ADVANCING AFGHAN TRADE
EU TRADE-RELATED ASSISTANCE

Trade between Afghanistan and Kazakhstan – Issues and Options for Enhancement
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Issues and Options for Enhancement
Acknowledgements

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1 Introduction

As part of an EU-funded programme to assist the Government of Afghanistan to improve the conditions for regional cooperation and use trade as a lever for economic and human development and poverty reduction, the ITC through the Trade Facilitation and Policy for Business Section (TFPB) is supporting bilateral stakeholder consultations to enhance trading relations between Afghanistan and neighbouring countries Uzbekistan and Kazakhstan.

A main aim of these consultations is to address a number of barriers relating to policy, regulatory and procedural issues, which present an obstacle to advancing bilateral trading relations, and in particular exports from Afghanistan to Uzbekistan and Kazakhstan.

The main purpose of this paper is to identify barriers and issues which affect trade between Afghanistan and Kazakhstan. The primary focus is on issues for trade in goods, whereas investment and trade in services issues are not covered in detail; these could be addressed in future consultations.

In order to identify and assess barriers to bilateral trade, this paper is based on a combination of desk research – including the review of literature and media reports on trade irritants, trade and tariff databases, international benchmarking exercises – and stakeholder interviews, undertaken by a local expert associated with the Afghanistan Chamber of Commerce and Industry (ACCI). In total, more than 30 traders and businesses, and government staff from relevant ministries and agencies, have been consulted (see list in annex).

The findings are presented in two main chapters in this paper. Chapter 2 provides a brief background of bilateral trade between Afghanistan and Kazakhstan, as well as the overall trading environment in both countries, thereby setting the stage on which bilateral consultations are held. Chapter 3 then presents the identified issues currently affecting bilateral trade as well as suggestions for how these could be addressed through bilateral consultations and actions. Chapter 4 presents brief summary recommendations.

2 Background

2.1 Current trade between Afghanistan and Kazakhstan

Levels of trade. Current bilateral trade between Afghanistan and Kazakhstan is of limited importance for both countries. Total bilateral trade (exports plus imports) was barely USD 186 million in 2012, and increased to USD 429 million in 2015 (Table 1).

From Afghanistan’s perspective, between 2% and 5.5% of its total imports come from Kazakhstan. In 2015, the last year for which full-year data are available, imports from Kazakhstan stood at USD 426.8 million or 5.5% of total Afghan imports. Afghan exports to Kazakhstan in the same year were a negligible USD 2.0 million, accounting for barely 0.3% of Afghanistan’ total exports. Accordingly, the bilateral trade balance is consistently, and significantly, negative for Afghanistan. In addition, exports from Afghanistan to Kazakhstan have shown a flat trend since 2013, being consistently between USD 2 million and USD 3 million.
Conversely, Kazakhstan’s exports to Afghanistan have increased significantly from USD 185 million in 2012 to USD 427 million in 2015. Despite this increase, the importance of Afghanistan as a market for Kazakhstan remains small: in 2015, less than 1% of Kazakhstan’s total exports were destined for Afghanistan.

Table 1: Afghanistan-Kazakhstan bilateral trade, key figures, 2012-2016

<table>
<thead>
<tr>
<th>Description</th>
<th>Unit</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFG: Imports from KAZ</td>
<td>USD M</td>
<td>184.9</td>
<td>123.9</td>
<td>390.0</td>
<td>426.8</td>
<td>..</td>
</tr>
<tr>
<td>AFG: Total imports</td>
<td>USD M</td>
<td>7,794.4</td>
<td>7,558.7</td>
<td>7,729.2</td>
<td>7,722.9</td>
<td>4,694.4</td>
</tr>
<tr>
<td>AFG: Total exports</td>
<td>USD M</td>
<td>401.8</td>
<td>464.0</td>
<td>570.5</td>
<td>571.4</td>
<td>794.0</td>
</tr>
<tr>
<td>KAZ: Imports from AFG (= exports from AFG to KAZ)</td>
<td>USD M</td>
<td>0.6</td>
<td>3.0</td>
<td>3.2</td>
<td>2.0</td>
<td>2.5</td>
</tr>
<tr>
<td>KAZ: Total imports*</td>
<td>USD M</td>
<td>44,538.1</td>
<td>48,804.6</td>
<td>41,295.5</td>
<td>30,567.2</td>
<td>25,174.8</td>
</tr>
<tr>
<td>KAZ: Total exports</td>
<td>USD M</td>
<td>92,281.5</td>
<td>84,698.6</td>
<td>79,458.7</td>
<td>45,954.4</td>
<td>36,775.3</td>
</tr>
<tr>
<td>Share imports from KAZ in AFG total imports</td>
<td>%</td>
<td>2.4</td>
<td>1.6</td>
<td>5.0</td>
<td>5.5</td>
<td></td>
</tr>
<tr>
<td>Share imports from AFG in KAZ total imports</td>
<td>%</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Share exports from KAZ to AFG in KAZ total exports</td>
<td>%</td>
<td>0.2</td>
<td>0.1</td>
<td>0.5</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>Share exports from AFG to KAZ in AFG total exports</td>
<td>%</td>
<td>0.1</td>
<td>0.6</td>
<td>0.6</td>
<td>0.3</td>
<td>0.3</td>
</tr>
</tbody>
</table>

* 2015 values are understated as trade between Kazakhstan, the Russian Federation, Belarus, Kyrgyzstan and Armenia is not reported by the Agency of Statistics of the Republic of Kazakhstan.

Source: Calculations based on ITC TradeMap.

**Finding 1:** In view of the low trade volumes, there is significant untapped trade potential between Afghanistan and Kazakhstan. A closer trade relation between the two countries could be facilitated through bilateral consultations. With Kazakhstan being the largest economy in the region, it represents an interesting market for Afghanistan; conversely, exports from Kazakhstan to Afghanistan have expanded rapidly, and could be developed further. Expanded trade between the two countries could yield significant benefits on both sides. Additionally, both countries are of geographical importance for each other in order to access further markets; in the Afghan case Russia and China and for Kazakhstan the South Asian countries. However, in order for trade between Afghanistan and Kazakhstan to flourish, smooth transit through Uzbekistan is required. Bilateral negotiations between Afghanistan and Uzbekistan are therefore an important complement to consultations between Afghanistan and Kazakhstan.

**Sectoral trade patterns and trade potential.** In terms of sectoral trade and trade potential, Kazakhstan’s main exports to Afghanistan (based on averages 2012-2015) were wheat and flour (63%), gas (9%), and iron and steel (9%). Conversely, Afghanistan’s exports to Kazakhstan almost exclusively consist of vegetables, which have accounted for more than 90% in 2015 and 2016; in previous years, also some exports of live animals and animals were registered, but these have withered away (Figure 1). It should be noted, as mentioned above, that export volumes even of vegetables are very limited.

In terms of trade potential, based on analysis undertaken by the ITC, Kazakhstan could expand exports (including to Afghanistan) in processed food, wood products and non-electronic machinery, as well as other basic manufactures: pig iron, non-alloy, potassium chloride and semi-finished products of iron or non-alloy steel are top products for diversification (ITC 2016: 196ff). Additionally, Kazakhstan has unrealized potential in existing exports like metals and vegetable products. Wheat or meslin flour, Copper cathodes, Ferro-silico-manganese and titanium and articles thereof face strong expansion opportunities in the Central Asia region. Conversely, Afghanistan presents unrealized export potential to Kazakhstan in a number of primarily agricultural goods, including potatoes and grapes, but also animals and meat, as well as textiles and some industrial goods.
Finding 2: Bilateral consultations should pay particular attention to issues affecting trade in those sectors that are currently traded at (relatively) high volumes or have potential for expansion. Given the high export concentration in both directions, and the fact that – leaving aside wheat and gas exports from Kazakhstan to Afghanistan – trade levels are minimal for almost any product, a key focus of bilateral consultations should be on how to get to know each other’s markets and develop trade relations. This calls for a key role of the private sector in the consultations.

Transit issues. Deepened transit arrangements would also benefit both countries. For Afghanistan, Kazakhstan represents an important country for transhipment to reach markets in Russia and China. For Kazakhstan, Afghanistan offers a gateway to South Asia and South-East Asia and an opportunity to increase its role as a trade point for inter-continental cargo. However, developing this relationship also requires the involvement of Uzbekistan, which is strategically placed between Afghanistan and Kazakhstan.

Finding 3: Based on the mutual interest to develop trade and connectivity between the two countries, bilateral consultations should not only address issues affecting bilateral trade but also transit regimes in both countries, as well as measures to jointly develop the transport infrastructure and the transit through Uzbekistan. The three countries are members of International organizations that could work as facilitators, CAREC and Economic Cooperation Organization. Both countries have shown interest in increasing their trade relation, however, given the geographical conditions, when addressing transit regimes and developing of connectivity in the region strategic partners like Uzbekistan should be invited. In addition, bilateral consultations between Afghanistan and Kazakhstan could also address potential measures to facilitate transit trough Kazakh territory for Afghan goods in order to access the Russian and Chinese markets.

Mutual efforts to strengthen trade and transport between Afghanistan and Kazakhstan have recently been stepped up.1 Concretely, the efforts made bilaterally to improve the Karshi-Termez railway should be complemented with efforts connecting it to a railway line until the border crossing point between Uzbekistan and Kazakhstan in Chernayevka/Zhibek-Joly. The connection between the two countries is crucial for Afghanistan as well as for the wider region.

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Uzbek borders would decrease transportation costs and time as well as serve Uzbekistan’s trade relations with its two neighbours. In addition, the highway from Samarkand to Termez is planned to be upgraded by 2020. On the Afghan side, there are further plans to upgrade the Salang tunnel and the highway connecting Kabul with the northern cities in Afghanistan and the Uzbek border\(^2\). Optimising the transport channel through Uzbekistan will benefit the Kazakh-Afghan trading relationship. It would also be important to connect the Afghan-Uzbek efforts to the railroad construction between Zhetygen (Kazakhstan) and Khorgas (China), which is a key transport infrastructure project to connect Kazakhstan and China. As Kazakhstan has satisfactorily developed road infrastructure connecting the Uzbek border with the rest of the country, it would be an optimisation factor to further connect it to China (PwC 2016: 14).

**Finding 4:** Bilateral consultations between Afghanistan and Kazakhstan should aim to facilitate a coordinated development of the transport and transport infrastructure. At the same time, this should be complemented by improvements in “soft” infrastructure, including trade facilitation measures, logistics solutions in order to ensure that the potential gains in time and cost savings from upgraded infrastructure are not jeopardized by regulatory and administrative burdens at the borders and along the corridors.

### 2.2 General trade environment in Afghanistan and Kazakhstan

#### 2.2.1 Kazakhstan

Kazakhstan is an upper-middle income country and Central Asia’s largest economy with a GDP of USD 195 billion. Goods make up 92% of exports (ITC 2016). Kazakhstan’s economy is heavily dependent on raw material for income generation, with oil and gas, ferrous and non-ferrous metals, grains, coal and ores accounting for over 80% of total exports. The lack of economic diversification makes it difficult to translate any gains on income growth into sustainable economic development. Therefore, economic and export diversification has been the focus of trade-led growth, whereby access to global and regional markets plays a decisive role. In doing so Kazakhstan faces a number of constraints: Labour costs are relatively high. Also, the existing infrastructure remains incapable of nurturing the economy’s structural transformation. The country remains fragmented by a lack of adequate transport infrastructure, leaving the north, south, east, west and central regions functioning as autonomous economies. The territorial fragmentation limits the size of domestic markets and blocks industrial development (UNECE/ITC 2014: 13f).

**Overall business environment.** In recent years, the economic governance model pursued by the Kazakh government has emphasised a marked based approach with a focus on reducing the dependency on imports and promoting export diversification. Nevertheless, international rankings somewhat differ in their assessment of the business environment: In the World Bank’s Doing Business index, Kazakhstan ranks a comparatively good 36 out of 190 countries – but underperforms particularly in its regime for trading across borders (Figure 2a below). Other international benchmarks are more critical: In the World Economic Forum (WEF) Global Competitiveness Index 2017-2018, Kazakhstan ranks 57 out of 137 economies, with financial market development and access to finance, business sophistication and innovation, corruption and inadequately educated workforce as the most problematic factors for doing business (Schwab 2017). Similarly, the WEF Global Enabling Trade Report

2016 ranks Kazakhstan 88 out of 139 countries, with foreign market access and the efficiency and transparency of border administration being key issues (WEF/Global Alliance for Trade Facilitation 2016).

**Import regime.** As Afghanistan and Kazakhstan are both recently acceded members of the World Trade Organisation (WTO), their trade regimes are bound by WTO rules. Kazakhstan joined the WTO on 30 November 2015. In 2016, the simple average applied MFN tariff was 6.9% for all goods – 6.5% for non-agricultural goods and 9.5% for agricultural products (WTO/ITC/UNCTAD 2016). Beverages and tobacco attract the highest duties, at an average of 21.7%.

As Kazakhstan is a member of the Euroasian Economic Union (EEU) – along with Russia, Belarus, Armenia and Kyrgyzstan –, it cannot set its import tariffs unilaterally but is, principle, bound by the EEU’s common external tariff (CET) set by the EEU-Commission on Unified Customs Tariffs. Most tariffs are in the range from 0 to 30%. For Kazakhstan, the CET poses a problem, as it would force the Government to partly apply tariffs which exceed Kazakhstan’s bound rates – the simple final bound rate is 6.4% which would require Kazakhstan to reduce tariffs from the current 6.9% during the negotiated transition period. Accordingly, within five years after accession to the WTO, Kazakhstan is expected to lower import tariffs on around 3,500 items by 2 to 5 percentage points, or eliminate tariffs on the altogether, which would partly be in conflict with the EEU CET. To solve this issue, the EEU has prepared a list of goods, the “withdrawal list”, that qualify for lower import duty rates than the rates set out in the CET. The withdrawal list contains around 1,350 items, including pharmaceuticals, agricultural products, precious stones and metals, textiles, vehicles and others. These products are not covered by the single customs territory arrangements within the EEU, i.e. export restrictions to other EEU member states apply (EY 2016: 28). The withdrawal list will apply to those goods imported by Kazakhstan where applied MFN rates are lowered below the CET rates in response to its WTO commitments (KPMG 2017: 7).

In addition to import duties, customs fees, excise duties, and 12% VAT are also charged. Excisable goods are all types of spirits, alcohol products, tobacco products, gasoline and diesel, vehicles for 10 or more people (except minibuses, buses and trolley buses), cars and other vehicles, vehicles with a cargo platform, crude oil, gas condensate and products containing spirit and used for medical purposes (Deloitte 2016: 22).

Full or partial exemption from customs duties and taxes are granted to members of SEZ and holders of investment licenses (EY 2016: 28).

**Licensing and Quotas.** The import of certain goods is subject to quotas established by the EEU or the Kazakh Customs. Excisable goods imported within the established quotas are not subject to excise duties. The permit regulation also establishes a list of goods whose import or export is subject to licensing. Licenses references each unit of goods and must be issued within 30 business days upon receipt of application. Licensees are required to submit reports on the use of the license to the authorized bodies (EY 2016: 29). The number of licenses and the lack of clarity regarding the process to obtain them have been raised as issues acting as non-tariff barriers (e.g., EY 2016: 29; ITC 2016; WEF/Global Alliance for Trade Facilitation 2016).

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3 Customs clearance fee is 60€ for the first page of a customs declarations plus 25€ for each additional page.
Exports duties. Although most exports are subject to zero VAT and from export and excise duties, Kazakhstan levies export duties on a limited number of goods, including petrochemical products, ferrous metal, waste and scrap, re-melted iron or steel scrap, cooper waste and scrap, among others (Deloitte 2016: 24). In line with its WTO obligations, Kazakhstan agreed to decrease its export duties annually on certain types of goods, starting January 2016.

Foreign currency rules. Foreign currency may be sold or purchased at banks, currency exchange providers that hold a license for carrying out such activities. Although certain currency transactions between residents and non-residents must be notified or registered with the National Bank of Kazakhstan, observers found that currency regulations are “not a serious obstacle to most international business transactions” (Deloitte 2016: 33f).

Transit regime. Kazakh customs law recognises goods transit as a practice which can be realised with the permission of the customs authority. Kazakhstan, like Afghanistan, is a member of the Economic Cooperation Organisation (ECO) and has signed the ECO Transit Trade Agreement and the ECO Transit Transport Framework Agreement (USAID 2014; Shimoya 2016). Therefore, transit issues should not impose a problem to trade between the two countries – this is important in view of the restricted circulation of goods on the withdrawal list in the EEU.

Very little information is available about the practice for transiting Afghan Products through Kazakhstan. However, transit of goods from China to Kyrgyzstan has reportedly faced several complications in Kazakhstan, including detention of cargo at Almaty for documentation check and customs inspection, lack of adequate storage and heavy bureaucratic burden. Whether this is true for Afghan traders or not remains to be confirmed. In any way, the World Bank suggests that, if Kazakhstan wants to capitalise on its geographical position and become a regional transit, business and logistics hub, it will need to improve its trade regime by enhancing, streamlining and expediting customs procedures, increasing transparency, improving risk management and promoting freedom of transit and further harmonizing procedures at the customs union level (World Bank 2017a).

Recent reforms to trade and business environment. Kazakhstan has clearly been moving towards a more liberal trade regime in recent years, notably in the context of its access to the WTO. In 2017, Kazakhstan made trading across borders easier by reducing the number of documents required for customs clearance (World Bank 2017). As a result of these reforms, Kazakhstan’s ranks in international trade and logistics benchmarks out-perform other Central Asian countries (Figure 2a), although there is still considerable room for improvement. Especially logistics issues are ranked higher than for regional peers (Figure 2b; sub-indices “international shipments”, “logistics competence” and “Timeliness”).

Finding 5: The Kazakh trade environment is relatively favourable, in terms of imports and market access, recent reforms, specially the access to the WTO and the underlying trend towards a more liberal trade regime offer opportunities for an intensified bilateral cooperation on trade and enhance bilateral trade with Afghanistan. Bilateral consultations can and should build on this momentum.

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4 The members of ECO are Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan.

TRADE BETWEEN AFGHANISTAN AND KAZAKHSTAN – ISSUES AND OPTIONS FOR ENHANCEMENT

Figure 2: Trade and Business Environment in Kazakhstan and Afghanistan – international benchmarks

<table>
<thead>
<tr>
<th>a) Doing Business 2018 (rank out of 190)</th>
<th>b) Logistics Performance Index 2016 (rank out of 160)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>LPI</td>
</tr>
<tr>
<td>Afghanistan 2018</td>
<td>Afghanistan</td>
</tr>
<tr>
<td>183</td>
<td>200</td>
</tr>
<tr>
<td>Kazakhstan 2018</td>
<td>Kazakhstan</td>
</tr>
<tr>
<td>200</td>
<td>150</td>
</tr>
<tr>
<td>Other Central Asia 2018</td>
<td>Other Central Asia</td>
</tr>
<tr>
<td>185</td>
<td>138</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>Customs</td>
</tr>
<tr>
<td>183</td>
<td>92</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>Infrastructural competence</td>
</tr>
<tr>
<td>185</td>
<td>100</td>
</tr>
<tr>
<td>Dealing with Construction</td>
<td>Internat. shipments</td>
</tr>
<tr>
<td>185</td>
<td>77</td>
</tr>
<tr>
<td>Trading across Borders</td>
<td>Logistics competency</td>
</tr>
<tr>
<td>183</td>
<td>92</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>Tracking &amp; tracing</td>
</tr>
<tr>
<td>183</td>
<td>154</td>
</tr>
<tr>
<td>Protecting Property</td>
<td>LPI</td>
</tr>
<tr>
<td>183</td>
<td>92</td>
</tr>
<tr>
<td>Getting Credit</td>
<td></td>
</tr>
<tr>
<td>183</td>
<td>92</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td></td>
</tr>
<tr>
<td>183</td>
<td>82</td>
</tr>
<tr>
<td>Registering Property</td>
<td></td>
</tr>
<tr>
<td>183</td>
<td>82</td>
</tr>
<tr>
<td>Registering Property</td>
<td></td>
</tr>
<tr>
<td>183</td>
<td>125</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td></td>
</tr>
<tr>
<td>183</td>
<td>0</td>
</tr>
<tr>
<td>Minorities Investors</td>
<td></td>
</tr>
<tr>
<td>189</td>
<td>0</td>
</tr>
<tr>
<td>Afghan 2018</td>
<td></td>
</tr>
<tr>
<td>200</td>
<td>0</td>
</tr>
<tr>
<td>Kazakhstan 2018</td>
<td></td>
</tr>
<tr>
<td>150</td>
<td>0</td>
</tr>
<tr>
<td>Other Central Asia 2018</td>
<td></td>
</tr>
<tr>
<td>138</td>
<td>0</td>
</tr>
</tbody>
</table>

Note: “Other Central Asia” is the simple average rank of Iran, Uzbekistan, Kyrgyz Republic, Pakistan and Tajikistan.

2.2.2 Afghanistan

Afghanistan has suffered three decades of conflict with extensive damage to its physical infrastructure, institutions and human, social capital. Although violence continues to affect the economic activity of the country and continues to be the most important concern of the business community (ACCI 2017), there has been improvement in security throughout the country, which has allowed for a further participation in the international trading system, enhanced investment and income growth. Also, the Government of Afghanistan has implemented market oriented reforms, and disciplined fiscal and monetary policies to ensure a healthy trade and investment environment.

The Government of Afghanistan has been committed to pro-trade policies, with an emphasis on maintaining relatively low trade barriers for exports and imports, while taking into account domestic revenues and the need to support increased production of goods and services by the private sector. Afghanistan’s successful accession to the WTO in 2016 underlines the country’s determination to conduct its external trade according to laws, rules, and procedures that are internationally recognised and accepted.

Making the most of its geographic location – as a landlocked yet strategically located country linking Central Asia with South Asia, providing China and the Far East with direct trade routes to the Middle East and Europe – will depend on deepening Afghanistan’s participation in bilateral and region-wide initiatives. Regional trade and transit facilitation therefore remain high priorities, not only because they will increase trade but also because they will strengthen regional cooperation, contribute to regional stability and prosperity, and increase investment. Afghanistan is a member of significant regional trading arrangements, including the South Asian Free Trade Area (SAFTA) and the Economic Cooperation Organisation Trade Agreement (ECOTA), as well as being an observer in the Shanghai Agreement.
Despite these promising developments, Afghanistan’s business and trade environment remains fragile. Its rank in the Doing Business Index is 183 (out of 190 countries), and its rank in the Trading Across Borders sub-index 175 (Figure 2a above). Likewise, it ranks near the bottom, overall and across most categories, in the Logistics Performance Index (Figure 2b above). Infrastructure problems, in particular the poor transport and power networks, as well as remoteness from international markets are factors undermining the country’s appeal for investment and foreign trade.

**Trade regime.** Afghanistan’s tariffs are among the lowest applied by least developed countries, as well as in the region. The majority of products have tariff rates at a level of 5% or lower, with vehicles and salt attracting the highest tariffs (35%-50%). The average applied tariff rate in Afghanistan across all goods in 2015 was 6.69% (UN ESCAP 2015: 43f); ad valorem duties are predominant – other types of duties apply to only 0.8% of tariff lines. Afghanistan levies no excise taxes on imports; the only border tax levied in addition to tariffs is the Red Crescent Tax of 2% of the customs duty paid.  

Although tariffs are low, there is room for improvement regarding transparency and efficiency of the trade regime, which is characterised by a large number of institutions involved as well as unclear rules and procedures.

**Finding 6:** Afghanistan’s liberal trade regime constitutes a good basis for bilateral consultations with Kazakhstan on creating a more conducive environment for trade between the two countries. The focus of consultations is unlikely to be on tariffs (which are low in Afghanistan and largely fixed in Kazakhstan due to its membership in the EEU) but rather on transit issues, non-tariff measures, and – especially – creating awareness for each other’s market opportunities.

### 3 Issues affecting trade between Afghanistan and Kazakhstan

As has been discussed above, trade between Afghanistan and Kazakhstan is still comparatively limited. Partly because both countries are members of the WTO, no major obstacles have been identified in the analysis above, besides issues related to transit through Uzbekistan and the generally low of trade between the two countries. While the former could best be addressed in trilateral Afghan-Kazakh-Uzbek consultations (or bilateral consultations between Afghanistan and Uzbekistan, and Kazakhstan and Uzbekistan), in order to expand bilateral trade, bilateral Afghan-Kazakh consultations and trade missions should be organised including representatives of both the public and private sectors.

Nevertheless, Afghan traders doing business with Kazakhstan have identified some issues affecting bilateral trade and investment. These include the lack of Afghan bank branches and slow international payment transactions; difficulties in obtaining long-term visas, work and residence permits, and lack of warehouses. These issues, as well as suggestions for addressing them in bilateral consultations, are discussed in the following sections.

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6 WTO (2015: 22). Prior to WTO accession, a “fixed” tax (withholding tax) of 2% (for importers with a licence, deductible from the income tax) or 3% (for importers without a trade license, non-deductible) on the customs value plus customs duty had also been levied.

3.1 Lack of awareness for market opportunities

Issue: Awareness among Afghan business traders for the market potential in Kazakhstan is very limited. Apart from gas and wheat imports from Kazakhstan, and very limited exports of vegetables to Kazakhstan, Afghanistan’s trade with Kazakhstan is minimal.

Effect: Considering that Kazakhstan is Central Asia’s largest market and economy, and also considering that the trade environment in Kazakhstan is conducive to trade (certainly when compared to other Central Asian countries), Afghanistan’s exports to the country are clearly underperforming. More awareness of the opportunities provided by the Kazakh market could lead to significantly higher exports there.

Remedial measures and suggestion for bilateral consultations: A number of measures have been in the pipeline to increase awareness for each other’s markets and the associated business opportunities. For example, the ACCI and the Chamber of International Commerce of Kazakhstan signed a Memorandum of Understanding (MoU) for enhancing business cooperation, which also provides for exchange of market information, organisation of meetings, exhibitions and fairs; following the signature of the MoU an Afghanistan-Kazakhstan chamber of commerce was established in early 2016; and the Government of Afghanistan has announced to introduce a commerce attaché at the Afghan consulate in Astana.  

Regular bilateral consultations and trade missions, as well as awareness raising measures among the Afghan business community for the opportunities which the Kazakh market presents for Afghanistan should build on the initiatives already started. The ACCI and its Kazakh counterparts should be in the driving seat, supported by the Government.

3.2 Transit issues

Issue: Kazakhstan and Afghanistan are important transit countries for each other: Kazakhstan provides access, through the railway, for Afghanistan to China and the Russian Federation; and Afghanistan provides access for Kazakhstan to South Asia and the sea (currently through road transport). As mentioned above (section 2.2.1) Afghanistan and Kazakhstan have both signed the ECO Transit Trade Agreement, but in the absence of an agreement with Uzbekistan this has been difficult to operationalise up to now; the recent signing of a bilateral transit agreement between Afghanistan and Uzbekistan may however, once implementation has started, greatly facilitate transit trade. In addition, transit operations are hindered also by some specific additional issues, particularly security issues in Afghanistan.

Effect: The main negative effects stem from the lacking transit agreement with Uzbekistan. This has in the past resulted in Chinese trains returning empty from Afghanistan (although no similar disruptions have been reported regarding transit trade to Kazakhstan or Russia).  

In addition, the security issues affecting transit traffic through Afghanistan (like domestic cargo traffic and business activity in general) have, apart from human suffering, not only increased the cost of business but also divert some potential transit traffic from Kazakhstan onto other routes.

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9 The main rail route to China is through Uzbekistan and Kyrgyzstan, although Uzbekistan-Kazakhstan could provide an alternative route.
Remedial measures and suggestion for bilateral consultations: Uzbekistan and Afghanistan have signed a bilateral Transit Agreement on 05 December 2017, and in fact Uzbekistan has already taken some tangible measures improving the transit of Afghan goods in its wake, notably the halving of transit fees in January 2018. Building on this momentum, some follow-up technical consultations for the operationalisation are now required, such as on transit of bulky and heavy cargo, dangerous goods, simplification of formalities, and exchange of information (see Articles 5 to 8 of the Transit Agreement). Furthermore, consultations could be held at a technical level on the possibility of issuing alternative road passes for transit trucks, for example based on the TIR carnet. The involvement of Kazakhstan in these consultations, or simultaneous bilateral consultations between Kazakhstan and Uzbekistan, and Afghanistan and Uzbekistan could be used to swiftly improve the regulatory framework for transit.

In addition, investments in the transport infrastructure are needed (see section 3.6). In bilateral or trilateral consultations, options for extending the current transit trade infrastructure could be considered.

3.3 International payment issues

Issue: Issues related to international financial transactions are another obstacle for bilateral trade and investment. Very few of Afghanistan’s banks offer international payment transfer services (and at a high price), which forces traders to resort to informal channels.

Effect: The several bureaucratic steps involved in the procedure resulted in long delays and high costs as well as cash flow problems from late payment, as also traders interviewed for the present study confirmed.

Remedial measures and suggestion for bilateral consultations: As long as trade between Afghanistan and Kazakhstan is limited, developing improved – i.e. faster and less costly – international payment services is likely to be difficult. Nevertheless, bilateral consultations driven by the Chambers/private sector on market opportunities should also involve representatives of financial services providers from both Afghanistan and Kazakhstan, as well as the central banks, in order to raise their awareness for the constraints faced by traders and investors, and possibly identify solutions.

3.4 Business visas

Issue: While obtaining business visas for Kazakhstan appears to be reasonably easy, long-term visas and residence permits seem to be difficult to obtain; in any case, the visa requirement for Afghans for Kazakhstan contrasts with the easy process faced when Afghans move between Afghanistan and Pakistan.

Effect: The difficulty in obtaining long-term visas affects primarily bilateral investment activity, leading to reduced levels of bilateral investment. However, it also has a negative effect on bilateral trade, especially considering the current low level of trade and the need to develop business relations, which requires frequent travel and personal meetings with business partners in order to build mutual trust.

Remedial measures and suggestion for bilateral consultations: The Afghan and Kazakh chambers of commerce are aware of the problem and have taken initial measures to address them. For example,

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the MoU signed between ACCI and the International Chamber of Kazakhstan aims at assisting companies in obtaining business visas, including through the issuance of invitation letters by the chambers (clause 9). This provision in the MoU would need to be operationalised by establishing the proper procedures. For example, Afghan traders wishing to travel to Kazakhstan could contact the ACCI which would then inform the CCIU to prepare and send an invitation letter for the trader; and vice versa for the issuance of Afghan visas for Kazakh business persons. The support offered by the chambers in obtaining visas would then need to be promoted among traders, who are currently largely unaware of it.

A further review of Kazakh visa regulations and requirements for Afghan business persons, in particular for first-time visitors, would be better still. Such a review should focus on the fast-tracking of business visas. The long-term goal should be the removal of the visa requirement for Afghan citizens, following the example of the bilateral non-visa regimes which Kazakhstan has in place with its other neighbours and selected CIS countries.

In bilateral negotiations, these issues could be addressed in various levels of detail. Ideally, the long-term goal of removing the visa requirement should be acknowledged by both sides. This should be complemented by discussions over practical ways to facilitate business travel in the short term. A starting point for the facilitation of first-time business visas would be to jointly develop the procedures for issuing invitation letters by the chambers, complemented with a monitoring mechanism and a commitment by the authorities to accept invitations letters issued by the chambers for the purpose of visa issuance. A roadmap for further discussions to facilitate business travel should also be agreed. In other words, consultations could take a three-pronged approach: First, discuss practical ways of obtaining business visas without changes of visa regulations. Operationalising the invitation letters issues by the chambers, as well as support to applicants in obtaining longer-term and multiple entry visas would be examples under this first strand of talks, which could be held between the chambers, but with involvement of the customs/immigration authorities. Second, discuss ways for simplifying regulations, such as the removal of the invitation requirement, stipulating maximum periods for the issuance of business visas, or adjusting the criteria required for the issuance of multiple entry business visas. Third, agree on the long-term objective of removing the visa requirement altogether. As a separate activity, dissemination among the Afghan business community of the current practice and requirements for Kazakh business visas should be considered in order to raise awareness for the improvements already made.

3.5 Documentary and border procedures

**Issue:** Procedures for import and export in Kazakhstan and Afghanistan are cumbersome. This applies both to documentation issues and procedures at the border. An overview of the compliance time and costs involved for bilateral trade is provided in Table 2, which is based on the Doing Business methodology. According to this, compliance with documentation requirements and border procedures when exporting goods from Afghanistan to Kazakhstan takes 276 hours and costs USD 797. Exporting goods from Kazakhstan to Afghanistan is even more burdensome, taking 681 hours and costing USD 2,544.
Table 2: Compliance times and costs for Afghanistan-Kazakhstan trade (2017)

<table>
<thead>
<tr>
<th>Compliance time (hours)</th>
<th>Export from Afghanistan to Kazakhstan</th>
<th>Export from Kazakhstan to Afghanistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance time in export country</td>
<td>284</td>
<td>681</td>
</tr>
<tr>
<td>Documentary compliance</td>
<td>228</td>
<td>128</td>
</tr>
<tr>
<td>Border compliance</td>
<td>48</td>
<td>133</td>
</tr>
<tr>
<td>Compliance time in import country</td>
<td>8</td>
<td>420</td>
</tr>
<tr>
<td>Border compliance</td>
<td>2</td>
<td>96</td>
</tr>
<tr>
<td>Documentary compliance</td>
<td>6</td>
<td>324</td>
</tr>
<tr>
<td>Compliance cost (USD)</td>
<td>797</td>
<td>2,544</td>
</tr>
<tr>
<td>Compliance cost in export country</td>
<td>797</td>
<td>894</td>
</tr>
<tr>
<td>Documentary compliance</td>
<td>344</td>
<td>320</td>
</tr>
<tr>
<td>Border compliance</td>
<td>453</td>
<td>574</td>
</tr>
<tr>
<td>Compliance cost in import country</td>
<td>0</td>
<td>1,650</td>
</tr>
<tr>
<td>Border compliance</td>
<td>0</td>
<td>750</td>
</tr>
<tr>
<td>Documentary compliance</td>
<td>0</td>
<td>900</td>
</tr>
</tbody>
</table>

Source: Author calculations based on World Bank (2018).

Specifically, traders have mentioned the following obstacles in relation to documentary requirements and procedures:

- The number of documents required for bilateral trade is high (the major culprit here is Afghanistan). According to the World Bank’s Doing Business methodology, exporting from Afghanistan to Kazakhstan requires a total of 13 documents (ten export documents in Afghanistan, plus three import documents in Kazakhstan), and exporting from Kazakhstan to Afghanistan 15 (five export documents in Kazakhstan, plus ten import documents in Afghanistan) – these are additional to any documents required for transit purposes in Uzbekistan;
- As documents have to be completed in the national language, translation requirements constitute another issue;
- Not only is the number of documents high, these also have to be obtained from a large number of different bodies, including, on the Afghan side, the Afghan National Standards Authority (ANSA), the Ministry of Public Health, the Ministry of Commerce, and the Ministry of Finance/Customs. Private entities, such as banks, are also involved.

In addition, the following obstacles in relation to customs and procedures have been raised:

- Movement of vehicles across the borders (in particular, at the Afghan-Uzbek border) is burdensome: cars require special documentation including a government permit, and trucks cannot cross. Therefore, cargo must be offloaded and then loaded onto an importer’s truck after customs inspection;
- The delay and cost caused by the need of offload and onload goods is further exacerbated by slow processing and delays in getting boats, which apparently are in short supply. This results in longer storage times and the need to pay demurrage charges. It has been mentioned that processing is often deliberately slowed down in order to extort “facilitation payments”;
- Closely related to the foregoing, corruption at the borders remains a problem. In 2015, 80% of traders reported having to pay bribes at the Hairatan crossing (UN ESCAP 2015: 51). In the 2016 ACCI Business Monitor survey, 15% of businesses reported that illegal fees were an issue, another 11% referred to an “unjust and arbitrary system”, and even more stated that “customs
officers do not follow the rules” (ACCI 2016: 10), although it should also be stated that relatively few businesses of the Balkh region considered customs to constitute a major problem. Finally, among the traders interviewed for the present paper, 14 out of 33 (42%) stated that bribes were expected or needed to facilitate speedy completion of border procedures (without giving information on which side of the border this was the case);

- Traders have also mentioned that the electronic money transfer used for paying customs duties and fees has caused problems, as payments take too long to be shown on accounts, thereby causing delays and demurrage charges;
- Language issues constitute another cause of concern. A number of traders stated that communication with border officials of the other country was made difficult by the lack of a common language with traders – Kazakh officials tend to speak Kazakh and Russian, Afghan officials Dari, Pashto, and possibly Uzbek, Turkmen and/or English;
- Finally, the need to have a customs agent in order to deal with customs and get the release of goods imported into Afghanistan is considered as an unnecessary extra cost by the vast majority of traders.¹¹

**Effect:** The combined effect of the identified issues with trade documentation and border procedures are delays and increased compliance costs, both of which add to the cost of bilateral trade and make it less attractive compared to trade with other partners. In addition, discretionary decisions by customs staff and facilitation payments increase the risk of trading, thereby turning away risk averse business persons. The ultimate effect is, once again, a reduced level of bilateral trade compared to the existing potential.

**Remedial measures and suggestion for bilateral consultations:** In principle, Afghanistan and Kazakhstan could address procedural issues unilaterally. For certain issues, such as the high number of documents and agencies involved in Afghanistan, the Government in fact has to do its own homework (e.g. by creating a one-stop-shop – already under development in Afghanistan – or even electronic single window for trade). However, a joint approach will ensure that measures taken by both governments are complementary and facilitate the exchange of information. In this respect, the bilateral consultations could provide a forum for discussing data exchange.₁² Also, joint training of border staff, including language training could be discussed in the bilateral consultations.

### 3.6 Transport infrastructure

**Issue:** Another challenge mentioned in the literature and by traders is the difficult access to storage at border points and deficient transport infrastructure. Although the transport infrastructure in Kazakhstan is further developed than in Afghanistan, there remains room for improvement, specifically connecting the border crossing points with the rest of the rail/road network. Most of the cargo in Kazakhstan moves through the railway network. However, connectivity with Uzbekistan, leading onward to Afghanistan, is limited, with only two border points connected to the rail network (compared to 11 with Russia; UNECE/ITC 2014). Main challenges faced by traders when transporting goods in Kazakhstan are the lack of technology and modern infrastructure, lack of skilled manpower,

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¹¹ This is an issue which appears to be unsuitable to be addressed in bilateral consultations but should be addressed by Afghanistan’s Customs Department on its own. It appears that the perception of traders of customs agents as just another trade cost without any benefits stems from the low quality of services provided by customs agents. The Customs Department should thus embark on efforts to raise the quality of services provided by brokers, e.g. through a tightening of licensing requirements.

₁² For example, a data exchange agreement between Afghanistan and Tajikistan was signed in June 2017.
quality, speed and competitive pricing and reliability. Traders also reported a shortage of cargo containers for transporting goods by train or truck. Security seems to be an issue in Kazakhstan too, as many traders reported high incidents of cargo theft at Kazakh railway stations (UNECE/ITC 2014: 56-60).

**Effect:** The lack of infrastructure is an important impediment for Afghanistan to reach its trade potential. It not only contributes to longer transport times and thus high costs of trade, it also increases wastage, especially of perishable products, such as fruits and vegetables, which constitute a key export from Afghanistan to Kazakhstan. In particular the lack of adequate storage at the border, with cooling facilities, causes high wastage and deters bilateral trade. Road and rail links connecting Afghanistan and Uzbekistan, which are also transit routes to Kazakhstan, as well as better border facilities, are required to accelerate transport time and reduce trade costs.

**Remedial measures and suggestion for bilateral consultations:** In a long-term perspective, for Kazakhstan and Afghanistan to become a strategic trade partners will depend heavily on their capacity to establish a good integrated road and railway infrastructure across each country.\(^{13}\) Without question, the trade infrastructure – roads, railways, ports and customs facilities – needs to be further developed.

Although infrastructure development in principle is an issue for which both countries are responsible individually, bilateral (or regional) cooperation can play an important supporting role. This is particularly important given the limited funds available for infrastructure development in Afghanistan and the region. Already, efforts have been made, such as the railway between Afghanistan and Uzbekistan, which has featured Uzbek investment and initial management. Bilateral consultations between Afghanistan and Kazakhstan should build on this example and should comprise the development of a joint trade infrastructure investment programme. This should also include the development of joint projects to be funded, or co-funded, under international initiatives such as the New Silk Road,\(^ {14}\) and the Belt and Road Initiative, as well as by multilateral infrastructure funding institutions, such as the Asian Infrastructure Investment Bank (AIIB), of which Kazakhstan has been a member since 18 April 2016, and Afghanistan since 13 October 2017.

4 **Summary recommendations**

As can be seen from the analysis presented above, the main issue affecting trade between Kazakhstan and Afghanistan is its limited scope and virtual absence outside of the handful of traded products; there is definitely a significant amount of bilateral under-trading considering the size of the two economies and the significant improvements in the respective environments for bilateral trade in the two countries, which have created an excellent base for discussing and resolving issues through bilateral consultations and cooperation, and boosting trade.

It follows that a key issue for bilateral consultations will be to raise awareness for business and trade opportunities among the respective business communities; consultations and information exchange meetings should therefore largely be driven by the private sector, supported by government. These

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\(^{13}\) It has been estimated that better connectivity with Central Asia could boost trade by up to USD 12 billion annually in the region (UN ESCAP 2015: 48).

consultations between private sector representatives, notably the chambers of commerce, can build on the cooperation already established and MoUs signed.

Consultations on the other issues identified in this paper should take place as flanking or supporting events. The majority of the issues could in fact be addressed unilaterally, but addressing them in bilateral talks (or even trilateral talks, where transit through Uzbekistan is concerned) entails the benefit of facilitating a coordinated approach which helps avoid taking incompatible measures, and raises awareness among the business communities.

In all consultations, in the interest of transparency and inclusiveness both public and private sector representatives should be invited at least as observers.
References


