Challenges of Afghanistan's Accession to the World Trade Organization: An Overview

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Abstract: After the removal of the Taliban regime from the power in 2001, Afghanistan, based on its own constitution, accepted democratic norms and adapted free market economy to ensure socio-economic development that was lagging due to more than three decades of civil war. Since then the the government of Afghanistan, with the technical and financial cooperation international donor community has taken important to measures to liberalize the trade set up and connects Afghanistan to the regional and international markets. This study is designed to examine the challenges face Afghanistan’s Accession to the World Trade Organization and the seek to assess the impact of Afghanistan’s Accession to the World Trade Organization on economic growth in the Post-Taliban pan Afghanistan. This paper is mainly based on the secondary data and the data has been collected from national and international statistical agencies. The finding of this article indicates that Afghanistan suffers from multiple problems in Afghanistan’s Accession to the World Trade Organization including corruption, lack of ICTs, good governance and infant industries. last but not least, Researcher believes that the WTO membership can assist Afghanistan to approach the trade issues in more effective way and settle its trade disputes on an international platform pursuing WTO mechanisms. further researches are required to be done to help Afghanistan.

Keywords: Efficiency, WTO Accession, Liberalization, Economic Growth.

1.1 Introduction

Integration into the global economy is considered one of the success stories for economic development. The World Trade Organization (WTO) is considered to be the universal governing institution facilitating the development of international trade-related institutions, regulatory frameworks, and private sector capacity building to enable domestic economies to benefit from free trade mechanisms and facilities. The WTO-based trading system promotes free trade and rules-based trading through dispute settlement mechanisms, enhances efficiency, improves good governance, reduces the cost of living, and promotes economic growth.1

Afghanistan is one the developing countries that has lost most of its economic infrastructure during the 40 years of civil wars and has become one of the least developed countries (World Bank, 2004).

During the 1976-2001 Afghanistan has not only grown but also destroyed what was built. In contrast a number of countries have been able to transform the world into a small village with the unprecedented discovery and development of new technology.

Afghanistan became member of the WTO on 29 July 2016 after approved by the parliament and became 164th members. This membership is actually the second major agreement after the Turkmenistan, Afghanistan, Pakistan and India (TAPI) project for this country. Afghanistan was one of the largest exporters of corps in the world in 1970s, exporting 10% of the world’s total dried fruits (Guimbert, 2004).

After the removal of the Taliban regime from the power in 2001, thus, the government decided to apply for the WTO accession in 2004 so that the country would gain the advantages of free and fair trade. As a result, “at its meeting on 13 December 2004, the General Council established a Working Party to evaluate the application of the Government of Afghanistan to accede to the WTO, under Article XII of the Marrakesh Agreement Establishing the WTO.”

After several meetings by the Working Party, they finalized Afghanistan’s accession to the World Trade Organization as a least-developed country (LDC) in 2015 that was presented to the 10th Ministerial Conference in Nairobi for a formal adoption. And, Afghanistan has become the thirty sixth less developed country member of the World Trade Organization. As a landlocked, least-developed country, Afghanistan’s commitment to liberal trade and regional and international cooperation is not new. Historically, Afghanistan’s geographical significance and its location at the heart of the Silk Road unlocked its potential of becoming the trade and transit hub in the region.

Despite more than decades of war that totally destroyed the infrastructures, Afghanistan is still playing major in regional connectivity, connecting Central Asia to South Asia and China to the Middle East. Afghanistan is a landlocked country with a controversial political relationship with the neighbors. Thus, the traders and businesses in Afghanistan have experienced several trade and transit barriers in the last two decades, resulting in lack of access to regional and international markets. Therefore, Afghanistan has had tremendously high trade deficit since 2001.

To overcome such challenges, the Afghan government opted for applying for the WTO membership so that the country could benefit from free and fair trade. Afghanistan is a least developed economy with limited access to the sea in the region but its commitment to liberal trade and regional and international cooperation is not new. Historically Afghanistan has been located in the heart of the Silk Road and was a regional and international trade hub between the East and the West as well North and South Asia. Three decades of conflict devastated Afghanistan’s economy. Afghanistan’s membership in the WTO is a new experience for the country with very little practice in the multilateral trading system. Almost all trading partners of Afghanistan – members in the Economic Cooperation Organization, the South Asian Association for Regional Cooperation and the Central

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Asia Regional Economic Cooperation – are either WTO Members or in the process of becoming a WTO Member. (Mobariz, 2015)

In sum, researcher believes that that the World Trade Organization membership can naturally assist Afghanistan to approach the trade issues in more adequate ways and settle its trade disputes on an international platform pursuing WTO mechanisms. However, WTO accession demands for significant internal reforms to comply to its rules and regulations and be compatible with the multilateral trade regime. Such compliance pose critical challenges to a least-developed country like Afghanistan (Mobariz, 2017).

Afghanistan has achieved remarkable growth over the past decade, but has suffered badly over last few years due to more international troop withdrawals and reduced international economic aid. For example, GDP growth in 2014 decreased by about 2% and after two years a 9% increase in rates was felt. According to a report by AISA in the first half of 2015, domestic and foreign investors were called to invest in the country, with foreign direct investment and other types of investment declined sharply. Economic contraction is accompanied by rising unemployment and capital escape. Government revenue from tax collection remains weak, which has led to the financial crisis (AISA, 2011).

2. Challenges of Afghanistan's Accession to the World Trade Organization

Afghanistan suffers from multiple challenges including insecurity, injustice, acute poverty, unemployment, economic dependence and more precisely trade deficit. The internal environment of trade in the context Afghanistan in which the notable achievements have been realized has been challenging and complex. Severe conflict has done enormous damage to production facilities, physical infrastructure and the readiness to invest. The legacy of institutional difficulties has been no less detrimental to progress. Above all, the critical intangible assets of trust and confidence have been shattered, and their reconstruction takes longer than that of material assets. Hence, Afghanistan faces some challenges and demerits of its membership to WTO:

2.1 Revenue loss:

Theories and Practices show that for developing countries tariff revenue constitutes a major section of revenue collection. For Afghanistan, about 47% of total public revenue comes from tariffs and taxes.\(^3\) As per Afghanistan commitments in WTO, the country has to reduce the current applied tariffs of 657 tariff lines between 2.5% to 20%, in order to comply with WTO-bound tariff rates. This will cause to loss tariff revenue amount of $5.4 million annually.\(^4\) Afghanistan has a very weak domestic revenue collection system. Its budget often relies on foreign aid. Domestic revenue cannot even cover government spending. WTO membership should reduce tariffs, which will reduce annual revenue (WTO, 2004).

\(^3\) [www.customs.gov.af](http://www.customs.gov.af)

\(^4\) Analytical paper on cost and benefits of WTO by Afghan Customs Department
2.2 Infant Industries:

An important aspect of development in all schools of thoughts is economic growth. GDP growth is a necessary condition for development. Therefore, for an economy to grow it has to produce more goods and services, export more and gain more market share in the global markets. Neoliberals take this point as ransom and argue that increased market share can be obtained by uninterrupted market forces and liberalization of the economy. This is exactly what WTO also promotes: in order to have growth we need to produce more; production requires larger market (demand) and this can be attained through international trade; and trade can grow in a free trade regime which brings efficiency in international allocation of resources. This regime is facilitated by WTO agreements. The acceding member has to harmonize its national laws with the WTO trade laws and abide by MFN treatment of all WTO members. This implies that that country loses policy space for its national development strategies with WTO accession.5

2.3 Lack of compliance with International Standards:

Although Afghanistan has secured non-discriminative market access in to global markets by joining WTO, the Afghan products are not competitive enough in the international markets due to but due low level of quality standards, lack of compliance with import standard of the importing countries, lack of accredit laboratories and certification bodies the Afghan products could not have reached the potential international markets.

2.4 Lack of export diversification:

Afghanistan exports remains focused on few products, mostly agriculture and unprocessed goods, hence the limited export competitiveness of Afghan goods and services – apart from some selected, mostly agricultural, products – results in high export concentration which in turn leads to high vulnerability of the Afghan economy to external shocks.

2.5 Lack of institutional capacity:

As a least developed and war-torn country, Afghanistan experiences low institutional capacity in both public and private agencies. This constraint the efficiency of utilizing the maximum of accession to WTO and integration in MTAs, as well as low institutional capacity also restraint the country in active participation in shaping global trade rules, determination of its economic interest and priorities in multilateral trade negotiations.

2.6 Increase in Imports:

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5 The Impact of Accession to WTO on Afghanistan’s Economy (Improvements, Reforms and Challenges) – Vol 003 – Bochum/Kabul 2017 – www.afghaneconomicsociety.org

Afghanistan currently experiences 96% of imports and only 4% of exports. Some believe that Afghanistan's accession to the WTO could increase imports into the country. They argue for increased imports as a result of removing non-tariff barriers and eliminating their currency controls and losses. However, Afghanistan is also facing a shortage of currency resources and these issues could have a negative impact on the country's shaky economy (Farzam, 2017).

2.7 End of Subsidies for Agriculture:

WTO obliges Afghanistan to decrease agricultural and industrial subsidies, which could lead to negative impacts on exports and farmers production due to tough price competition from foreign competitors.

2.8 Corruption

Corruption in Afghanistan is another major challenge facing the effective use of Afghanistan's accession to the World Trade Organization. If corruption continues, Afghanistan will benefit less from it, and eventually our economy will not benefit from joining the WTO property.

2.9 Lack of economic infrastructure:

Weak technological infrastructure, shortage of e-commerce and e-commerce, lack of terminals, free economic zones, means of transportation, roads, transparent and modern customs, railways, maritime transport, etc. are among the major challenges for Afghanistan.

3. Lessons learned

Based on the analysis of Afghanistan’s accession to the World Trade Organization and its challenges, researcher tends to list here the lessons learned with recommendations to other LDCs. Researcher tries to compare certain findings with the case of Cambodia. Cambodia began the accession process in June 1999 and is the first less developed nation that completed the accession process. In September 2003, during the World Trade Organization fifth ministerial conference, Cambodia has become the first least-developed country to accede to the organization through its full working party process.

The current study tends to present the opportunities and challenges of Afghanistan’s accession to the World Trade Organization (WTO) and provide recommendations to other acceding World Trade Organization members and specifically to those who are in the same situation as Afghanistan. Since Afghanistan recently joined the WTO, very little literature exists on this topic, therefore, my research is based on primary and first-hand data from the Afghan Government and the WTO to identify these opportunities and challenges.

This article offers that the Afghanistan’s accession to the World Trade Organization is an opportunity for its fragile economy to grow despite having some negative implications on the Government revenues. In particular, the accession will provide Afghanistan the opportunity of access to the international markets without trade barriers and bring institutional reform within its trade sector, but it is questionable whether the country will be able to address the technical and professional challenges of post-accession in agriculture, health, education,
international law and trade as it lacks expertise in these areas. Although the extension of the thesis findings requires more evidence to judge, the study’s findings challenge general understanding of Afghanistan’s accession to the WTO in the country and point to important new avenues of research.

4. Conclusion

After the removal of the Taliban regime from the power in 2001, Afghanistan, based on its own constitution, accepted democratic norms and adapted free market economy to ensure socio-economic development that was lagging due to more than three decades of civil war. Since then the the government of Afghanistan, with the technical and financial cooperation international donor community has taken important to measures to liberalize the trade set up and connects Afghanistan to the regional and international markets. This study is designed to examine the challenges face Afghanistan’s Accession to the World Trade Organization and the seek to assess the impact of Afghanistan’s Accession to the World Trade Organization on economic growth in the Post-Taliban pan Afghanistan. In sum, After the removal of the Taliban from the power in 2001, the faces of Afghanistan tremendously changed and adopted the democratic values and a modern economic system with the strong support of the international community from the beginning of the democratic government until today. Despite of the big achievements, Afghanistan still suffers from multiple challenges in various areas and it has been named the most fragile state in the world and the country has not yet been able to achieve full political, security and economic stability.

5. Possible solutions to deal with Challenges:

The following tentative recommendations are suggested for present government to tackle with challenges of Afghanistan's accession to the WTO as follows:

1. Trade as an means of economic development is mainstreamed in the context of Afghanistan National Development Strategy and WTO accession is remarked an important step towards attaining this goal. However, despite emphasise on central role of trade in economic development, operational objectives and action plans for trade are yet missing. Strategies and plans relevant to trade either does not exist or if exists are in the form of various sectoral strategies such as MoCI strategy, Private Sector Development Strategy, Export Promotion Policy, Industrial Policy, etc. These strategies need to be integrated in one single trade development strategy document encompassing all trade-related priorities across different government departments.

2. The Diagnostic Trade Integration Study (DTIS) and Action Matrix still do not reflect the Afghan Government trade strategy. Rather, Afghanistan was accepted as beneficiary country to EIF25 process in 2008 by EIF board26. Afghanistan needs to fully prioritize its needs to get 25 Enhanced Integrated Framework (EFI): To access Aid for Trade, developing countries must clearly prioritize their needs. In return, their development partners need to provide trade-related assistance and capacity building to
meet the demand with a supply of resources. To bridge the gap between demand and supply as effectively as possible, developing countries need to mainstream their demand for Aid for Trade into their national development strategies, such as the Poverty Reduction Strategy Papers (PRSPs), since these form the platform on which donors base their aid planning.

3. Clearly mapping out and prioritizing key needs for trade-related assistance and capacity building, including trade infrastructure, supply and productive capacity

References:
2. Analytical paper on cost and benefits of WTO by Afghan Customs Department >www.customs.gov.af>