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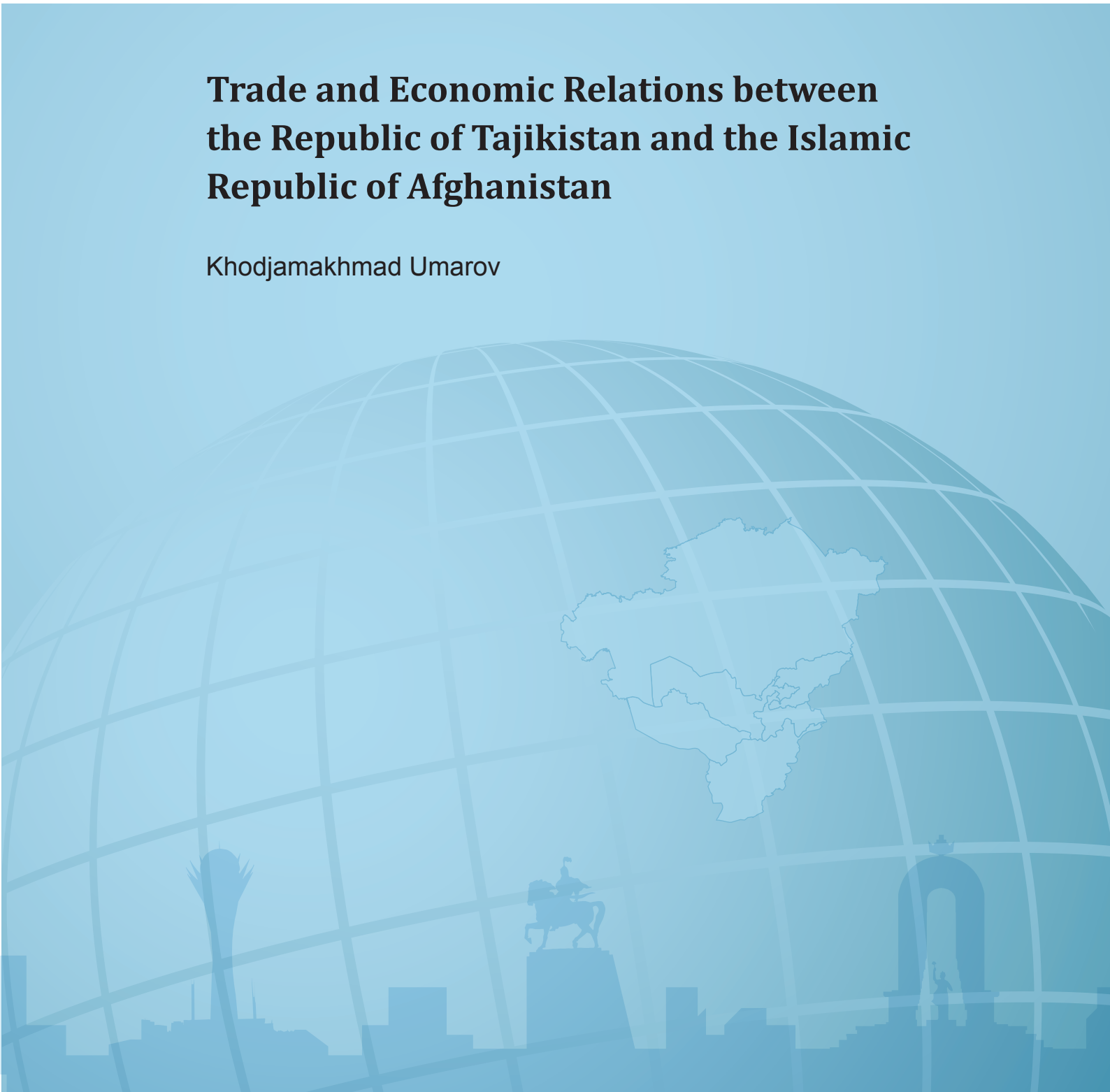
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# **Trade and Economic Relations between the Republic of Tajikistan and the Islamic Republic of Afghanistan**

Khodjamakhmad Umarov



**WORKING PAPER №13, 2013**





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## **Abstract**

Paper analyses main aspects of trade and economic relationship between the Republic of Tajikistan and Islamic Republic of Afghanistan: economic relationship between Tajikistan and Afghanistan in post-Soviet time; transport infrastructure between two countries and its influence on trade and socio-economic cooperation; transit and re-export. Also, author provides recommendations on development of trade and economic relationship between Tajikistan and Afghanistan

## **Keywords**

Tajikistan, Afghanistan, trade and economic relationship, transport infrastructure, transit, re-export

**JEL Codes:** F10, F14, O11, O18, O53

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This paper is part of research being conducted for the “Regional Cooperation and Confidence Building in Central Asia and Afghanistan” (RCCB) project supported by the Government of Canada, Department of Foreign Affairs and International Trade.

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The findings, interpretations and conclusions expressed in this paper are entirely those of the author and do not necessarily represent the view of the University of Central Asia

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## Acronyms

|           |   |
|-----------|---|
| BCP       | Border Crossing Point   |
| CASA-1000 | Central Asia South Asia Electricity Trade and Transmission project  |
| GBAO      | Gorno-Badakhshan Autonomous Oblast (Region)                         |
| HPP       | Hydro Power Plant   |
| kW/h      | Kilowatts - hour  |
| MW        | Megawatt  |
| NATO      | North Atlantic Treaty Organization                                  |
| PRC       | People's Republic of China  |
| RT        | Republic of Tajikistan  |
| SA        | Statistics Agency under the President of the Republic of Tajikistan |
| TAPI      | Turkmenistan-Afghanistan-Pakistan-India                             |
| TL        | Transmission Line   |
| UN        | United Nations  |
| US        | United States   |
| USD       | United State dollar   |
| USSR      | Union of Soviet Socialist Republics                                 |
| XUAR      | Xinjiang Uyghur Autonomous Region                                   |

## 1. Introduction

Relations between Tajikistan and Afghanistan evolved dramatically after the demise of the Soviet Union. The two countries share a common border of over 1,200 kilometers, as well as similar climate and common hydropower resources, which had been utilised neither in the pre-Soviet, nor during the Soviet times.

Trade and economic relations between Tajikistan, as a separate administrative-territorial entity, and Afghanistan, were not developed during Soviet times. Trade links were maintained as part of existing political and economic relations between the Soviet Union and Afghanistan. The situation changed significantly, however, following the collapse of the Soviet Union, when there was a natural convergence between Tajikistan and Afghanistan in all areas. Today, Tajikistan is an important neighbour of Afghanistan. The Government and the people of Afghanistan view Tajikistan not only as a peaceful neighbour, but as an important factor in the country's socio-economic development.

Both countries have undergone massive changes during the short post-Soviet period. These changes were evident during the Tajik Civil War (1992-1997) and the liberation war of the Northern Alliance with the Taliban regime (1996-2001). During both conflicts, each country provided important support to the other. During the Tajik Civil War, Afghanistan became a refuge for thousands of Tajik nationals who received accommodation and subsistence from the Afghan government, and various groups in Afghan society. The Afghan government, headed by President Burhanuddin Rabbani and his Defense Minister Ahmad Shah Massoud, leader of the Northern Alliance, contributed significantly to the establishment of normal inter-Tajik relations. During the years of armed conflict with the Taliban regime, Tajikistan was used as a support base for the Northern Alliance. The Tajik Government not only supported Afghanistan vigorously in the diplomatic and political arenas, but it also launched a massive lobbying campaign in Russia, Kazakhstan, China, the United States (US) and European countries to channel material assistance, including arms, communication equipment and food.

## 2. Economic Relations between Tajikistan and Afghanistan in the Post-Soviet Period

The onset of the post-Soviet period featured weak economic ties between Tajikistan and Afghanistan because of the civil wars impacting both countries at the time. Additionally, the countries lacked the necessary transport infrastructure for cross-border trade and cooperation.

**Table 1. Tajikistan Foreign Trade Volumes with Southern Countries, USD millions**

|             | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|-------------|------|------|------|------|------|------|------|------|------|
| Afghanistan | 1.3  | 2.0  | 0.3  | 3.8  | 1.6  | 1.1  | 2.3  | 2.7  | 3.2  |
| Pakistan    | 0.8  | 1.8  | 3.8  | 7.5  | 2.4  | 0.5  | 0.3  | 0.2  | 0.3  |
| Iran        | –    | 1.6  | 1.5  | 12.2 | 15.5 | 24.9 | 23.9 | 20.1 | 39.9 |
| India       | –    | 0.1  | 0.2  | 0.3  | 1.0  | 0.8  | 1.0  | 0.1  | 34.4 |
| Total       | 1.8  | 5.5  | 5.8  | 23.8 | 20.5 | 27.3 | 27.5 | 23.1 | 77.8 |



|             | 2002 | 2003 | 2004 | 2005 | 2006  | 2007  | 2008  | 2009  | 2010  | 2010<br>compared to<br>2001, times |
|-------------|------|------|------|------|-------|-------|-------|-------|-------|------------------------------------|
| Afghanistan | 6.6  | 7.4  | 11.7 | 15.5 | 25.1  | 39.2  | 92.5  | 71.1  | 92.1  | 29.0                               |
| Pakistan    | 0.1  | 0.1  | 0.5  | 2.0  | 0.4   | 1.2   | 1.7   | 6.6   | 21.6  | 72.0                               |
| Iran        | 44.0 | 75.1 | 55.9 | 67.6 | 110.3 | 136.4 | 216.2 | 127.7 | 201.2 | 5.2                                |
| India       | 31.5 | 3.2  | 3.5  | 1.5  | 9.6   | 8.6   | 57.5  | 29.6  | 55.4  | 1.6                                |
| Total       | 82.2 | 85.8 | 71.6 | 86.6 | 145.4 | 185.4 | 367.9 | 235.0 | 370.3 | 4.6                                |

*Source: Statistics Agency under the President of the Republic of Tajikistan (SA)*

From 1993 to 2001, trade between Tajikistan and Afghanistan almost tripled, which is still minor compared to the dynamics of Tajikistan's trade with India and Iran (Table 1). In 2001, the Taliban was defeated by the Northern Alliance, aided by US forces. Shortly after, the Tajik-Afghan trade situation improved sharply. This was facilitated not only by the reduction in political tension on both sides of the border, but also by construction of modern transport infrastructure, particularly, the commissioning of the new transport corridor Sherkhon-Bandar-Kabul and the subsequent construction of a road bridge across the Panj River. Table 1 data show that in terms of pace of growth in trade volumes with Tajikistan, Afghanistan now significantly outperforms Iran, India and Pakistan (excluding the explosive growth in trade with Pakistan in 2010).

It is likely that in the near future, these trends will continue, due to the:

- a) Reduction in political tensions in Afghanistan resulting from the inclusion of the Taliban in negotiation processes;
- b) Good knowledge of the Tajik market and Tajikistan's foreign trade capacity by Afghan traders;
- c) Noticeable progress in the development of infrastructure connecting Tajikistan and Afghanistan; and
- d) Vast re-export opportunities for traders in both countries.

At the same time, it should also be noted that the trade volumes between Tajikistan and Afghanistan remain below the potential of both countries. The share of Afghanistan in Tajikistan's foreign trade volume has remained below 1%. In 1993, the share was just 0.11 %, in 1995 it was 0.02 %, by 2000 it was still low at 0.18 %, in 2001 it was 0.24 %, in 2005 it was at its highest at 0.69 %, and in 2010, it was back at 0.24 %.<sup>1</sup>

The data demonstrates significant potential for the development of trade between the two countries. Unfortunately, they have no established industrial cooperation, even though the prerequisites are in place. There are major opportunities for cooperation, even in the agricultural sector. Tajikistan can assist Afghanistan in a variety of areas, including developing breeding and seed farming, setting-up silkworm cocoon farms and an input base for the development of this industry, assistance with integrated pest management, and the establishment of veterinarian service in the northern provinces of the country. In addition, there are promising opportunities for production of basic construction materials and in other areas.

<sup>1</sup> Statistics Agency under President of the Republic of Tajikistan (SA). *Foreign Trade Relations of the Republic of Tajikistan*. (Dushanbe: SA, 2012).

The pace and composition of trade between Tajikistan and Afghanistan have varied significantly during the post-Soviet period (Table 2).

**Table 2. Trade between Tajikistan and Afghanistan:  
Exports, Imports and Balance, USD millions**

|               | 1993 | 1994  | 1995 | 1996  | 1997 | 1998 | 1999 | 2000 | 2001 |
|---------------|------|-------|------|-------|------|------|------|------|------|
| Export        | 0.8  | 0.8   | 0.3  | 1.5   | 0.8  | 0.6  | 2.2  | 2.6  | 3.1  |
| Import        | 0.2  | 1.2   | 0.0  | 2.3   | 0.8  | 0.5  | 0.1  | 0.1  | 0.1  |
| Trade Balance | 0.6  | - 0.4 | 0.3  | - 0.8 | 0    | 0.1  | 2.1  | 2.5  | 3.0  |

|               | 2002 | 2003 | 2004 | 2005 | 2006 | 2007   | 2008  | 2009   | 2010 |
|---------------|------|------|------|------|------|--------|-------|--------|------|
| Export        | 6.3  | 5.8  | 7.7  | 12.1 | 18.6 | 12.1   | 25.4  | 26.9   | 52.2 |
| Import        | 0.3  | 1.6  | 4.0  | 3.4  | 6.5  | 27.1   | 67.1  | 44.2   | 39.9 |
| Trade Balance | 6.0  | 4.2  | 3.7  | 8.7  | 12.1 | - 15.0 | -41.7 | - 17.3 | 12.3 |

Source: SA.

The data shows high growth rates in both exports and imports to and from Tajikistan and Afghanistan. From 1993 to 2012, aggregate exports of goods from Tajikistan to Afghanistan grew, in nominal terms, 65.2 times, while imports from Afghanistan to Tajikistan increased 199.5 times. The trade balance with Afghanistan was negative for only four years; or 13 years the trade balance has been positive and in one year it was zero. However, if one counts the aggregate balance of exports and imports throughout the years up to 2010, the overall balance of exports to imports is in Afghanistan's favour (55.6:75.2). This situation may be seen as negative and indicative of Tajikistan's inability to use its substantial resources and capacities in trade with Afghanistan.

The conclusions above are derived from official statistics. However, there is also significant informal trade between the two countries (see Section 3).

Services remain poorly represented in the overall structure of economic relations between Tajikistan and Afghanistan. However, there has been infrastructure development, especially in the transport and energy sector. Trade in services, despite high rates of growth, has still not reached its potential.

**Table 3. Trade in Services between Tajikistan and Afghanistan, USD thousands.**

|                                  | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005  | 2006  | 2007 | 2008 | 2009  | 2010  |
|----------------------------------|------|------|------|------|------|------|------|-------|-------|------|------|-------|-------|
| Export of Services by Tajikistan | 23,2 | 28,8 | 14,8 | 5,9  | 14,3 | 40,9 | 56,8 | 224,4 | 901,6 | 92,7 | 60,3 | 447,7 | 792,2 |
| Import of Services to Tajikistan | -    | -    | -    | -    | -    | 13,1 | -    | -     | 2,2   | 2,5  | 1,7  | 1,4   | 2,5   |

Source: SA

Table 3 indicates that in the bilateral trade in services there is an increasing trade surplus for Tajikistan, which is a positive trend. Tajikistan provides air and land transportation services to Afghanistan, delivering cargo and passengers from Afghanistan to Tajikistan. There is a regular flight between Dushanbe and Kabul, and automobile transport is carried out predominantly by heavy trucks owned by Afghan individuals and corporate operators. In Tajikistan, these vehicles have access to a full range of relevant support services. The *Barki Tojik* energy holding provides services to Afghanistan related to transmission of energy generated by Tajik power stations to Afghan users. Conversely, Tajikistan imports insubstantial volumes of services from Afghanistan.

In the future, the trade between Afghanistan and Tajikistan may balance out. This will allow for growth in the number of tourists that visit various religious centres and cities in Afghanistan, including shuttle traders; the number of trucks owned by Tajik companies that service Tajik-Afghan trade flows; the participation of Tajik aviation in servicing commercial orders of Afghan entities; and increase in trade in Tajik Free Economic Zones.

Exchange in services is one of the most promising avenues of cooperation between Afghanistan and Tajikistan. The priority sectors are medical, educational and transit services. However, service industries that have not yet been part of industrial cooperation between the countries, such as services in the construction, agriculture, manufacturing and banking industries are also important.

The analysis of the commodity structure of Tajik-Afghan trade reveals opportunities for strong growth and improving the structure of trade to better reflect the resources that each party has. Table 4 contains data on supplies of certain goods from Tajikistan to Afghanistan.

**Table 4. Export of certain goods from Tajikistan to Afghanistan, USD thousands**

| Commodities                | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Aluminum Wire              | -    | -    | -    | -    | 147  | 179  | 58   | -    | -    | 1    | 161  |
| Cotton Fabrics             | 18   | 23   | 72   | 16   | -    | 6    | -    | -    | 1    | -    | -    |
| Electricity                | -    | -    | -    | 208  | 555  | 784  | 104  | 590  | 35   | 167  | 760  |
| Citrus Fruits              | 1    | -    | -    | 7    | 42   | 19   | 7    | 8    | -    | -    | 5    |
| Grapes                     | -    | -    | -    | -    | 30   | 15   | 184  | 12   | 62   | 102  | -    |
| Apples, Peas, Quince       | 1    | -    | -    | -    | -    | 5    | 6    | 1    | -    | 43   | -    |
| Dried Fruits               | -    | 1    | -    | 10   | 18   | -    | 6    | 1    | -    | 43   | -    |
| Peanuts                    | -    | -    | -    | -    | -    | -    | 4    | -    | -    | 13   | 19   |
| Canned Tomatoes            | -    | -    | 15   | -    | -    | -    | -    | -    | -    | -    | -    |
| Fruit and Vegetable Juices | -    | -    | 10   | -    | -    | -    | -    | -    | -    | -    | -    |
| Ethanol                    | -    | -    | -    | 21   | 96   | 42   | 7    | -    | -    | 3    | 0    |

Source: SA

The analysis of the data reveals a number of particularities in Tajik exports to Afghanistan:

- The existing structure of exports is far from optimal, and does not reflect existing potential. There are opportunities to increase exports of cable products, steel and iron

casting for small metal-processing shops in Afghanistan, building bars, base construction materials (such as lime, alabaster, paving tiles, mortar sands, explosive materials for road and quarry works, burnt and sand-lime bricks, and roof slates), legwear, silk and cotton fabrics, and canned fruits and meat.

- b) With electricity being an exception, exports of Tajik goods to Afghanistan are sporadic and irregular, which suggests that Tajik goods do not have a niche in the Afghan market.
- c) Official statistics of exports from Tajikistan to Afghanistan do not capture the entire range of exports. For example, Tajikistan re-exports wheat, flour, mineral fertilisers and exports watermelons and melons, none of which are reflected in customs statistics. This also indicates that the informal economy plays a significant role in trade relations between the two countries.

The analysis of Afghan exports into Tajikistan shows that changes in trade volume and structure are subject to random fluctuations (Table 5).

**Table 5. Import of certain goods from Afghanistan to Tajikistan, USD thousands**

| Commodities          | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007  | 2008  | 2009  | 2010  |
|----------------------|------|------|------|------|------|------|------|-------|-------|-------|-------|
| Petroleum Products   | 2    | 1    | -    | -    | 8    | 8    | 49   | 40    | 18    | -     | -     |
| Artificial Cement    | 5    | -    | -    | -    | -    | -    | -    | 12608 | 39733 | 26815 | 23844 |
| Nitrogen Fertilizers | -    | -    | -    | -    | -    | -    | -    | -     | 890   | 132   | 2246  |
| Trucks               | 3    | -    | 76   | 360  | 245  | 490  | 204  | 1060  | 3258  | 946   | 56    |
| Vehicles             | 15   | 57   | 31   | 244  | 454  | 499  | 1673 | 5320  | 6075  | 2342  | 1404  |

Source: SA

The structure of imports from Afghanistan to Tajikistan is shaped by the current political and economic situation in Afghanistan, and has some unique features:

- a) Of the five commodities listed in Table 5, only one, nitrogen fertilizers, is actually produced in Afghanistan. The remaining four are re-exports; petroleum products, artificial cement and vehicles are produced elsewhere.
- b) A considerable share of Afghan imports into Tajikistan are used motor vehicles from Europe, the Republic of Korea, Japan and the People's Republic of China (PRC). The share of heavy trucks, buses and coaches manufactured in India, Japan and Korea has been on the rise. Unfortunately, the official statistics do not show the spare parts for motor vehicles, another considerable import, as a separate line item.
- c) Artificial cement (Grade 300 cement) is imported by Afghan traders using their own trucks from Pakistan to Afghanistan, and then re-exported to Tajikistan. The customs statistics reflect these re-export operations as exports. If the cement is imported by Tajik or Pakistani businesses, it is classified as an import from Pakistan. In 2008, artificial cement made up Tajik imports from Afghanistan worth USD 282,000, in 2009, USD 311,000, and in 2010, USD 2,323,000.)

### 3. Trade and Transport Infrastructure and the Impact on Trade and Socio-Economic Cooperation

#### 3.1. Bridges and Road Transport

The border between Afghanistan and Tajikistan stretches along the Panj River, which is the main tributary of the Amudarya River, the largest river in Central Asia in terms of discharge. Until recently, there were no bridges across the Panj River. During the Soviet years, a ferry operated in the Aivadj district, which served the insignificant trade between Tajikistan and Afghanistan. Construction of automobile bridges across the Panj River began in the post-Soviet period. Five bridges have been commissioned, and two more are being constructed (Figure 1).

Only one of the bridges on the Panj is currently fully operational, the one connecting the Nijniy Panj with the Sherkhan-Bandar. The bridge is 810 metres long and has a throughput capacity of 1,000 vehicles a day. In addition to being the only fully operational bridge across the Panj, the bridge is highly utilised since it is built on a flat terrain along the modern Dushanbe-Kabul transport corridor. Estimates show that 95 % of trade between Tajikistan and Afghanistan is channeled through this corridor, and, therefore this bridge.<sup>2</sup> Currently, both countries are establishing free trade zones at their end of the bridge and constructing the necessary infrastructure to increase the economic impact of this facility. The other bridges across the Panj River are located in high-elevation areas and were designed with other objectives in mind, even though trade and economic considerations did play a role in their construction. The most significant bridge facilitating trade and economic cooperation between Tajikistan and Afghanistan is the bridge across the Pamir River in the Langar village of the Ishkashim Rayon. This bridge services trade flows between Tajikistan and Afghan Badakhshan, and also plays an important role in trade between Kyrgyzstan and Afghanistan. The bridge services almost the entire volume of trade between the PRC and Afghan Badakhshan,<sup>3</sup> and there are active customs and border-crossing points (BCPs) that serve the bridge.

Other bridges, especially those in Khorog and Davraz primarily service local needs. They are built across the narrowest parts of the Panj River and do not connect the Afghan and Tajik parts of the valley with other areas of the Badakhshan and Takhor provinces. The terrain is very challenging, which makes the construction of motorways through the passes unrealistic due to high construction costs, seasonal factors and inadequate volumes of trade traffic. However, these and two other bridges that are being constructed in the Andjirobe site of Shuroabad Rayon and Rushan Rayon have an important economic role as they service trade among neighbouring communities and Tajikistan, PRC and Afghanistan. Specifically, trade flows to and from settlements that are isolated from the rest of Afghanistan by high mountain ranges, via transit across Tajikistan. For example, a significant share of goods from Kabul, Mazar-e-Sharif and other Afghan cities destined for the Afghan Darvaz, initially cross the Nijniy Panj – Sherkhan-Bandar bridge, transit through Tajik territory, and cross back over the river at the Darvaz bridge and are distributed among the settlements of this Afghan province.

<sup>2</sup> Economy and Demography Institute of the Tajik Academy of Science.

<sup>3</sup> The road connecting Badakhshan and Takhor provinces and linking to the Dushanbe- Kabul transport corridor is in very condition, so the Nijniy Panj – Sherkhan Bandar bridge is used by trucks that service trade with other Afghan provinces, excluding Badakhshan.

Figure 1. Bridges on the Tajik-Afghan border



Source: Prepared by the author based on available public information.



The bridges across the Panj River that are located in high-elevation areas also serve the social needs of both Afghan and Tajik communities of the Panj River Valley. They enable relatives to visit each other, to participate in weddings, funerals and other traditional events, to buy goods, and to send sick for treatment. However, significant progress is needed to ease administrative and legal barriers due to customs and border-control regulations and practices.

Currently, there are four cross-border trade zones along the Tajik-Afghan border: Nijniy Panj, Davraz, Khorog and Langar. Near these bridges, there are Sunday cross-border markets that contribute to the stabilisation and reduction of food prices. The operation of those markets, however, is impeded by the low incomes of consumers on both sides of the river, lack of developed market psychology among both merchants and consumers; and artificial constraints posed by local administrations, customs and border control authorities. The bridges are also used for drug trafficking and other illegal activities. Nevertheless, trade across the border is growing. The Tajik Ministry of Economic Development and Trade estimates that in 2010, this trade increased by 36.9 % compared to 2001, and amounted to USD 9.5 million.

The main Nijniy Panj – Sherkhan-Bandar Bridge was constructed with technical and financial assistance from the United States. In addition to facilitating trade and economic relations between Afghanistan and Tajikistan, it serves the geopolitical objectives of the US in Central Asia. The US views the region in the context of Greater Central Asia, that includes, in addition to the former Soviet Central Asia, Afghanistan, the Xinjiang Uyghur Autonomous Region (XUAR) of PRC, Mongolia and the Altai Region of Russia. The construction of a large road bridge across the Panj feeds into the goal of a gradual re-orientation of Afghanistan towards its northern neighbors and reduced dependence on Pakistan.<sup>4</sup> It is also used to deliver supplies to NATO forces in Afghanistan. The bridge may serve to enhance US influence in former Soviet Central Asia. Regardless of the geopolitical context, the bridge has become a decisive factor in trade development and economic cooperation between Tajikistan and Afghanistan.

With the completion of the bridge, traders and producers in both countries have become more sensitive to fluctuations in the domestic markets of neighbouring countries. For instance, Afghan fruit and vegetable suppliers responded quite promptly to price increases in the Tajik – of Dushanbe, Kulyab, Kurgan-Tuybe and Khujand, by increasing supplies of Afghan produce, which led to the stabilisation of prices. In the course of recent years, this trend became apparent in the trade of crops such as potatoes, onions, carrots, oranges and tangerines. Afghan traders frequently re-export a wide range of goods from Pakistan to Tajik markets. Massive imports of citrus fruits from Afghanistan and Pakistan have become a permanent stabilisation factor for prices of fruits (including apples and pears), even of those that are grown in Tajikistan.

At the same time, Tajikistan is gradually becoming the main supplier of watermelons and melons to the northern provinces of Afghanistan, including the high-elevation area of the left bank of the Panj Basin. This opportunity emerged due to the commissioning of the network of road bridges across the Panj. Gourds need a lot of water, and northern Afghan provinces always experience acute shortage of irrigation water during crop seasons. This has worked to the advantage of Tajik farmers and Afghan traders.

<sup>4</sup> Frederick S. Starr (ed). *The New Silk Roads. Transport and Trade in Greater Central Asia*. (Washington, DC: Central Asia-Caucasus Institute & Silk Road Studies Program, 2007).

A survey<sup>5</sup> conducted by the author in 2009-2010 in Kumsangir, Panj, Djilikul, and Kabadiyan Rayons of Tajikistan, and the Rumi area indicate that as early as the beginning of spring (February, March), Afghan traders contract farms in the Vakhsh and Kafernighan valleys of Tajikistan for the supply of watermelons and melons. Rough estimates show that in 2009 the Vakhsh valley alone exported 35,000 tons of watermelons and melons to the Afghan provinces of Kunduz, Takhor and Puli Khumri, and up to and 68,000 tons in 2010. Watermelons, melons, onions and other crops are supplied by Tajik traders to cross-border markets located along the motorways in the Gorno-Badakhshan Autonomous Oblast, the market in Langar village of Ishkashim Rayon, where they are then transported to the villages located on the left bank or in the vicinity of the Panj River in Afghanistan.

Tajik truck drivers transporting these crops say that, even though there is a war going on in Afghanistan, they feel more comfortable driving in Afghanistan than they do in Uzbekistan, Turkmenistan or Kazakhstan. Trucks and vehicles carrying perishable items enjoy free passage throughout the territory of Afghanistan, while those transiting from Tajikistan to Russia through Uzbekistan and Kazakhstan are subject to strict customs formalities, which sometimes take weeks to resolve, leading to a loss of produce. To avoid this, truck operators are often forced to pay officials to simplify customs procedures.<sup>6</sup>

Afghan trade with Tajikistan is mainly concentrated in the provinces of Takhor, Parwan, Kabul, Puli Khumri, Kunduz and Badakhshan which either border Tajikistan, or maintain robust road connections to Tajikistan. For example, Puli Khumri and Kabul are located along the international high volume transport corridor leading from Urumqi (XUAR) to the Pakistani ports of Karachi and Gwadar. Transportation of goods from Dushanbe to Kabul costs less than the Dushanbe- Mazar-e-Sharif route.

Mazar-e-Sharif, the capital of the Balkh Province, is the second largest city in Afghanistan in terms of population and economic potential, with significant industrial capacity and a thriving small enterprise sector. The city has significant industrial capacity and is known for its thriving small enterprise sector. Its tourism potential is comparable to cities such as Bukhara, Samarkand, Herat and Mashhad. The population is mostly ethnic Tajik and Mazar-e-Sharif is located closer to Dushanbe than to Puli Khumri. However, there is no direct road connecting Dushanbe and Mazar-e-Sharif, although the distance between the Tajik settlement of Aivadj and the Afghan Mazar-e-Sharif is only 88 kilometres. To travel to Dushanbe from Mazar-e-Sharif, it is necessary to travel to Puli Khumri first, make a 90-degree turn and continue north-west. The construction of the bridge across the Amudarya River near the Aivadj site is an essential condition of strengthening Tajik-Afghan economic relations.

Similarly, there is no direct road linking Sherkhan Bandar to Mazar-e-Sharif. This significantly complicates development of trade and economic cooperation between Tajikistan and the Balkh province.

<sup>5</sup> Survey was funded by GTZ, results were not published.

<sup>6</sup> N.K.Kayumov and H.U.Umarov, *Economic Globalization and External Relations of Tajikistan* (Dushanbe: Irfon, 2005), 89.



### 3.2. Railways

The governments of Iran, Tajikistan and Afghanistan have entered into an agreement to construct the Mashhad – Herat – Mazar-e-Sharif – Dushanbe railway. The agreement was drafted and promoted by the Government of Tajikistan. The rationale for the initiative was the delays and restrictions that Tajik goods were subject to when transiting through Turkmenistan and Uzbekistan. Currently, a feasibility study for the railway is underway. The planned railway will go through Mazar-e-Sharif, cross the Amudarya River near the village of Aivadj and then connect in Tajikistan with the existing Shaartuz – Kurgan-Tyube railway. Construction of the railway connecting Yavan and Dushanbe is already underway (there is already a railway that leads to Yavan), and will be the final element in the new international route.

The commissioning of the railway will give a tremendous boost to the economies of all regions and provinces located along the route, with Tajikistan possibly benefiting the most from the operation of the railway. The country would acquire the ability to export goods for which road transportation is not a viable option, such as construction materials (reinforced concrete items, mortar sands, and crushed marble), salt, mineral fertilizers, chemical inputs, and coal.

The territory of Afghanistan may be used as a transit route to the deep-water ports of Gwadar and Karachi in Pakistan, and Bandar Abbas in Iran, which are closer to Tajikistan than the ports of Black and Baltic Seas. Bandar Abbas is already servicing international cargo traffic to and from Central Asia, but the segment of the road that leads to Tajikistan also transits through Turkmenistan and Uzbekistan, which makes transportation complicated. The construction of the Mashhad - Herat - Mazar-e-Sharif - Dushanbe railway will increase the effectiveness of transportation to and from Bandar Abbas for all countries in Central Asia. However, it is likely that the railway will mainly serve cargo traffic in Iran, Afghanistan and Tajikistan.

A dramatic increase in the efficiency of international transportation is expected with the completion of the trans-Afghan railway.<sup>7</sup> The southern and northern sides of the route are to have two branches each. The northern branches would be (i) from Puli Khumri to Mazar-e-Sharif and further to the Uzbek city of Termez, and (ii) from Puli Khumri to Sherkhan Bandar and finally to Dushanbe. In the South, the railroad would be split into two branches as well, with the first split in the vicinity of the Jabbal-us Siroja site, with one branch leading to Chaman, Pakistan and further to Gwadar, with the other branch, starting near Kabul and leading to Jelalabad and further, through the Khabairy pass tunnel, to the Pakistani railway network near Peshawar, which will provide access to the port of Karachi. If the transport corridor between Peshawar in Pakistan and Amritsar in India becomes operational, this southern branch may become part of the largest trans-Asian railway corridor, transiting India, Bangladesh, Myanmar, Thailand, Cambodia, Malaysia and Singapore. Construction of the trans-Afghan railway may also result in connections to the trans-Siberian and trans-Asian railway networks.

<sup>7</sup> The project was proposed by Frederick S and more information can be found in Frederick S. Starr S. Frederick (2007).

### 3.3. Cross-Border Energy Transmission Infrastructure

Of particular importance to the economic cooperation between Tajikistan and Afghanistan are Tajik supplies of electrical energy to Afghanistan through planned transmission lines (TLs), namely the 220 megawatt (MW) Lalazor – Kunduz – Puli Khumri – Kabul line and the Central Asia South Asia Electricity Trade and Transmission (CASA-1000) project. The energy transmitted via CASA-1000 will be generated primarily by the large hydropower stations of Tajikistan. The first line is already operational, allowing Tajikistan to supply Puli Khumri and other Afghan areas with electrical energy during the summer season. By 2013, Kabul will also access Tajik energy via this transmission line. Tajik energy is almost half the cost of the energy Afghanistan obtains from Uzbekistan. The CASA-1000 line will meet the demand for electrical energy in Afghanistan, Pakistan and possibly, India. Some view the CASA-1000 transmission line as being as important to regional cooperation as the Turkmenistan-Afghanistan-Pakistan-India gas pipeline (TAPI).<sup>8</sup>

Construction of large high capacity transmission lines should be tied with efforts to generate capacity in Tajikistan. The hydropower potential of the Panj River exceeds 527 billion kilowatts per hour (kW/h), while the current output is only 16 billion kW/h, mostly by the existing cascade of hydropower plants (HPPs) on the Vakhsh River. There are only 49 micro and small HPPs, as well as two medium HPPs (Pamir-1 and Pamir-2) on the Panj River. During the Soviet period, leading Soviet hydro energy design firms produced plans for the construction of a number of large HPPs on the Panj River including the Moscow HPP (with a capacity of 950 MW), Dashtijum HPP (4000 MW), Granitniye Vorota (2500 MW), and the Sarez HPP (1100 MW).

Construction of the Panj HPP cascade is not possible without the design, technical, expert, investment and legal support of other countries, such as Russia, China, India, Pakistan, Turkmenistan and Uzbekistan,<sup>9</sup> since neither Tajikistan nor Afghanistan have the necessary capacity. For Tajikistan, construction of these HPPs would expand its energy sector, and with the commissioning of the Vakhsh HPPs, especially the Rogun facility and the Zeravshan cascade, Tajikistan's domestic demand for power would be fully satisfied.

For Afghanistan, the Panj HPP cascade will enable domestic economic development by providing a robust energy supply for both industry and households. Commissioning the Panj HPPs is also important for Afghanistan with regard to water management. Since the Panj River basin includes Afghan territory, Afghanistan has a full right to the water resources of the river. The design of the Moscow HPP features the construction of an irrigation channel to serve the vast Samanghan plains of Afghanistan. The development of the energy-transmitting infrastructure has already yielded results and a large number of Afghan villages within the Panj basin now have access to electricity generated by Tajikistan. However, extended hostilities in Afghanistan have prevented the Afghan government from practically and fully realising its water rights with respect to the Panj. In time, the government will become

<sup>8</sup> Shirin Akiner, "Regional Initiatives to Promote Stability and Development in Afghanistan" *Himalayan and Central Asian Studies* 15, no. 1-2 (2011).

<sup>9</sup> The consent of Turkmenistan and Uzbekistan, both water users of the Amy-Darya River, is essential for the success of the project.

more assertive with respect to its water rights and the Central Asian states will be forced to reckon with the Afghan position when managing the Amudarya water resources. Another politically significant factor to consider is the role of the energy sector in facilitating regional stability. American researcher Frederick Grarre said, *“Increased regional cooperation in the energy sector definitely contributes to stability in all cooperating nations as it brings financial results and strengthens independence.”*<sup>10</sup> Expanded regional cooperation in the energy sector, including the hydro-energy sector, inevitably increases economic and national security in the countries of the region. This is equally valid with respect to the largest potential buyers of the Panj cascade power, namely Pakistan and India. Constructing large hydropower stations is not possible in unstable political environment. Consumers are interested in having robust supplies of energy, which can happen only if generating countries are politically stable. Speaking of the key importers of power from Central Asia, Pakistan and India, Grarre notes: *“India, naturally, needs Pakistan geographically, while Pakistan needs India politically. Furthermore, participation of India in energy development plans of Central Asia may expedite their implementation ... Both countries share the belief that an unstable Central Asia would pose a threat to their interests and national security.”*<sup>11</sup>

The trans-Afghan railway plans, the CASA-1000 and TAPI plans cannot be fully implemented due to a poor state of diplomatic relations between India and Pakistan. In 2011-2012, they attempted to improve trade and economic relations. As a result of a private visit by Pakistani President Zardari to India on April 8, 2012, the countries reached agreement on a wide range of issues relating to trade, investments and industrial cooperation. On April 14 of the same year, a new BCP was opened on the Attari – Wagah section of the border, with a throughput capacity of 500-600 heavy trucks a day.<sup>12</sup> If this BCP facilitates robust trade between India and its north-western neighbours, the transport infrastructure in Afghanistan could also contribute to the increased transport potential of Tajikistan.

### 3.4. Air Transport

The air connection between Tajikistan and Afghanistan deserves special mention. Flights between Dushanbe and Kabul have become regular since 2002. This route is operated by Afghan air carriers, including the Afghan national carrier Ariana, and private carriers Kam Air and Pamir. Currently, only Kam Air is flying the route, with the frequency down to once a week, even though until recently there were three flights a week. Even though the total number of passengers traveling by air is increasing, the average aircraft is, on average, only filled to 66 % capacity.<sup>13</sup> This is particularly true with respect to passengers who are transiting through Afghan territory to travel on to the UAE, Pakistan, India, Kuwait and Saudi Arabia. The passengers’ demand for flights to Mazar-e-Sharif and Herat grows every year, and there could be flights between Khorog and Faizabad. However, the Dushanbe Airport Administration unilaterally increased tariffs for its services, and forced Pamir to cease its flights, and Kam Air increased the price of its Dushanbe-Kabul route by 60 %. Major inconsistencies in fare levels

<sup>10</sup> Khulbushan Warikoo, *The Afghanistan Crisis Issues and Perspectives* (New Delhi: Bharana Books & Prints, 2002).

<sup>11</sup> Khulbushan Warikoo (2002), 59.

<sup>12</sup> Times of India, “Financial Express,” New Delhi: The Times Group ( 11 April 2012).

<sup>13</sup> Data provided by Afghan private air operator Kam Air.

are also causing questions. For example, the Dushanbe-Khujand and Dushanbe-Kabul flights are approximately equal in length, 45-50 minutes, but the Dushanbe-Kabul air fare is three times the Dushanbe-Khujand air fare. More competitive pricing will likely increase demand for air transportation between Tajikistan and Afghanistan. In the meantime, passengers are resort to chose the challenges and dangers associated with land routes.

Improvement of the transport infrastructure could enhance socio-economic development initiatives in the Panj River basin. One of the goals is a sharp reduction in poverty in the areas near the Panj. Such initiatives could include grant the entire Panj River Basin a free economic zone status. The area is unique, not only due to its impressive hydropower potential and rich environmental and climatic resources. The potential for health and other tourism is considerable with its picturesque sights, deep mountain gorges, crystal clear air, waterfalls and Mountain Rivers, hot springs and balnearies. There is also the potential for improved and specialized agriculture. The abundance of hydro-thermal springs, such as the hot springs belt in the Jilondi area, along the Gund river, allows of the cultivation of fruits and vegetables, including tropical ones, on a year-round basis. The water resources can also be used for commercial flower production and fish farming. Implementing the project could be a critical step towards better interstate relations. Among other things, it would be a better use of the resources that are currently being channeled towards combating terrorism, religious extremism and drug trafficking throughout Greater Central Asia.

#### **4. Transit and Reexport of Goods in Trade and Economic Relations between Tajikistan and Afghanistan**

The transit of goods, and reexports play an important role in the system of trade and economic relations between Tajikistan and Afghanistan. Transiting goods include foreign-manufactured goods which cross Tajik territory into Afghanistan and reexports of goods. Currently, many Tajik citizens are engaged in the transfer of metal products and timber materials, grain and flour, sugar and vegetable oil from the Russian Federation and Kazakhstan to Afghanistan. Since Uzbek authorities consistently apply non-tariff and other restrictive measures to Tajik citizens, Tajik businesses have to resort to various schemes to supply products while evading constraints, including supplying goods in Tajikistan and then reexporting them to Afghanistan. Additionally, citizens of Afghanistan and Tajikistan have made numerous agreements regarding the direct supply of goods from XUAR to Afghanistan via Tajik territory, particularly through the Gorno-Badakhshan Autonomous Oblast (GBAO) to Afghan Badakhshan. This involves the legal transit of Chinese goods in which Chinese businesses are not involved. Traders from GBAO purchase goods in the Chinese cities of Urumqi, Guangzhou and Kashgar and deliver them to neighbouring Afghan settlements across the territory of Murgab, Ishkashim and Shugnan districts of GBAO.

Tajikistan also reexports Russian, Kazakh and Chinese (other than those from XUAR) goods to Afghanistan. Reexports occur whenever the prices of goods in Afghan markets are higher than those in Tajik ones. Afghan businesses are especially likely to purchase unsalable goods at a discount, including Russian metal products that are desirable in Afghanistan, as well as Soviet cars GAZ-52, GAZ-53, ZIL-130, ZIL-131, tractors DT-54, bulldozers S-100, and metal-working machines that have been repaired and then sold at local markets at high prices.

During the civil war in Tajikistan, refugees from the Kurgan-Tyube province who found refuge in Balkh, Takhor, Kunduz, and Badakhshan provinces of Afghanistan, brought with cargo, passenger and agricultural vehicles and sold them at low prices. To this day, one can see these vehicles in Afghan fields and on roads as they are used quite intensively.

A significant share of reexports occurs informally. Such goods are either smuggled or are accompanied by false documents filed by customs authorities which state that the goods being exported were manufactured in Tajikistan. This affects the reexport of flour, wheat, vegetable oil, nitrogenous and phosphoric fertilisers. It is difficult to export liquefied gas and fuel and lubricants in this manner.

The fields of northern Afghanistan sport numerous stacks of nitrate fertilizer (saltpeter), a variety of nitrogenous fertilisers. According to our estimates, at least 120,000 tons of saltpeter are smuggled into Tajikistan from Uzbekistan. About a third of this saltpeter is then exported to Afghanistan in a similar manner. The Tajik authorities turn a blind eye on this smuggling since Uzbek smugglers sell these goods to their Tajik partners at very low prices. This contains the growth of prices for agricultural products since prices for carbamide, another type of nitrogenous fertiliser that is manufactured in Tajikistan, increase rapidly.

Recently, transit of Afghan cargo across Tajik territory has faced certain difficulties. These include an increase in tariffs on Afghan cargo and vehicles, which has been protested by the Afghan side. It is likely that the increases in tariffs are the result of purely fiscal considerations on the part of the Tajik authorities. Tajikistan and Uzbekistan maintain a tacit competition for transit of goods travelling to Afghanistan. The tariff increases in Tajikistan may cause traders to re-route flows of transit cargoes from Tajikistan to Uzbekistan, with consequent losses in revenues for Tajikistan

Additionally, Afghan authorities can easily respond with mirror treatment to Tajik decisions by increasing the price of transit to Tajikistan which will result in an increase in prices for foodstuff imported by Tajikistan from Pakistan and a consequent decreases in imports from this country. Imports from Pakistan (potatoes, onions, carrots and citrus fruit) slow down the growth of consumer prices, which is important both economically and politically for Tajikistan, since food price hikes can create social tension in the country.

The decision to launch a Pakistan (Peshawar)-India (Amritsar) transport corridor will strengthen the role of Afghan businesses in transit and reexports of Indian goods that are in demand in Central Asia, such as beef, sugar, rice, palm oil, footwear, clothes, furniture and handicrafts. According to Pakistani specialists, the transport corridor is almost ready. This corridor includes the existing automobile roads and railroads that are compliant with contemporary technical and economic requirements and do not require additional investments. Once the corridor is fully operational, Afghan and Tajik foreign trade agents may find themselves rejecting the transit of a significant volume of goods via the northern corridor since Kazakh, Turkmen, and Uzbek customs and transit regimes drastically reduce the efficiency of cargo and vehicle transit.



## Conclusions and Recommendations

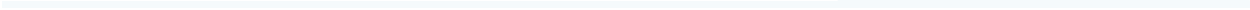
1. Following the collapse of the Soviet Union, Afghanistan has gradually become one of Tajikistan's most important trade and economic partners. This was largely facilitated by measures to address the challenges of being landlocked and isolated. The construction and commissioning of a series of road bridges over the Panj River will enable Tajikistan to rapidly increase its trade with Afghanistan, while significantly increasing the share of transit cargo crossing the Tajik-Afghan border.
2. Afghan business circles possess significant capacity in the development of trade in various goods that can be offered in international markets.
3. Afghan and Tajik economies complement each other. Using innovative methods to manage trade and economic relations could boost to the development of mutually beneficial endeavors. For instance, the creation of joint Tajik-Afghan companies to supply Afghan dried fruit to Kazakhstan and Russia and Tajik melons to South Asia would facilitate a rapid growth of production in their respective industries. Tajik shareholders can bring their experience in dealing with northern partners, while their Afghan counterparts can deliver expertise in dealing with India, Pakistan, Sri Lanka and Bangladesh. The formation of such companies could be facilitated by the fact that Tajik businesspeople do not encounter any difficulties in the territory of Afghanistan. Even in areas of Afghanistan that still see combat, trade is the most-favored activity. This includes trade with Afghan companies and working with transit cargoes and transportation vehicles.
4. Regular meetings of Afghan and Tajik stakeholders in the region and in Afghan and Tajik diasporas in third countries should be conducted to analyse the state of trade and economic cooperation and attract foreign direct investments and identify new horizons of development.
5. The transition to a one-stop shop principle in cross-border control and customs clearance of cargo and transportation vehicles at the Tajik-Afghan border would greatly enhance trade and economic cooperation between the two countries.
6. Both countries' authorities need to more actively negotiate with international and regional financial and economic organisations to gain resources and support to construct a road bridge over the Amudarya River in Aivadj village and the subsequent construction of a road in Afghan territory all the way to Mazar-e-Sharif.
7. Tajikistan needs to begin to reorient Tajik transit from the northern routes, to routes via Afghanistan.
8. Large-scale design and planning is needed to create a special socioeconomic zone along the Panj River under the support of United Nations and other international development organisations to form a reliable barrier against terrorism and drug trafficking.

9. The construction and technical re-equipage of cross-border markets along the entire Afghan-Tajik border should be expedited.
10. Mutual visa regimes should be liberalized to include the issuance of multi-entry visas to businesspeople valid for a year and longer.

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Produced by UCA Communications Department  
Copy edited by Sia Nowrojee  
Printed by VRS, Bishkek, Kyrgyz Republic



