



Afghanistan and Regional Economic Cooperation Between Central Asia and South Asia

Elnaaz Amini

Istanbul Aydin University,

Master of Political Science and International Relations, Istanbul, Turkey

Abstract

This article examines the potential economic role of Afghanistan's geostrategic location and its outcome for economic integration between Central Asia and South Asia. Based on the findings, differences in resources investment and dissimilarities in trade structure between these two regions, there is a high potential for trade complementarity, particularly in the area of energy trade. The study suggests that unlocking such a trade complementarity is not only dependent on physical connectivity between these two regions but also provides considerable opportunities for transit trade in both areas. The article also suggests that Afghanistan has the best locations to be as a land-bridge between Central Asia and South Asia, providing the shortest and most cost-effective routes for roads, railroads, pipelines, and electricity transmission lines between the two regions. The study shows that through various Afghanistan-centered regional economic cooperation initiatives, in particular, the Regional Economic Cooperation Conference on Afghanistan (RECCA), three essential elements of economic integration between the two regions are being pursued. Namely 1) creation of an integrated Central Asia-South Asia energy market, 2) completion of the free trade agreement between the two areas, and 3) development of a Central Asia-South Asia transit trade agreement. Afghanistan's membership in all the regional cooperation frameworks in Central Asia and South Asia also contributes to the realization of these three elements. In particular, the ADB (Asian Development Bank) led CAREC (Central Asia Regional Economic Cooperation) program plays a vital role in promoting economic integration between Central Asia and South Asia, according to the funds available in this program. The fourth and most crucial element of the economic integration between Central Asia and South Asia is the development of FTA (Free Trade Agreement). Most general conditions that seek a successful FTA between Central Asia and South Asia exist, in particular, trade complementarity which is a crucial element to the success of any trade bloc. Nevertheless, there needs to be a comprehensive analysis of the various aspects of such agreements as the feasibility of service trade in the deal and the overall impact on investment growth in prospective member countries, especially given the gap existing among them. One of the relevant topics discussed in this research is the understanding of financial integrity between the two regions, and various Afghanistan-centered regional cooperation efforts at different national, local and international levels. Then emphasize that RECCA can be the best solution for full enjoyment of Afghanistan's geographic location in support of economic integration between Central Asia and South Asia. RECCA can become a coordinating organization that can complete all regional cooperation efforts in Afghanistan under one single umbrella.

Keywords: Regional Economic Integration, Regional Trade, Geopolitical location, REECA conferences, Heart of Asia – Istanbul Process, The New Silk Road Initiative (NSR).

Introduction

The successful experience of the European integration has stimulated regional convergence and regional cooperation efforts among the developing countries and has given intensified to debates on the effectiveness of regional integration as an enabler of economic development in developing countries.

With the strengthening of regional cooperation initiatives in Central Asia and South Asia, Afghanistan's role as the shortest and most cost-effective route of connectivity in the region has been increased. Focusing on Afghanistan, with the aim of re-establishing the country's traditional role as a local land bridge is one of the critical issues in expanding regional activities.

This subject is important because of Afghanistan's geostrategic location. Afghanistan as a critical component of economic integration between the two regions, is the reason of establishment regional cooperation initiative, like as: the Regional Economic Cooperation Conference on Afghanistan (RECCA), the New Silk Road (NSR) initiative, and the Istanbul Process.

In spite of such interest in Afghanistan's centrality and its consequences for regional and inter-regional connectivity and trade, little-focused research has been conducted on the role of Afghanistan in boosting economic integration between Central Asia and South Asia, particularly in the context of connectivity and trade between these two regions. This research aims to explore the role of Afghanistan's geostrategic location in physical connectivity between Central Asia and South Asia. As an essential element of economic integration between the two regions and to ask what role such connectivity can play in realizing the aspects of economic integration between the two areas, namely 1) creation of an integrated Central Asia-South Asia energy market, 2) development of a Central Asia-South Asia free trade agreement, and 3) development of Central Asia-South Asia transit trade agreement.

Research Purpose

The overall objective of this study is to examine the potential role of Afghanistan in economic convergence, which focuses on the effectiveness of Afghanistan's potential role in strengthening Regional Economic Integration in the three regions, Central Asia, South Asia, and the Middle East. The article attempts to increase Afghanistan's effectiveness in enhancing regional economic convergence, by examining the geographical location of Afghanistan in the region. The other research purposes include:

- Review of the Geo-economics Role of Afghanistan in Formulation of Transit Trade Agreement in the Region.
- Review of the Geo-economics Role of Afghanistan in Formulation of Free Trade Agreement in the Region.
- Review of the Geo-economics Role of Afghanistan in Establishing the Single Energy Market in the Region.

Research Hypotheses

This article has one primary hypothesis and three sub-hypotheses that based on the main research hypothesis, Afghanistan has a strong potential role in strengthening regional economic integration. According to studies conducted on Afghanistan as a bridge between Central Asia and South Asia, as well as the Middle East and the Far East, Afghanistan is expected to play a potentially useful role in bringing convergence and then strengthening it among the countries of the region. The other Research hypotheses of this research include:

H1: Afghanistan has a strong geo-economic role in establishing a transit trade agreement in the region.

H2: Afghanistan has a strong geo-economic role in establishing a free trade agreement in the region.

H3: Afghanistan has a strong geo-economic role in establishing a single energy market in the region.

Theoretical Framework for Understanding Regional Integration

The traditional economic approach to regional integration focuses on the welfare effects of regional integration and believes that regional integration can lead to both trade creation and trade diversion. The traditional literature made a trade-oriented analysis of regional integration and based on the idea of perfect competition in the market. There are no advantages in small economics while they can have benefited from economies of scale, and regional economic agreements. Membership offers the potential for overcoming this disadvantage. “Market integration should remove segmentation, allowing firms to compete more effectively in other national markets and permitting expansion of relatively efficient firms. Market integration permits firms to be larger (and better exploit economies of scale) and competition to be more intense.

In the contemporary approach to regional integration, there are more economic gains from regional integration such as scale, competition, growth, investment, and agglomeration effects. This article is also on the modern approach.

Based on the modern approach to regional integration, there are further economic benefits from regional integration. It means that if countries in the same region concentrate on regional economic integration, a joint economic growth will create and all member states will benefit from local activities. The modern approach considers and analyzes other economic effects of regional integration such as scale, competition, growth, investment, and agglomeration effects.

Regional economic integration has a positive impact on economic growth of member states of any local organization. Considering the neoclassical theory of comparative advantage, trade liberalization can positively affect economic growth through integration the factor prices and incomes among the countries that are under cooperation

The new economic geography also significantly has contributed to the regional economic integration, particularly by examining the impact of geography on transport costs, as well as the role of infrastructure development in reducing transport costs in border countries

Research Results

Regional integration is one of the important issues specific to Afghanistan and its neighbors in the three big Asian regions namely Central Asia, South Asia, and the Middle East. With the strengthening of regional cooperation initiatives in Central Asia and South Asia, Afghanistan's role as the shortest and most cost-effective route of connectivity in the region has increased.

Afghanistan as a regional land bridge, with the aim of re-establishing the country's traditional role is one of the key issues in expanding regional activities.

The most important reason for the significance of Afghanistan in the region is the essential need for economic cooperation between Central Asia and South Asia. South Asian countries have more advanced technology than Central Asian countries, but suffering from energy shortages, and provide their electricity, and gas needs from Central Asian countries. In a simpler form, the deposits in Central Asian soils can meet the energy needs of their neighboring countries, one example is the TAPI project, which carries gas pipelines from Turkmenistan, and through Afghanistan to India and Pakistan. Afghanistan also offers the shortest and most appropriate energy routes between Central Asia and South Asia. All

planned energy routes between Central Asia and South Asia pass through Afghanistan. If we add the impact of Central Asia-South Asia railroad corridors through Afghanistan in the regional trade, the gains between the two regions through Afghanistan will be much larger.

Afghanistan as a key component of economic integration between the two regions, is the reason of establishment regional cooperation initiative, like as: the Regional Economic Cooperation Conference on Afghanistan (RECCA), the New Silk Road (NSR) initiative, and the Istanbul Process.

The Regional Economic Cooperation Conference has worked to develop inter-regional and inter-continental connectivity and mutually beneficial trade through practical investment project and policy changes in central, south and southwest Asia. After passing the first decade of progress, RECCA has tried to achieve regional cooperation framework by promoting cross-border trade and transit through prioritized economic exchange and investment in projects that lead to economic growth, job creation, and public revenue. The REECA forum's focus on emphasizing the importance of connecting public and private infrastructure links that bind the countries and people of central, south, and southwest Asia

Afghanistan has participated in most of the regional organization, and regional cooperation with the aim of expanding Eurasian economic cooperation and integration. Regional activity for Afghanistan include the Asian Development Bank-facilitated Central Asia Regional Economic Cooperation (CAREC) program, the South Asia Association for Regional Cooperation (SAARC), the Shanghai Cooperation Organization (SCO), the Economic Cooperation Organization (ECO), the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), the Special Session of Regional Advisory Committee of the United Nations Program for the Economies of Central Asia (UNSPECA), the Organization for Security and Cooperation in Europe (OSCE). To increase cooperation and overall effectiveness on the organizations, both RECCA, and the Asia-Istanbul Process Platforms will enter in the strategic win-win alliances with each of this organization, as well as related initiatives, namely the Belt-and-Road Initiative, Middle Corridor Project, and New Silk Road initiative. Despite such efforts, less attention has been paid and Central Asia and South Asia remain two of the least integrated regions in the world. The low level of intra-regional trade within both Central Asia and South Asia has been an area of increasing focus in recent studies on these two regions.

Some new studies have recently focused on the potential of economic integration and inter-regional trade between Central Asia and South Asia concluding that such integration will

provide huge economic gains for both regions. In this case, we can mention some successful performance as the regional cooperation and investment projects that are related to Afghanistan geostrategic locations, which include; the TAPI gas pipeline, CASA-1000, and TAP-500 in the energy area, CBAT and TIR convention in trade and transit facilitation, and Lapis-Lazuli Transit, One belt and one Road Initiative and Afghanistan, Chabahar International Transportas transport networks projects.

Afghanistan has a good position to serve as a bridge, between Central Asia and South Asia, providing the shortest and most cost-effective way for roads, railways, pipelines, and electricity transmission lines between the two regions. However, there are numerous obstacles in realizing such a land-bridge role. Poor transportation infrastructure; cost-increasing trade barriers; security challenges in some areas of Afghanistan and Pakistan, as well as a lack of trust among some countries in the region, are among the most serious obstacles to this goal.

Developing economic cooperation between central, south, and southwest Asia is highly depended on their physical connectivity, and Afghanistan provides the shortest and cheapest routes between them. The potential for expansion of the energy market between Central Asia and South Asia is vast owing to the high degree of energy trade complementarity, between the energy-rich Central Asia and energy poor South Asia.

The three main regional cooperation programs in Afghanistan, including RECCA, the NSR initiative, and the Istanbul process, have been designed to help overcome such obstacles and recognize the potential of Afghanistan as a bridge between Central Asia and South Asia. While the Istanbul process can be used as a good logical mechanism for dealing with issues of peace, security and confidence building in the region, and the NSR initiative can help maintain the movement of the Afghanistan-centered Regional Cooperation, RECCA provides the best solution to use the potential role of Afghanistan in achieving economic integration between Central Asia and South Asia in the short and long term.

In order to accelerate the understanding of economic integrity between the two regions, various Afghanistan-centered regional cooperation efforts at different national, regional and international levels should be further coordinated. With increasing number of countries, as well as regional and international organizations attending RECCA meetings, RECCA can be the best solution for full enjoyment of Afghanistan's geographic location in support of economic integration between Central Asia and South Asia. RECCA has the ability to become a coordinating organization that can complete all regional cooperation efforts in

Afghanistan under one single umbrella. In order to guide and prepare the RECCA Development Guidelines, Afghanistan needs to strengthen the Center for Regional Cooperation at the Ministry of Foreign Affairs in Kabul, serving among other activities as the RECCA Secretariat.

In addition, the United States and Japan, as the two largest donors in Afghanistan, play an important role in promoting economic integration between Central Asia and South Asia through supporting Afghanistan-centered regional cooperation initiatives. The United States has already made many efforts behind the NSR, and Japan supports various regional programs, especially through financial support for CAREC programs. Both countries are well placed to support the economic integration between Central Asia and South Asia and continue to focus on RECCA as the best platform for this purpose.

Research Conclusion

As a conclusion it can be said that given Afghanistan unique geostrategic position between Central Asia and South Asia, this country is the only country that is member of all the regional economic cooperation frameworks in Central and South Asia. Based on the single-N studies we can conclude that Afghanistan has the potential to become the hub of Regional Economic Cooperation, significantly increase economic growth throughout the region.

While India and Pakistan increasingly become exporters of manufactured Goods, their dependence on energy imports increases significantly. On the other hand, Central Asian countries that have vast sources of energy and mainly specialize in the production of basic Goods, have been looking for new markets outside the region, including South Asia. Such differences in the supply of resources and the lack of solidarity in the trade structure between Central Asia and South Asia indicate potential complementary trade potential and a reasonable prospect of economic integration between the two regions.

Despite the potential of complementary trade, the real deal between the two regions has remained negligible due to other factors, such as the lack of an overland transit route between the two areas. Therefore, the completion of trade marketing between Central Asia and South Asia is dependent on the physical connection between the two regions. Such connectivity is not only an essential element in the economic integration between the two areas but also a precondition for it. Most importantly, physical connectivity also provides significant opportunities for transit trade as it will 1) provide India and Pakistan accessing additional transport routes to Europe, and 2) help land-locked Central Asian countries have access to

the Indian Ocean, overcoming some of the adverse effects of being landlocked on transport costs and trade growth.

Road corridors between Central Asia and South Asia through Afghanistan can significantly reduce transit time and costs and increase trade volume between the two regions. According to studies by the Asian Development Bank on the economic impact of the road corridors between Central Asia and South Asia through Afghanistan, if the road corridors for the regional trade between Central Asia and South Asia complete within Afghanistan, local trade and trade Transit will increase significantly throughout the region.

With the economic impacts of scheduled rail routes between Central Asia and South Asia, through Afghanistan, the benefits of land-based links between the two regions will be far more significant. Although such predictions may not be realized due to the lack of completion of some of these corridors and also because of security challenges.

Developing economic cooperation between central, south, and southwest Asia highly depend on their physical connectivity, and Afghanistan provides the shortest and cheapest routes between them. The potential for expansion of the energy market between Central Asia and South Asia is vast owing to the high degree of energy trade complementarity, between an energy-rich Central Asia and energy-poor South Asia.

Afghanistan as a member of most of the regional cooperation frameworks in both Central Asia and South Asia, try to extend cooperation in the region. Among the efforts that have made in this area, it can be pointed out to the TAPI and Casa-1000 projects implementation in the field of energy. The conclusion of CBAT and TIR contracts for the expansion of trade and transit between the two regions and the opening of the Azeri way as a project in The transportation network, which transports Afghanistan's exports to Central Asia and then to Europe.

To understanding the economic integrity between the two areas, various Afghanistan-centered regional cooperation efforts at different national, local and international levels should further coordinate. With the increasing number of countries, as well as regional and international organizations attending RECCA meetings, RECCA can be the best solution for full enjoyment of Afghanistan's geographic location in support of economic integration between Central Asia and South Asia. It can become a coordinating organization that can complete all regional cooperation efforts in Afghanistan under one single umbrella.

References:

- Aziz, M. (2012) *Sources of Tension in Afghanistan and Pakistan: A Regional Perspective, Afghanistan: The Geopolitics of Regional Economic Integration. The Emergence of China as the New Facilitator. CIDOB Policy Research Project.*
- Byrd, W., Raiser, M., Dobronogov, A., & Kitain, A. (2006). *Economic cooperation in the wider Central Asia region (WB Working Paper 75). Washington, DC: WB.*
- Frederick, S, S and Kochenz, A. (1390) *Estrategy Jadid Rah Abrisham be Onvan Kelid Movagiyat Dar Afghanistan. Mayhan Magazine.*
- Fujita, M., Krugman, P., & Venables, A.J. (1999). *The spatial economy: Cities, regions and international trade (1st ed.). Cambridge, MA: Massachusetts Institute of Technology.*
- Mobarez, A, H. (1998) *FEDERALISM VE AVABEGH AN DAR AFGHANISTAN. "Federalism and its Consequences in Afghanistan." Peshawar: Saba Library.*
- .Omidi, A. (1388) *MANTAGHE GERAAE DAR ASIA. Regionalism in Asia: A Look at ASEAN Organizations. SARK and ECO. Tehran: State Department publications.*
- RECCA Annual Review. (2017). *Deepening Connectivity & Expanding Trade-Through Investment in Infrastructure & Improving Synergy.*
- Shadab, f. (1383). *Afghanistan. Gurganus publication.*
- Starr, S.F., & Kuchins, A.C. (2010). *The key to success in Afghanistan: A Modern Silk Road strategy (Silk Road Paper). Washington, DC: Central Asia-Caucasus Institute & Silk Road Studies Program.*
- Tamanna, f. (1393). *Syasat Khareji Afghanistan dar Sepehr Hamkari hay Mantaga. The 1st volume, Ministry of Foreign affairs publication.*
- UNCTAD. (2014). *investment guide to the silk Road, United Nations Conference on Trade and Development.*
- Venables, A.J. (2001). *Regionalism and economic development. In A. Estevadeordal and R. Devlin (n.d), Trade and regional integration in the development agenda. Washington, DC: Inter-American Development Bank.*
- Venables, A.J., Winters, L.A., & Yueh, L. (2008). *Economic integration in Asia: European perspectives. In M. Fujita, S. Kumagai, & K. Nishikimi (Eds.), Economic integration in East Asia: Perspectives from spatial and neoclassical economics. Tokyo: Institute of Developing Economies, JETRO.*
- Vucetic, V., & Krishnaswamy, V. (2005). *Development of electricity trade in Central Asia-South Asia region (World Bank Paper).*
- Wardak, M, A. (2018) *Afghanistan-Centered Regional Cooperation and Integration, Ministry of Foreign Affairs of the Islamic Republic of Afghanistan. Almaty, Kazakhstan.*