

Islamic Republic of Afghanistan
Statement by Mr. Ziauddin Zia Senior Adviser to the Ministry of Commerce and
Industry

IN THE NAME OF ALLAH

Mr. Chairman, Excellencies, ladies and gentlemen.

Thank you for inviting me and my delegation to this important meeting and to the magical city of Prague. It is one of the most beautiful cities in the world. I would like to congratulate Kazakhstan for the active and qualified chairmanship of the OSCE and convening this Forum in this beautiful place.

Like the Czech Republic, Afghanistan is a landlocked country that lies at the center of many diverse trade routes. We are located at the crossroads of South and Central Asia and the Far East and Middle East. Historically, the country was situated along the Silk Road, the trading route that linked China with East Asia and Europe. Our geography has been our greatest advantage, but also our biggest weakness.

Trade in Afghanistan

Afghanistan was always a great trading nation. We prospered in the eighteenth and nineteenth century on the basis of free trade and commerce. We are firmly committed to become again a great trading nation.

After decades of turmoil, conflict and political unrest, Afghanistan faces enormous challenges in rebuilding its economy. But we are making great strides.

We are taking essential steps to facilitate trade, including efforts to reform customs, streamline transit procedures and reduce unnecessary legal and regulatory obstacles to trade.

We have adopted a comprehensive trade policy regime with relatively low tariffs on traded goods. This low tariff regime is in spite of substantial levels of informal trade continuing to move freely across our borders---as it has done for many centuries. Our average tariff is now 5.6%.

Tariff revenues remain the largest source of government revenue, accounting for more than 43 percent of total tax revenues. We are working to build a wider tax and revenue base.

Our growth rate, excluding opium, averaged over 10 per cent during the last six years, doubling per capita income.

The Afghan government has done well since 2002 in undertaking first generation policy reforms – less government and higher participatory role for the private sector in the economy (like banking and telecom sector reforms). For instance, we have one of the highest rates of phone penetration among Central Asian countries.

But Afghanistan is facing enormous challenges in the second-generation policy reforms-weak institutions, high cost of doing business, a weak knowledge economy, and poor infrastructure.

Our international trade has been steadily increasing, but is still dominated by imports. We import spare parts, machinery and vehicles, metal products, petroleum oils, fabric and clothing and tires and tubes. Cement, wheat flour, vegetables oil, sugar and tea are also big imports by value. Uzbekistan was the largest exporter of goods to Afghanistan in 2008/09.

We have had some success in developing niche markets for our main exports. Afghan carpets and dried fruits are world famous. We also export fresh fruits, marble, gemstones, karakul skins and furs. Tajikistan is our main export destination among Central Asian countries.

Afghanistan is remarkably rich in natural resources. There are 1400 identified mineral deposits in Afghanistan. These include energy such as oil, gas and coal, as well as iron and copper deposits of world quality. Furthermore, known precious and semi precious stones in Afghanistan include emeralds, jade, amethyst, alabaster, beryl, lapis lazuli, tourmaline, ruby, quartz and sapphire. Finally great opportunities for investment exist in the hydro carbon industry, following the national privatization program.

Mr. Chairman,

Transit and Transport Facilitation is our biggest problem, Afghanistan is a landlocked Least Developed country (one of the sixteen in the world). Bordering six countries with the nearest seacoast over 2000 km away. In comparison, landlocked Czech Republic is only 500 km from the ocean—and the highways are better.

For landlocked Afghanistan to be competitive, it is important that goods cross the border easily. Our external trade is dependent upon two main transit routes which cross Pakistan and Iran and offer primary access to sea ports. The north south corridor through Pakistan to India or to the Pakistan ports of Karachi, Port Qasim and Gwadar. The East West corridor connects Central Asia with the Iranian ports of Chabshar and Bandar-e-Abbas.

In the recent World Bank's "Doing Business" trading across borders indicator, Afghanistan ranked 183 out of 183 economies. Last. An export took 74 days with 12 documents while an import took 77 days with 11 documents. The only good thing about being last is that you can only move in one direction in order to substantially improve on

its trading performances. Afghanistan needs to streamline processes and reduce costs of importing and exporting goods.

Some of our main transit problems are:

- No access to the Central Asian railway system. The Central Asian railroad crosses Friendship Bridge, unloads its goods like fuel and wheat, and then the wagons return to Central Asia empty. Afghan exports are not allowed to be loaded on the rail wagons. More than 75% of transport in Central Asia is by rail and Afghanistan goods have no access to that rail network.
- Cargo transshipment. Afghan cargo is transshipped from one truck to another truck at the border. Transshipment is time consuming and costly both in terms of direct (handling charges) and indirect (loss and damage) costs.
- Container restrictions. International shipping lines do not allow their containers into Afghanistan. Containers are mostly un-stuffed at either port or near the border. Most of the cargo is subjected to multiple handling and most vulnerable to handling loss and damage.
- Lack of insurance. It is impossible to obtain insurance for cargo within Afghanistan. Cargo moves under either owner's risk or carriers' liability (at much higher freight rate).
- Difficulty in obtaining visas. Afghan traders, freight forwarders and truckers have difficulty obtaining visas from Central Asian countries.

There are also substantially higher transit costs with Afghanistan. These costs are a result of:

- Poor road conditions.
- Short internal hauls on many of the transit routes
- Insecurity in parts of the country, and
- Cumbersome and costly cross border procedures.

In spite of many transit agreements, neighboring countries create barriers to trade. Afghan transit cargo is subjected to customs' inspections. Afghan trucks are not allowed to load cargo from Bandar-e-Abbas port in Iran and Karachi port in Pakistan. Afghan-bound cargo is often delayed in the Karachi port for a long time, with expensive demurrage charges. Iran asks Afghan transporters for international driving licenses and third party insurance policies. We would like to become a member of international trucking union and to have third party insurance policies for journeys in the territory of Iran.

First. Afghanistan is taking steps to join multilateral trade bodies. We would like to join many of our Central Asian neighbors in acceding to the World Trade Organization (WTO). We submitted the memorandum of Foreign Trade Regime last year, and hope to have our risk WTO working group later this spring.

Also, our Parliament ratified the South Asian Free Trade Agreement (SAFTA) last month. This agreement sets up a free trade area to promote trade among the countries of South Asia. Under this Agreement, both Pakistan and India pledged to reduce their tariffs on Afghan goods to less than 5% immediately. This should significantly boost Afghan exports to South Asia.

Second. We need to re-think and strengthen our system of transit agreements so that they better reflect the reality of our goods and transport traffic. For instance. Our current transit agreement with Uzbekistan is subject to national law. It should be the opposite. Our national laws should reflect international standards and agreements. Perhaps the OSCE could help us develop a system of transit agreements that encourage trade, speed-up transit times, while taking into account countries vital security concerns.

Afghanistan is currently re-negotiating its transit agreement with Pakistan. In the past, Pakistan has complained about goods being re-exported or smuggled across the border. We have complained about the lack of proper transit facilitation. Hopefully, both sets of issues will be addressed in the new transit agreement.

Afghanistan was a member of the Transport International Routier (TIR), but its membership is currently under suspension. Implementation of the TIR Convention among the Central and South Asian countries would be a big help since 95% of goods transport in Afghanistan is by road.

We also need to ensure that our national laws meet international best practice. Afghanistan has recently passed a Law on the Transportation of Goods. It sets out the rights and obligations of freight forwarders, carriers and shippers. According to the provisions of this law, if Afghanistan is a signatory or becomes a signatory of any international convention, the convention has the force of law in Afghanistan.

Third. In addition to better trade and transit agreement, we need to establish a fair, secure and efficient visa system for traders and truckers to cross the borders. This may be as simple as traders and truckers obtaining yearly multiple entry visas. We could also establish a system of road permits for trucks of all parties –setting up branches or offices reciprocally to take care of the business they are doing in the partner, country. The OSCE could be of assistance in establishing a joint visa and road permit system.

Fourth. We need to strengthen our key border transit posts. To ensure that goods flow smoothly. For instance. Heiratan is the main transit point between Central Asia and Afghanistan. The Heiratan hub is an economic catalyst for the entire country. Most fuel, wheat, flour and edible oil enter Afghanistan via Heiratan. Over the last five years, we have built a new and expanded customs facility at Heiratan, with the financial assistance of the European Union. ASYCUDA, the customs integrated software system is operational for goods in transit.

But a lot more could be done to build Heiratan's capacity as a world-class transit hub for Central Asia. Suggested new facilities include.

- A trucking terminal
- A warehouse for cargo handling, with proper cargo stacking facilities and cargo handling devices
- A container and truck load receiving and dispatch area with electronic cargo screening devices to ensure security
- Refrigerated cargo storage facilities
- Parking facilities with hygienic sanitary facilities available to truckers.

Likewise, with US assistance, we have built a bridge between Tajikistan and Kunuz to re-establish our historical trading ties. The bridge also gives Afghanistan access to a direct land route to China. Trade and traffic between the two countries should increase substantially as Afghan traders take advantage of the Chinese go west program. In anticipation of the increased trade, we will be upgrading the border agency facilities. We will require assistance to build and maintain arterial roads to deal with a increased volumes of traffic.

In addition to building physical infrastructure, we need to strengthen the capacity on both sides of the borders to inspect cargo. We also need to improve cross – border cooperation through and exchange of information on customs and transit rules and procedures.

In conclusion, I'd like to reiterate Afghanistan's commitment to an open free trading regime and improved transit procedures. We hope to work with all our neighbors and partners here at the conference to identify measure that promote trade, streamline processes and speed-up the passage of goods at borders. Trade is the antithesis of war. It builds stronger relationships among countries, strengths economies, creates jobs, lifts incomes and brings peace. That is the future that Afghanistan wants. We hope that all of you help us achieve it.

Thank you very much for your kind attention.