



## **Afghanistan has Achieved WTO Accession: Time to Turn Toward Increased Regional Economic & Trade Integration**

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We congratulate Afghanistan's leadership on successfully completing the World Trade Organization (WTO) accession agreement. It is the first strategic step toward Afghanistan joining the regional economies of Central and Southeast Asia and will help Afghanistan produce domestic revenues, increase hard currency earnings and begin to address income inequalities that drive a growing insurgency. This step forward now triggers a series of economic initiatives for Afghanistan. Here is a brief summary of what is expected of Afghanistan now that it has achieved accession to the WTO:

- WTO Trade Facilitation Agreement Compliance - Being compliant with WTO customs, port management and trade.
- World Customs Organization (WCO) SAFE Program Compliance - Introducing an AEO program to promote SAFE compliance.
- Moving goods more easily - Support policies and government procedures/processes to improve the ease with which business is done (see the World Bank 'Doing Business' indicators for Afghanistan);
- Enhancing revenue and trader compliance - Reform and direct regulatory and enforcement authorities to achieve an appropriate balance between ensuring compliance, managing risk, raising revenue and minimizing burdens on business.
- Meeting international and regional standards - Understand the importance of internationally recognized standards in the development and integration of global economic activity and help introduce international best practices. For private sector businesses - common standards lead to better access to world markets, while the benefits to public authorities arise when they co-operate with their counterparts abroad in the management and control of resultant trade flow.
- Increasing transparency and integrity - Develop a principles-based national policymaking framework. Where there is political will and sustained commitment on the part of governments, it is possible to transform the administrative ethos within public bodies, drawing on international standards such as the WCO's 'Arusha Declaration'.

Given Afghanistan's achievement, we recommend a **six track program strategy** for moving forward quickly with Afghanistan's regional trade and economic integration. As you will see, we have identified some key components based on what other developing nations (within the region and globally) have achieved in transformation of their economies following WTO accession. We think it will prove both informative and agenda-setting.

## **Program Track 1: Focus on Afghan national, regional and provincial trade capacity building for both public and private sector organizations:**

This includes increased training for both customs and tax officials in how to properly implement international customs/trade agreements, national laws and regulations, record revenue receipts completely and correctly and professionally interact with traders and travelers. For the private sector, it would include information and orientation on national and international trade laws and regulations, streamlined border protocols, processes and paperwork (or e-paperwork --as we will discuss below) and how to appeal official trade decisions in a legal manner. In the case of South Korea, their private sector leadership institutions like the Federation of Korean Industries and quasi-governmental institutions like the Korea Trade Promotion Organization had an important role working together in moving Korea from import-substitution to export-led growth.

The reality is that building national trade governance systems and the capacity to administer them takes a decade or more depending on the level of insecurity, national leadership, availability of training programs and economic development model (i.e. private sector-led vs. state government-led). Afghanistan does not yet have technical competency within their trade and economic-related ministries (including Ministry of Commerce and Industry, Ministry of Economy, Ministry of Finance and Ministry of Transport and Civil Aviation). As a result, we recommend that the World Bank, USAID, and/or DFID technical assistance be tendered expeditiously to establish an emergency capacity-development initiative as defined below.

This cannot be accomplished through “on-budget” support only and the U.S. Government’s over-concentration in “on-budget” support in Afghanistan has set back its economic development by slowing national and provincial governance program implementation, slowing critical infrastructure development, failing to build Afghan technical capacity efficiently enough at the national (let alone provincial) level. Unfortunately, this has left Afghanistan’s Government with no visible public support because most Afghans do not see material economic or political progress. Instead, they continue to hear about pervasive corruption among ruling elites (whether myth or reality) and the situation was only made worse by drawing down international security forces too quickly and without adequate capacity development progress for Afghan national army and police to fill these voids. The resultant increases in national insecurity left a vacuum the Taliban and a resurgent Al-Qaeda have filled. According to the New York Times and Bill Roggio, the editor of The [Long War Journal](#), an online blog tracking Taliban control. Mr. Roggio has been able to confirm that about one-fifth of Afghanistan is now controlled or contested by the Taliban, but he emphasized that this was a conservative estimate. “They probably either control or heavily influence about a half of the country.”

Without a long-term capacity-building effort of five to ten years through civilian assistance to the public and private sectors (including the Ministry of Commerce and Industry) Afghanistan’s ability to transition their economy for sustained growth and regional trade and economic integration will not occur. Also, without improved security and increased international security force commitments on the ground, no economic development will occur either. A superb analysis and set of recommendations of current Afghan private sector development was completed in October, 2015 by the Stockholm International Peace Research Institute (SIPRI) and the Executive Summary is available here: <http://www.sipri.org/research/security/afghanistan/afghanistan-report-october-2015-executive-summary>

In spite of this, we are still hopeful. First, Afghans are some of the most resilient people in the world. Second, Afghanistan has already proven successful in building government capacities for national priority programs. For example, from 2002-2009, it worked within the Ministry of Health and later

within the Ministry of Agriculture and Irrigation. As a result, maternal and child mortality rates fell dramatically and Afghan agriculture flourished and the nation is now largely feeding itself and growing higher value-added crops to hopefully displace poppy. Thirdly, there seems to be a consensus among both Afghans and external donors and policy experts that what Afghanistan needs now is the right balance of security support and political reform combined with a robust national capacity development program (on-the-ground at the district level) delivering material economic improvements in agriculture, infrastructure, ICT, extractive industries and a national public-private trade facilitation program that formally launches Afghanistan's regional trade and economic integration.



For further information on Afghanistan trade and economic data please visit: <http://www.tradingeconomics.com/afghanistan/gdp-growth-annual> .

As the above chart demonstrates, the Afghan economy has been experiencing much lower levels of GDP growth (i.e. gross domestic product). The recent World Bank "*Afghanistan Development Update Report*" published in April, 2016 for the Spring-2016 World Bank meetings actually paints an even worse picture with revised 2014 GDP growth of 1.3%, 2015 GDP growth of 1.5% and 2015 exports in decline together with per capita GDP declining for the fourth straight year to \$624.

(See: <http://documents.worldbank.org/curated/en/2016/04/26243858/afghanistan-development-update%20> )

Some of this decline is the leveling off of the post-donor managed economy which started in 2009-10. Yet that is only part of the story. A larger part of this flattened growth is a lack of national focus on increased trade and regional market integration over the last 5-7 years by the Afghan Government. The Afghan trade balance has been dismal with deficits in each of the last four years: -\$46 million (2012); -\$42 million (2013); -\$40 million (2014) and -\$38 million (2015). As all this statistics demonstrate, the nation is still in real crisis economically. International donors should work with Afghan Government leaders to quickly retain technical experts to help build these national, provincial and district level trade and governance capacities. More specifically, we recommend the following critical steps to help build a national WTO compliance program for Afghanistan:

**Program Track Two: Create a Trade Information Portal (TIP) and National Single Window (NSW) System Using ICT Connectivity:** We know what you might be thinking here. Afghanistan is poor and economically impoverished yes; but their ICT economy is one of the fastest growing in the region and ICT services success nationally has helped their private sector development. According to the World

Bank, the services sector has replaced agriculture as the primary driver of Afghan growth (as small as that growth has become). Illiterate women now call for their children's vaccination appointments in rural areas via cell phone. ICT helps support a robust satellite television system and a surging cell phone market with penetration of over 90% for Afghan women who now have regular access to cell phones. In 2001, it was close to 0%.

Young Afghans understand ICT "application" development thanks to training or education mostly provided outside Afghanistan. A new generation of Afghan business leaders is utilizing SMS messaging for national advertising and promotional campaigns for health, literacy and women's rights. Further, in 2001, nationwide internet access was nonexistent and by 2013 nationwide internet access had dropped to an average of \$300 per annum and by the start of 2015 it dropped to only \$35. With the energy of this emerging Afghan ICT generation we expect Afghans will flourish with improved trade information and capacity development programs utilizing ICT-based platforms.

### ➤ **What is a Trade Information Portal (TIP)?**

Simply defined, TIPs help developing nations to facilitate trade and increase transparency providing greater trust and reduced risk in new trade systems. They also allow nations to conform to the new trade requirements for World Trade Organization membership. New WTO requirements state that: *"all regulatory trade-related information shall be published promptly in such a manner as to enable governments and traders to become acquainted with them."* According to the World Bank<sup>1</sup>:

*"In developed nations, trade related information is readily available across a number of websites maintained by each government agency responsible for a particular aspect of trade regulation. In some of these countries, the government even provides a website that consolidates all of this information into one user friendly website. However, in many developing nations, such agency specific websites may not exist and when they do they are often incomplete, out-of-date or the content may not cover the entire spectrum of information that a trader may wish to obtain to ensure compliance with import, export or transit requirements. It is therefore desirable to create a single platform, known as a Trade Information Portal, where all the information relating to trade from all the various agencies is aggregated under one roof and is readily available for searching and viewing."*

### ➤ **What is a National Single Window (NSW) Program?**

In trade circles, a "Trade Information Portal" is seen as a first step towards the introduction of an electronic "National Single Window," which is also affords greater facilitation to trade. Seventy-three (73) nations now have national single window systems and these systems improve trade information flow by sharing needed trade data and information with all parties involved including private participants such as banks and insurance companies as well as public agencies such as immigration, border and customs and vehicle registration authorities. The key to an effective NSW system is enabling private sector trading companies to submit standardized information and documents through a single gateway or window and thereby eliminate redundant processes by these traders and host government agencies-- thereby improving coordination and cooperation between trade authorities.

### ➤ **What are the benefits of National Single Window Trade Facilitation programs?**

1. Reducing multiple data submissions to different host nation agencies thus minimizing errors during data entry.

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<sup>1</sup> World Bank Website:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:23232721~pagePK:148956~piPK:216618~theSitePK:239071,00.html>

2. Collecting data systematically enables trade shipments to be categorized more easily and based on the associated risk --by allowing creation of trading company profiles, limiting physical inspections to only risky cargo and making trade procedures more secure and efficient.
3. By combining a portal where up-to-date information on tariffs and other legal and procedural requirements are available and by integrating a single payment system for duties and other charges, governments can be paid more quickly and accurately, raising government revenues.
4. This process also decreases or limits access for corruption by allowing electronic payments to be utilized in place of paper currency.
5. Exporting and importing a standard cargo container is faster in NSW countries and fewer documents are required for importing so potential investors can access the imported materials more efficiently and with reduced risk.

In short, implementation of a web-based “Trade Information Portal” and “National Single Window” program will enable Afghanistan to be more investor-friendly and attract both foreign direct investment and expatriate Afghan remittances and investments. Trade and transport corridors should be seen as the essential arteries of national trade and economic well-being. This is particularly true for countries that are landlocked like Afghanistan and rely on regional, bilateral and/or national transit and trade systems as a significant component of their economic growth model.

***Did you know the World Customs Organization (WCO) motto is:  
“Borders Divide but Customs Connect.”***

**Program Track Three: Streamline Afghan customs and inland port authority processes through establishment of “Joint Border Posts” or JBPs:** There are many obstacles to developing a strong Afghan trade economy ranging from border and customs inefficiency, insecurity, poor road conditions, local- provincial-national transit arrangements, high taxes, duties and fees, informal rents, black market trade and corrupt border, customs, police and other officials.

- **What are Joint Border Posts?** Joint border posts are established between two neighboring Customs Administrations who enter into an agreement to operate customs control jointly, (i.e. to coordinate export and import controls, opening and closing hours and technical competences). Ideally, joint controls are conducted in juxtaposed Customs offices where physical and technical infrastructures are shared. These are implemented in conjunction with bilateral trade agreements and national single window (NSW) /trade information portal (TIP) arrangements (we described above).
- **What do Joint Border Posts do?** JBP’s can streamline border crossings as well as transit and transport time and costs and bring predictability and risk mitigation to a sometimes unruly and even criminal border trade administrative process. It can also bring significant downstream economic impact for investors (either Afghan or regional investors). Now, investors know that they can supply major investments with needed parts, supplies or equipment without risk to their investments.
- **What would an Afghan “Joint Border Posts” Program be like?** The JBP program would work with Afghan ministries to re-engineer and streamline Afghan customs and border authorities. It will feature reduced regulations, simpler procedures, need for fewer physical inspections, more rapid cargo release times, deferred payments, comprehensive /reduced guarantees for shippers and importers and introduction of a single customs declaration process.

Experience in other nations shows that to be effective, Afghanistan's improved and streamlined customs (import and export) procedures must: a) capture all border crossings; b) increase trade volume; c) support foreign direct investment inflows; d) reduce wait times on customs clearances thereby reducing trade transaction costs; and e) increase regional and local community confidence and security by demonstrating reduced commercial risk from trading their products (especially agriculture) across borders.

- **Through the JBP's Afghan public and private sector organizations can work together to introduce risk management protocols, improved trade and related processes and procedures:** In order to reduce the need for physical inspections and to shorten import/export clearance time and associated costs the JBP's would begin focusing on high-risk traders, travelers and cargo shipments.
- **JBP's can help establish an "Authorized Economic Operator (AEO)" Program:** As part of the World Customs Organization Framework of Standards to Secure and Facilitate Global Trade (SAFE), Afghanistan needs to implement an AEO program-- especially since the country is still a major source of poppy production. An internationally accepted AEO program is part of the WCO SAFE regime and the WTO trade facilitation agreement by fostering a "Customs-to-Business" public-private partnership. AEOs have proven and certified high quality internal processes that will prevent illicit goods from being included in exports by ensuring that shipping containers contain only what they are said to contain. AEO employees are honest brokers and AEO facilities are secured from unauthorized entry. Thus there are fewer and less intrusive customs inspections reducing transaction costs, shipping times and potential product damage and loss.

- **Crown Agents USA Case Study: Joint Border Posts:** Crown Agents USA has utilized the concept of "Joint Border Posts" working with bilateral trading partner countries. For example, the Chirundu one-stop border post between Zambia and Zimbabwe was officially inaugurated in December, 2009. It was hailed as the first African one-stop border post. The establishment of this one-stop border post has provided significant improvements for both nations trading economies and regions around their mutual border. For example, passengers and commercial traffic stop only once to complete border formalities for both countries, and waiting times for commercial traffic have been reduced from about four to five days to a maximum of two days and often just a few hours.

#### **Program Track Four: Bring together Afghanistan Government and major private sector trade associations and regional chambers of commerce to help educate and promote an "Afghan National Trade Facilitation Program:"**

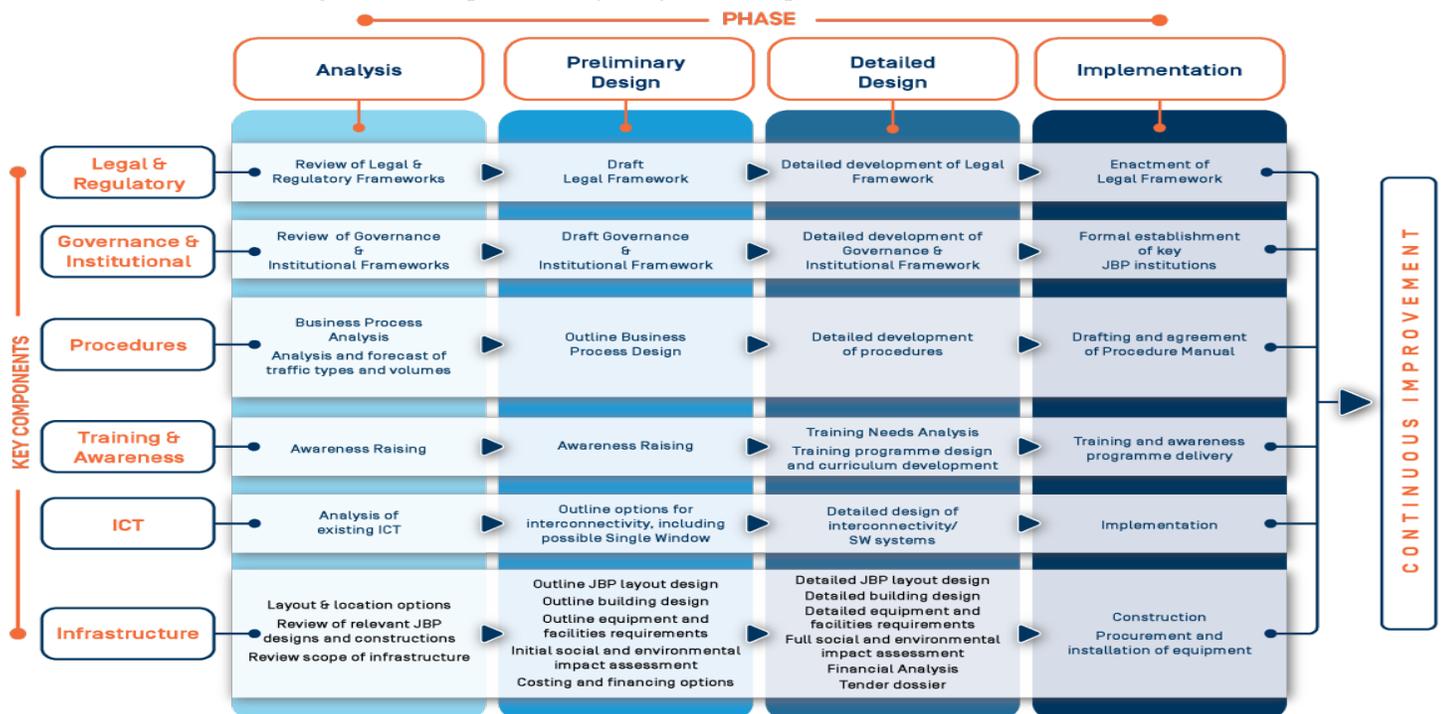
- **What is trade facilitation?** "Trade Facilitation" aims to expedite and expand the transit and transportation of commodities, goods, products and technologies between two nations or regions with a minimum of cost, paperwork and time. This includes business process re-design, systems harmonization, enhanced skills and capacity-building for customs, transit management, and trade agreement implementation. In addition, we believe a significant role exists for the Afghan private sector in this effort. By bringing champions of private sector-led economic growth in Afghanistan together with Afghan Government trade policy and customs/border regulators, the private sector can help build and sustain a national education and trade promotion program that transforms perceptions of the Afghan business economy, their employment potential within it and their hopes for their nation's economy.

➤ **What are the key components of trade facilitation success for Afghanistan?** Afghans should heed the lessons learned by many developing countries --that building national infrastructure is only one aspect of a national trade facilitation program. The institutional, legal, procedural and human factors are just as critical, if not more so. Delivering effective trade facilitation programs like the JBPs or TIPs described above are critical. Promoting a national trade facilitation program in partnership with Afghan public and private sector institutions should be a priority. The experience of most expert trade facilitation advisors, and our own experience and analysis of lessons learned, have shown that successful trade facilitation programs require the following six elements.

➤ **Six key elements for operational success in Afghan trade facilitation are:**

1. Establishing a strong Afghan legal/regulatory framework that supports trade and private sector-led economic growth and business activities that support that system;
2. Having the proper institutional structures to support a trade-based economy and encouraging Afghan regional centers of trading excellence;
3. Institutionalizing Afghan trade procedures and processes into local, provincial and national systems of economic governance with an aim to expand, increase velocity of and promote the role of private sector-led trade and associated business activities nationally.
4. Being logical and unbiased by political pressures, regional or tribal loyalties and targeting smart, strategic investments in the right types of infrastructure and equipment to support trade facilitation and promote growth and regional integration;
5. Basing your current and future trade management and information systems on simple, accessible and easy to maintain communications technology (ICT) thus is sustained through the ingenuity of Afghanistan’s indigenous application developers.
6. Focus capacity strengthening on Afghan government officials and traders on how to comply with both international agreements (e.g., WCO, WTO, bi-lateral) and related national laws and regulations.”

The figure below summarizes a roadmap developed by Crown Agents USA for effective trade facilitation including the concepts of JBP/TIP/NSW implementation.



**Program Track Five: Increasing trade through trade facilitation will increase Afghanistan's domestic resource mobilization but it must begin now.**

Afghanistan is in financial trouble. In 2015, Kabul started with a weakening cash reserve position, significant arrears and the IMF needing to structure a quick stabilization program to address major macroeconomic vulnerabilities. The poverty rate has held steady at 36% and inequality has worsened for those Afghans at the bottom tier of the per capita consumption ladder. Therefore, domestic resource mobilization from increased trade is a requirement moving forward. Most nations (including those in Central Asia) have realized the following benefits from reformed, transparent and WTO/WCO-compliant customs and trade regimes:

- Increased inward investment leading to more employment;
- National revenue growth;
- Improved risk management and control to more effectively stop illicit trade (in poppy) and transportation;
- Cost-effective utilization and greater impact of limited public resources;
- Greater transparency and accountability leading to increased confidence from regional and multinational investors thereby improving the national reputation of the government and possible private sector investments;
- Attainment of international and regional trade, customs and fiscal management standards which help drive further economic integration downstream;
- Enhanced government administration and civil servant capacity and capabilities; and,
- Increase trader compliance with national and international trade laws and regulations.

**Program Track Six: The international community must work with both Afghan industry leaders and government leadership (together) to increase mutual capacities for managing trade and improving national governance and fighting for improvement in public trust both of the businesses community and institutions of public financial management.**

The key driver of any long-term development plan is resources. A country that can mobilize its resources can speed up the process of economic development and in so doing, create a real, sustainable future for its people. This is why now, more than ever before, countries are recognizing the enormous value in transforming their public financial management (PFM) systems to bring about long-lasting change. A reformed budget process can literally reshape a country's whole financial outlook. Greater efficiencies generate increased government revenue, deliver more resources for public services, improve the effectiveness of public spending, attract foreign investment and help countries to meet the challenges of globalization. In short, a strong public financial management system generates stability and long-term wealth.

International trade is a strong catalyst for sustained economic growth and social development. As an integral part of public financial management, trade and trade facilitation provides the foundation for countries to achieve their growth potential and tackle poverty reduction. High costs to trade, long delays, and high levels of unpredictability and extensive corruption hinder an economy from expanding and attracting foreign direct investment.

In summary, we recommend solutions across these areas including innovative approaches such as:

- Trade Information Portals (TIPs);
- National Single Window Programs(NSW);
- Joint Border Posts (JBP);
- Bilateral and Regional integration of trade, border and customs procedures;

- Modernizing and capacity-building for border and customs administration;
- Harmonization and simplification of trade, transportation and other related procedures;
- Establishing an “Authorized Economic Operator (AEO)” Program;
- Improving public and private sector training and capacity development for rule of law programs including trade, investment and business facilitation;
- Supporting the development and implementation of ICT enablers such as NSW and TIP, and customs-to-customs inter-connectivity using a new generation of ICT savvy Afghans; and
- Increasing the capacity of the Afghan Government and Private Sector to simultaneously introduce public financial management and trade facilitation regimes as described in the figure chart below.

