

Afghanistan Reconnected

Unlocking Investment Potential in the Region

Abu Dhabi Process Meeting

November 19-20, 2013

New Delhi, India

Federation of Indian Chambers of Commerce and Industry (FICCI)
Federation House

SUMMARY AND RECOMMENDATIONS

I. The Context: Transition and Regional Potentials

In 2013-2014, the EastWest Institute is convening a series of high-level consultations to address regional economic security issues in Afghanistan post 2014, also known as the “Abu Dhabi Process.” The Abu Dhabi Process seeks to convene high level representatives of governments, parliaments and of the private sector from Afghanistan, India, Pakistan, Uzbekistan, Tajikistan, Kyrgyzstan, Turkmenistan, China, the U.A.E, the United States and Europe, as well as from regional and international organizations, to identify and promote opportunities for economic growth both in Afghanistan and in the region.

EWI is launching this initiative as Afghanistan has entered a phase of political and economic transition, and its future development will be a vital part of this region at the cross-roads of Asia. As of 2014, Afghanistan will also have to manage a transition from a “security economy,” driven by the presence of foreign troops and depending on foreign aid, into a more sustainable peace economy, with sufficient growth and revenue for the government. While Afghanistan’s medium and long-term economic potential with regard to agriculture, oil, gas and minerals is considerable, efforts must be stepped up to avoid an economic depression in 2014, the year of elections and the of the draw-down of combat forces.

The first consultation, “Afghanistan Reconnected: The Potential for Afghanistan to Act as an Economic Land Bridge in Asia,” which was held in Istanbul April 9-11, 2013, focused on regional infrastructure and connectivity. Functioning regional networks of roads, air and railway transportation is a prerequisite for further developing trade, energy and mining in Afghanistan and in the region.

The second consultation “Afghanistan Reconnected: Linking Energy Suppliers to Consumers in Asia” was held in Islamabad, September 2-4, 2013. The conference addressed the potential for regional energy trade between suppliers and the energy markets especially in South Asia, with a focus on the potential of Afghanistan as a transit country and as a future producer of energy.

The third consultation held in New Delhi on November 19-20, 2013, focused on regional and international investment in Afghanistan. The country offers a major potential for investment and a strategic location at the cross-roads of Asia, and it will require investment to ensure the transition from a security- and aid-based economy to a sustainable market economy. For the near future, the objective is to avoid a recession and the reversal of economic gains won over the last decade.

II. Summary and Conclusions

Third in a series, EWI's New Delhi consultation was held in cooperation with the Federation of Indian Chambers of Commerce and Industries (FICCI). Over 40 high-level representatives of governments, parliaments and key investors from the region and beyond participated in this meeting. EWI's regional consultation complemented FICCI's "Conference on doing business with Afghanistan", organized as one of the economic confidence building measures of the Istanbul Process led by representatives of the Indian government and managed by FICCI.

The aim of EWI's third consultation was to explore investment opportunities in the trans-Afghanistan energy and transport corridors and in the country's mining resources, and to attract both regional and international direct investment. The conference also assessed regulatory frameworks for investment and highlighted potential economic gains for the region in the Afghan economy.

Decision - making representatives of governments from the region and beyond recognized Afghanistan's potential for business, trade and investment after 2014. A scenario with win-win prospects for all stakeholders would be an Afghanistan reconnected by investment in transport and energy infrastructure, railway lines, roads, the CASA-1000 grid and the TAPI gas pipeline.

Participants called upon investors and institutional donors in the region and beyond to invest in the extraction of natural resources as well as in mining in Afghanistan. Such investments could essentially substitute for foreign aid. A critical message from the private sector is that priority should be given to investments in the construction of large-scale infrastructure, which would facilitate transportation of resources to neighboring countries and beyond.

Investors called upon the government of Afghanistan to ensure a more efficient regulatory framework and high-quality national institutions. Investors require transparency and accountability, effective rule of law, an efficient judiciary system, and enforcement of property rights. Significant strides have been taken in this regard, but must be communicated to the international community and enforced more rigorously.

Participants agreed that security challenges were key impediments for investment in trans- Afghan energy and transport corridors as well as for investment in Afghanistan's domestic natural resources. However, lessons learned also suggest that security risks can be mitigated by engaging local stakeholders in economic projects such as the construction of infrastructure. The local population should benefit from investments in gas pipelines, electricity transmission grids and in mining. Local ownership may prevent insecurity.

Furthermore, security risks can also be mitigated by targeted interventions and Industry for Peace Initiatives, such as cross-border economic zones, industries and free markets. Targeted investment in more peaceful regions such as the resource-abundant north is also possible now.

Participants acknowledged that Afghanistan's economic potential could not be fully developed without strong political will within the region. The success of projects such as TAPI and CASA 1000 will continue to require strong leadership, commitment and a shared vision for the whole region.

III. Recommendations

A key objective of the New Delhi consultation was to highlight the investment potentials in Afghanistan and to recommend that regional governments take action to attract sustainable investment. The removal of administrative barriers and improvements of the regulatory framework and practice were recommended as cross-cutting issues in all economic sectors.

Investment in Trans-Afghan Transport Corridors

Suggestions for Government action included:

The Governments of Afghanistan, Pakistan, India and Iran should agree on access to Afghanistan and to Central Asia via the ports of Chabahar, Gwadar and to the Indian border.

The Afghan Government should develop incentives for infrastructure investment to attract foreign direct investment in construction of trans-Afghan roads and rail lines. Several funding options exist (mineral endowment and the regional infrastructure fund).

The government of Pakistan should extend the railway network to Chaman and beyond to Kandahar, if they wish to gain access to Central Asia.

Opportunities for Investors included:

With the ring road almost completed, there are several major investment opportunities for transport infrastructure: the construction of dry ports at key transit points in the provinces of Nangarhar, Herat and Mazar-i-Sharif and Nimroz; the construction of transport terminals inside Afghanistan; and capacity development of civil aviation authority. Furthermore, investment opportunities exist for construction of cross-Afghan rail lines and roads.

Investment in Trans- Afghan Energy Corridors and Mining

The Afghan Government should ensure an investment friendly climate for the development of Afghanistan's domestic energy resources. Investing in hydropower and coal-fired power plants has the potential to address Afghanistan's domestic energy demands as well as the growing demand in Pakistan and elsewhere in the region.

Investment in the mining sector is a great prospect for Afghanistan that could ensure financial sustainability after 2014. Successful investment in the mining and extraction sectors will require a two-fold strategy by the Afghan government with regional cooperation. The two main pillars are: building of large-scale infrastructure projects (railway network, power plants) and institutional reforms leading to an efficient regulatory framework that eliminates corruption.

Governments in Central Asia, Afghanistan, Pakistan and India should move ahead on the CASA–1000 electricity grid and the TAPI gas pipeline. These two projects are essential for enhancing regional cooperation. Major institutional donors can provide investment assurance fund to guarantee international and regional investment in these projects.

Expanding Regional Trade through Cooperation and Investment

Suggestions for Government action included:

The Governments of Afghanistan and Pakistan should undertake efforts to ensure the full implementation of the Afghanistan-Pakistan Trade and Transit Agreement (APTTA) and its further extension to India.

The Governments of Tajikistan, Afghanistan and Pakistan should finalize the tripartite agreement on trade and transit to facilitate cross–border trade.

Pakistan should provide access via Wagah border for trade between India and Central Asia. India should provide access for trade from Pakistan to Nepal and other South Asian Countries.

The Afghan Government should improve its control over northern cities to facilitate the regional trade with Central Asia.

Tariff disparity in Afghanistan and Pakistan should be reduced to increase trade.

The governments of Afghanistan, Pakistan, Iran and Tajikistan should establish economic trade zones on the border with Afghanistan, to be autonomously managed by the business sector involved.

Opportunities for Investors include:

Construction of shared production zones in Afghanistan’s border regions with Pakistan, Iran, Turkmenistan, Uzbekistan and Tajikistan; the initiation of industry for peace initiatives for cross-border trade facilitation; the construction of industrial parks in Afghanistan and of cross-border economic zones; and capacity and institutional development in Afghanistan and the region.

The purchase of excess coalition equipment and the use of abandoned coalition bases as industrial parks could provide Afghan entrepreneurs excellent opportunities for further growth.

Follow-Up

A fourth consultation to be held in spring 2014 will assess the implementation of recommendations of the Abu Dhabi Process on Economic Security in Afghanistan. A comprehensive report on this process, its outcomes and impact will be published subsequently.