

## COMMENT 198 - Economic cooperation towards peace in Afghanistan

By **Obid Khakimov**

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**Obid Khakimov** is Director of the Center for Economic Research and Reforms under the Administration of the President of the Republic of Uzbekistan

*On 23 September 2020, President of the Republic of Uzbekistan Shavkat Mirziyoyev spoke at the 75<sup>th</sup> session of the United Nations General Assembly (Speech by President Shavkat Mirziyoyev at the 75th session of the United Nations General Assembly, 2020). The Head of State outlined the main priorities of “Tashkent’s Afghan policy” as regards a peaceful settlement in the Islamic Republic of Afghanistan (IRA) and as concerns cooperation between Uzbekistan and the IRA. President Mirziyoyev also presented a proposal for the establishment of a standing committee at the UN aimed at contributing to the socio-economic development of Afghanistan.*

*Uzbekistan’s current policies on the economic rehabilitation of Afghanistan involve the implementation of joint projects in the fields of transportation, economy, energy and education which are highly appreciated by the international community.*

*The Director of the Centre for Economic Research and Reforms Obid Khakimov shares his views on the development of economic relations between Uzbekistan with Afghanistan.*

Uzbekistan has always favoured the establishment of peace and stability in Afghanistan and has tried to significantly contribute to the rehabilitation and development of its neighbour’s economy. Key goals include the improvement of per capita GDP by intensifying trade and implementing large-scale infrastructural

and humanitarian projects. We consider the restoration of a peaceful economy in Afghanistan as integral to the achievement of a long-term and sustainable peace in the country.

Trade-related as well as economic and financial cooperation between Uzbekistan and Afghanistan holds a high potential and have been developing dynamically over the past three years. The election of a new President in Uzbekistan turned a new page in Uzbek-Afghan relations. As early as January 2017, an Uzbek government delegation visited Kabul. Over the past three years, the Afghan President has made two official visits to Tashkent. In addition, the two Heads of State hold telephone conversations on a regular basis, the most recent having taken place on 2 August, 2020. During the course of that conversation, special attention was paid to intensifying efforts in priority infrastructure and investment projects so as to promote sustainable development in Afghanistan and support its active involvement in regional economic processes.

Special emphasis on Afghanistan was also placed in the statement delivered by President Sh. Mirziyoyev at the 75th session of the UN General Assembly. It was stressed that the issues relating to establishing peace and stability in this country should remain a UN concern. In this regard, the President of Uzbekistan proposed "to create a standing committee at the UN, which will listen to the views and aspirations of these long-suffering people." The main task of this committee would contributing to social and economic development in Afghanistan.

The creation of a permanent committee on Afghanistan (the Committee) at the UN will allow to unite efforts by the international community to assist in the recovery of the Afghan economy. Within the framework of the Committee's activities, it will be possible to develop a comprehensive program for the reconstruction of Afghanistan – as well as coordinate the course of its implementation. Interests by many different countries intersect in Afghanistan, and only a consolidated, joint effort can achieve sustainable and long-term peace in this country. Only tight cooperation can ultimately stabilize the situation in Afghanistan and create conditions for a sustainable economic recovery. Creating a Committee is a very timely and important initiative, allowing for the coordination of efforts among the international community so as to ensure Afghanistan's peaceful development.

As is widely known, Uzbekistan pays much attention to the development of cooperation with Afghanistan in the field of trade, transport, and energy. Regional-level trade and economic ties are considered essential to a stable socio-economic basis – without which ensuring peace in Afghanistan will be a difficult task.

A functional involvement of Afghanistan in regional trade and economic ties constitutes an important step in insuring a successful peace process in the country. Trans-regional infrastructure projects could become a key factor in building consensus among local stakeholders in a common plight for development. A peaceful and stable Afghanistan will in turn allow for wider transregional cooperation, namely wider connectivity with vast Eurasia. In fact, Afghanistan is well placed, geographically speaking, to become a bridge between South and Central Asia.

In the beginning of April and in the context of our common epidemiological challenge, a train with 600 tons of humanitarian aid was sent to Afghanistan on behalf of the President of Uzbekistan. The cargo included sets of protective suits, sodium hypochlorite in liquid form, respirators, gloves, pyrometers, clothes for children, and food (Ministry of Foreign Affairs of the Republic of Uzbekistan, 2020). It should be noted that this was not the first humanitarian delivery sent to Afghanistan. Earlier in January 2018, 25 buses and various agricultural equipment were provided to Afghanistan from Uzbekistan. In June of that year, in the face of crop failures within Afghanistan, 3,000 tons of bread wheat were sent (National News Agency of Uzbekistan, 2018).

### **Mutual trade indicators**

Uzbekistan's share in Afghanistan's external trade is 7.4%, and in total Afghan imports - 8.3%. In turn, Afghanistan's share in Uzbekistan's external trade is 1.5, and in total exports 3.4% Uzbekistan thus has a significant positive balance in trade with Afghanistan – and over the past three years, exports to this country have grown by almost 20% (Socio-economic situation Republic of Uzbekistan, 2019).

So, at the end of 2019, the volume of mutual trade increased by 2.2% and amounted to \$ 617.6 million, including exports equalling \$ 614.7 million, and imports equalling \$ 2.9 million. In the first half of 2020 alone, the volume of mutual trade

between Uzbekistan and Afghanistan increased by a further 24.1%, amounting to \$ 332.9 million, including exports equalling \$ 331.7 million, and imports equalling \$ 1.22 million (Ministry of Investments and Foreign Trade, 2020).

### **Trade dynamics between Uzbekistan and Afghanistan**

(in million dollars)

	2013 г.	2014 г.	2015 г.	2016 г.	2017 г.	2018 г.	2019 г.
Bilateral trade	673,7	601,8	445,1	519,7	617,1	604,6	617,6
Exports	669,3	601,0	444,4	517,3	614,9	602,5	614,7
Imports	4,4	0,8	0,6	2,4	2,2	2	2,9
Net balance	664,9	600,2	443,8	514,9	612,7	600,4	611,7

Source: Ministry of Investments and Foreign Trade (Ministry of Investments and Foreign Trade, 2020)

The main exports to Afghanistan including cereals and products of the flour-milling industry, mainly wheat flour - 19.1% of the total volume. Electricity amounts to 16.3% of the total volume; oil and oil products, petroleum gases, and natural gases amount to 10.1%. Exports also include food products (leguminous vegetables – 11%), ferrous metals and manufactured products (7%), vehicles and spare parts (1.5%), as well as services, mainly transport-related (26%; Ministry of Investments and Foreign Trade, 2020).

Imports from Afghanistan are represented by the following items:

Foodstuffs (mainly sucrose, mineral waters) account for 21.5% of total imports. Live plants (including roots) account for 11.4%; equipment and mechanical devices - 8.8%; animal products (goats and sheep) - 6.7%. Finally transport-related services account for 29.9% (Ministry of Investments and Foreign Trade, 2020).

At present, 658 enterprises partly financed by Afghan capital operate in Uzbekistan, including 195 joint ventures and 463 enterprises with 100 percent foreign capital.

On the other hand, 234 enterprises with Afghan capital (35%) were established in the Surkhandarya region (Socio-economic situation Republic of Uzbekistan, 2019).

### **Energy cooperation**

Afghanistan is a country with severe electricity shortages.

Its own production capacities do not fully cover demand, and electricity imports depend on external financial support. In 2018, Afghanistan produced 1.1 billion kWh of electricity, and electricity imports amounted to 4.6 billion kWh, which equals four times its own production (National Statistics and Information Authority of Afghanistan, 2018).

Insufficient volumes of both production and imports – as well as the absence of an extensive network of power transmission lines – make it impossible to meet demand by both the economy and the general population. In Afghanistan, only about 30% of the population is connected to electric grid power systems. Most of the rural population, which accounts for 75% of the country's total citizenry, lives without electricity. In order to address the challenges in Afghanistan's energy sector, the National Energy Supply Program has been developed. General plan for energetic development until 2032 was devised which aims at improving the availability of electricity from 30 to 83% to both the population (from 28 to 65% among rural populations and to 100% among urban populations) and to the economy at large.

The project to build the Surkhan-Puli-Khumri transmission line with a length of 260 km from the Surkhandarya region to the city of Puli-Khumri (Baghlan province), besides meeting long-term plans for the development of Afghanistan's energy supply, will also create conditions for the development of industry. In addition, this transmission line allows the connection between the Afghanistan's own electric grid system and the unified energy system of Uzbekistan and Central Asia.

It should be noted that Uzbekistan has regularly supplied electricity to Afghanistan since 2002 - and covers 52% of Afghan electricity imports. The rest is supplied from Tajikistan – 18%, as well as Iran and Turkmenistan – 15% each. The volume of electricity supplies from Uzbekistan to Afghanistan increased from 62 million kWh in 2002 to almost 2.6 billion in 2019, that is, over 40 times. In 2018, 2.5 billion

kWh of electricity was supplied to Afghanistan, which amounts for \$166 million. In doing so, the price of electricity was reduced by 35 percent (Spot Uzbekistan, 2019).

Contracts for the supply of electricity were concluded on an annual basis. However, a ten-year contract was signed at the end of 2019 with the energy companies of Afghanistan for the supply of electricity from Uzbekistan, on conditions acceptable to the Afghan side (at the initial stage, the volume of 4.2 billion kWh, with a subsequent increase up to 6 billion kW / h).

At the end of August 2020, an Afghan delegation led by H. Atmar, Foreign Minister, paid a working visit to Tashkent, during which the issues of accelerating the construction of the Surkhan-Puli-Khumri power transmission line were considered – and the above-mentioned agreement regarding the supply of electricity to Afghanistan was signed for a period of 10 years.

### **Transport cooperation**

The perspective projects of the new railways Mazar-Sharif-Herat-Kandahar and Mazar-Sharif-Peshawar will constitute a continuation of the Hairatan-Mazar-Sharif line and will form a new trans-Afghan transport corridor. The effective implementation of these projects will create favourable conditions for mutual trade. Furthermore, it will also increase the transit potential of both states, link the regions of Central and South Asia, as well as the Middle East, and open up access by Central Asian countries to the Pakistani ports of Gwadar and Karachi and to the Iranian port of Chabahar.

The volume of Afghan cargo transported through the territory of Uzbekistan in 2017 increased by 70% compared to 2016. The volume of international freight transport to/from Afghanistan amounted to 5.0 million tons in 2019 (Ministry of Investments and Foreign Trade, 2020). In the same year, Uzbekiston Temir Yullari JSC set a 20% discount on the transportation of grain and flour from Kazakhstan to Afghanistan. Additional fees for commercial goods exported from Afghanistan were also cancelled, which contributed to an increase in the volume of freight transportation by rail across the territory of the two countries.

A series of privileges and preferences for railway cargo transportation were also provided to Afghanistan in 2020. In particular, a discount was introduced for the transportation of flour from Uzbekistan to Afghanistan – in the amount 45% in comparison with previously established tariffs. In addition, a 50% discount is offered with respect to additional fees; discounts for the transit of flour and oil products range from 20 to 50%. All additional fees for export goods from Afghanistan have also been cancelled, except for the fees related to registering shipping documents (Joint-Stock Company «Uzbekiston temir yullari», 2020).

Currently, the dynamics of growth in freight turnover remain positive. Even during the coronavirus pandemic, the dynamics of freight traffic towards Afghanistan maintains sustainable growth rates. So, in the first half of this year, the volume of rail freight traffic from/to Afghanistan amounted to 2.2 million tons, which is 50.7% above the number observed in the same period in 2019.

In order to facilitate export-import and transit cargo flows between the two countries, an international logistics centre "Termez Cargo" with a customs terminal was established in Termez. In addition, the centre will also be equipped with new sorting and packaging lines for processing and exporting fruits and vegetables from Afghanistan to third countries. At present, the terminal is capable of receiving up to 300 trucks simultaneously. It also contains railway sidings and warehouses for storing containers.

### **Educational centre for Afghan youth in Termez**

An educational centre has been established in Termez in order to assist Afghanistan in the training of specialized workers. Here around 200 Afghan citizens are trained in the areas of Uzbek philology, rail transport, agriculture, and others. Only half the costs are supported by Afghanistan; the rest is covered by Uzbekistan.

The Ministry of Higher Education, the EU Delegation and the United Nations Development Programme (UNDP) in Uzbekistan announced a cross-border initiative to support the economic empowerment of Afghan women, who will be provided with educational grants. The European Union has allocated 2 million euros to finance this initiative, which will be implemented by the UNDP until 2025 (United Nations Development Program, 2020). In this centre, young women from

Afghanistan will receive knowledge in the field of agriculture with the support of the Tashkent State Agrarian University.

In addition, the President of Uzbekistan has taken the initiative to create a special International Fund for Supporting Education in Afghanistan (Ministry of Investment and Foreign Trade of Uzbekistan, 2019). The main objective of the fund is to teach young people the specialties they need in this country and to provide scholarships and grants for talented students and young scientists.

### **Prospects for bilateral cooperation**

Uzbekistan and Afghanistan have a mutual interest in the further expansion of trade and in deepening economic and investment cooperation. The countries are searching for new areas of economic cooperation, not only in trade, but also in the investment sphere. Transport and energy constitute such strategic areas. Work involving Uzbek specialists and investments would continue with respect to the restoration of five textile and three fat-and-oil enterprises in Afghanistan. The participation of domestic enterprises in projects implemented in Afghanistan for the reconstruction of roads and water facilities is also considered as a promising area of cooperation. Besides, it is expedient to both improve and expand the functions of the "Termez Cargo" logistics centre, for instance by creating a wholesale distribution centre with all necessary infrastructure, as well as providing tax and customs preferences for business entities operating there (National News Agency of Uzbekistan, 2019).

It is necessary to further improve conditions for the development of border trade and for the implementation of investment projects and joint ventures (flour, bakery products, vegetable oil, construction materials, textiles, footwear and other products) in the border areas. Exploring the possibility of delivering Afghan marble and various types of semi-finished products to Uzbekistan for their further processing and export as finished products to third countries is also of great interest.

Agriculture constitutes another promising area of cooperation. Afghanistan is a large producer of agricultural products, which are similar to many Uzbek commodity items. Considering the fact that the processing of agricultural goods is well established in Uzbekistan, there is a huge possibility for the development of



cooperative links, joint ventures and production chains. In turn, Afghan specialists have already shown interest in investing in the Surkhandarya region as regards the cultivation of medicinal herbs (15 hectares) and hawthorn (100 tons per year; National News Agency of Uzbekistan, 2019).

Taking into account the current level of development of trade and economic relations with Afghanistan, it would be useful to expand the legal framework regulating this field. In particular, there should be a study of the possibilities of concluding an agreement on preferential trade and increase the volume as well as expand the range of exports of Uzbek products to the Afghan market. In addition, agreements regarding the recognition by Afghanistan of registered medicines and medical devices manufactured in Uzbekistan would expand the possibilities for the supply of domestic pharmaceutical products, the demand for which will only increase in the context of the ongoing coronavirus pandemic.

Cooperation between Uzbekistan with Afghanistan can develop not only at the bilateral level but also within the framework of international projects such as the Chinese initiative to provide for transport corridors "One Belt - One Road", the CASA-1000 power transmission line, the TAPI gas pipeline (main gas pipeline Turkmenistan - Afghanistan - Pakistan - India), and others.

Trade, economic and investment cooperation with Afghanistan offers great prospects. The main condition for the development of these prospects is the promotion of stability and security in the territory of Afghanistan. These are in the interest of both neighbouring countries of the world community at large. This was also noted in the Speech by the President of the Republic of Uzbekistan Shavkat Mirziyoyev at the 75th session of the United Nations General Assembly.

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19 Avenue des Arts 2<sup>nd</sup> floor, 1210 Brussels, Belgium  
E 0833.606.320 RPM Bruxelles  
Email: [info@sadf.eu](mailto:info@sadf.eu) Web: [www.sadf.eu](http://www.sadf.eu)