 | 63.35 | 2.22 | 15.54 |
| Maldives | 0 | 0 | 0.03 | - | 0 | 0.02 | 0.31 |
| Nepal | 0 | 0.02 | 0.64 | 0 | - | 0.01 | 0.02 |
| Pakistan | 36.76 | 0.82 | 0.32 | 0.33 | 0.16 | - | 1.2 |
| Sri Lanka | 0.03 | 0.09 | 0.81 | 5.01 | 0.02 | 0.39 | - |
| SAARC | 43.18 | 8.92 | 2.53 | 15.06 | 63.68 | 5.79 | 17.23 |

Source: Calculated from IMF, *Direction of Trade Statistics* database, available at: elibrary-data.imf.org, accessed on: 12 September 2011.

Tables 4 to 6 indicate that both before and after membership in SAFTA, Afghanistan's major export destinations are Pakistan and India. However, exports of Afghanistan face an estimated "trade-weighted average tariff" of 16.6 per cent in Pakistan and India.¹⁵ While dried fruits, an important export item to Pakistan, face an estimated tariff of 22 per cent, carpets and animal skin face substantial tariffs.¹⁶ Therefore, greater market access for carpets for Afghanistan would help the country to increase 'value-added processing', and, also would result in return of carpet makers from Pakistan to Afghanistan. On the other hand, Afghanistan exports fruits and nuts to India. Exports to India also face high tariffs on an average of 28 per cent.¹⁷ Dried fruits under a preferential agreement also face a tariff of 23 per cent.¹⁸ Therefore, reductions in tariffs from 0-5 per cent may possibly help expand Afghanistan's exports. It would also help the country to find markets for its dried fruits in Nepal and Sri Lanka under the trade liberalisation regime of SAFTA.

Some issues, nevertheless, are crucial that can curtail SAFTA benefits for Afghanistan.

- First, if sensitive list excludes agriculture products, benefits to Afghanistan and its comparative advantage would be affected. On the other hand, rules of origin are not yet negotiated. If it excludes light manufacturing products, Afghanistan's benefits would also be curtailed. Therefore, trade facilitation should be a high priority for Afghanistan.
- Second, on opening Afghanistan's markets to India and Pakistan, there is a fear that Afghanistan's markets would be flooded by imports from the two countries. SAARC countries face 4.2 per cent simple average tariff and 3.3

¹⁵ Nuzhat Khanum, "SAFTA: A South Asian Perspective-III", *The World Trade Review*, Vol. 7, Issue. 11.

¹⁶ *Ibid.*

¹⁷ *Ibid.*

¹⁸ *Ibid.*

per cent trade-weighted average based on existing imports, whereas 92 per cent of Afghanistan's tariff lines are already according to SAFTA standards, *i.e.*, 5 per cent or less.¹⁹ Therefore, how much Afghanistan would be willing to open its markets remains to be observed.

- Third, important concern is the effect of SAFTA on revenues. Tariff revenues are the biggest source of revenues for Afghanistan. Domestic revenues account for roughly half of government revenues, whereas 60 per cent of revenues come from custom duties.²⁰ SAFTA membership would lead to reduction of customs revenue from India and Pakistan. Afghanistan's potential losses in SAFTA imports would therefore nearly be 11 per cent, whereas loss of customs duties from SAARC countries may possibly be a minimal of 1.71 per cent.²¹ Hence, there are apprehensions on this issue in Afghanistan.

Advancing Connectivity

It is widely known that Pakistan had been building a four-lane highway that would have linked Afghanistan to India through Pakistan. One estimate showed that about 70 per cent of the highway had already been completed,²² which needs re-examination. On the contrary, since 2002, India, Iran, and Afghanistan had formalised cooperation on development of Iranian port, Chahbahara to serve as transit point for goods traffic to and from Afghanistan.²³ Simultaneously, India, over the last few years, had also been demanding transit facilities to reach Afghanistan and Central Asia through Pakistan. However, recently Pakistan and Afghanistan have signed a 'historic' transit agreement allowing Afghan lorries to use a land route²⁴ through Pakistan to carry goods to India, and giving Afghanistan an access to Pakistani ports to boost its trade with other countries.²⁵

The initiatives indicate that Afghanistan is now at the centre of trans-national transport connectivity. However, political supremacy over people's benefit and mistrust between India and Pakistan along with Afghanistan's political instability necessitate advancing arrangements for formal regional physical connectivity among the countries concerned.²⁶ Therefore, Afghanistan's accession to SAARC may offer a new multilateral dimension to India's quest for an overland transit

¹⁹ Available at <http://www.cassindia.com/fullarticle.asp?recno=167>, accessed on 20 July 2010.

²⁰ *Ibid.*

²¹ *Ibid.*

²² *Ibid.*

²³ *Ibid.*

²⁴ A sensitive Pakistani land route through the Wagah border crossing.

²⁵ "Pak-Afghanistan transit agreement signed Pakistan allows Afghan lorries to use its land to go to India", *The Daily Star*, Dhaka, 20 July 2010.

²⁶ Ishtiaque Selim and Mohammad Jasim Uddin, *op. cit.*

facility through Pakistan for trade and investment with Afghanistan and Central Asia. Similarly, the accession may potentially improve Afghanistan's connectivity not only within South Asian region but also between South Asia and Central Asia.

It is important to note here that from trade to energy hub, Afghanistan has already emerged to be a central focus of many nations. As its strategic location straddles between energy-rich republics of Central Asia and South Asia, sharing borders with Iran, Pakistan, China, Tajikistan, Turkmenistan, and Uzbekistan. With such an opportunity to exploit its geo-physical positioning, Afghanistan is now focused on integrating itself with trans-border transport networks²⁷, whereas SAARC has called for an extension of SRMTS²⁸ to include Afghanistan as well, and has proposed outlining Dhaka-Kabul corridor to enhance transport connectivity in South Asian region.²⁹ Therefore, it is expected that SAARC with its existing initiatives would help improving Afghanistan's physical connectivity in the region and beyond.³⁰

Food Security

The daily life of Afghan people was affected by Pakistan's policy of banning its wheat export in 2008.³¹ In a couple of weeks, the embargo doubled prices of bread and flour in Afghanistan.³² In effect, wheat price in the country at times becomes so high that many Afghans cannot afford to buy flour to make breads. Therefore, sufferings of the Afghan people in terms of food price hike make serious concern in the country. In this context, SAARC Food Bank (SFB), with its efforts towards developing numerous food security related projects, could help Afghanistan in meeting challenge of unforeseen food crisis.³³ The SFB could also supplement Afghanistan's national efforts to provide food security to the people of the country. Furthermore, it could likely build confidence in the mind of Afghan people that SAARC at least has the capacity to fulfil food requirement in a crisis period.

²⁷ Available at <http://www.mfa.gov.af/regional-cooperation.asp>, accessed on 9 July 2010.

²⁸ It is identified with road, rail and air links to South Asian region that would be extended to Afghanistan.

²⁹ Razia Sultana, *op. cit.*, p. 153.

³⁰ Sudeshna Sarkar, *op. cit.*

³¹ Pakistan, a net wheat exporter, had to buy wheat at a cost of US\$ 800 million from international markets to meet its domestic demand. As a result, Pakistan's spending on food imports had grown by 25 per cent in 2008. To manage food crisis and keep food inflation under control, government of Pakistan had imposed ban on export of rice and wheat. See, Ishtiaque Selim and Mohammad Jasim Uddin, *op. cit.*

³² *Ibid.*

³³ "SAARC Now Deliberates More on Action", *The Daily Star*, Dhaka, 27 May 2010.

About 12 per cent of Afghanistan's surface area is suitable for agricultural production, of which only 5 per cent is currently being farmed.³⁴ Conversely, exports of traditional agricultural products are currently rising once more.³⁵ Therefore, Afghanistan has prospect in agriculture and processing of agricultural product. In this respect, SAARC's efforts on increased sharing of best practices, technologies and techniques in agriculture, and on establishing a framework for transferring of plant genetic material and seeds might lead to increase in food production in Afghanistan. Besides, agreement that South Asian agriculture must benefit from collaborative efforts from within and among SAARC countries by undertaking specific agro-based initiatives and projects may facilitate Afghanistan's agricultural production to ensure food availability.

Reducing Poverty

Economic development is intrinsically interwoven with reducing poverty. Poverty, one of the most profound curse on the people of Afghanistan, could be well faced by various ongoing SAARC initiatives, and strong commitments from some SAARC observers.³⁶ As a member state, Afghanistan shall be a part of SAARC Development Fund (SDF) — a project of US\$100 million for poverty alleviation. SDF will cover mainly three windows such as social, economic, and infrastructure. Poverty alleviation issue would come under social window. Therefore, proposal to activate or operationalisation of SDF and a possible 'soft wing' might possibly be an important and visionary step for poverty alleviation in Afghanistan. Another important point is that there is an option of sharing best practices and ideas in SAARC initiatives on reducing poverty. Therefore, implementing and replicating microfinance project of Bangladesh would immensely help alleviating poverty in Afghanistan.³⁷ Moreover, Japan's strong desire to assist Afghanistan's rebuilding may possibly help the country to come out from chronic poverty, whereas China's motivation to discuss cooperative mechanism and carry out a comparative study on poverty reduction model might give a strong impetus to alleviate poverty in Afghanistan.³⁸

Potential in Energy Sector

Energy resources are crucial drivers of economic development. Afghanistan has reserves of copper, iron ore, gas, oil, and coal. At present, the country has 1.8

³⁴ Sudeshna Sarkar, *op. cit.*

³⁵ *Ibid.*

³⁶ Available at http://www.afghanistantimes.af/index.php?option=com_content&view=article&id=3711:saarc-can-play-vital-role-in-future-development-of-afghanistan&Itemid=69, accessed on 22 July 2010.

³⁷ Razia Sultana, *op. cit.*

³⁸ *Ibid.*

Trillion Cubic Feet (TCF) of proven reserve of natural gas as of 2011³⁹, 95 million barrels of oil and 400 million tonnes (mt) of coal, which could be mined or extracted to increase its energy trade and investment under the arrangement of SAARC.⁴⁰ Afghanistan can work as energy corridors through trans-border transport networks.⁴¹ The country can also be an important partner in South Asian energy market to secure its energy potential and fuel economic development.⁴² In this respect, Afghanistan's proposal to open corridors through Turkmenistan-Afghanistan-Pakistan-India is a good sign for the country.⁴³ However, a study on gas pipeline was prepared but it was not implemented because of unwillingness to involve Afghanistan in the project. As Afghanistan is now a member of SAARC, India and Pakistan can consider the venture with a concerted effort. The effort would facilitate Afghanistan's expected hope in developing a regional oil and gas pipeline to open its largely untapped market for business and investing on energy.⁴⁴

6. Concluding Remarks

This paper reveals that SAARC's role can be prospective for Afghanistan not to repeat its politico-economic isolation, to alleviate poverty, and promote economic development. To achieve maximum benefits from SAARC, Afghanistan should reset policy mechanisms to enable efficiency-seeking restructuring in various domains such as minerals, communications and agribusiness, whereas a special thrust must be given to areas such as power, construction, energy, and urban management from the perspective of trade and investment. To foster trade and investment, infrastructural development, customs clearance, and other facilitation measures including multi-modal transport operations must be reinforced, whereas SAARC should constitute adequate regional transit arrangements for developing road and communication links.

To get reasonable compensation and full benefit of SAFTA, Afghanistan should develop its fiscal and tariff structure as well as improve trade negotiation skills significantly in which other SAARC members extend their helping hand. At the same time, Afghanistan, Pakistan, and India should emphasise on deriving mutual trade benefits under SAFTA process of phased trade liberalisation programmes and agreed lists of commodities to be traded on which market access negotiations could be focused. For this, present sensitive lists of India for the LDCs under SAFTA should be maintained.

³⁹ Energy Information Administration of the US government.

⁴⁰ *Ibid.*

⁴¹ Connecting South Asia by land with Central Asia.

⁴² Available at <http://www.mfa.gov.af/regional-cooperation.asp>, accessed on 9 July 2010.

⁴³ *The Daily Star*, Dhaka, 4 April 2007.

⁴⁴ Available at <http://www.embassyofafghanistan.org/04.04newssaarc.html>, accessed on 14 July 2010.

Before the potentials to be harnessed, two things are important. One is building trust between India and Pakistan on the one hand, and Pakistan and Afghanistan on the other. And the second important thing is security situation of Afghanistan that must be stabilised, whereas the legal framework needs to be improved and infrastructure restored or built, which would help attract major players, both members and observers of SAARC, in economic development in Afghanistan.