

Essay, submitted to the
South Asian Economic Students Meet (SAESM)

Dec. 20-26, 2015

University of Colombo, Sri Lanka

Sub theme: "South Asia: Development challenges, lessons learnt and the way
forward in the Asian century"

Why Afghanistan should join WTO (World Trade Organization)?

Najibullah (Sulaimankhil)

Economic faculty, KU

Kabul-Afghanistan

2015

Abstract

Regional Cooperation plays an important role in Economic Development of countries, given that Afghanistan entered South Asian Free Trade Area (SAFTA), Economic Cooperation Organization Trade Agreement (ECOTA) and other economic cooperation to unlock economic opportunities and ensure sustainable economic growth. However joining such regional economic cooperation has raised some new issues for Afghan government in the last decade that are believed to be tackled through joining WTO therefor Afghanistan is looking to join WTO in a sense that joining WTO will help Afghanistan to experience a substantial economic development. This essay is looking to study closely some explicit influences that WTO will bring for Afghanistan after getting its membership.

Introduction

It is believed that Afghanistan has nothing to lose by joining the WTO perhaps it can actively participate in shaping and structuring the trade rules after becoming a WTO member. Current trade status of Afghanistan, where the level of imports are higher than exports (Trade balance has been in deficit throughout the period 2007-08 to 2013-14 from US\$-2475 million to US\$-8209 million respectively (CSO, 2014), indicates the very importance of the benefits of accession to the WTO. Further, WTO membership will not only provide access to cheap international markets and commodities, but will also give rise to both export and competition. Competition in return will require and persuade quality improvement and standardization that is equally beneficial to both consumers and producers. Through WTO membership, Afghanistan will be enabled to attract foreign direct investment in various sectors that will increase job opportunities, transfer technology among and from the Members, and decrease trade negotiation costs. The level of trade negotiations will be transformed from bilateral and regional level to the multilateral level (Zadran, 2015). There for Afghanistan should join WTO because it allows subsidizing, provides explicit transit rights, increases average tariffs protection, sends a positive signal to the domestic and foreign investors, and in return it will help Afghanistan to experience a substantial economic development.

Afghanistan's benefits joining WTO:

1. Subsidies

Afghanistan extremely needs for subsidizing some of its domestic products until they can stand on their own feet. Being a member of WTO and as a developing country, Afghanistan would receive preferential treatments (protectionist policy) from WTO and WTO members, which would boast economic and trade developments (AISA, 2015). WTO provides negotiated consistent subsidies for agriculture, industry and services that Afghanistan never had experienced them before. For agricultural products, there are some subsidies such as **a)** Green subsidies: These are non-distortive subsidies such as infrastructure, irrigation system, extension services and research and development (R&D). **b)** Blue subsidies: These are allowed for temporary periods (3-5 years renewable) as needed to diversify into new agricultural products. **c)** Amber subsidies: these are distortive subsidies (e.g. price support, input subsidies).² Secured maximum rate allowed under the WTO which is 10% of total agricultural production. Such subsidies historically have not exceeded 0.5% in the past in Afghanistan (MoC&I, 2015). But in the industrial sector, there are no limits on subsidies in support of R&D and modernization of production process for legitimate objectives (e.g. protection of the environment) even non-industry specific subsidies are allowed for development of rural and disadvantaged regions (MoC&I, 2015). By utilizing from such subsidies Afghanistan can support its domestic products that will have a significant impact the amount of exports to abroad.

2. Transit Rights

Afghanistan as a landlocked country is at a great disadvantage where current transportation costs are high for importing raw materials, inputs and equipment for producers and service suppliers; for exporting finished goods. Access to the seaports has a vital role to Afghan government for importing its products especially agricultural ones that have always been bounded by Pakistan's government. Recently government of Pakistan increased custom duties thrice of what it used to be on Afghan fruits being exported to Pakistan, which caused great loss to Afghan traders (Zadran, 2015). Even both countries have signed the free trade agreement that is called Afghanistan Pakistan Transit Trade Agreement (APTTA). However, WTO will pave the ground for access to the most cost efficient routes without restrictions because there are some transit obligations that must be observed by WTO members such as:

- a) General Agreement on Tariffs & Trade (GATT) article V: FREEDOM OF TRANSIT: *“There shall be freedom of transit through the territory of each contracting party, via the routes most convenient for international transit, for traffic in transit to or from the territory of other contracting parties”.*
- b) New York Convention on Transit Trade of Land-Locked States, 1965 and the UN Convention on the Law of the Sea (UNCLOS III) 1982.
- c) United Nations Convention on the Law of the Sea, Part X: Right of access of Land-locked States to and from the sea and freedom of transit stated that: *“land-locked states shall enjoy freedom of transit through the territory of transit States by all means of transport”.*

3. Tariffs Protection

It is a myth everywhere in Afghanistan even among some economists that Afghanistan will be required to lower tariff rates to join WTO, but the fact is that Afghanistan already has the lowest tariff protection in the region and average tariff protection will increase when Afghanistan joins WTO. SAARC (South Asian Association for Regional Cooperation) member countries have agreed to charge each other tariffs of 0-5 percent for non-sensitive goods Under SAFTA agreement, these tariffs apply for all other non-SAARC WTO members (Farooqi, 2015). India & Pakistan are the main export markets for Afghan goods while Pakistan and Iran are the main suppliers of goods imported by Afghanistan.

Table # 1: Average Custom Duties W/O SAARC: 2013

	Non-agriculture	Agriculture	Overall
Afghanistan	5.7	7.1	5.9
Bangladesh	14.0	17.2	14.4
Bhutan	NR	NR	NR
India	10.4	33.5	13.7
Maldives	20.8	18.2	20.5

Why Afghanistan should join WTO?

Nepal	12.0	13.9	12.3
Sri Lanka	7.5	25.8	9.9
Pakistan	13.2	15.5	13.5

Source: WTO ITC UNCTAD; World Tariff Profile 2013

Afghanistan has lower average tariffs than ALL of these WTO members –especially tariffs in agriculture. WTO will NOT require Afghanistan to reduce tariffs to accede to membership –that is disinformation and a myth.

Table # 2: Average Custom Duties: 2013

	Non-agricultural	Agriculture	Overall
Afghanistan	5.7	7.1	5.9
Pakistan	13.2	15.5	13.5
India	10.4	33.5	13.7
China	8.7	15.6	9.6
Sri Lanka	7.5	25.8	9.9
Malaysia	5.8	11.2	6.5
Indonesia	6.9	7.9	7.0

Source: WTO ITC UNCTAD; World Tariff Profiles 2013

ALL of these countries have higher average tariffs in agriculture and only Kyrgyzstan and Turkey have average lower tariffs than Afghanistan in non-agriculture goods all of the countries except Iran and Uzbekistan are or will soon be WTO members. Iran and Uzbekistan have much higher tariffs while Kazakhstan and Afghanistan average tariffs have lower than many WTO members. WTO requires transparency and public availability of the tariff schedule, but DOES NOT require any specific level of tariffs to join.

Table # 3: Average Regional Custom Duties: 2013

	Non-Agricultural	Agricultural	Overall
China	8.7	15.6	9.6
Indonesia	6.9	7.9	7.0
Iran	26.1	30.4	26.6
Kazakhstan	8.8	13.4	9.5
Kyrgyzstan	4.2	7.4	4.6
Malaysia	5.8	11.2	6.5
Tajikistan	7.3	10.8	7.8
Turkey	4.8	41.2	9.6
Uzbekistan	14.9	19.2	15.4

Source: WTO ITC UNCTAD; World Tariff Profiles 2013

4. Attracting FDI

WTO membership sends a positive signal to the investment community. Signals that Afghanistan has a stable, predictable, transparent, and cost efficient business environment that encourages investment and consequently increases the level of FDI within the country. Accession to WTO would assist AISA to attract more FDI, since we will then have international credibility by being a member of WTO (AISA, 2015). Ministry of Commerce & Industries (MoC&I) Deputy Minister Muzammil Shinwari emphasized the importance of the WTO's potential role in attracting foreign investment to Afghanistan. "Accession to the WTO is aimed to attract major investments and this will also provide confidence to international investments and investors will then realize Afghanistan as investment friendly nation, and also we have a number of concessions that could contribute in developing our industry (Shinwari, 2015). Investment will improve competitiveness by bringing necessary capital, technology, and know how to modernize business and production process, improve productivity (which will lower the production costs), and deliver goods and services in line with the international safety requirements and quality standards. All conditions equal, investors choose economic with sound business environment as well as guaranteed and secured access and transit rights to other markets.

5. Economic Growth:

According to the World Bank (WB), from 2003 to 2012, Afghanistan's annual GDP grew about 9% on average, hitting a peak of 14.4% in 2012, but it shrank to 3.7% in 2013, and to just 1.5% in 2014 (Rai, 2015). Now Afghanistan wants to accelerate its economic growth through trade, so joining WTO is the best option because the experience of all WTO member countries shows that WTO membership has a positive outcome on the FDI, GDP, per capita income, trade growth, average costume duties and economic development. Based on a report new WTO members' trade grew by 12.4 percent annually between 1994 and 2013, almost doubled the 6.7 percent average growth of the members who were part of the WTO at its birth in 1995 (Reuters, 2014). The experience of many countries such as: Kyrgyzstan, Tajikistan, Nepal, Jordan, Georgia, Cambodia, and Vietnam shows that accession to the WTO had increased the rate of their FDI, GDP, income per capita, and average custom duties as well as boosted the process of economic growth in these countries (MoC&I, 2015).

In brief, joining WTO has much profitability for Afghanistan that will bring many positive changes within the country more than what have been discussed so far. With this belief that joining WTO will foster economic growth through increasing exports, attracting more FDI and enlarging the GDP, Afghanistan applied for its membership while almost all regional trading partners of Afghanistan at SAARC, Central Asia and West Asia either are WTO members or are in the process of accession. Therefore, WTO membership gives Afghanistan broader chance for fair trade through dispute settlement mechanism at WTO, and it is believed that GIRoA can get its goals via joining this organization what it could not get from other trade facilitator organizations.

Why Afghanistan should join WTO?

Works Cited

AISA, 2015. AISA. [Online]

Available at:

<http://www.aisa.org.af/Content/Post/Attachment/AfghanistanAccessionWTO950477fb-295e-4b05-afa5-7b9c58b88759.pdf>

[Accessed 15 10 2015].

CSO, 2014. Afghanistan Statistical Year Book, Kabul, Afghanistan: Central Statistic Office.

CSO, 2014. Balance trade, Exports & Imports. 2nd Quarterly indicators ed. Kabul: CSO publish.

Farooqi, H., 2015. Tariffs within SAARC countries [Interview] (15 09 2015).

MoC&I, 2015. WTO Commitments and Impacts for Afghanistan. Kabul, USAID, p. 12.

MoC&I, 2015. WTO Impacts for Afghanistan and Recently Acceded WTO Members. Kabul, USAID.

Rai, A., 2015. Afghanistan, Once democracy's champions are mere bystanders. Afghanistan Times, 9(332), p. 6.

Reuters, 2014. Reuters.com. [Online]

Available at: <http://www.reuters.com/article/2014/11/25/us-wto-accessions-idUSKCN0J9IT420141125>

[Accessed 10 October 2015].

Shinwari, M., 2015. TOLO news. [Online]

Available at: <http://www.tolonews.com/en/afghanistan/19218-ministry-advocates-afghanistans-accession-to-world-trade-organization>

[Accessed 25 08 2015].

Zadran, W., 2015. Benefits of Afghanistan Accession to the World Trade Organisation. Wadsam, 243(Afghan Bussiness News), p. 6.