ADVANCING AFGHAN TRADE
EU TRADE-RELATED ASSISTANCE

Trade between Afghanistan and Uzbekistan – Issues and Options for Enhancement
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Trade between Afghanistan and Uzbekistan
Issues and Options for Enhancement
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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 Uzbekistan. 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 Uzbekistan, 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 Uzbekistan

Current bilateral trade between Afghanistan and Uzbekistan is of relatively limited, but non-negligible importance for both countries. Total bilateral trade (exports plus imports) was almost USD 600 million in 2012 and 2013, increased to more than USD 700 million in 2014, before dropping sharply to less than USD 340 million in 2015 (Table 1); preliminary data for 2016 indicate a recovery to about USD 500 million.1

From Afghanistan’s perspective, between 5% and 10% of its total imports come from (or through) Uzbekistan. In 2015, the last year for which full-year data are available, imports from Uzbekistan stood at USD 336 million or 4.4% of total Afghan imports. Afghanistan’s exports to Uzbekistan in the same year, at merely USD 0.3 million, accounted for a negligible share of Afghanistan’s exports. Accordingly, the bilateral trade balance is consistently, and significantly negative for Afghanistan. Furthermore,

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whereas imports from Uzbekistan, although volatile, remained largely stable, exports to Uzbekistan decreased each year over the period 2012 to 2015, from an initial USD 6.3 million to USD 0.3 million. From Uzbekistan’s perspective, Afghanistan is a reasonably important market, accounting for between 5% and 10% of total exports.

**Finding 1:** In view of the stagnating (as far as Uzbek exports to Afghanistan are concerned) respectively declining (Afghanistan’s exports to Uzbekistan) trends, it is clear that there is significant untapped trade potential between the two countries, the realisation of which could be facilitated through bilateral consultations to foster bilateral trade. As neighbouring countries, current trade performance has underperformed, and expanded trade could yield significant benefits on both sides. Bilateral consultation could work toward a joint task force studying options for expanding bilateral trade.

**Table 1:** Afghanistan-Uzbekistan bilateral trade, key figures, 2012-2016 (USD million)

<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 UZB</td>
<td>USD M</td>
<td>580.3</td>
<td>581.3</td>
<td>721.9</td>
<td>336.0</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>UZB: Imports from AFG (= exports from AFG to UZB)</td>
<td>USD M</td>
<td>6.3</td>
<td>2.4</td>
<td>0.4</td>
<td>0.3</td>
<td>..</td>
</tr>
<tr>
<td>UZB: Total imports</td>
<td>USD M</td>
<td>10,965.9</td>
<td>12,882.9</td>
<td>13,580.2</td>
<td>10,478.5</td>
<td>9,140.9</td>
</tr>
<tr>
<td>UZB: Total exports</td>
<td>USD M</td>
<td>6,428.9</td>
<td>8,489.6</td>
<td>7,144.5</td>
<td>6,399.9</td>
<td>6,983.6</td>
</tr>
<tr>
<td>Share imports from UZB in AFG total imports %</td>
<td>7.4</td>
<td>7.7</td>
<td>9.3</td>
<td>4.4</td>
<td>..</td>
<td></td>
</tr>
<tr>
<td>Share imports from AFG in UZB total imports %</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>..</td>
<td></td>
</tr>
<tr>
<td>Share exports from UZB to AFG in UZB total exports %</td>
<td>9.0</td>
<td>6.8</td>
<td>10.1</td>
<td>5.3</td>
<td>..</td>
<td></td>
</tr>
<tr>
<td>Share exports from AFG to UZB in AFG total exports %</td>
<td>1.6</td>
<td>0.5</td>
<td>0.1</td>
<td>0.0</td>
<td>..</td>
<td></td>
</tr>
</tbody>
</table>

Source: Calculations based on ITC TradeMap.

In terms of sectoral trade and trade potential, Uzbekistan’s main exports to Afghanistan (based on averages for 2013 to 2015), were mineral fuels (44%), iron and steel (20%), and machinery and equipment (19%), followed, at a vast distance, by vegetables (5%) and wheat and flour (3%). Conversely, Afghanistan’s exports to Uzbekistan are dominated by agricultural products: vegetables and vegetable products (61%), hides and skins (34%), and fruits (4%).

In terms of trade potential, based on analysis undertaken by the ITC, Uzbekistan could expand exports to Afghanistan in a number of processed agricultural products and industrial goods, including sugar, certain refined petroleum products, medicaments, woven fabrics, and household articles. These products have a high demand in Afghanistan and could represent a source for diversification in Uzbek exports to Afghanistan. Conversely, unrealised export potential for Afghanistan to Uzbekistan exists in a number of primarily agricultural goods, including potatoes and grapes, as well as textiles and a number of industrial goods.

**Finding 2:** Bilateral consultations should pay particular attention to issues affecting trade in those sectors that are currently traded at high volumes or have potential for expansion. Based on the cursory review above, this would include mineral fuels and gas, iron and steel, and agricultural goods, in particular fresh produce and hides and skins.

Deepened bilateral trade and transit would clearly benefit both countries. For Afghanistan, Uzbekistan is in a strategic geographical position that (though a transit agreement) could allow Afghanistan to intensify its trade with China and Russia. The new trading route will decrease Afghanistan’s dependence on Pakistan for imports but also serve as an incentive for Afghan companies to export...
goods to markets that can offer better prices.\(^2\) Also, importing from Uzbekistan implies a significant advantage in time compared to importing from Pakistan — according to Afghanistan’s Minister of Commerce and Industry, Humayoon Rasaw, the latter takes on average 19 days, whereas importing from Uzbekistan only requires 9 days.\(^3\) Afghanistan’s draft National Trade Policy and National Export Strategy foresee a further strengthening of trade and transit arrangements with Uzbekistan and other regional countries. For Uzbekistan, Afghanistan offers a gateway to south and south-east Asia and an opportunity to increase its role as a trade point for inter-continental cargo.

**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.

In fact, mutual efforts to strengthen the bilateral trade and transport infrastructure have recently been stepped up already. On the Uzbek side, the Karshi-Termez railway is being electrified to reduce the cost of shipping cargo to and from Afghanistan and increase the margins for small businesses. The railway line already connects with the railway in Afghanistan and is the first long distance carrier railway in the country. The electrification of the Karshi-Termez railway will further reduce costs of transportation, time and CO\(_2\) emissions. In addition, the highway from Samarkand to Termez is also 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.\(^4\)

**Finding 4:** Bilateral consultations between Afghanistan and Uzbekistan should ensure that the development of the transport infrastructure is 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 jeopardised by regulatory and administrative burdens at the border and along the corridors.

Cross-border private sector activity has increased recently, although bilateral trade and investment are still limited. A number of joint business ventures between Uzbek and Afghan companies have been created, primarily in northern Afghanistan, and as of July 2017 in Uzbekistan more than 70 part-owned Afghan enterprises, including 20 with full Afghan capital, operated in services, trade and production of construction materials.\(^5\) An expression of increased bilateral private sector engagement also is the fact that the ACCI signed bilateral memoranda of understanding in 2016 with the Chamber of Commerce and Industry of the Republic of Uzbekistan (CCIU) and Uzsanoatexport, an Uzbek state trading company in charge of trading chemical and petrochemical goods, mechanical engineering, metallurgy and construction materials. The MoU between ACCI and CCIU aims at strengthening cooperation, the exchange of information on markets, trade and investment, facilitating arbitration and dispute resolution between companies, promoting joint ventures, assisting companies in obtaining business visas, and actively working towards the establishment of an Uzbek-Afghanistan business council. The


\(^3\) As quoted in “Afghanistan, Uzbekistan Trade Relations Strengthened”, Tolo News, 03 January 2017, [http://www.tolonews.com/afghanistan/afghanistan-uzbekistan-trade-relations-strengthened](http://www.tolonews.com/afghanistan/afghanistan-uzbekistan-trade-relations-strengthened). Note that compliance times according to the World Bank’s Trading Across Borders index are substantially longer than that (see section 3.4 below), but these are based on regulations only, not actual practices, and applying a specific methodology, which might explain the difference in trading times reported by different sources.


MoU with Uzsonaatexport foresees the establishment of a Joint Afghanistan-Uzbekistan Trade House which specifically aims at developing bilateral trade.

**Finding 5:** The engagement of bilateral private sector activity shows the demand for enhanced bilateral trade and business relations; it also shows the potential for mutually beneficial trade between Uzbekistan and Afghanistan. Private sector demand for holding bilateral consultations is therefore high; and in order to make such consultations successful, ample private sector involvement in the consultations should be foreseen.

Finally, informal cross-border trade constitutes a significant share of Afghanistan’s trade. According to different estimates, it accounts for about 40% of the country’s total trade (UN ESCAP 2015: 31); the World Bank has even estimated that informal trade is roughly equal to formal trade in value terms (World Bank 2012). Patterns of formal and informal trade between Afghanistan and Uzbekistan are different: First, the mode of transport differs, with formal trade taking place through rail or road (using trucks) and informal cross-border trade by individuals on foot, bicycle or cars. Traded products are also different: in formal trade, fuels and gas, steel and construction materials, and cereals and flour play important roles, whereas cross-border trade focuses on fast moving consumer goods. Although informal trade is not registered by statistics, and does not contribute to customs revenue collection in the same way as formal trade, its economic effects on border communities are positive, as a World Bank study has found based on surveys conducted at Hairatan, by creating employment and generating incomes, and making goods available in Afghanistan that are hardly traded by formal traders (World Bank 2012).

**Finding 6:** In view of the magnitude and economic and social importance of cross-border trade for communities near the borders (both in Afghanistan and Uzbekistan), bilateral consultations could also address potential measures to facilitate cross-border trade, such as through a simplified trade regime, with a longer-term perspective of formalising such trade.

### 2.2 General trade environment in Afghanistan and Uzbekistan

#### 2.2.1 Uzbekistan

Traditionally, the economic governance model pursued by the Uzbek government has emphasised strong state control, a focus on reducing imports and promoting self-sufficiency, especially in energy. Overall, according to international rankings, the business environment is mediocre: it ranks 87 out of 190 countries in the World Bank’s Doing Business Score, and underperforms particularly in its regime for trading across borders (Figure 1a).

**Import regime.** As Uzbekistan is not a member of the WTO its trade regime is not bound by WTO rules and in fact deviates from WTO rules in a number of important aspects. Imports to Uzbekistan have been restricted in several ways, which include high import duties and trade taxes, including excise taxes for certain goods (e.g. cigarettes, mineral water, fruit juices, furniture, vehicles), customs levies, including customs clearance fees, and VAT. Uzbekistan distinguishes three levels of customs duties depending on the country of origin of the imported goods: Imports from members of the CIS Free Trade Zone Convention are exempted; imports from countries which have been granted most favoured nation status by Uzbekistan are subjected to the standard (MFN) rates; and imports from all

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6 Uzbekistan is not included in the World Economic Forum’s Global Competitiveness Index, and neither Afghanistan nor Uzbekistan are covered by the Forum’s Enabling Trade Index.

7 Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan and Ukraine.

8 Unlike under WTO rules, “MFN” status in Uzbekistan is accorded only to a relatively limited number of countries. These include, among others, China, all EU countries, India, Iran, Japan, Pakistan, Turkey, and the United States. The Afghanistan-Uzbekistan Trade Agreement signed on 05 December 2017 provides for
other countries are charged with import customs duties at double the MFN rates (PwC 2016: 20). Ad valorem MFN rates range from 0% to 70%, with most being 30% or lower, but ad valorem equivalents of specific duties reach a maximum of 269% according to the WTO conversion methodology (WTO/ITC/UNCTAD 2016: 179). The simple average tariff across all goods is 14.9%; as usual, it is higher for agricultural goods (19.0%) than for industrial goods (14.2%). Duties are normally charged as a percentage of the imported item’s customs value (ad valorem), although the number of specific or mixed duties is comparatively high, at 5.9% of all tariff lines (WTO/ITC/UNCTAD 2016).

Excise taxes are imposed at high rates to protect locally produced goods and reach up to 200% of the customs value. Duties and excise taxes are normally charged as a percentage of the imported item’s customs value, although specific duties and excise taxes, or mixed duties and taxes are also common, as in the case of fresh fruit, cigarettes, water and juices, or vehicles.

Customs fees are levied as a percentage on customs value, at 0.2% (Deloitte 2015: 12). VAT is charged on all imports at the standard rate of 20% on the imported good’s value after other border taxes; with exceptions under certain conditions.

**Licensing and Quotas.** The import of certain goods is subject to licensing, with licenses being issued by state agencies authorised by the Cabinet of Ministers. The Cabinet of Ministers can also establish quantitative restrictions for imports of certain categories of goods. Quotas are then allocated on a competitive or auction basis. It is unclear whether licensing requirements or quotas are currently in place and if so, which goods are affected by them.

Although Uzbekistan has introduced a trade remedy (safeguards, anti-dumping and countervailing measures) law in 2003, roughly in line with WTO rules, so far no contingent protection measures have been imposed.

**Exports.** With regard to measures affecting exports, the most trade distorting measure is the prohibition of certain exports which was introduced in 1997. The list of prohibited exports includes most cereals (wheat, rye, barley, rice, oat, corn, buckwheat), flour and bakery products, livestock, poultry, meat and edible meat offal, sugar, vegetable oils, raw hides, furs, and silk. At the same time, export duties were abolished. Excise taxes are also generally not applied on exports (exceptions can be determined by the Cabinet of Ministers). VAT on exported goods, except precious metals, which are paid in a freely convertible currency is charged at a zero rate. Exports to countries signatories of the bilateral agreement “On principles of indirect taxation for exported and imported goods” (Kazakhstan, Kyrgyzstan, Azerbaijan and Moldova) have a zero-rated VAT independently of the currency of the payment and the type of the good exported (PwC 2016: 18f).

**Transit regime.** Uzbek customs law recognises goods transit as a usual practice which can be realized with the permission of the customs authority. In practice, however, it is not clear whether at present transport through Uzbekistan under a transit regime is possible. Although Uzbekistan, like Afghanistan, is a member of the Economic Cooperation Organisation (ECO), it is the only member which has not reciprocal MFN treatment of both parties (Article 3), which means that upon implementation of the Agreement Afghanistan will be added to Uzbekistan’s “MFN” list.

9 Unlike WTO national treatment rules would require, Uzbek excise taxes on imported goods differ from excise taxes on domestically produced goods.

10 Excise tax rates for 2017 are published online at http://fmc.uz/legisl.php?id2=pp_2699_13_2.


12 The members of ECO are Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan.
signed the ECO Transit Trade Agreement and the ECO Transit Transport Framework Agreement (USAID 2014; Shimoya 2016). However, a bilateral Transit Agreement was signed between Afghanistan and Uzbekistan on 05 December 2017.\textsuperscript{13}

\textbf{Recent reforms to trade and business environment.} Recently, Uzbekistan has been moving towards a more liberal trade regime, which is shown in a number of trade related reforms. For example (PwC 2016: 18ff):

- Since 2011 procedures slowing down trade have been eliminated such as the requirement to obtain a “passport of import transaction”;
- Since January 2013, mandatory registration of import contracts with customs authorities has been abolished;
- The procedure of registration of foreign trade contracts with banks for monitoring purposes has been abolished as of September 2014;
- A new edition of the Customs Code has been approved and entered into force in January 2016. The new custom code consolidates different customs regulations into one legislative act, making it more transparent and easy to implement.

Also, in 2014 Uzbekistan made trading across borders easier by reducing the number of documents to export and import and by making it possible to submit documents electronically.\textsuperscript{14} However, Uzbekistan’s ranks in international trade and logistics benchmarks remain low, also in comparison with other Central Asian countries (Figure 1a). Especially logistics issues are ranked worse than for regional peers (Figure 1b; sub-indices “international shipments”, “logistics competence” and “tracking and trading”).

\textit{Figure 1: Trade and Business Environment in Uzbekistan and Afghanistan – international benchmarks}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure1.png}
\caption{a) Doing Business 2018 (rank out of 190) b) Logistics Performance Index 2016 (rank out of 160)}
\end{figure}

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

\textbf{Finding 7:} Although the Uzbek trade environment remains challenging, in terms of levels of protection, recent reforms in Uzbekistan and the underlying trend towards a more liberal trade regime offer

\begin{itemize}
\item \textsuperscript{13} See e.g. “Afghanistan, Uzbekistan sign 23 agreements”, 1TV Afghanistan, \url{http://www.1tvnews.af/en/news/afghanistan/32427-afghanistan-uzbekistan-sign-23-agreements}.
\item \textsuperscript{14} \url{http://www.doingbusiness.org/reforms/overview/economy/Uzbekistan}.
\end{itemize}
opportunities for an intensified bilateral cooperation on trade and enhanced bilateral trade between Uzbekistan and Afghanistan. Bilateral consultations can and should build on this momentum.

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 World Trade Organisation (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 Organization 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 1a above). Likewise, it ranks near the bottom, overall and across most categories, in the Logistics Performance Index (Figure 1b 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.\footnote{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.}

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.

\footnote{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.
Finding 8: Afghanistan’s liberal trade regime constitutes a good basis for bilateral consultations with Uzbekistan on creating a more conducive environment for trade between the two countries. The focus of consultations is less likely to be on Afghanistan’s import tariffs – which are already low and provide easy market access for Uzbek exporters – but on the removal of non-tariff measures.

3 Issues affecting trade between Afghanistan and Uzbekistan

As has been discussed above, trade between Afghanistan and Uzbekistan is comparatively limited. A number of specific obstacles for bilateral trade have been identified which could, and should, be addressed in bilateral consultations of both public and private sector representatives. Such issues include difficulties in obtaining business visas, high border taxes, border and transport infrastructure issues, cumbersome documentation requirements and border procedures, lack of mutual confidence and dispute resolution mechanisms, technical barriers to trade, transit issues, and obstacles for cross-border trade. These issues, as well as suggestions for addressing them in bilateral consultations, are discussed in the following sections.

3.1 Business visas

Issue: By far the most often mentioned issue by traders is the difficulty in obtaining business visas for Uzbekistan, which contrasts with the easy process faced when Afghans move between Afghanistan and Pakistan. Some traders have also mentioned that Uzbek business persons intending to visit Afghanistan have also faced problems. The issues mentioned in relation to Uzbek visa applications are multiple and include high costs, long delays in obtaining visas, the need to have invitation letters (which then are followed by interviews at the Uzbek embassy in Kabul, and might lead to the rejection of the application), the need to involve agents for processing the visa application, the expectation to pay bribes in order to speed up the application process, and the fact that visas issues are single entry and for very short periods (typically shorter than what was applied for). Conversely, once a visa has been issued, no problems upon entry have been mentioned. However, Afghan citizens staying longer than three days in Uzbekistan have to register in the Ministry of Interior which is a further regulatory burden affecting bilateral trade and investment. At the same time, the situation appears to have improved clearly since the beginning of 2017 at least for business persons that already have ongoing business activities in Uzbekistan and have been there at least once. According to the Afghan Ministry of Foreign Affairs, these business persons can now – depending on the type of business in Uzbekistan – obtain visas for six or up to 12 months, including multiple entry visas, relatively smoothly. However, it seems that the business community in Afghanistan is not yet well aware of these recent changes.

Effect: The difficulty in undertaking business travel to Uzbekistan negatively affects all types of bilateral trade (exports, imports and transit trade) as well as bilateral investment directly and across all sectors. Such travel and personal meetings with business partners are an essential component for establishing and maintaining business co-operations, especially in the current context which is still characterised by relatively limited levels of mutual trust between business persons. In this context, a number of businesses interviewed stated that they were unsuccessful in obtaining a visa for Uzbekistan, which has prevented them from travelling there to close deals. The impact is thus reduced levels of bilateral trade and investment in both directions.

Remedial measures and suggestion for bilateral consultations: The Afghan and Uzbek chambers of commerce are aware of the problem and have taken initial measures to address them. For example,
the MoU signed between ACCI and CCIU aims at assisting companies in obtaining business visas, including through the issuance of invitation letters by the chambers (clause 8). This provision in the MoU would need to be operationalised by establishing the proper procedures. For example, Afghan traders wishing to travel to Uzbekistan 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 Uzbek 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 Uzbek 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 Uzbekistan has in place with its other neighbours and selected CIS countries.\(^{17}\)

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; in the recently signed bilateral Trade Agreement both Parties commit to facilitating bilateral trade and investment. 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 Uzbek business visas should be considered in order to raise awareness for the improvements already made.

### 3.2 Tariffs and other border taxes

**Issue:** Not being a WTO member, Uzbekistan is not bound by the MFN principle. In fact, it has designated MFN status to selected countries only. Countries not included among the MFN list are charged with import customs duties at double the standard rates (see section 2.2.1 above). Until now, Afghanistan has not been included among the countries with MFN status; however, Article 3 of the recently signed bilateral Trade and Economic Cooperation Agreement provides that the “Parties shall grant each other most-favored-nation treatment in respect of customs duties and other charges levied.” This provision, once implemented, will constitute a major improvement for Afghan exporters, who are presently at a significant competitive disadvantage not only in relation to exporters CIS countries (which are exempted from import duties in Uzbekistan) but also in relation to exporters in countries which have been granted MFN status. Selected tariffs and excise taxes for goods in which Afghanistan has an export interest are shown in Table 2. This shows the magnitude of differential

17 Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia and Ukraine are the countries with bilateral non-visa regimes with Uzbekistan.
treatment for Afghan exports into Uzbekistan compared to countries which have been granted MFN status.

In addition, excise taxes levied on many products in which Afghanistan has export potential are high, reaching up to 120%.

Table 2: Tariffs and excise taxes on imports in Uzbekistan, selected goods

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Commodity</th>
<th>MFN tariff</th>
<th>Tariff on AFG</th>
<th>Excise tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>0701</td>
<td>Potatoes</td>
<td>10%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>0702-0714</td>
<td>Other vegetables, except:</td>
<td>30%</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>0703</td>
<td>Onions, shallots, garlic, leeks and other bulbous</td>
<td>30%</td>
<td>60%</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>vegetables, fresh or chilled</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>07131090</td>
<td>Peas (pisum sativum); other (not for sowing)</td>
<td>30%, but not less than 0.15 USD / kg</td>
<td>60%, but not less than 0.3 USD / kg</td>
<td>10%</td>
</tr>
<tr>
<td>0801-0814</td>
<td>“Edible fruits and nuts; peel of citrus or melon</td>
<td>30%</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>peels”, except:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ex 0802</td>
<td>Almonds and nuts</td>
<td>30%, but not less than 1.5 USD / kg</td>
<td>60%, but not less than 3.0 USD / kg</td>
<td>50%</td>
</tr>
<tr>
<td>Ex 0805</td>
<td>Citrus fruit</td>
<td>30%, but not less than 0.2 USD / kg</td>
<td>60%, but not less than 0.4 USD / kg</td>
<td>25%, but not less than 0.15 USD / kg</td>
</tr>
<tr>
<td>0808</td>
<td>Apples, pears, quinces, fresh</td>
<td>30%, but not less than 0.5 USD / kg</td>
<td>60%, but not less than 1.0 USD / kg</td>
<td>100%, but not less than 1.6 USD / kg</td>
</tr>
<tr>
<td>41</td>
<td>Untreated skins (except for natural fur) and leather</td>
<td>5%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>57</td>
<td>“Carpets and other textile floor coverings”, except:</td>
<td>30%</td>
<td>60%</td>
<td>120%</td>
</tr>
<tr>
<td>570310</td>
<td>- Of wool or fine animal hair</td>
<td>30%, but not less than 3.5 USD/m2</td>
<td>60%, but not less than 7.0 USD/m2</td>
<td>120%</td>
</tr>
</tbody>
</table>

Source: Uzbekistan Tariff and Excise Tax Schedules, EU Market Access Database.  

Finally, because VAT is charged on the value of imported goods after duties and excise taxes, imports from Afghanistan also attract higher VAT rates on the value of goods than imports from other countries, thereby exacerbating the competitive disadvantage. Taking the example of carpets, as these attract an import duty of 60% plus excise tax of 120%, the nominal 20% VAT rate levied on the post-border tax value of imports actually amounts to 56% on the customs value before border taxes. Table 3 provides an example of the impact of border taxes on the price of carpets in Uzbekistan. It shows that the price of a carpet worth USD 100 imported from Afghanistan increases to USD 336 after taxes – considerably more than the after-tax price of carpets domestically produced (USD 120), or imported from other sources, including those that have been granted MFN status by Uzbekistan (USD 300).

Table 3: Effect of border taxes on price of imported carpets in Uzbekistan – sample calculation

<table>
<thead>
<tr>
<th>Origin</th>
<th>Customs value/factory price</th>
<th>Import duty</th>
<th>Excise tax</th>
<th>Post-import tax value</th>
<th>VAT (20%)</th>
<th>Price after taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import from Afghanistan</td>
<td>100</td>
<td>60</td>
<td>120</td>
<td>280</td>
<td>56</td>
<td>336</td>
</tr>
<tr>
<td>Import from Pakistan (MFN)</td>
<td>100</td>
<td>30</td>
<td>120</td>
<td>250</td>
<td>50</td>
<td>300</td>
</tr>
<tr>
<td>Import from CIS</td>
<td>100</td>
<td>0</td>
<td>120</td>
<td>220</td>
<td>44</td>
<td>264</td>
</tr>
<tr>
<td>Domestic product</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>100</td>
<td>20</td>
<td>120</td>
</tr>
</tbody>
</table>

Source: Author calculations.

**Effect:** The high border taxes to which Afghan products are exposed upon entry into the Uzbek market increase the end price of the products, decreasing competitiveness and creating obstacles to trade.

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20 Note that, in contrast to the information provided by PwC (2016), according to the EU Market Access Database CIS countries do not benefit from duty-free access but are subjected to MFN rates.
Although the numerical example provided above for carpets is extreme, the price disadvantage for other goods which Afghanistan could export to Uzbekistan is considerable and virtually prevents Afghan exports to Uzbekistan; they simply become uncompetitive. Addressing border taxes in Uzbekistan is therefore considered a high priority issue for bilateral consultations.

Remedial measures and suggestion for bilateral consultations: The signing of the Trade and Economic Cooperation Agreement between Uzbekistan and Afghanistan constitutes a major step forward in addressing the issue. However, the Agreement only enters into force after both countries have notified each other that they have completed the necessary procedures (Article 14.1 of the Agreement). An immediate task for the bilateral consultations therefore is to monitor and push for the entry into force of the Agreement and the actual start of implementation of its Article 3. Going forward, a discussion of the list of excise goods and rates for products where Afghanistan has export potential should follow. Given that Afghanistan’s tariffs are comparatively low and the fact that, as a WTO member it could only provide tariff concessions to Uzbekistan in the context of a trade agreement covering substantially all trade, bilateral consultations on border taxes cannot be reciprocal, and concessions by Afghanistan in exchange for liberalisation by Uzbekistan would have to be made in other areas.

3.3 Lack of trust and dispute resolution mechanism

Issue: A relatively high share (almost one third) of businesses consulted stated that the business partner abroad – typically the exporter – had not fully honoured the contractual terms. Examples given were that the volume of goods delivered was lower than agreed or that the quality of products delivered was not in line with samples provided. Although it is impossible to validate such claims, they do show a limited level of mutual trust between Uzbek and Afghan traders. This is compounded by absence of mechanisms for cross-border dispute resolution, also mentioned by many traders as a problem for bilateral business relations.

Effect: The lack of mutual trust is both a consequence and a cause of “under-trading” between Afghanistan and Uzbekistan. It prevents businesses from engaging in trade which would normally be profitable due to the perceived high risk of losing money. The absence of a dispute resolution mechanism for cross-border business relationships which would be considered neutral (as opposed to having to resort to the court system in the partner country, which is costly, is based on a different legal system, has proceedings in a foreign language, and is generally perceived as being biased towards the domestic actor), thus results in lower trade volumes.

Remedial measures and suggestion for bilateral consultations: Many businesses raising the issue of lacking dispute settlement expressed the wish for stronger government support in disputes. However, such support would not normally be a governmental task. The introduction of special dispute settlement bodies in charge of addressing bilateral business and trade disputes would constitute a more appropriate response. In fact, the Afghan and Uzbek chambers of commerce already address dispute resolution in the MoU, clause 5 of which states that the Parties aim at “amiable and friendly settlement of disputes arising out of commercial transactions between companies, enterprises and organizations through settlement, conciliation and arbitration taking into account international agreements and standards.” Although this is an important provision, what has been lacking so far is its operationalisation. Bilateral consultations could start here and should aim at developing an agreement that would establish a specific dispute resolution mechanism for Afghan-Uzbek business relations; such

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21 It should be noted that Afghan traders interviewed have not mentioned border taxes in Uzbekistan as an issue. However, the overwhelming majority of traders interviewed are importers of goods from or through Uzbekistan; the few exporters interviewed mostly export hides and skins, which attract low duties in Uzbekistan.
a mechanism could build on the already existing alternative dispute resolution mechanism operating at the ACCI, although it is likely that some further technical support will be required for the development of such a trans-border agreement. The principle that such a mechanism should become the default option for settling bilateral disputes between Afghan and Uzbek business should in any case be agreed. Going one step further, business and Afghanistan and Uzbekistan would then have to be sensitised about the dispute mechanism, and standard clauses would have to be provided to be inserted into their contracts. The Uzbek and Afghan chambers would need to closely collaborate on these issues, and should be the driving force of bilateral consultations with respect to dispute settlement, however always involving the relevant government bodies (such as ministries of economy/industry/trade and justice).

In addition to the further development of a bilateral commercial dispute resolution mechanism, bilateral consultation should also aim at developing a mutual confidence building process between businesses. Elements of this include an ongoing exchange of information and views by the private sector in the two countries, the organisation of regular bilateral business events, and information sessions. The MoUs between the ACCI and CCIU as well as between the ACCI and Uzsanoatexport already address these issues, but political support from both governments expressed through the consultations and possibly committing a small budget for it, would certainly help to develop more mutual trust between businesses in Uzbekistan and Afghanistan, and stimulate bilateral trade.

3.4 Documentary and border procedures

**Issue:** Procedures for import and export in Uzbekistan 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 4, which is based on the Doing Business methodology. According to this, compliance with documentation requirements and border procedures when exporting goods from Afghanistan to Uzbekistan takes 561 hours (more than 23 days) and costs USD 1,367. Exporting goods from Uzbekistan to Afghanistan is even more burdensome, taking 706 hours (almost 30 days) and costing USD 2,220.

Table 4: Compliance times and costs for Afghanistan-Uzbekistan trade (2016)

<table>
<thead>
<tr>
<th></th>
<th>Export from Afghanistan to Uzbekistan</th>
<th>Export from Uzbekistan to Afghanistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance time (hours)</td>
<td>561</td>
<td>706</td>
</tr>
<tr>
<td>Compliance time in export country</td>
<td>276</td>
<td>286</td>
</tr>
<tr>
<td>Documentary compliance</td>
<td>228</td>
<td>174</td>
</tr>
<tr>
<td>Border compliance</td>
<td>48</td>
<td>112</td>
</tr>
<tr>
<td>Compliance time in import country</td>
<td>285</td>
<td>420</td>
</tr>
<tr>
<td>Border compliance</td>
<td>111</td>
<td>96</td>
</tr>
<tr>
<td>Documentary compliance</td>
<td>174</td>
<td>324</td>
</tr>
<tr>
<td>Compliance cost (USD)</td>
<td>1,367</td>
<td>2,220</td>
</tr>
<tr>
<td>Compliance cost in export country</td>
<td>797</td>
<td>570</td>
</tr>
<tr>
<td>Documentary compliance</td>
<td>344</td>
<td>292</td>
</tr>
<tr>
<td>Border compliance</td>
<td>453</td>
<td>278</td>
</tr>
<tr>
<td>Compliance cost in import country</td>
<td>570</td>
<td>1,650</td>
</tr>
<tr>
<td>Border compliance</td>
<td>278</td>
<td>750</td>
</tr>
<tr>
<td>Documentary compliance</td>
<td>292</td>
<td>900</td>
</tr>
</tbody>
</table>

Source: Author calculations based on World Bank (2017).

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22 Doing so would require checking if alternative dispute resolution is supported by Afghanistan’s and Uzbekistan’s laws.
Specifically, traders have mentioned the following obstacles in relation to documentary requirements and procedures:

- The number of documents required for bilateral trade is high. This is confirmed by the World Bank’s Doing Business methodology, according to which exporting from Afghanistan to Uzbekistan requires a total of 18 documents (10 export documents in Afghanistan, plus 8 import documents in Uzbekistan), and exporting from Uzbekistan to Afghanistan 20 (10 export documents in Uzbekistan, plus 10 import documents in Afghanistan);
- 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:

- Border procedures are slowed by the prohibition for goods being exported to Uzbekistan to be carried across the border on trucks and trains. Instead, goods must be offloaded from trucks and wagons onto boats, for scanning and security checks, and can then be loaded back onto trucks or trains for onward transportation upon completion of the border formalities;
- Movement of vehicles across the 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 – Uzbek officials tend to speak Uzbek and Russian, Afghan officials Dari, Pashto, and possibly Uzbek, Turkmen and/or English. For Afghan traders not speaking Uzbek or Russian this creates problems;
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.23

**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 Uzbekistan could address procedural issues unilaterally. For certain issues, such as the high number of documents and agencies involved, each 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,24 the simplification and harmonisation of border procedures. Specifically, less disruptive measures to check cargo than the transfer onto boats could be envisaged, for example through the joint financing of scanners for trucks and rail cargo. A longer-term objective whose desirability could also be discussed is the eventual creation of a one-stop border post at Hairatan/Termez. Finally, joint training of border staff, including language training could be discussed in the bilateral consultations.

### 3.5 Border and transport infrastructure

**Issue:** Another big challenge mentioned in the literature and by traders is the difficult access to storage at the border and lack of transport equipment, especially when importing into Afghanistan at Hairatan crossing point. Although Hairatan/Termez is a relatively well-developed border point, a number of traders mentioned that lack of cool storage presents problems, in particular due to the need for interim storage to the requirement to tranship cargo at the border. On top of this, a deficient road and railway network (the railway currently ends in Mazar-i-Sharif, shortly after Hairatan border) the together with limited access to the electricity grid, and issues with the ICT infrastructure – notably mobile telephony and internet – make infrastructure one of the main limitations for bilateral trade. In 2015, 30% of the firms in Afghanistan considered transportation a major constraint (UN ESCAP 2015: 48); the consultations undertaken for this paper roughly confirm this.

Although transport infrastructure in Uzbekistan is less than perfect, Afghanistan is particularly affected. This is evidenced, for example, in the LPI infrastructure sub-index, where Uzbekistan’s rank is 91 (out of 160 countries), but Afghanistan’s is 154 (see Figure 1b above).

**Effect:** The lack of infrastructure is one of the main impediments 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 Uzbekistan. In particular the lack of adequate storage at the border, with cooling

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23 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.

24 For example, a data exchange agreement between Afghanistan and Tajikistan was signed in June 2017.
facilities, causes high wastage and deters bilateral trade. Road and rail links connecting Afghanistan and Uzbekistan, which are also transit routes to other markets, 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 Uzbekistan and Afghanistan to become a strategic trade partners for each will depend heavily on their capacity to establish a good integrated road and railway infrastructure across each country. 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 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 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, and the Belt and Road Initiative, as well as by multilateral infrastructure funding institutions, such as the Asian Infrastructure Investment Bank (AIIB), of which Afghanistan became a member on 13 October 2017 (Uzbekistan acceded in November 2016).

In the short run, bilateral consultation could also aim at the improvement of border facilities, notably adequate storage, on both sides of the Hairatan/Termez border, in order to remove this binding constraint on bilateral trade.

### 3.6 International payments issues

**Issue:** Issues related to currency convertibility are another obstacle for exporting to Uzbekistan, or at least were until very recently. Although the Uzbek Government had committed itself in 2003 to the provisions of the IMF’s Article VIII dealing with currency convertibility, in practice several restrictions remained. All legal entities, importers and foreign investors included, needed a special permission from the Central Bank to access foreign currency. In addition, 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:** Currency controls were removed by the Central Bank of Uzbekistan in early September 2017, which led to a sharp depreciation of the Som. Although this has increased to cost of imports in local currency and therefore has a one-off negative impact on the competitiveness of Afghan exports to Uzbekistan (and likewise makes Uzbek exports to Afghanistan more attractive) in the longer run it should eliminate payments issues that have affected Uzbek-Afghan trade in the past. Therefore, although it is still too early to assess the

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25 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).
effectiveness and impact of the measure for bilateral trade, it appears presently unnecessary to raise currency convertibility issues in bilateral consultations.

3.7 Technical barriers to trade

**Issue:** Technical barriers to trade (TBTs) and Sanitary and phytosanitary (SPS) issues constitute important challenge for Afghan exports. Particularly Afghan agricultural exports struggle to meet SPS requirements abroad; this applies in general, but also specifically in Uzbekistan.

Imported goods have to be registered at Uzstandard, the Uzbek Agency for Standardization, Metrology and Certification, and many imports are required to obtain a certificate on “quality compliance”. Complementary to this certificate the importer has to present the document describing origin of goods, country of export and compliance with safety requirements. However, it has been reported by traders that customs officials often reject foreign certificates of conformity to these standards.

This results in a de facto mandatory testing requirement upon entry into Uzbekistan, which falls under the responsibility of the Centre for Testing and Certification and its territorial subdivisions and 73 accredited bodies. Afghan exports have struggled to meet standards or suffered delays at the border due to inadequate inspection regimes and facilities. Inspections and testing procedures for agricultural commodities cause significant delays and are oriented at quality assurance rather than guaranteeing product safety.

In addition, an issue for Afghan agricultural exports are the mandatory pre-shipment inspections that are applied to contracts over USD 10,000 for goods including meat and edible meat offal, dairy products, oil seeds and oleaginous fruits and non-alcoholic drinks, among others. The pre-shipment inspection is carried out by consulting firms accredited by Uzstandard.

Another TBT issue are labelling requirements, which in Uzbekistan apply to many consumer goods, including food items, beverages in general, cigarettes, medicines, personal hygiene and cleaning products, household appliances and toys. Imported consumer goods in Uzbekistan must be labelled in the Uzbek language. Whereas in the past, the trader or importer could prepare the labelling, since July 2013 it must be done by producers. In Afghanistan, no labelling requirements exist, but Uzbek products are normally labelled in Russian or Uzbek, which are languages not accessible to most Afghan customers.

**Effect:** Discretionary decisions by Uzstandard reduce the transparency of the system and increase risks for exporters and traders. Exporters of fruits, vegetables or any other perishable food are particularly affected by excessive sampling of goods and delays in testing, which may result in the perishing of whole consignments. De facto mandatory testing as well as pre-shipment requirements also increase costs for exporters and therefore act as a trade deterrent.

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28 The list of goods to which mandatory certification applies includes foodstuffs, alcohol and soft drinks, tobacco, minerals, metal products, fuels, crude oil and oil refinery products, fertilizers, perfumes, cosmetics and toiletries, poisons, plastics, rubber products, wooden products, paper products, textile products, certain types of clothing, reactors, boilers, equipment for transportation (other than railway), electronics, and toys.


30 One of the reasons for this is that Uzbekistan continues to implement the State Standards (GOST) inherited from the Soviet Union.

Uzbek labelling requirements impose extra costs on Afghan exporting producers of consumer goods, including food, as they require the labelling in Uzbek by the producer. This increases production costs and is profitable only for certain minimum export volumes. In consequence, market entry through small test transactions is deterred.

**Remedial measures and suggestion for bilateral consultations:** A number of measures could be taken to address issues related to TBT and SPS issues. First, transparency in both countries of related rules on standards, certification requirements and conformity assessment could be enhanced through the preparation and publication of easy-to-understand guides for traders of relevant goods in both Afghan and Uzbek languages, as well as corresponding awareness raising and sensitisation events both for traders, producers and border agency staff. In addition, to avoid delays at the border, testing of imports for ensuring food safety should shift from a quality check approach to a risk based approach – in line with the WTO SPS and TBT agreements and international best practice –, thereby reducing the number of tests required. Likewise, testing facilities should be established at or close to the border, thereby removing the need to transport samples over long distances, causing delays and costs, and increasing wastage. Such investment can be done jointly for the Uzbek-Afghan border points. In the longer term, a bilateral mutual recognition agreement (MRA) between Uzbekistan and Afghanistan for product certification would have an enhancing effect on trade as it would drastically reduce the requirement for testing upon entry.

Bilateral consultations could be used to support the above measures. As a first step, they should establish the objective for bilateral cooperation on TBT and SPS issues at technical levels, by the competent bodies. Such technical consultations should then follow to explore the options for establishing joint testing facilities at the border point, the preparation of guides for traders, and the simplification of conformity assessment. Bilateral consultations could also be used to initiate an ongoing dialogue between Uzstandard and ANSA as well as peer assessments, in preparation for the negotiation and conclusion of an MRA for conformity assessment at a later stage.

With regard to labelling, allowing labelling in Uzbekistan to be done by the importer again would facilitate market entry by Afghan exporters. Bilateral consultation could be used to scope the options for Uzbekistan to change the corresponding regulation or exempt Afghan exporters from it.

Finally, given the complexity of technical and standards related issues, constant monitoring would be required; this could best be addressed by establishing a bilateral trade facilitation committee or monitoring mechanism in which both governments, the relevant technical agencies, and private sector representatives should participate, and which should meet in regular intervals (international practice would suggest quarterly or half-yearly meetings). Another option could be to establish a third-party monitoring mechanism. Bilateral consultations could be used to explore the mutual willingness for introducing such a monitoring mechanism.

### 3.8 Transit issues

**Issue:** Uzbekistan and Afghanistan are important transit countries for each other: Uzbekistan provides access, through the railway, for Afghanistan to China and the Russian Federation; and Afghanistan provides access for Uzbekistan to South Asia and the sea (currently through road transport). However, transit operations are hindered not only by the infrastructural and procedural issues identified elsewhere in this paper, but also by some specific additional issues. These include the need to start applying the recently signed bilateral Transit Agreement as well as disruptions due to security issues.

As mentioned above (section 2.2.1) Uzbekistan has not signed the ECO Transit Trade Agreement or the ECO Transit Transport Framework Agreement. A bilateral Transit Agreement was signed on 05
December 2017 but has not yet entered into force; and a number of its provisions require further negotiations on operationalisation. Transport of cargo originating in Afghanistan is therefore currently not yet possible under a transit arrangement.

Transit traffic from Afghanistan to Uzbekistan is also presently slowed down, and made more expensive, by the need for cargo to cross the border into Uzbekistan on boats across the Amu river, for screening and then reloading of cargo onto trucks or the train (also see section 3.4 above). Conversely, transit traffic through Afghanistan is affected, like domestic cargo traffic and business activity in general, by security problems, especially robbery and abductions which, apart from human suffering, have not only increased the cost of business but also divert some potential transit traffic from Uzbekistan onto other routes.

**Effect:** The requirement for cargo to enter Uzbekistan by boat rather than by train or truck has in the past resulted in Chinese trains returning empty from Afghanistan and also created negative headlines in the international media, such as when the international news corporation CNBC found that “Uzbek authorities have forbidden cargo to arrive into their country from Afghanistan via the railway, citing security concerns.” More recently, shipment of goods from China through Uzbekistan on the railway stopped in summer 2017. In September 2017 the ACCI reported that:

> “the process of transferring goods to Afghanistan by rail from China stopped three months ago. The rail route stopped after the Chinese company involved suspended its operations [...]. ‘Over the past three months we received no imported goods. When we consulted the companies, they pointed out the issues around transit facilities and the lack of infrastructure for loading and unloading and a subsidy issue,’ said Atiqullah Nusrat, CEO of ACCI.”

The impact of not being able to make use of the railway on transport times is considerable. According to the ACCI, shipment of goods from China to Afghanistan takes two months, which is reduced to 12 days if the railway through Uzbekistan is used. In addition, the railway also provides links to other markets, including the Russian Federation and Europe.

**Remedial measures and suggestion for bilateral consultations:** Uzbekistan and Afghanistan have already signed a bilateral Transit Agreement, 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.

In addition, to realise its full potential, the bilateral transit agreement should be complemented with a strong investment in transport infrastructure (see section 3.5 above). In bilateral consultations, options for extending the current transit trade infrastructure, in particular an extension of the railway in Afghanistan, which currently only joins the border with nearby Mazar-i-Sharif, further west and south, and ultimately linking with Pakistan, could be considered.

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An additional measure which would also have a positive effect on security of transit trade, is the introduction of an electronic cargo tracking system (ECTS), coupled with a rapid response mechanism. In Afghanistan, an ECTS is already under development. Its potential expansion to Uzbekistan, using an integrated approach, could be addressed in bilateral consultations.

### 3.9 Cross-border trade

**Issue:** At present, Afghanistan and Uzbekistan apply different regimes for non-commercial and small-scale trade. In Uzbekistan, persons entering cannot bring in goods worth more than USD 25 without being taxed. Conversely, Afghanistan applies a limit of 55 kg on goods brought by an individual (UN ESCAP 2015: 52f). Although there is, for example, a bazaar close to the border at Hairatan offering goods of daily consumption imported from or through Uzbekistan, which provides a livelihood for small scale traders, there is no simplified trading regime between the two countries that would regularise such small-scale cross-border trade.

**Effect:** The absence of a simplified trading regime in connection with low thresholds and strict regulations for individuals bringing in goods, particularly in Uzbekistan, pushes small traders into illegality. This creates risks and costs for traders, but also prevents customs authorities from channelling trade, and eventually leads to reduced customs revenues. In addition, cumbersome procedures and high duties and costs encourage smuggling and at the same time result in honest traders realizing very small margins, making their business growth very difficult.

**Remedial measures and suggestion for bilateral consultations:** Bilateral consultations could be used to consider the harmonisation of regulations for cross-border trade between Afghanistan and Uzbekistan. The main objective should be to regularise and facilitate small-scale trade, which could be achieved through the introduction of the simplified trading regime for transactions up to a certain value.

### 4 Summary recommendations

As can be seen from the analysis presented above, the list of issues affecting trade between Uzbekistan and Afghanistan is long. At the same time, it should not be forgotten that the overall environment for bilateral trade has greatly improved in recent years, creating an excellent opportunity for discussing and resolving issues through bilateral consultations and cooperation.

Not all of the issues identified in this paper are equally suitable to be addressed jointly by Afghanistan and Uzbekistan. Whereas some could be seen as “trade irritants” that would require action by the respective other party (such as problems related to business visas or tariff and border tax levels), the majority of issues could in fact be addressed unilaterally. However, addressing them in bilateral talks still entails the benefit of facilitating a coordinated approach which helps avoid taking incompatible measures. In a similar vein, although some of the issues could best be addressed by the public sector, others are more suitable for private sector action, and many require a joint approach.

Bilateral consultations should therefore take place at three levels:

- Between the two governments at a political level: these consultations should define the priorities for consultations at other levels and establish overall guidance for the consultations, such as the commitment to abolish visa requirements in the long run, to embark on joint infrastructure planning, to harmonise and simplify documentation and border procedures, etc.

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35 For a detailed study, see World Bank (2012).
The formal conclusion of bilateral agreements, such as the Afghanistan-Uzbekistan transit agreement, would also be addressed at this level, as would be the potential inclusion of Afghanistan among the list of countries being granted most favoured nation status by Uzbekistan;

- between the two governments at a technical level (including between technical agencies): these consultations would primarily address technical and operational matters, such as the identification of measures for exchanging information, harmonising and streamlining documentation requirements and border procedures, developing joint investments (such as testing facilities at the border), or establishing ongoing dialogue (such as on conformity assessment or cargo tracking systems); and
- between private sector representatives: consultations between private sector representatives, notably the chambers of commerce, can build on the cooperation already established and MoUs signed. Based on the analysis in this paper, key issues for further consultations would be the operationalisation of a bilateral commercial dispute resolution mechanism and of the support being provided to businesses in obtaining business visas. In relation to other issues affecting bilateral trade, the main function of private sector consultations would be to develop joint positions – e.g. regarding the simplification of border procedures, infrastructure development priorities, technical barriers to trade or transit issues – which would inform and advocate the corresponding bilateral governmental consultations at political and technical levels.

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

In terms of issues to be prioritised in the consultations, business visas and tariff issues are top of the list, followed by the other issues discussed in this paper.

It is only through a coordinated bilateral effort, which enhances the conditions for Afghanistan’s trade with Uzbekistan, that economic growth and poverty alleviation through expanded trade can be achieved in both countries.
References


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