

Conflict Studies Research Centre



**The Economic Reconstruction of
Afghanistan and the Role of Uzbekistan**

**Dr Vladimir Paramonov
& Dr Alexey Stokov**

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Key Points

- * Present international efforts for the post-conflict economic rehabilitation of Afghanistan have been largely ineffective, mainly because the potential for cooperation between Afghanistan and its neighbours has been left untapped.
- * Successful reconstruction of Afghanistan will require consolidation of the efforts of the main aid donors and neighbouring states in a radical international programme.
- * Future work by the international community should focus on:
 - reconstruction of Afghanistan's transport system;
 - stimulation of industrial and agricultural cooperation between Afghanistan and its neighbours, including Uzbekistan.
- * Uzbekistan has the potential to play an important role in the rehabilitation of Afghanistan's northern provinces, with the support of the international community.
- * The general restoration and development of Afghanistan could have important global effects, reducing the differences between the economic development of the littoral and continental regions of Eurasia and reducing the threat posed by international terrorists, extremists and drug barons.

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The Economic Reconstruction of Afghanistan and the Role of Uzbekistan

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Introduction

Afghanistan has been and remains one of the main bases for various extremist organisations and the international drugs trade. The threat from this country spreads out not only to the countries of Central Asia but also to the world at large. The economy has been shattered by over twenty years of the war; the overwhelming majority of the population lives in poverty; the production of drugs is a growth industry and the Taliban are increasingly set on revenge - and this is by no means a complete list of the problems facing this country. It is clear that Afghanistan will not be able to cope with them without substantial help from the international community.

But at present there is a clear tendency for the world to pay less attention to the problems of Afghanistan, and nowhere is this more the case than in the USA, the leader of the world war on terrorism. Not only does the level of international aid fall well short of Afghanistan's needs, but even the aid which is supplied is largely ineffective.

The main reason for this is the absence of a clear international programme, and hence the coordination of actions by the donor countries involved, to deal with the post-conflict economic rehabilitation of Afghanistan.

The USA expends considerable financial resources in Afghanistan (about 12 billion dollars a year), but with apparently no regard for Afghanistan's own real economic interests. Almost all the American money goes on supporting the American military contingent in the country and in setting up the new Afghan army and security apparatus. But practically nothing is spent on systematic reconstruction of the shattered Afghan economy, on measures to promote employment or on restoration of decent living conditions for the population. The "Afghan problem" is thus not only not being dealt with: it is getting worse every year.

What is required for restoration of normal conditions and long-term stability in Afghanistan is coordinated action by the international community to reconstruct the country's transport network, industry and agriculture. This requires, first and foremost, the involvement of Afghanistan's neighbours, of whom Uzbekistan is one. In fact Uzbekistan could be of vital importance in the rehabilitation of Afghanistan's northern provinces, where the population (about 1.6 million people, or 7% of the total population of the country) is ethnically Uzbek and where no less than two thirds of Afghanistan's industry was once located.

There have long been close economic, cultural and other links between Afghanistan (particularly the northern parts, populated mainly by Uzbeks and Tajiks) and

Uzbekistan. For many centuries Afghanistan was an integral part of Central Asia, and several of the present northern provinces belonged at times to the Bukhara Emirate. One of the founders of Uzbek literature, Alisher Navoi (1441-1501), spent most of his life in Herat, now in Afghanistan.

This common history was interrupted, however, by Uzbekistan's 70 year period as part of the Soviet Union and by the more than twenty years of instability within Afghanistan itself. From the date of Uzbekistan's independence (1991) to 1998 economic links between Uzbekistan and Afghanistan remained at a low level, apart from the assistance given by Uzbekistan to the northern provinces before the Taliban established control over the region.

In the period 1998-2001, when the Taliban were in control of practically the whole territory of Afghanistan, economic links between Afghanistan and Uzbekistan were practically destroyed. But from the start of the international anti-terrorist campaign in Afghanistan, Uzbekistan became one of the key elements in the front line against the Taliban. It is generally recognised that this was a vitally important factor in the success of this campaign and the establishment of military and political control on the territory of Afghanistan by the USA and its allies.

After the overthrow of the Taliban regime, economic relations between Afghanistan and Uzbekistan gradually recovered. This recovery was due in part to the existence of the 137 km border between the two countries and in part to the development of the transport infrastructure on the Uzbek side of the border.

Economic cooperation between Afghanistan and Uzbekistan remains at a very low level, however, and it is not at all clear how this can be developed. So what is getting in the way of development of relations between these two neighbouring countries and why has the potential of Uzbekistan to contribute to the post-conflict economic restoration of Afghanistan not been tapped? And, more generally, why is the rate of development within Afghanistan so low?

1. Trade Relations Between Afghanistan and Uzbekistan

The levels of trade between Afghanistan and Uzbekistan fall way short of what would be possible in both countries (see Table 1).

Table 1 Trade between Uzbekistan and Afghanistan, 2002-2005

Year	Total volume, \$ million US	Uzbek exports to Afghanistan, \$ million US	Afghan exports to Uzbekistan, \$ million US	Export balance in favour of Uzbekistan, \$ million US
2002	61.5	61.3	0.2	+ 61.1
2003	89.6	89.4	0.2	+ 89.2
2004	130.1	126.2	3.9	+ 122.3
2005	19.3	19.2	0.1	+ 19.1

Source: State Statistics Committee, Republic of Uzbekistan, 2006.

Since the overthrow of the Taliban, bilateral trade between these countries has consisted mainly of exports from Uzbekistan to Afghanistan, with very little trade in the other direction. The scale of this trade is still insignificant for both countries.

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In 2002 the volume of trade between Afghanistan and Uzbekistan was approximately 62 million US dollars, i.e. about 1.2% of Uzbekistan's foreign trade and about 2.2% of Afghanistan's. The volume of Afghan exports to Uzbekistan was tiny, less than 200,000 US dollars.

In 2003 the volume of trade between Afghanistan and Uzbekistan grew by 46% to a total of about 90 million US dollars, i.e. about 1.3% of Uzbekistan's foreign trade and about 2.3% of Afghanistan's, with the volume of Afghan exports to Uzbekistan remaining the same as in the previous year, i.e. about 200,000 US dollars.

In 2004 the volume of trade between Afghanistan and Uzbekistan grew by 45% to a record level, about 130 million US dollars, i.e. about 1.5% of Uzbekistan's foreign trade and about 3% of Afghanistan's. The volume of exports from Afghanistan to Uzbekistan grew substantially to about 4 million US dollars.

In 2005 the volume of trade between Afghanistan and Uzbekistan dropped to about a seventh of that seen in the preceding year, 19 million US dollars, i.e. about 0.2% of Uzbekistan's foreign trade and about 0.46% of Afghanistan's. Once again the bilateral trade consisted almost entirely of Uzbek exports to Afghanistan.

The main goods exported from Uzbekistan to Afghanistan are fuel, building materials and foodstuffs. These exports are confined mainly to the northern provinces of Afghanistan and are carried out either under the heading of humanitarian aid or financial assistance to Afghanistan by the world community.

Exports from Afghanistan to Uzbekistan, meanwhile, remain at very insignificant levels. The high point was in 2004, when the level was about 4 million US dollars. In other years it was only a few hundred thousand US dollars (see Appendix 1).

The virtually total absence of exports from Afghanistan to Uzbekistan is evidence that the volume of trade between the two countries is dominated by the scale of international financial assistance to Afghanistan. This is the factor causing Afghanistan to purchase industrial and consumer goods in Uzbekistan in recent years.

The sharp drop in the already low level of bilateral trade between these two countries in 2005 was caused largely by the difficulties which arose in Uzbek-American relations. America's attitude to Uzbekistan was essentially the cause of an almost complete cessation in the provision of international financial, material and humanitarian aid to Afghanistan from the territory of Uzbekistan. At the moment the only positive aspects in the development of Afghan-Uzbek links are the struggle against drug trafficking and the joint efforts to secure the border between the two countries.

2. The Main Problems in the Economic Rehabilitation of Afghanistan: the View from Uzbekistan

Regarding Afghanistan as an integral part of Central Asia, Uzbekistan has devoted a lot of effort on looking for ways to contribute to its rehabilitation. This can be clearly seen in the Uzbek contribution to the international humanitarian aid programme. In 2002-2003 about 2.5 million tonnes of goods were delivered to Afghanistan via the territory of Uzbekistan. At the same time, Uzbekistan recognises that the present level of economic links with Afghanistan is so low that it does not serve the interests of either country. The main reasons for this are not, however, in the hands of the two countries themselves, the roots of the "Afghan problem" lying in the global stand-off during the Cold War. It is therefore only right that the international community should play the main role in the rehabilitation of Afghanistan.

It is relevant here to analyse the international aid effort to Afghanistan. The main point is that the aid which has been channelled has so far been largely ineffective and has done very little to tackle the underlying structural problems in the country.

Problem 1: Slow Restoration of Transport Infrastructure

Restoration and development of the transport infrastructure are key conditions for the economic recovery of the country. International efforts have not yet adequately addressed this problem (see Diagram 1).

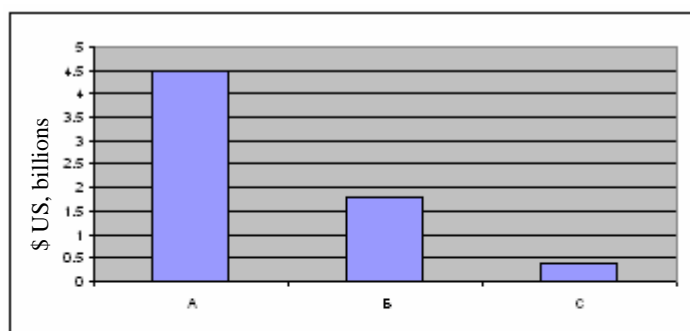


Diagram 1

- A) financial support promised to Afghanistan at the 2001 Tokyo conference;
- B) actual financial support provided 2002-2004;
- C) resources devoted to restoration of transport infrastructure.

The result of this is that the Afghan transport infrastructure is still very underdeveloped, although Afghanistan occupies a strategic position for the possible construction of transport corridors from Central Asia to South Asia and the Middle East.

There are no railways in the country whatsoever, and the road network is in poor condition and of low capacity. The main routes between Afghanistan and its neighbouring countries are also still in an unsatisfactory condition. As a result, the flow of international and regional trade largely bypasses Afghanistan and does nothing to contribute to its restoration and development.

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With this background it is clear that the efforts of international donor countries (mainly directed at the restoration of the internal road network) and Uzbekistan (constructing about 10 road bridges) have not been enough to convert Afghanistan into a regional transport centre (see Table 2).

Table 2 Main road reconstruction projects in Afghanistan

Project	Cost, \$ US, millions	Donors
Kabul – Kandahar	180	USA, Japan, Saudi Arabia
Kabul - Salang	102	World Bank
Kabul - Jelalabad	56	European Union

Source: Trade and Regional Cooperation between Afghanistan and its Neighbours, World Bank, 2004.

Problem 2: Slow Development of Regional Economic Links with Afghanistan

The development of economic links with its neighbouring countries should be seen as a priority in Afghanistan's recovery process. International aid is not however focussed on this. Afghanistan remains isolated from the regional economic system just as it has been in the past.

Trade between Afghanistan and its five immediate neighbours (Iran, Pakistan, Uzbekistan, Turkmenistan and Tajikistan) in 2004 only amounted to about 8% of its total foreign trade, significantly lower than the percentage (11%) even as recently as 2002 (see Table 3).

Table 3 Trade between Afghanistan and its five immediate neighbours (Iran, Pakistan, Uzbekistan, Turkmenistan and Tajikistan) in 2002 and 2004

Year	Afghan exports to 5 neighbours, \$US mln	Afghan imports from 5 neighbours, \$US mln	Overall trade volume with 5 neighbours, \$US mln	Percentage of Afghan foreign trade by 5 neighbours
2002	28	284	312	11
2004	19	314	333	8

Source: IMF Direction of Trade Statistics, Yearbook 2005.

Furthermore, evidence for the weakness of the trade through the territory of Afghanistan is provided by the fact that the volume of trade of Afghanistan and the five neighbouring countries is low compared with their overall trade figures and that this trade shows no signs of improving (see Appendix 2).

Overall, therefore, it is clear that the prospects for making decisive progress in restoring Afghanistan's agricultural and industrial sectors lie to a great extent in stimulation of Afghanistan's cooperation with neighbouring countries. The present

weakness of the economic links in the region, however, prevent this. Although international aid has contributed to road construction but prospects for agricultural and industrial reconstruction in Afghanistan remain uncertain.

Problem 3: Increasing Opposition by the International Drugs Mafia

The strengthening resistance by the international drugs mafia is a significant obstacle to the progress of economic restoration of Afghanistan and in the development of cooperation between Afghanistan and Uzbekistan. According to different estimates, Afghanistan produces between 70 and 90% of the world's heroin (3.5 to 4.5 tonnes annually). The international narcotics organisation is highly organised and well financed and is a much more powerful force in Afghanistan than the Karzai government or, possible, even the anti-terrorist coalition led by the United States. The weakness of central authority in Kabul is in the interests of the drug cartels, who would like to maintain a state of smouldering conflict in the country, which is a very important source of income for them.

* * *

The problems outlined above have an extremely negative influence on regional and global affairs, as Afghanistan continues to pose trans-national threats.

The basic reason for the stalling of progress in the reconstruction of Afghanistan and the development of economic relations between Afghanistan and Uzbekistan is that the international community has so far failed to set up an internationally-agreed clear and cohesive programme of financial and other support. The most important factor is that the potential for cooperation with neighbouring countries has so far hardly been exploited at all. This failure undermines international efforts to reconstruct the economy of Afghanistan and improve its security.

The anti-terrorist efforts coordinated by the US are unproductive. The American administration is obliged to spend huge sums on the maintenance of its forces, far exceeding the size of the international aid effort to Afghanistan. The most conservative estimates put the cost of US military operations and the maintenance of US forces at 12 billion dollars a year, whereas the total volume of international aid to Afghanistan in the three-year period from 2002 to 2004 was about 1.8 billion dollars (about 67 dollars per head of the Afghan population).

Afghanistan thus finds itself in the centre of a vicious circle: without comprehensive international investment in the development of its economy (transport, industry and agriculture), which requires regional cooperation, there can be no guarantee of stability in the country, while without guaranteed stability there cannot be close regional cooperation and large scale foreign investment in the economy.

3. Prospects for the Reconstruction of Afghanistan: Main Lines of Approach and Recommendations

The effectiveness of any attempts to promote the post-conflict economic reconstruction of Afghanistan will largely be determined by the success or failure of the following measures:

- creation of a more effective mechanism for the reconstruction of Afghanistan;
- more emphasis on construction of the transport network;

- development of industrial and agricultural cooperation with neighbouring countries.

Recommendation № 1: Creation of a More Effective Mechanism for the Reconstruction of Afghanistan

It is clear that the best prospects for fundamental resolution of the problems of Afghanistan lie in the creation of a more effective international mechanism for setting up integrated programmes for reconstruction of the economy of Afghanistan.

The most important step in this direction might be to review the previous reconstruction programme. First of all, the following conditions must be satisfied: (1) active participation by powerful nations, international aid providers and neighbouring countries; (2) definition of reconstruction priorities; (3) maximum transparency in the flow of international aid; (4) strict control over the use of international financial and material resources.

Even the first stages of implementation of these measures could create a powerful impulse for the intensification of regional economic cooperation. From the economic point of view, involvement of Uzbek industry and specialists would seem to be the most efficient resource for the reconstruction of northern Afghanistan.

Recommendation № 2: More Emphasis on Construction of the Transport Network

The construction of a transport network covering the whole of Afghanistan is of vital importance. It is clear that cooperation in this sphere could be strengthened by the formation of an international transport consortium, involving those countries most interested in the development of direct links between the regions of Central and Southern Asia and the Middle East.

The construction of trans-Afghanistan transportation routes could lead to a significant expansion of trade and economic links between Afghanistan and its neighbours. Transportation costs, not only for Afghanistan but also for a number of other countries, such as Uzbekistan, Tajikistan and the countries of South Asia, could reduce by more than 60%. This in turn would lead to an increase in the flow of international trade through Afghanistan, which would accelerate its reconstruction.

For Uzbekistan, access to the Indian Ocean ports via Afghanistan would provide a route to the sea less than half the distance to the Baltic or Black Seas and about a fifth of the distance to the Pacific coast. Uzbekistan is particularly interested in the project, mooted at the end of 2004, to construct the 80-kilometre Termez to Mazari-Sharif railway line. This line would link Afghanistan and Uzbekistan and become a component of the trans-Afghanistan route Termez - Mazari-Sharif - Shibarghan - Herat - Kandahar to the international ports of Chabahar and Bandar Abbas in Iran and Karachi in Pakistan. The plan for this project, for which the cost was of the order of 210 million dollars, was that it would be managed by Uzbekistan and financed by the American companies Weidlinger Associates and Central Asian Partners, and a protocol to this effect was signed in October 2004. At present, however, the outlook for this project is far from clear.

The development of the transport infrastructure in Afghanistan could also have the important effect of normalising the social and economic situation, and at the same time undermining the position of extremists and drugs criminals. The transformation of Afghanistan into a transport corridor between Central Asia and South Asia and the Middle East would be in the interests of Afghans at all levels. Extensive development of the network would stimulate the flow of trade between these areas via Afghanistan. This would lead to an improvement in the employment situation in Afghanistan and hence to an increase in income for the Afghan population.

Recommendation № 3: Development of Industrial and Agricultural Cooperation with Neighbouring Countries

Industrial and agricultural cooperation with Uzbekistan and other neighbouring countries would give a significant boost to the economic development of Afghanistan. Uzbekistan and other countries should be encouraged to take responsibility for a wide range of projects for industrial and social reconstruction in Afghanistan.

This approach would significantly enhance international aid efforts, particularly in the northern provinces. The extent of this contribution can be judged by the fact that in the 1970s, before the period of war and political instability, the northern provinces contained most of the industrial plants in the country and created more than 60% of the GNP of Afghanistan.

The best prospects for boosting the reconstruction of Afghanistan should lie in the agriculture sector. There could be good prospects in the joint formation with neighbouring countries of bilateral and multilateral agricultural holding companies specialising in fur and other livestock rearing, the cultivation of cotton, fruit and vegetables, and fruit and vegetable processing. This would offer Afghan farmers an alternative to the opium poppy as a stable source of revenue on world markets.

Conclusions

A significant increase in the amount of international attention paid to the question of economic reconstruction and development in Afghanistan and the integration of Afghanistan into a system of regional links would make a major contribution to the resolution of serious security problems both within Afghanistan and in the world at large. A fundamental review of the current international aid programme (leading to the completion of infrastructure projects in Afghanistan and the strengthening of links between Afghanistan and its neighbours) could be the driving force for this process.

It is clear that the key to solution of the "Afghan problem" is a fundamental change in the situation not only in Afghanistan but in the character of international aid, which is clearly inadequate. Only a change here can allow decisive steps to be taken to reinforce the central authority in Kabul and undermine the position of destructive forces.

The stabilisation and development of Afghanistan would represent a major victory for the world community in the struggle against global terrorism, extremism and the international drugs trade. This would inevitably have a knock-on effect in other countries, for example those of the Middle East, as international terrorist organisations would be deprived of their base in Afghanistan.

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The development of Afghanistan as a transport hub would also have global economic effects. It could give a major boost to trade and economic links between coastal and continental regions of Eurasia, removing the present imbalance between their economic development, and be the key to long-term stability in the Eurasian region as a whole.

Appendix 1

Trade between Afghanistan and Uzbekistan (2002)

Goods	Exports from Uzbekistan to Afghanistan		Exports from Afghanistan to Uzbekistan	
	\$US, millions	Percentage	\$US, millions	Percentage
Chemicals	1.1	1.8	-	-
Non-ferrous metals	0.3	0.5	-	-
Ferrous metals	7.9	12.9	-	-
Energy	17.1	27.8	-	-
Machinery	3.3	5.4	-	-
Foodstuffs	19.0	31.1	0.07	35
Services	6.6	10.7	0.03	15
Others	6.0	9.8	0.1	50
Total	61.3	100	0.2	100

Source: State Statistics Committee, Republic of Uzbekistan, 2003.

Trade between Afghanistan and Uzbekistan (2003)

Goods	Exports from Uzbekistan to Afghanistan		Exports from Afghanistan to Uzbekistan	
	\$US, millions	Percentage	\$US, millions	Percentage
Chemicals	-	-	-	-
Non-ferrous metals	-	-	-	-
Ferrous metals	-	-	-	-
Energy	50.2	56.2	-	-
Machinery	-	-	-	-
Foodstuffs	11.8	13.2	0.1	50
Services	-	-	-	-
Others	27.4	30.6	0.1	50
Total	89.4	100	0.2	100

Source: State Statistics Committee, Republic of Uzbekistan, 2004.

Trade between Afghanistan and Uzbekistan (2004)

Goods	Exports from Uzbekistan to Afghanistan		Exports from Afghanistan to Uzbekistan	
	\$US, millions	Percentage	\$US, millions	Percentage
Chemicals	5.3	4.2	-	-
Building materials	23.5	18.6	-	-
Energy	25.9	20.5	-	-
Machinery	8.9	7.1	-	-
Foodstuffs	4.4	3.5	0.8	20.5
Services	12.8	10.2	1.3	33.3
Others	45.4	35.9	1.8	46.2
Total	126.2	100	3.9	100

Source: State Statistics Committee, Republic of Uzbekistan, 2005.

Appendix 2

International trade of Afghanistan, Iran, Pakistan, Tajikistan, Turkmenistan and Uzbekistan (2002)

Country	Afghanistan	Iran	Pakistan	Tajikistan	Turkmenistan	Uzbekistan
Exports, \$US, millions						
to the other 5 countries	28	274	276	118	430	158
with other countries of the world	76	25890	9610	619	2280	1605
percentage to the 5 countries	27	1	3	16	16	9
Imports, \$US, millions						
from the other 5 countries	284	468	240	195	136	101
from other countries of the world	2396	21640	10998	525	1683	2124
percentage from the 5 countries	11	2	2	27	7	5
Overall trade volume, \$US, millions						
with the other 5 countries	312	742	516	313	566	259
with other countries of the world	2472	47530	20608	1144	3964	3729
percentage of all countries	11	2	2	21	12	6

Source: IMF Direction of Trade Statistics, Yearbook 2005.

International trade of Afghanistan, Iran, Pakistan, Tajikistan, Turkmenistan and Uzbekistan (2004)

Country	Afghanistan	Iran	Pakistan	Tajikistan	Turkmenistan	Uzbekistan
Exports, \$US, millions						
to the other 5 countries	19	308	202	103	411	162
with other countries of the world	82	32769	13986	822	3375	4695
percentage to the 5 countries	19	< 1	< 2	11	11	3
Imports, \$US, millions						
from the other 5 countries	314	379	442	182	122	105
from other countries of the world	3887	34857	17853	886	4383	3711
percentage from the 5 countries	7	1	2	17	3	3
Overall trade volume, \$US, millions						
with the other 5 countries	333	687	644	274	533	267
with other countries of the world	3969	67626	31839	1708	7758	8406
percentage of all countries	8	1	2	14	6	3

Source: IMF Direction of Trade Statistics, Yearbook 2005.

Vladimir Paramonov and Alexey Stokov are independent analysts in Uzbekistan.

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See:

Site "Uzbekistan in figures" - an integrated on-line resource giving the main social and economic indices for the development of Uzbekistan - <http://www.statistics.uz>.

Business portal "UzReport" - daily news from various sectors of political, economic and cultural life in Uzbekistan - <http://www.uzreport.com>.

The national information agency of Uzbekistan (source of official information) - <http://www.uz>

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Defence Academy of the UK
Watchfield
Swindon
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Telephone: (44) 1793 788856
Fax: (44) 1793 788841
Email: csrc@da.mod.uk
<http://www.da.mod.uk/csrc>

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