

First Kabul Conference on Partnership, Trade and Development in Greater Central Asia

Nicklas Norling

Conference Report
April 2006



*Central Asia- Caucasus Institute
Silk Road Studies Program*

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*Published by the Central Asia-Caucasus Institute & Silk Road Studies Program
In Cooperation with the First Kazakhstan President Foundation*

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The Conference Report for the First Kabul Conference on Partnership, Trade, and Development in Greater Central Asia is published by the Central Asia-Caucasus Institute & Silk Road Studies Program.

The Central Asia-Caucasus Institute and the Silk Road Studies Program are a joint transatlantic independent and privately funded research and policy center. The Joint Center has offices in Washington and Uppsala, and is affiliated with the Paul H. Nitze School of Advanced International Studies of Johns Hopkins University and the Department of Eurasian Studies of Uppsala University. It is the first Institution of its kind in Europe and North America, and is today firmly established as a leading focus of research and policy worldwide, serving a large and diverse community of analysts, scholars, policy-watchers, business leaders and journalists. The Joint Center aims to be at the forefront of research on issues of conflict, security and development in the region; and to function as a focal point for academic, policy, and public discussion of the region through its applied research, its publications, teaching, research cooperation, public lectures and seminars.

© Central Asia-Caucasus Institute and Silk Road Studies Program, April 2006

ISBN: 91-85473-11-1

Printed in the United States of America

Distributed in North America by:

The Central Asia-Caucasus Institute
Paul H. Nitze School of Advanced International Studies
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Tel. +1-202-663-7723; Fax. +1-202-663-7785
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Distributed in Europe by:

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Conclusions and Policy Recommendations

The First International Kabul Conference on Continental Trade and Transport was organized jointly by the Central Asia-Caucasus Institute & Silk Road Studies Program and by the Institute of World Economy and Policy (IWEP) of the First Kazakhstan President Foundation. Its purpose was to take advantage of recent improvements in Afghanistan to reopen continental trade routes that have been closed for a century, and to build up long-distant trade as an instrument for generating prosperity and security across the Eurasian land mass. The conference considered trade in all directions, but a major focus was on how each country can benefit from opening major transport routes to the Indian Ocean, South Asia, and beyond. Over sixty persons participated in the conference. Among them were the authors of analytic papers on 12 countries (Afghanistan, Azerbaijan, China, Iran, India, Kazakhstan, Kyrgyzstan, Pakistan, Russia, Tajikistan, Uzbekistan, Turkmenistan, and Turkey) that will be published this summer as a book.

To realize the aims of a region-wide and continental trade network, there was a consensus among all that a regional basis including Afghanistan is essential. Recipient governments should place serious emphasis on trade and transport including roads, railroad, energy, and air services. It was agreed that efforts in these sectors should be pursued on the basis of partnership and that the relevant governments make necessary organizational changes to carry out policies on a regional basis.

The conference resulted in the following three major recommendations:

1) To immediately open Kabul airport to regular air links with all Afghanistan's Central Asian neighbors and also with its likely future partners in continental trade.

It is impossible to dream of continental trade across Greater Central Asia when the regional capitals are themselves so poorly connected by air, and when Kabul is all but unreachable from many neighboring capitals. This problem demands urgent attention from governments, financial institutions,

and the private sector. The conferees believed that part of the problem lies with the continuing role of state-owned airlines in the region. Thus, the Afghan state airline, Ariana, has discouraged other carriers from serving Kabul, without improving significantly its own poor service. The First Kabul Conference therefore recommends that Ariana Air be privatized, that Kabul be opened to competition from all quarters, domestic and foreign, and that Kabul airport be modernized to the degree necessary to bear increased traffic.

2) To reduce the lengthy waits imposed on freight transporters at border crossings throughout Greater Central Asia.

A recent survey of continental truck drivers passing through Afghanistan/Central Asia brought astonishing results. The objective was to identify the chief impediments to trade. Hardly any of the drivers cited security or corruption as impediments. Barely a third cited poor roads. But 96% of them pointed to long delays at border crossings as the most serious impediment to trade. Participants in the First Kabul Conference were well aware that many international development agencies and financial institutions are working to reduce these border delays. However, from the truckers' perspective, the results of their efforts to date are negligible. The price of this poor response is billions of dollars of lost revenue to all the countries of the region, and notably Afghanistan. Conferees did not believe that the issue has received either the institutional attention or financial support needed for its speedy resolution. They believed that institutions claiming to be grappling with this issue are blind to the opportunity cost of their slow response.

Accordingly, the conferees urgently call on governments, international banks, and development agencies to redouble their efforts to reduce border delays. They strongly urge that regional countries (possibly led by Kazakhstan), the Asian Development Bank, and interested outside parties including the United States, convene a conference to set firm timetables and garner necessary support for early progress on this issue.

3) To reorganize International Financial Institutions and governmental ministries in order to place Afghanistan and the other countries of Central Asia under a single bureau that will facilitate region-wide coordination of projects and initiatives across all Greater Central Asia.

Nearly all governments and international financial institutions are still organized along lines reflecting the old borders of the USSR. Thus, the

former Soviet republics of Central Asia are grouped with countries to their north or west while Afghanistan is consigned to some other entity. The result is that wooden bureaucratic practices prevent a region shaped by 2,500 years of common culture and interests from regaining its larger identity. The practical consequences of this practice are uniformly unfortunate. Complementary interests are ignored, and potential synergies neglected. Worse, such bureaucratic divisions retard the process of reopening the great continental trade routes that are the region's most promising engine of future economic growth. For this reason, the conferees appealed unanimously to national governments and international agencies to reorganize themselves in such a way as to reflect the reemerging reality of a Great Central Asia that includes at least the former Soviet states of Central Asia and Afghanistan.

Keynote Speeches

H.E. Kassymzhomart Tokaev, Minister of Foreign Affairs of the Republic of Kazakhstan: “Strengthening of Intra-Regional Ties”

Dear Mr. Chairman, Dear Conference participants! First of all, I would like to express my gratitude to the organizers of the conference, and in particular to the well-known researcher Frederick Starr, for the invitation to speak before you on the timely question of regional cooperation. In my view, this topic is of essential importance to the future of the peoples of Central Asia. The question is extremely urgent: Do the preconditions exist for forming a new geopolitical and geoeconomic reality, which might be called Greater Central Asia? Does one sense interest on the part of the governments of the region in entering into such a body?

Central Asia since long ago has formed as a single cultural and economic body. But in the 19th century, as a result of foreign interference, the region's unity was disrupted. It is telling that it was Afghanistan, for a number of historical reasons, which turned out to be a dividing line on the huge area of Central and South Asia. A new entity which used to be called the Middle Asia and Kazakhstan was formed spreading from the northern borders of Afghanistan to the borders of Russia and China, including Mongolia. The very fact that this conference takes place in a new Afghanistan is a testament that this country has now an entirely new role to play as a unifier in the vastness of Asia. It is gratifying that Central Asia is regaining its importance in the global economy. The countries of the region are developing their transit capabilities, becoming suppliers of valuable goods to world markets, such as oil and gas, mineral ores and agricultural products. We can already foresee the outlines of new routes for oil and gas pipelines, roads and railways in the 21st Century which more or less follow the routes of the great Silk Road.

Central Asia is located at the crossroads of trans-continental transportation corridors and all of these have vast transportation and communications network. Countries of the region have an outlet to the Persian Gulf via Iran,

as well as to the Indian Ocean through Afghanistan and also Pakistan. The cumulative economic potential of Central Asian countries is quite high. The reason goes to significant human, natural and industrial resources, and approximately 84 million people live here, and the aggregate volume of the region's Gross Domestic Product totals more than \$100 billion annually. It is also gratifying that the idea of a Greater Central Asia is being discussed at many levels. Projects of regional integration and development have been offered by the World Bank, Nation Development Bank, the United States Trade and Development Agency, United States Agency for International Development and other international institutions. We estimate that there are at least 100 projects and development programs in Central Asia today. They are being implemented jointly by regional states, donor states, and the international institutions. These projects are aimed at harmonizing and developing transit transportation roads and removing obstacles for transit trade through bilateral and regional agreements. The geographic scope of the programs being developed or implemented in Central Asia is quite wide, reaching the territory of traditional Central Asia including Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, Turkmenistan, and Afghanistan. In some cases these programs also encompass parts of territory of Pakistan and Iran, Azerbaijan and Xinjiang Uighur Autonomous Region of China, the Russian regions of the Urals and Western Siberia as well as Mongolia. Experts also believe that it is important to develop stable political and economic relations with neighboring Turkey, the United Arab Emirates and India.

Kazakhstan is strongly committed to regional cooperation, it is a priority for us. Being a regional leader, Kazakhstan can and is willing to bring meaningful contribution to the restoration of Afghanistan and the creation of a Greater Central Asia which we view as a civilizing and economic entity aimed at ensuring security and development of the region. We believe that to reinforce stability and develop integration in Greater Central Asia, calls for a consolidated effort on the following priorities: First, promotion of regional transit trade. Second, energy. Third, development of a regional transportation infrastructure.

However, we need to take into account the existence of serious barriers and obstacles along this route. These include a lack of clear coordination of efforts among the countries of the region and the international community to develop Greater Central Asia. The continuing elements of instability in some

countries, as well as delay economic priorities, laws and other complicating factors. As an example I know the need of a solution for issues of fair and rational use of trans-border agreements in Central Asia. Future stability and security of the region depends to a great extent on the solution of water issues among the countries involved. Kazakhstan considers efforts of the regional states should be directed at overcoming the existing problems and orchestrating coordinated approaches to creating a free-trade zone, and a regional common market. In this context we highly evaluate Draft Silk Road Strategy Act of 2005 aimed to amend the United States Foreign Assistance Act of 1961. The matter specified in this document should promote consolidation of unified position among regional countries in dependence on the development of regional cooperation in trade, investments, and transport. The importance of Afghanistan in these processes is unquestionable. The restoration of Afghan statehood as well as the dawn of its social and economic revival offer significant prospects for regional cooperation. We in Kazakhstan are very much enthusiastic about the strategy of development of Afghanistan offered by its government. That strategy was adopted at the Afghan compact during the recent conference in London.

We support intensification of economic cooperation within the frameworks of regional organizations such as the Economic Cooperation Organization, the Shanghai Cooperation Organization, the Eurasian Economic Community, CAREC and the regional SPECA program. Positive results from these efforts will allow reconnecting Afghanistan with the outside world, restoring the infrastructures and communication between Central Asia and South Asia as well as ensuring the supply of energy resources to the growing economies of South Asia. It is important to mention a project to construct a highway from Almaty through Bishkek, Osh, Dushanbe, Kabul and Kandahar on to Pakistan which is being jointly financed by the World Bank, the Asian Development Bank, United States and Japan. In 2003 the First International Ministerial Conference on land-locked states was held in Almaty accepting the Almaty program for development of transit transportation routes, and Kazakhstan has joined this agreement to create a North-South transportation corridor. The most pressing challenge for the short-term is ensuring the stability and security of Afghanistan, and the fight against drug production and trafficking. This is a must. It should be accompanied by a simultaneous restoration and construction of the physical infrastructure of Afghanistan. Kazakhstan calls upon the government of

Afghanistan to join the memorandum of understanding on drug control in Central Asia signed by the countries of Central Asia and the United Nations Office on Drugs and Crime in 1996.

As I said earlier, Kazakhstan has been a strong advocate of regional cooperation and integration. Our initiatives are widely known, in the beginning of the 1990s we know that our region has fallen off the screen of the United Nations and proposed a UN Economic and Social Commission for Central Asia which has now taken the form of the United Nations Special Program for Economies of Central Asia, the so-called SPECA program. Today, this is an active international project. Afghanistan became a full member at the regular session of SPECA's Regional Advisory Committee last aligned in May last year. Kazakhstan's initiative in convening the Conference on Interaction and Confidence-building measures in Asia (CICA) which has already been recognized as a factor into world politics and favorable climate for ensuring security in Asia. Currently 17 countries, including all countries of our region, and Afghanistan, are members of CICA. We also see benefits in the trade and investment framework agreement Ortifa, spearheaded by the United States as a means to promote regional trade. Kazakhstan also supports the Japanese initiative to invite Afghanistan into the Central Asia + Japan dialogue as this forum also aims to intensify regional cooperation.

We strongly believe that Afghanistan's participation in these forums and initiatives will be beneficial for regional cooperation. We are confident Afghanistan's interaction with the Shanghai Cooperation Organization and the Central Asian Regional Information and Coordination Centre and the joint struggle against drug-trafficking and international terrorism is of vital importance for maintaining stability and bringing sustainable development in the region. In our turn, Kazakhstan has repeatedly stated, including at the London conference, its willingness to provide comprehensive assistance to Afghanistan in many areas. This morning I had the privilege to have a meeting with the President of Afghanistan Mr. Hamid Karzai and we have been talking about bilateral interaction in many areas, including a proposed participants in investing in the economy of Afghanistan, of private companies, in particular construction companies are very much willing to come into Afghanistan to invest. So, we have some financial opportunities and I have already invited members of the Presidential administration and members of the government to come to Kazakhstan very soon. We are going

to host the meeting of the Joint Governmental Commission led by the co-chairman from both sides in order to talk about the existing opportunities in regional trade. So the common aspiration to develop mutually beneficial ties between Central Asia, the Near East and South Asia has brought us to the capital of Afghanistan so we can realize our shared interest and begin working together on a Greater Central Asia as a region which could become the new factor of long-term growth for the world economy.

Thank you for your attention!

Richard A. Boucher, United States Assistant Secretary of State for South and Central Asian Affairs

Thank you very much Dr. Starr. I would like to thank you and the Senior Minister for having me here today. It is such a pleasure to be in Afghanistan with all of you, speaking Chinese with the Kazakh Foreign Minister about regional integration. I think we have something here that really transcends anything any of us have done before, and that is why it is so exciting for me to be now in charge of a bureau of South and Central Asia. Perhaps the most important word is the *and*. That is where we have to figure out the conjunction, we have to figure out how they join together. We have, I think, seen copies of the map of my new bureau, all of your domains, passed out, and I could immediately sit down and hear a session saying that the map is not big enough, that South Asia and Central Asia are much greater than even I thought. So whether it is Great Central Asia, South Central Asia, or Greater Central Asia, the possibilities are many and the difficulties are enormous, but I think we all realize that the potential is there and if we work on it we can make something of it.

We look at this as a real historic opportunity and as a strategic opportunity for everyone because of a couple of factors: one is the end of the Soviet Union. And as you know, since the fall of the Soviet Union we have treated the countries in Central Asia in various ways: we have had offices called FSU, the Former Soviet Union; we had the CIS, the Office of the Commonwealth of Independent States; and then we had for a while the Newly Independent States, which was a separate entity and we moved it back into the European Bureau. Now I think we are finding a place where they can stand on their own and they can stand with some friends in the south, and be a strategically important part of the world in their own right, and not be a former anything or dependents of anybody else. And that is in our mind what this means. But it is all possible to think this way because Afghanistan is no longer a barrier. Afghanistan was an obstacle to any kind of interaction in this corridor, by virtue of its history, by virtue of the wars, and invasions, and the civil wars, not to mention the mountains. And now suddenly Afghanistan looks like the pivot, and every organization in the world, in this region, seems to need Afghanistan as one of its key members. So I think this

bodes well for an expansion of the Afghan Foreign Service, not least because there might be plenty of people needed to go to all these conferences. But I think it also speaks of how we ourselves are thinking, and how many different groupings in the world are thinking about the possibilities here. And it is an exciting time.

And it all goes back to the fundamental fact that the Silk Road had a reason. The Silk Road had a geographic reason and it had an even larger logic to it, of Asia and Europe, of North and South, of Central and South Asia, the great civilizations of the world finding ways of things moving back and forward between Asia and the Middle East, or Asia and India. It was a place where markets met, it was a place where trade met, it was also a place where ideas met, and once again it is a place where all the ideas of the world are meeting and hopefully contributing to the development of this region.

The United States has very serious and long-term interests in this region and I think this is shown by the pattern of our interaction, the official visitors, Secretary Rice's trip last October to Central Asia, the President's trip just last month in early March to Afghanistan and Pakistan and India. It was such a thrill for all of us to be here with the President, to have Air Force One sitting on the tarmac in Afghanistan, and I think to show in that way, as well as the involvement of our military forces and others in the stability of this country, how important it is to the United States that Afghanistan is able to rise as a stable pivot point for the entire region.

Our interests are interlinked, in the whole region. They fall obviously in the area of security but also economic development, and the reform process, both political and economic reform. Progress in all these areas we know is going to be vital for long-term stability and prosperity. I have to say there is a lot said about us in this region. I say flat out: We are not here to overthrow governments, we are not here to disrupt governments. We are here to try to emphasize the independence, the prosperity, the integrity, of the states in the region and help them achieve what we would call democratic stability, through positive change. It is based on the feeling that that potential is here, that those ideas are in this region, and that all the people in this region and elsewhere have a God-given right to decide their own mind, to educate their children, to open businesses, to find jobs, to live in peace, and to chose their own leaders. And nobody in this region is any exception to that.

We think the way to achieve those goals is by giving nations and people in this region options and opportunities. I think those are two words you will hear a lot from me today, that you will hear a lot from us in the future, as we talk about strategy in this world. Nations should not be left with only one market, they should not feel squeezed between two powers. They need other options, and the United States is here to help maximize and help provide other options. India is obviously on the horizon, and Japan and other places like that. People who have goods that need to be sold, need to be able to sell them wherever they want, and not be stuck with one set of pipelines, or one set of trading routes. And that is why we think these routes to the south can really make a difference.

The regional integration that we are talking about and that has come up today has been transportation, it is energy, it is trade, it is communications, it is cooperation, it is free trade. And we are looking really to maximize the movement of energy, people, goods, of information, from the Kazakh steppes to the Indian Ocean. In doing so, we think we can jumpstart the economies along this axis, as well as give Afghanistan the access it has not had for a long time to a much wider world.

We recognize, first of all, that we are not doing this alone. Signs of such interest in a conference like this, are clear. The conferences the Afghan government itself has held attracted a lot of interest in the region, and from far away, and I think everybody is working on some of the same ideas. What we all need to do is take a lot of these concepts and try to turn them into reality. And in that we are really joined by the international financial institutions—the Asian Development Bank, the World Bank are really active out here. We want to continue to emphasize the ties that the nations of Central Asia have developed with Turkey and with Europe, with the European Bank for Construction and Development, with NATO, with the Organization for Security and Cooperation in Europe. All of these ties are very important. And again, options and opportunities, it means not losing the aims and connections that anybody has now, or not challenging them, but inviting the expansion of all those ties, including the new ones to the south. We also emphasize our cooperation with governments, and of governments with their neighbours, regional institutions, the South Asian Association for Regional Cooperation, and their free trade zone. It is very, very, important to us that these grow and that these include Afghanistan, and we start making links into the Central Asia Regional Economic Cooperation and their trade

and investment framework agreement, that we have helped create, and have talked about.

Also remember that, despite all the trouble we read about in the newspapers, this region is very dynamic right now economically. Pakistan and India are growing at 8% per year, and I think the numbers of Afghanistan last year were 14% or something like that, which is pretty astounding and very impressive. I think the private sector economic opportunities here are quite strong, and that we need, as we open up the avenues to the private sector, as we get rid of the government barriers, and impediments to trade, that private sector money will flow. Entrepreneurs will find the opportunity and see the opportunities of regional trade as well.

Our contribution from the United States: we think of ourselves as perhaps an engine of change, a facilitator, a convenor, for all these opportunities that exist. We are involved in each of these specific areas--transportation, with the Afghan ring-road, along with some of our partners and trying to get that road then the connections, onward connections, through the bridge to Tajikistan, a \$33 million project that should open in 2007. Part of that is to work on the customs facilities, the border crossing facilities, so that the border crossings from Afghanistan to its neighbourhood are very smooth and expedient.

Energy: as you know, we have worked long and hard on various pipelines from Central Asia. Now we are looking at how to help the links from Kazakhstan and other places across the Caspian and into the Baku-Tbilisi-Ceyhan link. We are making contributions—major contributions—to the electricity grid in Afghanistan because like the ring-road, we see that as a pivot point, to bring electricity from the north down into the markets in the south, not only Afghanistan, but also Pakistan and onward to India. So we are working with international financial institutions, working with U.S. investors on the Afghan-Tajik links for the electricity exports, and we hope that will blossom. We are sponsoring a major conference in Istanbul in June by the U.S. Trade and Development Agency and we hope that will be a successful conference and will have attendance from all the countries of the region, because there really is a lot of potential on the electricity side.

On trade, we are working with the Central Asian nations and Afghanistan to lower regional trade and investment barriers. The Agency for International Development is also working on the customs size, customs reform, in order

to harmonize, streamline, and strengthen customs clearance. There are a lot of other areas we are looking at: railroads, this morning we talked a little bit about air traffic possibilities, and an integrated air traffic network is obviously something that is needed, and other ways to maximize the flow of ideas, communications, energy, goods through this region. Underlying all this, though, we see a couple of keys to success, keys to success for the whole region, and keys to success for individual nations in the new economy in the new region, to really make something of these possibilities. It is good to have roads, it is good to have electricity, it is good to have the customs and border posts, but somebody has got to do the trade, somebody has got to find the opportunities. And to do that, let me talk about four fundamentals that can help support anything, any new opportunity in the region.

The first is education, and I think we have been investing a lot in education in the region. There are tons of numbers you can use: I like the 48 million text books in Afghanistan alone that we have helped produce. We spend about \$100 million a year in Pakistan on education, from the primary level and now increasingly in the upper levels of sciences. We have in this region countries with long and very important traditions of education. The people in Central Asia and some of the classical learning from there or the Indian achievements, not only in ancient days but also in some more recent days, with their schools. So, again, the Indian example shows what you can do when you really build your education system and that is something we want to help do throughout the region.

The second one is the investment climate: domestic reforms, economic reforms, making it attractive, if possible, for investors, not only foreign investors, but domestic capital investments. Usually if you can retain your own capital, if you create the right conditions for domestic peoples who invest, and then you open up the same conditions to outsiders, you will attract the outside investments. Having a good investment climate across the board is a catalyst to the kind of reforms and contributes to the diversification of economies and the diversification of exports, and trade.

The third is transparency and anti-corruption efforts. Corruption steals, corruption steals from economic growth. Most studies say at least 1% or 2% a year. It steals from the people who are most disadvantaged in society. It steals from the reputation of integrity and honesty that people in government should have, and it is probably one of the most pernicious and undermining effects of any growing economy and I think we all know that in this region it

is something we need to attack. And a lot of that corruption that we see is coming through the narcotics trade.

Narcotics, one of the most corrosive things for any society, also even in neighbouring countries, even in transit countries, is corrosive in terms of its effects, as corruption, as organized crime, and it is a threat to the whole region. Not only do we need to fight it here in Afghanistan at the current source of much of the poppy, but we need to fight the transit and make sure that all these new linkages do not just become new routes for the narcotics trade.

Finally, I think the other foundation I would cite is the rule of law. Both for investors, for relations between states, for transits and trade, things need to be based on a very solid and clear rule of law, and that is something we are trying to work on in all of the countries of the region. I think the countries themselves are moving very strongly in that direction.

The bottom line for us is that the United States is ready to do its part. We hope to help maximize the options, the opportunities, for the nations of the region, and the people of the region as individuals, and groups, as companies, as investors, as members of healthy, strong and prosperous, safe, secure societies. All of that is important. I am just thrilled to be here, I am thrilled to be working with all of you, and I look forward to working with all of you as we try to attain these goals in very real and practical ways.

Thank you very much, it's a pleasure to be here.

Introduction

This report is a brief digest of the discussion and results of the First Kabul Conference on Trade and Development in Greater Central Asia (GCA), held in Kabul on April 1-2, 2006. The conference was organized jointly by the Central Asia-Caucasus Institute/Silk Road Studies Program of Johns Hopkins University and Uppsala University, and the Institute of World Economy and Policy (IWEP) of the First Kazakhstan President Foundation. At the event, over 60 experts and officials from throughout the region met to discuss how each country in the region can benefit from region-wide and continental trade, what it must do in order to reap these benefits, and how the U.S. can work in partnership with regional states to bring this about. The conference was made possible through the kind sponsorship of the Smith-Richardson Foundation.

The conference considered trade in all directions, but a major focus was on how each country can benefit from opening major transport routes to the Indian Ocean, South Asia, and beyond. A special emphasis was put on the role of Afghanistan in the center of a regional and continental trade network, and how Afghanistan can benefit from regional cooperation. The aim of the conference, and the initiative, was and is to capture the current dynamics of the region, identify the major impediments to continental trade, the opportunity costs of not cooperating, and to develop a practical program of action for donor countries and organizations in partnership with the GCA countries. A key aspect of this initiative is the importance of moving beyond a strict focus on regional trade, include neighbouring countries to GCA, and consider how a Eurasian continental trade-network can bring mutual cooperative gains.

This initiative could not be more timely. The Central Asian nations have passed the first stage of nation-building and are today in a crucial phase of building national institutions. After a century of almost constant instability and conflict Afghanistan has the possibility, and indeed the necessity, of being part of this partnership. Afghanistan has made significant progress

since the Taliban regime fell, but there is more that needs to be done, and this can only be done in cooperation with neighbors.

The New Context of Trade in Eurasia

During the Soviet era cross-border interaction and trade between Central Asia and the southern neighbors of Afghanistan, China, and Iran were minimal. Under Soviet rule, the five Central Asian nations of Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan were effectively sealed off from international trade. Infrastructure in Central Asia was interconnected to the rest of the Soviet Union and possibilities for cross-border trade were few. The disintegration of the Soviet Union has however significantly altered the opportunities for cross-border trade in, and with, GCA. Potential for trade between China, Afghanistan, India, Pakistan, Iran, the five Central Asian nations, and all the way to Western Europe is now considerable leaving much room for improvement in trade complementarity, regional development, and cooperation.

Forecasts on continental trade development confirm these opportunities. The total trade volume between Europe and Asia is expected to increase from 300 million tons in 2000 to 460 million tons by 2015. Similarly, between 2002 and 2015 container trade will expand in the East-West direction from 8.5 mln tons to 17.9 mln tons and in the North-South direction from 3.5 mln tons to 7.3 mln tons. These booming trade ties have several explanations. Besides the break-up of the Soviet Union and increasing demand for consumer goods, growing energy needs are forcing Europe, China, India and other large energy consumers into the markets of Central Asia, the Caucasus, and the Middle East. Central Asia and the Caucasus here provide two alternative options for energy diversification away from the Middle East, and further potential resources to sustain China's and India's modernization drives.

Alternative transport corridors between Europe and Asia are here becoming more and more important to reduce pressure on overburdened maritime shipments and congested sea-lanes. These are developing in both East-West and North-South directions, linking the major powers of the Eurasian land-mass. Despite concerns over the competitive potential of some of these routes, they have proven more and more to be viable and preferred alternatives. For example, it has been estimated that the North-South route running from India to Iran and via the Caspian to Russia could shorten

transport time by 10-20 days and would cost less compared to the route via the Mediterranean and the Suez Canal. India, in turn, is engaging in transport projects to connect Afghanistan with Iran, and Iran sees Afghanistan as a corridor to Xinjiang and as a transit corridor for an eventual pipeline from the Caspian. China is restoring roads to South Asia and Europe, and is engaging more and more with the Russian and Central Asian economies.

Yet does this mean that emergent opportunities have been taken advantage of? It is in fact more or less the opposite: governments in the region have been slow to adapt to this new context, there has been a continual failure to grasp the potential of continental trade, and continental trade is still in its infancy. Explanations for this are found not so much in economic rationality as in political factors and old thinking. Part of this old thinking is that trade is best done regionally, and that interdependence should be regional. Trade should be within South Asia, Central Asia, Europe, and East Asia and not between them.

These are the circumstances requiring a new thinking towards trade on the Eurasian continent. The regional boundaries dividing Eurasia are slowly dissolving and the Silk Road that crossed the region is revitalizing; regionalism is increasingly becoming an outdated form of interaction, while continental trade is opening further vistas for cooperation. The question for governments in the region to consider today is whether they want to be a part of this or if they want to stay outside.

Where is GCA in this New Context?

Greater Central Asia is in the middle of this emerging continental trade network. Surrounded by China, India, Pakistan, Iran, Turkey, Azerbaijan, Europe and Russia, GCA has the opportunity to be the main transit region for goods moving between Asia and Europe. The traditional division of the GCA region into Central Asia and South Asia is becoming increasingly obsolete. Unfortunately, many assessments of trade in Eurasia, including those prepared by institutions concerned with trade (most notably the International Financial Institutions), still think in terms of this division. Afghanistan, having the peculiar situation of being in the geographical center of the region yet on the periphery of both Central and South Asia, has likewise all possibilities of being the primary transit country in a regional and continental trade network. It is only of late, however, that this potential of

Afghanistan, at the crossroads of both the East-West and the North-South trade routes, has been recognized. As stated by Kazakh Foreign Minister Tokaev in his keynote speech: "The very fact that this conference takes place in a new Afghanistan is a testament that this country has now an entirely new role to play as a unifier in the vastness of Asia." Recent reorganizations of institutions dealing with these matters are a sign that this idea is gaining currency elsewhere.

The State Department has recently reorganized its bureaus to include Central Asia in the new Bureau of South and Central Asian affairs. This is an important first step in recognizing the interconnectedness of the regions and Afghanistan's role in the center of this. Likewise, the recent membership of Afghanistan in the Japan Plus Central Asia dialogue is something which will further and enhance Japan's commitment to stabilizing and developing the GCA region, with Afghanistan as a pivotal country in it. The 2300km ring road being built in Afghanistan with Japanese and American assistance to connect Herat, Kandahar, Maimana, Mazar-e-Sharif, and Sheberghan with Kabul, will serve as a round-about for both the East-West and the North-South trade corridors. The ring road will demonstrate how Afghanistan is particularly well positioned to reap benefits from continental trade: connecting India and Pakistan with the five Central Asian republics in Afghanistan's north en route to Europe from the Indian Ocean. This is why continental trade is important—it has the potential to lift Afghanistan and its neighboring countries out of poverty, instability, and dependence on narcotics production, and thereby reduce the appeal of extremism and terrorism. The interlinked challenges of security as well as political and economic reform in the region can only be achieved by promoting a greater interaction and trade between these countries.

Why trade? Because trade spurs specialization, which, in turn, facilitates economies of scale. Economies of scale increase competitiveness and stimulate economic growth. The policies of protectionism and self-sufficiency pursued by the Central Asian governments have failed to capitalize on this and have successfully reduced the potential for economic development. This has even more devastating effects, considering the land-locked character of the region and the high transport costs imposed on goods. This is also closely intertwined with security in the region, as any failure to open up the economies, build infrastructure, cooperate, or include Afghanistan in a trade network will certainly reduce both short-run and long-

run prospects for stability. This is even more urgent considering the young population of the region. In Tajikistan over 50% of the population are below 18 years of age, making it even more important that economic development give this generation opportunities and futures other than drugs and extremism. There is today the possibility to give these youth the chance to be in the middle of a dynamic regional and continental market, stretching East-West from Shanghai to Rotterdam and North-South from Barnaul to Delhi.

There should be no doubt that the task, and required efforts, in developing region-wide and continental trade are massive. Steps to be taken require political will from governments as well as donor countries and organizations willing to finance the development of basic market-institutions. Twenty-five years of war in Afghanistan, long-standing mistrust and wars between India and Pakistan, and isolated economies throughout the Soviet period have interrupted the intrinsic interdependence of these regions, countries, and cultures. This has had disastrous consequences. Today, the situation is fortunately different. Afghanistan's reconstruction is progressing rapidly; India and Pakistan are making progress over the Kashmir issue, however slow; and almost all countries in the region are strengthening trade relations with their neighbors. What makes integration and greater interdependence in the region inevitable is the simple fact that the countries cannot afford to be without each other. All are likewise dependent on Afghanistan's stability and re-integration into the regional economy. International institutions should reorganize themselves, adhere to a GCA concept including at least the five Central Asian republics plus Afghanistan, and better reflect this new emerging reality.

Growing engagement by the U.S. and partners in bridging South and Central Asia has brought the first progress to this goal. The bridges built over the Panj River linking Afghanistan and Tajikistan are finally obliterating the remnants of the Soviet legacy. Other projects are doing similar work. Highway upgrades in Pakistan along the North-South corridor together with new bypasses have reduced the distance from Karachi and Gwadar to Afghanistan and the Central Asian markets by 500km; development of the Gwadar port in Pakistan, as well as the Bandar Abbas and Chah Bahar ports in Iran will provide the GCA countries with outlets on the Indian Ocean and Arabian Sea; and the newly opened Kulma-Pass connecting Pakistan and Xinjiang via Tajikistan will give further opportunities for an integrated South and Central Asia region. In the center of this runs an arterial highway

from Almaty through Bishkek, Osh, Dushanbe, Kabul, Kandahar and on to Pakistan promising great benefits to the population of the region.

Even if lack of political will has been an obstacle throughout the post-Soviet period, this also is approaching a turning point. Political will has increased in the region, primarily so in Kazakhstan and Tajikistan, and Pakistan is showing an increasingly pragmatic attitude to regional cooperation and trade with Afghanistan.

The Most Important Obstacles to Trade Identified During the Discussions

These are the prospects that brought the conference participants to Kabul. However, a precondition for realization of this potential is that necessary infrastructure be built, and that governments place serious emphasis on its efficient operation. Poor infrastructure and inefficient management are major impediments to trade, and a source of frustration among traders and truckers. This applies especially to transport facilities in road, railroad, energy and air services, as well as to weak banking, customs and financial systems. Although all of these sectors need considerable attention, and all were mentioned as problematic by discussants, there are some important priorities to be made here. Having a regional or continental approach when assessing these problems is crucial, as one bottleneck may impede an entire corridor.

Road Transport

Most, if not all, speakers argued that the removal of impediments in the road transport sector is of crucial importance for continental trade. Long delays at customs points and border crossings were identified as the most serious concern to most, while bad roads, security, or corruption were of less concern. This apprehension is also confirmed by a recent survey of continental truck drivers passing through the GCA region. Almost none cited security or corruption, while only a third cited poor roads as impediments to trade. However 96% of them pointed to delays at border crossings as the most significant impediment to trade. This is not to say that security, corruption, or bad roads are negligible, but it do suggest that significantly more attention should be paid to improving customs and border-crossing efficiency rather than to repairing roads. At present, haulers have to wait for days at borders, are burdened with fees, and there is no regional standardization. Visa requirements and extensive formalities slow down the process significantly and capacity at borders has not kept up with the expansion of trade.

A good example of the border bureaucracy and its effects on trade was provided by the country paper on Afghanistan. Quoting a World Bank study of the excessively bureaucratic border procedures in the region, the paper revealed the number of signatures required for imports into Afghanistan to be 57 which translates into a 97-day delay; imports to Kyrgyzstan require 27 signatures and a 127-day delay; while Uzbekistan requires 32 signatures for a delay of 139 days. This should be compared with the average OECD figure of 3 signatures and a 14 days delay. Even though these figures may vary slightly, they do suggest the severity of the problem. Although slow border crossings make up the largest part of transaction costs imposed, bribes and customs fees impose additional costs as well.

In transports from Bishkek to immediate neighbors, it has been estimated that bribes and fees make up around 16% to 40% of total transport costs. All in all the costs of these impediments are significant and hampers the potential trade between these nations.

It was also generally agreed that interconnections of national roads and highways in the creation of inter-state transportation are more important than restoration of national roads. This is not to say that upgrades of national and local roads are not necessary. Some national roads are in such terrible condition that they impede any viable inter-state connection, and these of course have to be targeted for reconstruction. In the short term, however, identification of arterial road systems on a regional and continental level could help spot bottlenecks and make investments pay off more quickly, as well as facilitate long-run transit traffic. Efforts should here also be devoted to the most important national road upgrades and the most important arteries of cross-border connections. Public-private partnerships in the rehabilitation of roads (and railways) were also considered a good way to increase the role of the private sector in carrying out these efforts. Calls were also made for a privatization of the trucking industry in the GCA region in general, where in some countries, like Uzbekistan, 50% of trucking firms are still state-owned. Apart from a greater degree of privatization, the establishment of regional transport associations was also considered to be a potential facilitator cross-border road transport and logistics.

Air Transport

The airline sector was identified as a crucial component of regional and continental infrastructure, where improvement in air-transport and implementation of open-skies arrangements could facilitate movement of people and goods significantly. This applies both to long-distance continental trade and to short-distance cross border movement within GCA. To address these issues the following proposals were made: First, safety related facilities should be brought up to ICAO standards if they do not already meet them. Second, countries should adopt 'open air' policies and adjust current bilateral air-service agreements accordingly. Third, and more specifically, countries should discontinue protection of national carriers. Fourth, development of increased passage traffic should be accompanied by a corresponding increase of cargo capacity, which is also badly needed. Finally, these measures need to be accompanied by measures to ease visa and travel restrictions.

Afghanistan needs special attention and this includes the further development of Kabul International Airport, and upgrade of the airport to IATA standards. The protectionism of Ariana Afghan Airlines was considered especially harmful to the supply of air services to and from the country.

Energy

There is today a lack of trans-regional energy infrastructure both in electricity transmission lines and pipelines. To explore the full potential and complementarity in the energy sector, there is a need to upgrade national energy networks and construct connections to neighboring states. Trade in electricity has significant possibilities in the region, and this is particularly true of Kyrgyz and Tajik exports of hydroelectric power to Afghanistan. This is also vehemently needed, electricity shortage and black-outs are major reasons cited by foreign investors for staying out of Afghanistan. The electricity problem in Afghanistan could also be partly reduced by improving Uzbek export of electricity through its existing 110 Kv transmission line between Termez and Mazar-i-Sharif and through Indian electricity exports.

In addition, three pipelines were also considered to be of primary importance: the Turkmenistan-Azerbaijan pipeline, the Kazakhstan-Azerbaijan pipeline, as well as the trans-Afghan (Turkmenistan-Afghanistan-Pakistan-India)

pipeline. The feasibility of these three has however been disputed because of political mistrust, security concerns, and low interest from investors. Support from external actors has also proved crucial, and an Azerbaijani participant here noted the importance of European backing in extending the Baku-Tbilisi-Ceyhan pipeline from Baku to Aktau in Kazakhstan.

However, the most important of these, both as a symbol and as a milestone in Greater Central Asia relations, is probably the trans-Afghan pipeline. Even though doubts have long been expressed, the project is more and more emerging as potentially sound. Considering improvements in India-Pakistan relations, progress in the security situation in Afghanistan, as well as Ashgabat's more favorable attitude to foreign investors, the project today appears achievable. Apart from the implications that it would have as a confidence building measure between India and Pakistan, the pipeline could show that Afghanistan has emerged as a pivotal country in the region and that the security situation in the country has normalized. This is in addition to the significant transit revenues that Afghanistan could gain.

Banking & Financial Sectors

Concerns were also raised that poor banking systems, both on a national and a regional level, impede investments and trade. Banks function as a central link and support between producers and consumers, and as the middlemen necessary to achieve efficient flows of funds and transparent transactions. As such, development of the banking sector as an integral part of infrastructural efforts was considered a top priority. On a regional level, the lack of banking support for foreign traders complicates business transactions and return of revenues. For example, Afghan traders in Pakistan have considerable difficulty moving profits; Kazakh traders in Xinjiang face similar difficulties. In addition to the establishment of a functioning banking sector there is also a need for improvements in the financial sector generally. This pertains especially to the need for insurance companies and a system of risk management.

Potential Gains

What Are the Potential Gains from GCA Participation in Continental Trade?

If these impediments can be surmounted and efficient responses orchestrated, there are essentially three gains from continental trade for the GCA countries, which are specified in more detail in the Uzbekistan country paper prepared for this conference:

1. Expansion of trade volume as a result of increased transit, transport, and trade would give greater access to technology and foreign exchange revenues;
2. Continental trade would give greater access to markets and open up both the North-South as well as East-West routes, and re-orient the post-Soviet states dependence on trade with neighbors solely;
3. Continental trade would open up China's trade with Europe and Russia's trade with South Asia. GCA would find itself in the middle of a dynamic market, reap significant transit revenues, and reduce the disadvantage of being land-locked.

Unfortunately, the obtrusive policies pursued by the GCA governments and neighboring countries have successfully crowded out the gains that could be made from increased regional cooperation, participation in continental trade, and the subsequent transit traffic. This is due in part to the impediments outlined above, but also, and perhaps more importantly, to lack of political will. This is regrettable, for there are significant gains to be made. As referred to by many of the country papers, both the Asian Development Bank (ADB) and United Nations Development Program (UNDP) estimate that growth could be 5% higher year-on-year if present impediments to trade are removed, translating into a GDP which is 50% higher over a 10 year period. Similarly, a recent ADB report concludes that if 52 potential road corridors are built through Afghanistan connecting ports in Iran and Pakistan with Tajikistan, Uzbekistan, and Turkmenistan, total regional trade could increase by 160% and per capita income could be increased 30% by 2010. To this should be added

that these projects would give a significant number of employment opportunities, and be a notable source of income for the construction firms in the region. Improved transport networks through Afghanistan could also benefit the export of cotton from the Central Asian states to India and Pakistan. Indeed, the cotton and textile industry was identified in the discussions as one of the key sectors in which increased regional cooperation could bring mutual benefits, and assessments indicate that cooperation in this sector could be worth as much as \$100 billion.

What Are the Potential Gains for *Each Country* From Engaging in Continental Trade?

Besides these potential collective gains, there is an opportunity cost for *each* individual country in remaining outside of region-wide and/or continental trade. That is, there is a cost in foregone opportunities and in not putting the country's resources to optimal use. Following is the summary of what certain individual countries could gain, or have gained, by participating in continental or regional trade and by developing the facilities necessary for continental trade to take place (data from submitted country papers):

Afghanistan

Afghanistan would make the greatest relative gains if trade barriers were removed and transport corridors constructed and/or rehabilitated. For example, if the 3,657 km of ADB projected road corridors are built through Afghanistan, estimates indicate that exports will increase by 202% and imports by 54% over a five-year period. This translates into a total gain of \$592 million in exports and \$1,318 million in imports. The road corridors would entail a GDP per capita increase of 36% for Afghanistan and add a total of 771,000 full-time jobs. A precondition for these gains in the long run however, is improvement in customs procedures and the security situation in the country.

Azerbaijan

Azerbaijan is probably one of the countries that have explored the potential of continental trade most, and the construction of the Baku-Tbilisi-Ceyhan pipeline, combined with increasing Azerbaijani engagement in the East-West

route, have paid off. Azerbaijan is emerging as an important transit country and is putting more and more effort into increasing its competitiveness. The opening of the BTC pipeline has already resulted in an expected doubling of the Azerbaijani economy by 2008. A possible extension of the BTC pipeline to Aktau in Kazakhstan will also increase cargo deliveries on the continental trade corridor from China via Kazakhstan, Azerbaijan, and Georgia to Europe. Increased capacity of the Baku International Sea Port by 19% per year since 1993 will also pay off, as Azerbaijan now is ready to handle increasing transit traffic from Iran and Russia on the North-South corridor. If Azerbaijan would *not* have taken part in continental trade on either the North-South or East-West routes to the extent that it has, or would *not* have taken part in the BTC project its economy, would not be near the size of today.

China

Prior to the launch of the “develop the west” program, China became increasingly aware of the cost and consequences of the economic isolation of Xinjiang, Tibet and other regions. Growing instability, separatism, and underdevelopment necessitated massive resource transfers from Beijing into the land-locked western regions to boost productivity and increase trade with the neighbouring Central Asian nations. Since then, trade with Central Asia and Russia has steadily increased, even though there is significant potential for further development of trade with Central Asia, Russia, and Europe on the East-West route, as well as with South Asia on the North-South route. Today, only 1% of China’s total foreign trade is with GCA, despite significant complementarity between the economies. The opportunity cost of this is also significant. Not only is China’s heavy reliance on Middle Eastern oil more expensive due to soaring freight costs, Central Asian energy resources could also provide increased energy diversification and decrease dependence on transports through the Malacca Straits.

Iran

As with the other southern neighbors of Central Asia, Iran found itself with several new potential trading partners as the Soviet Union collapsed. Iran, being positioned between Central Asia, South Asia, and the Middle East, stands to make significant gains from engaging in a continental trade network; some achievement have already been made. The North-South

corridor running from Southeast Asia to Russia via Iran will give major transit revenues, and Iran is also looking to Afghanistan as a corridor for a Caspian-China pipeline. As the main GCA demand is in consumer goods, the markets of GCA are also attractive options for diversification of Iran's heavy reliance on oil exports.

India

India faces the same problem as China — to sustain growth or face political instability. To keep up with the 8% growth rate, a prerequisite is a rapid development of infrastructure. It has been estimated that India's infrastructure in energy, road, railways, and ports needs to grow by factors of 3 to 6 times by 2031 to keep up with growth. GCA more and more plays into this strategy, where its energy resources could be used to diversify India's heavy dependence on Middle Eastern oil. The conflict with Pakistan is however limiting the prospects for any direct access to the GCA region. As a response, India has with Russia and Iran initiated an alternative route in the North-South corridor. Although this corridor could be of great benefit for India, the shortest route to GCA is via Pakistan and Jammu and Kashmir, and failure to take advantage of this imposes a heavy cost, not only economically, but also with regards to the successful resolution of the Kashmir conflict. Greater economic interdependence between GCA, India, and Pakistan has the potential to be one of the most important confidence-building components in this dispute. An opening up of Jammu and Kashmir to a greater trade with GCA would also increase prosperity in this region, reduce motives for separatism, and re-establish of interaction of peoples who have been trading for millenniums.

Kyrgyzstan

Even if Kyrgyzstan has the most liberal trade regime in the region and is the only WTO member of the GCA states, it has failed to benefit from regional and continental trade. This is both because of neighbors' restrictive trade policies, especially Uzbekistan, and because of significant border delays and extensive customs procedures. Motor-vehicles account for around 95% of Kyrgyz transports, and are particularly vulnerable to slow borders and excessive bureaucratic formalities. The removal of barriers to motor-vehicles could increase total export earnings by an estimated 1.7% and decrease import

costs by 2.7%. Removal of trade barriers in general could increase GDP with approximately 2.3%.

Russia

Russia is increasingly realizing the benefits and potential of continental trade with both China and South Asia. Investments in railway upgrades and infrastructure are facilitating trade with the former, and agreements have been reached to ease up customs clearances, solve logistical problems, and enhance efficiency through joint usage of freight boxes. Increasing Russian interest in developing the India-Iran-Azerbaijan-Russia North-South route has also been demonstrated. Estimates by the Russian Ministry of Transport suggest that the volume of transport on this route could jump from around 8 to 9 million tons in 2003 to 30 to 40 million tons by 2008, and the benefits are also substantial. Calculations by the Ministry suggest that an average cargo volume of only 15 million tons on the route entails a net gain of some \$15 billion. In comparison to the route running from the Baltic ports to South Asia via the Mediterranean and the Suez Canal, the North-South route via the Caspian also reduces shipment costs for a container by \$400-\$500 and shortens transport time by as much as 10-20 days.

Tajikistan

Tajikistan's involvement in continental and regional trade has been affected negatively by isolation. The factors that have contributed to its isolation include Uzbek protectionism, its civil war during the 1990s, lack of stability in Afghanistan, and mountains. Poor road and rail infrastructure to markets in Xinjiang and further south has also hampered any greater interaction and trade. The opening of the Kulma Pass connecting Tajikistan with Xinjiang and the bridges built over the Panj River have however opened a "window to the south" with new possibilities for Tajikistan to engage in continental trade. Despite the new roads and bridges, much needs to be done in reducing slow borders, corruption, and excessive formalities. Reduction of these transit barriers, combined with a change in Uzbek policies, could reduce the poverty level in Tajikistan from 64.9% to an estimated 35-40% in 2004 in the process creating 250,000-300,000 new jobs.

Uzbekistan

Uzbekistan is particularly well positioned to participate in a continental trade network, both because of geographical factors as well as its existing infrastructure. Uzbekistan is located in the center of Central Asia, is less mountainous than some of its neighbors, and has a comparatively well-developed infrastructure. It has a well-developed railroad system and the most developed road network in Central Asia. Unfortunately, the Uzbek regime has failed to capitalize on this, and Uzbekistan's restrictive trade policies stand out as particularly serious in comparison to its neighbors. IMF calculations suggest that if Uzbekistan only would liberalize its economy to the same level as in the other CIS countries, its overall trade could increase by \$2 billion. Despite its favorable location on the North-South corridor, Uzbekistan's trade with India is only 10% of its trade with China, and only 5% of its trade with Russia. This could imply that Uzbekistan is 10-15 times under trade potential with South and East Asia.

Kazakhstan

Although Kazakhstan has increased its total trade volume turnover with both China and Russia rapidly in the last five years, trade with Central and South Asia is still low. The share of the neighboring Central Asian countries in Kazakhstan's foreign trade is a mere 2-2.5%, and as with Uzbekistan, it has been estimated that Kazakhstan is 10-15 times under trade potential with South and East Asia. Only 18.3 % of Kazakh exports in 2004 went to Asia, compared with 57.9% destined for Europe. Although Kazakhstan takes part in East-West continental trade from China to Russia and Europe, and has invested in infrastructure to facilitate this trade, there is a heavy cost imposed on the Kazakh economy in not trading with South and East Asia to a larger extent. Recent Kazakh engagement in the North-South corridor from Almaty to Delhi suggests however that the leadership is starting to realize this opportunity cost. In terms of trade obstacles, UNDP estimates also assert that Kazakhstan could increase GDP by 20% if trade barriers are reduced by 50%.

Pakistan

Pakistan also can make a significant potential in contribution to a continental and region-wide trade network, both because of port facilities, restored roads, its textile industry, and geographical location. The joint Sino-

Pakistani development of the Gwadar Port and restoration of the Karakorum Highway will lead to an increase in cargo trade volume at Gwadar from 200,000 twenty-foot containers in 2005 to estimated 295,000 in 2015. Rehabilitation of roads to Afghanistan from the port will also give Afghan products greater export possibilities and shipping options. Additionally, increasing trade with GCA in the cotton and textile industry would multiply regional trade by estimated billions, of which a significant amount would accrue to Pakistan.

Turkmenistan

Although Turkmenistan has aimed to be the “Kuwait of Karakoram” and lately pursued policies aimed at attracting investors, it has much left to do if this is to materialize. The command economy of Turkmenistan has deterred foreign investors and reduced the feasibility of projects, in particular the trans-Afghan pipeline. It is unclear what the opportunity cost is of defying all projects of regional cooperation while remaining economically tied to Iran and Russia. It is clear, however, that its energy deposits could have given the economy significant input if it had opened up earlier to South and East Asia, and to other economies with great complementarity. Turkmenistan also has the potential to compete with and offer a route complementary to the Kazakhstan-Azerbaijan-Georgia-Europe transit corridor provided that port facilities at Turkmenbashi meet required standards, and that Turkmenistan adopts a favourable position on the issue.

Turkey

Turkey’s trade with GCA has been far below potential up until 2001-2002, when total trade volume with GCA started to increase rapidly. There are still huge unexploited potentials for Turkey in engaging with the region, as seen in the fact that the GCA share of total Turkish foreign trade is a mere 1%.

Failure to Grasp Potential

Despite recent initiatives in connecting GCA with its South, East, and West, there has been a persistent failure to grasp the potential of continental trade among all countries, as well as among the international financial institutions involved in the region. The Central Asian governments have failed to see the

potential of their center location for continental trade, and have failed to learn lessons of collective action problems. Failure to grasp potential also applies, and perhaps especially so, to big countries surrounding the region, including India, Pakistan, China, Turkey, Iran, Russia, and the European countries. Even though old thinking should not be held entirely for its failure, as poor infrastructure and slow borders have certainly hampered overland trade, it is a main factor. Arbitrary and aged bureaucratic delineations of Central and South Asia within the International Financial Institutions have created further administrative barriers for greater region-wide or continental trade. The question today is whether the countries in the region together with the IFIs are willing to overcome problems, grasp the potential of continental trade, and recognize the myopia of stiff regionalism that hampers any greater Asia-Europe interaction.

Some promising signs of new thinking have surfaced lately indicating that the current regionalism in Eurasia is fading away. China and Japan are in waiting line for observer status in SAARC; SCO has included Iran, India, and Pakistan as observers, and will consider their membership at the heads of state summit in June; and Afghanistan has been admitted into the Central Asia Plus Japan Dialogue and SAARC.

Responses

Is There Any GCA Regional Response Including Neighbors?

Besides SAARC, SCO, and the Central Asia Plus Japan Dialogue, other important cooperative mechanisms were also considered during the discussions. Of these, the Economic Cooperation Organization (ECO), the Eurasian Economic Community (Eurasec), the United Nations Special Program for Economies of Central Asia (SPECA), the Conference on Interaction and Confidence-building measures in Asia (CICA), and the U.S.-led Ortifa program were identified as some of the more important ones.

All of these initiatives are indeed welcome developments, especially given the inclusion and increased cooperation with Afghanistan in many of these. The creation of a SCO-Afghanistan Contact Group, the inclusion of Afghanistan into SPECA and SAARC, as well as the accession of Afghanistan into the Central Asia Plus Japan Dialogue will give further impetus to the South and Central Asia link. Yet, is there any all-encompassing GCA response including the voices of neighbors as well? The Economic Cooperation Organization is probably the best candidate, with a membership base including Afghanistan, Azerbaijan, Iran, Kazakhstan, the Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan. However, accomplishments so far are few, and the exclusion of China, India, and Russia is limiting the possibilities for discussions on continental trade agreements. Eurasec includes only states of the former Soviet Union, and SCO consists solely of China, Russia, Uzbekistan, Kyrgyzstan, Tajikistan, and Kazakhstan. Similarly, SAARC includes Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka, and recently admitted Afghanistan, but has so far avoided the more serious impediments to trade e.g. the Kashmir issue. The CICA program includes Afghanistan, Azerbaijan, China, Egypt, India, Israel, Iran, the Kyrgyz Republic, Mongolia, Pakistan, Palestine, Russia, Tajikistan, Turkey, Kazakhstan, and Uzbekistan but is restricted more or less to security and confidence building measures.

Although ECO would qualify as a GCA trade dialogue, there is to date no organization capable of handling a dialogue on continental trade and implementing measures to facilitate this. There is need for a GCA trade dialogue, including neighbors. The SCO member states and observers India, Pakistan, Iran, and Mongolia could probably have a GCA plus neighbors trade dialogue on the sidelines of its heads of government summit. However, there is a gaping hole in the membership of this organization whose total membership, including observers, makes up over half of the world's population—Afghanistan is missing.

Also, in terms of trade facilitation many of the regional frameworks tend to complicate things rather than facilitate trade. The sheer number of existing bilateral and multilateral trade agreements makes interpretation of rules even harder, and some also conflict with each other. It was proposed that there is a need for one mechanism that all parties adheres to, and it was generally agreed that WTO membership of all concerned parties could prove a viable necessary regulatory framework for the region.

WTO Membership: A Common Reference Point for Trading?

WTO accession could help facilitate standardization, harmonization, and be a common reference point for trading. WTO membership of all countries in the GCA region could reduce uncertainty of valid regulations, ease transition, and facilitate integration on a regional level. Today, only Kyrgyzstan is a member but a number of other states have applied for membership, and Afghanistan began membership process in October 2005.

Based on experience from other countries' accessions to the WTO four points were raised to help governments prepare for the demanding process. 1) Full government support throughout the process was considered crucial, as was 2) the harmonization of internal agencies and ministries. 3) In relation to this, capacity-building within ministries, especially in finance and agriculture, health, and foreign affairs were viewed as important, together with 4) the importance of having a strong negotiation team.

However, even though there was a general consensus that WTO membership could help alleviate the effects of the existing muddle of regional frameworks, it was also argued that extensive customs procedures could disrupt the benefits of WTO trade policies. Thus, targeting the excessive bureaucracy was identified as a precondition for bringing out the full potential of WTO

membership. Besides WTO, the TIR convention was identified as another agreement with potential even though this has to be modified to include India and Pakistan. Likewise, it needs to be discussed how the EU initiated project TRACECA can be utilized and modified to include South Asia. Afghanistan became a member of TRACECA in 2004, however not much has happened since. A priority should therefore be to regionalize existing agreements that could prove fruitful, and include the neighbors of Central Asia in them such as Iran, Pakistan, India, and China.

What is the Role of Donor Countries and International Organizations?

In promoting trade, donor countries and international organizations should not only provide aid but also invest efforts to act as facilitators of regional cooperation, and it was discussed how concrete results could be achieved in these respects. Some argued the need for international organizations and donor countries to leave political issues aside for the present and focus their efforts on the pure economic rationality of cooperation. Others argued in favor of additional stress on political reforms and democratization. Regardless, there was a general consensus that greater trade and opening up of economies will give impetus to democratic development and legitimacy with time, although some stressed conditionality here more than others. In addition to improvement of regional infrastructure and interconnectedness, major concerns were raised on the importance of border-efficiency, education, and privatization.

The viability and effects of projects also need to be carefully assessed beforehand. Some projects, like the promotion of agriculture in mountainous regions, seldom prove practical, as distance to markets is too great. Other projects, like the Indian donation of airplanes to Afghanistan's national air carrier Ariana, have led to protectionism and market failure, as pointed out by a World Bank representative. Instead of distorting the market with subsidies and donations, privatization of air carriers would lead to competition in air traffic to Afghanistan, lower prices, and more options for consumers. To put it in simple terms: donor countries and international organizations should facilitate the operation of markets and their initiation as outlined above rather than introduce measures that distort them. By assisting in setting up the institutions for a functioning market, donor countries and international organizations could act as facilitators to regional integration and lay the

groundwork for market mechanisms to operate. Instead of focusing efforts on facilities which the market will provide once it gets going, e.g. motels, gas stations, airplanes etc., donor countries and international organizations should focus their efforts on rehabilitation of infrastructure that will give rise to these e.g. roads and runways.

The Role of the U.S. in Facilitating Continental Trade

In this respect, the U.S. is no exception. It should continue assisting countries in the region with building foundations for markets to operate. The ring-road built in Afghanistan together with the bridges across the Pyanj River are two of the most important projects for Afghanistan's reconstruction to date. Construction of bridges, tunnels, roads and energy infrastructure should however be accompanied by efforts in improving border efficiency and border management. This should be realized both through training as well through provision of modern border equipment. Further development of air-transport and related facilities should also be a key priority together with increasing efforts in strengthening the private sector in the region. Another key measure identified is for the U.S. to provide assistance in potential WTO negotiations.

Besides, with the re-organization of the State Department, the new South and Central Asia Bureau could play a very important role in promoting greater economic interdependence between GCA, India, and Pakistan and perhaps especially so between India, Pakistan, and Afghanistan. The U.S. should here aim to make both India and Pakistan aware of the costs that the conflict over Jammu and Kashmir has caused and how it affects others. A study could here be commissioned on the magnitude of these costs for India, Pakistan, as well as third parties. Finally, water disputes were considered as a significant source of tension in the region and an important area where the U.S. could work in collaboration with the GCA governments.

What Needs to be Done in Afghanistan to Reap the Benefits of Trade and Traffic?

A primary concern should be to improve the business climate in Afghanistan overall, both in terms of trading facilities and security. As argued by an Afghan participant, the Afghan bureaucracy lags far behind entrepreneurs,

and often does not know even the basics of business administration. Investors have to deal with unnecessary bureaucratic ministries, which act as a significant deterrent to investments, and a reason why businessmen seek to make investments elsewhere. The problem of finding insurance also contributes to significant insecurity for truckers and traders, as well as increased rates to cover potential losses. Insurance could help truckers handle these risks. It was proposed that this, in combination with a funding entity in the Afghan transport sector and standardization of loan approval processes, could be of major assistance. Besides these demands, traders also call for dispute settling mechanisms and judicial arbitration, as well as for improved legal protection of assets and property in general. In the banking sector there are also several accomplishments to be made. As Professor Frederick Starr has argued elsewhere agricultural banks should be established to reduce Afghan farmers' dependence on poppy cultivation. These banks could give farmers the necessary loans to survive the period between planting and harvest.

Security also poses a problem for investment and trade in Afghanistan. The nexus of drug trade and terrorism acts as a significant deterrent to the flow of goods and people as well as investments. Examples are numerous and especially so in the construction of roads and energy infrastructure. The feasibility of the trans-Afghan pipeline has been hampered by concern over the security situation in Afghanistan, and it has been hard to find investors prepared to handle this risk. Hesitation was expressed by most officials from neighboring countries who identified security, as well as political stability, as prerequisites for engagement with Afghanistan.

What Could be Expected in the Absence of a Viable Trade Policy in the Region?

Any development leaving out the potential benefits that traders could bring will backfire on economic and social stability in Afghanistan. If regional trade and transport could be further improved and roads built, Afghan farmers could get their products to consumers in time reducing the current dependence on poppies. This is without a doubt a dependence which is not only a regional but also global threat. The aggregate cost for the world's societies with the present Afghan production of heroin is immeasurable in terms of human security and devastating socio-economically, not least for

neighboring and transit countries such as the five Central Asian republics, Iran, China, and Russia. The present trade deficit of the Afghan economy in the ratio of 1 to 14 is not, and will not be, enough to feed the Afghan population, and the gap is today filled by the illicit production and trade in narcotics, as well as by international aid. However, as an Afghan participant pointed out, the sheer size of the illicit trade makes it impossible to just shut down this part of the economy. Instead, what is needed is to develop Afghanistan's industry to balance and reduce dependency on poppy cultivation, and provide farmers with options. This can only be done in cooperation and collaboration with neighbor states.

When looking at opportunity costs from a larger perspective it is clear that it is of vital interest to promote trade, and promote Afghanistan's inclusion in this trade network. The effects of state-failure and extremism in the region were made evidently clear on September 11, 2001, and it can scarcely be over-emphasized how important it is to economic development in the region to reduce the recruitment of young people into terror and criminal networks. Adding up the costs that 9/11 incurred, combined with the costs of the narcotics trade, it is clear that investments in trade facilitation in the region is a small price to pay.

Key Actions

In concluding the sessions, there was a consensus among all that a regional basis including Afghanistan is essential, and that recipient governments should place serious emphasis on trade and transport including roads, railroad, energy, and air services. Furthermore, it was agreed that efforts in these sectors should be pursued on the basis of partnership and that the relevant governments make necessary organizational changes to carry out policies on a regional basis.

The following three recommendations are issued:

- Immediately opening Kabul airport to regular air links with all Afghanistan's Central Asian neighbors and also with its likely future partners in continental trade.

It is impossible to dream of continental trade across Greater Central Asia when the regional capitals are themselves so poorly connected by air, and when Kabul is all but unreachable from many neighboring capitals. This problem demands urgent attention from governments, financial institutions, and the private sector. The conferees believe that part of the problem lies with the continuing role of state-owned airlines in the region. Thus, the Afghan state airline, Ariana, has discouraged other carriers from serving Kabul, without improving significantly its own poor service. The First Kabul Conference therefore recommends that Ariana Air be privatized, that Kabul be opened to competition from all quarters, domestic and foreign, and that Kabul airport be modernized to the degree necessary to bear increased traffic.

- Reducing the lengthy waits imposed on freight transporters at border crossings throughout Greater Central Asia.

A recent survey of continental truck drivers passing through Afghanistan/Central Asia brought astonishing results. The objective was to identify the chief impediments to trade. Hardly any of the drivers cited security or corruption as impediments. Barely a third cited poor roads. But 96% of them pointed to long delays at border crossings as the most serious impediments to trade. Participants in the First Kabul Conference are well

aware that many international development agencies and financial institutions are working to reduce these border delays. However, from the truckers' perspective, the results of their efforts to date are negligible. The price of this poor response is billions of dollars of lost revenue to all the countries of the region, and notably Afghanistan. Conferees do not believe that the issue has received either the institutional attention or financial support needed for its speedy resolution. They believe that institutions claiming to be grappling with this issue are blind to the opportunity cost of their slow response.

Accordingly, the conferees urgently call on governments, international banks, and development agencies to redouble their efforts to reduce border delays. They strongly urge that regional countries (possibly led by Kazakhstan), the Asian Development Bank, and interested outside parties including the United States, convene a conference to set firm timetables and garner necessary support for early progress on this issue.

- The reorganization of international financial institutions and governmental ministries in order to place Afghanistan and the other countries of Greater Central Asia under a single bureau that will facilitate region-wide coordination of projects and initiatives across all Greater Central Asia.

Nearly all governments and international financial institutions are still organized along lines reflecting the old borders of the USSR. Thus, the former Soviet republics of Central Asia are grouped with countries to their north or west while Afghanistan is consigned to some other entity. The result is that wooden bureaucratic practices prevent a region shaped by 2,500 years of common culture and interests from regaining its larger identity. The practical consequences of this practice are uniformly unfortunate. Complementary interests are ignored, and potential synergies neglected. Worse, such bureaucratic divisions retard the process of reopening the great continental trade routes that are the region's most promising engine of future economic growth. For this reason the conferees appealed unanimously to national governments and international agencies to reorganize themselves in such a way as to reflect the reemerging reality of a Great Central Asia that includes at least the former Soviet states of Central Asia and Afghanistan.

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