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# REGIONAL ECONOMIC OPERATION PROJECT (REC)

ANALYSIS OF POTENTIAL AND OPPORTUNITIES OF TRADE  
RELATIONSHIP OF UZBEKISTAN AND AFGHANISTAN

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# REGIONAL ECONOMIC COOPERATION PROJECT

ANALYSIS OF POTENTIAL AND OPPORTUNITIES OF TRADE  
RELATIONSHIP OF UZBEKISTAN AND AFGHANISTAN

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## ACRONYMS

|        |   |
|--------|---|
| REC    | Regional Economic Cooperation( <a href="http://www.car-rec.net">www.car-rec.net</a> )                                       |
| MFERIT | Ministry of Foreign Economic Relations, Investment and Trade of Uzbekistan ( <a href="http://www.mfer.uz">www.mfer.uz</a> ) |
| MFA    | Ministry of Foreign Affairs of Uzbekistan ( <a href="http://www.mfa.uz">www.mfa.uz</a> )                                    |
| UCCI   | Uzbekistan Chamber of Commerce and Industries of Uzbekistan ( <a href="http://www.chamber.uz">www.chamber.uz</a> )          |
| SCC    | StateCommitteeofCustoms( <a href="http://www.customs.uz">www.customs.uz</a> )   |
| SCS    | StateCommitteeofStatistics( <a href="http://www.stat.uz">www.stat.uz</a> )  |
| ACCI   | Afghanistan Chamber of Commerce and Industries  |
| MOCI   | MinistryofCommerce and Investment ( <a href="http://www.moci.gov.af">www.moci.gov.af</a> )                                  |
| EPAA   | Export Promotion Agency of Afghanistan ( <a href="http://www.epaa.org.af">www.epaa.org.af</a> )                             |
| CSO    | CentralOrganizationofStatistics( <a href="http://www.cso.gov.af">www.cso.gov.af</a> )                                       |
| MOPH   | MinistryofPublicHealth( <a href="http://www.moph.gov.af">www.moph.gov.af</a> )  |
| ADB    | Asian Development Bank ( <a href="http://www.adb.org">www.adb.org</a> )   |
| USAID  | United States Agency for International Development ( <a href="http://www.usaid.gov">www.usaid.gov</a> )                     |
| CAR    | CentralAsianRegion  |
| UNDP   | UnitedNationsDevelopmentProgram( <a href="http://www.undp.org">www.undp.org</a> )   |

## **GLOSSARY**

**Tolling** – used to refer to processing services on provided raw material. According to contract of tolling, the processing company agrees to produce the goods from raw materials provided by customer, who agrees to pay the services. Customer remains the owner of raw material and finished products, and processing company process the raw material only.

**Export taxes** - customs duties and internal taxes on exported goods.

**Export**– regime under which goods are exported outside the customs territory without their obligations re-importation.

**Re-export** - regime under which foreign goods are exported from the customs territory.

## **Executive Summary**

Afghanistan, like Uzbekistan, is a landlocked country. Afghanistan borders Turkmenistan, Tajikistan, Uzbekistan, China, Pakistan and Iran. The border with Uzbekistan is not as extended as in Turkmenistan and Tajikistan; however, Uzbekistan is the most important trade and economic partner in Central Asia. Automobile road and railway connecting Afghanistan to Central Asia and Europe, the production of various goods and products in Uzbekistan should support the widespread development of trade relations and increase trade turnover. In spite of these advantages, trade relations between the two countries are still need improvement and expansion. Currently there are significant factors that could contribute to improving trade relations.

Almost all goods and products that require processing in Afghanistan are imported from other countries due to the lack of production in the country. Creation of industrial enterprises will take a long time because of the limited infrastructure: the lack of domestic energy resources, the railroad in the country. There is no doubt that the Afghan market has a great potential for the expansion of exports, particularly for small and medium business.

According to the State Committee of Statistics, the trade turnover between Uzbekistan and Afghanistan for the first time in the history of the Uzbek-Afghan relations exceeded \$ 1 billion of US dollars. In 2012 the trade turnover of Uzbekistan to Afghanistan amounted to \$ 1,074 billion (including export - \$ 1 billion 73.3 million, import - \$ 0.8 million)<sup>1</sup>. Afghanistan's share of the total turnover amounted to 4.1%. Uzbekistan supplies to Afghanistan electricity, metals, agricultural products and foodstuffs and provides services in the construction sector.

It should be noted, electricity and petroleum products account for nearly 94.4% of total exports, which are exported by state companies or private companies where the majority shares are controlled by government agencies. In terms of sales other goods, which should be noted are fertilizers, metal sheets, steel beams, construction timber, men's shoes, toilet paper.

For sustainable trade relations, it is important to assist not only to the export of goods and products from Uzbekistan to Afghanistan, but also in the opposite direction. Due to lack the production facilities, export from Afghanistan is possible only in the form of raw materials. Export goods and productions of Afghanistan are diverse: high-quality marble, precious and semi-precious stones, dried fruits, fresh fruits, handmade carpets, and saffron and lamb skin.

## **SECTION I. Overview of Assignment**

### **A. Overview of Assignment**

The Trade Facilitation Advisor will assist REC in the assessment and analysis of the trade regime between Afghanistan and Uzbekistan, including tariffs and non-tariffs measures, and propose recommendations for its improvement. The information should be elaborated in a report to be presented at the Uzbek-Afghan Round Table. The Uzbek-Afghan Round Table is being prepared by REC and will be held in Termez, Uzbekistan on November 6-7, 2013. The purpose of workshop for Uzbek and Afghan entrepreneurs is to promote greater understanding of business opportunities for both countries. The Uzbekistan Chamber of Commerce shall serve as REC's counterpart within the government of Uzbekistan.

The Trade Facilitation Advisor should carry out the following tasks:

- Conduct an analysis of export-import rules and regulations related to trade between Afghanistan and Uzbekistan;
- Conduct an analysis of rules and regulations of registration of business enterprises in Uzbekistan for Afghan entrepreneurs;
- Visit and meet with the relevant state agencies and business associations in Uzbekistan for collecting the information relevant to trade promotion;
- Prepare a comprehensive and detailed report and recommendations on the finding;
- Develop presentation materials for presenting rules and regulations of registration and business running in Uzbekistan for Afghan entrepreneurs;
- Identify the goods and products produced in Uzbekistan which will be in interest of Afghan importers;
- Identify the goods and products produced in Afghanistan which will be in interest of Uzbek importers;
- Facilitate USAID/Regional Economic Cooperation project in preparation to the Uzbek-Afghan Round Table in Termez on November 6, 2013
- Take an active part in holding a Round Table Meeting in Termez on November 6-7, 2013

### **B. Objectives of assignment**

The objectives of assignments are to assist in understanding of terms and condition, and rules of running of business in both countries, as well as to provide with practical recommendations in view of each country.



## SECTION II. Trade relationship of Afghanistan and Uzbekistan

### A. Trading partners of Afghanistan

Afghanistan, like Uzbekistan, is a landlocked country. Afghanistan borders Turkmenistan, Tajikistan, Uzbekistan, China, Pakistan and Iran. The border with Uzbekistan is not as extended as in Turkmenistan and Tajikistan; however, Uzbekistan is the most important trade and economic partner in Central Asia. Automobile road and railway connecting Afghanistan to Central Asia and Europe, the production of various goods and products in Uzbekistan should support the widespread development of trade relations and increase trade turnover. In spite of these advantages, trade relations between the two countries are still need improvement and expansion. Currently there are significant factors that could contribute to improving trade relations.

Capacity of trade turnover with Russia and the Central Asian Republics has been significant to the early 1990's. Products such as non-alloy steel and rolled steel products, construction materials, oil products, household articles, cooking oil, canned goods and foodstuffs from Russia and the Central Asian countries were considered high quality in the 1970's, 1980's and early 1990's. The civil war in Afghanistan and the following crisis resulted in the weakening relations between Afghanistan and Central Asia from 1992.<sup>ii</sup>

Pakistan has been a key partner in the past two decades. However, Pakistan's role as a trading partner has declined substantially over the last 3-4 years, due to some reasons: 1) Possible support implacable opposition (the Taliban) by Pakistan; 2) Socio economic and political crisis in Pakistan;<sup>iii</sup> 3) Military operations and instability on the border of Pakistan and Afghanistan; 4) Natural disasters, earthquakes in 2008 and floods in 2011.

In order to improve trade relations Pakistan and Afghanistan, with the assistance of the U.S., signed an agreement on transit trade in July 2010.<sup>iv</sup> However, in practice Pakistan creates various bureaucratic obstacles for Afghan entrepreneurs that suffer significant losses. In the past, most of the imported goods were delivered to Afghanistan through the port of Karachi in Pakistan. However, after mutual accusations and attacks, goods Afghan entrepreneurs have significantly delayed in customs clearance before sending to Afghanistan. Lots of goods of Afghan entrepreneurs stuck for several months. The Afghan entrepreneurs had to pay \$ 100 for each day of downtime after 10 days of delay. There were cases where containers with goods were lost in Pakistan on the way from the port of Karachi.<sup>v</sup>

In retaliatory measures, Afghanistan created barriers to transit of products from Pakistan to Tajikistan.<sup>vi</sup> Currently Afghanistan's entrepreneurs are considering various transport corridors for exports and imports through other countries, including Turkmenistan and Tajikistan. However, according to information received from the Afghan entrepreneurs transport corridor through Uzbekistan is the most secure and affordable at the moment. Cost of transport services through Turkmenistan and Tajikistan are much higher.

Also, there are some security problems on the road during delivering goods to the border of Afghanistan.

Afghanistan's economic cooperation with Iran has a good trend, but there are some limitations due to geopolitical disputes between Iran and the United States, a close ally of Afghanistan. Although, it should be expected a warming of relations between the two countries after the recent changes in the leadership of Iran. Iran is actively investing in the economy of Afghanistan. It is worth noting that Iran's interests, first of all, focused on border provinces in the west of Afghanistan.

Due to the economic sanctions to Iran by the European countries, Iran sees Afghanistan as a dangerous competitor in the export of saffron, where are traditionally strong position of the Iranian manufacturers. Also it should be noted that even with the expansion of economic cooperation, transport and industrial potential of Iran will not be enough to satisfy the demand of Afghanistan.

Special attention takes the increasing role of Turkmenistan in transit of goods through the land port Akin in Faryab province in the north-west of Afghanistan. Revenues for the first half 2013 port Akin grew 21% to \$ 35 million in March according to the Customs Service of Afghanistan. Afghanistan, Tajikistan and Turkmenistan signed a memorandum of understanding on the construction of the railway. The first phase of the project anticipates construction of the railway from the city Atamyrat-Imamnazar in Turkmenistan to Andhoi-Akin in Afghanistan.<sup>vii</sup>

Among other Central Asian countries, it is worth noting the increasing role of Kazakhstan as a trade and economic partner. Thus, Kazakhstan and Afghanistan signed a Memorandum of Understanding in September 2013. The document contained the interaction between the two countries in economic, trade, transit, agriculture and education sectors. With the support of Regional Economic Cooperation (REC) and Trade Accession and Facilitation of Afghanistan (TAF) Projects, funded by USAID, there were held in Kazakhstan and of Afghan entrepreneurs in Almaty on June 27-28 and in Kabul on July 2-3, 2013. Also it is worth noting successful work of a Commission for trade and economic cooperation and office of Kazakhstan Chamber of Commerce, opened under the Embassy of Kazakhstan in Kabul.

## **B. Trade and Economic relations between Uzbekistan and Afghanistan**

Due to geographical, geopolitical and geo-economic factors Uzbekistan is one of the key partners of Afghanistan in the Central Asian region. It should be noted that the most affordable and safe transport corridor is going through Uzbekistan, due to the presence of transport and railway to port of Khairaton, a city on the border of Afghanistan and Uzbekistan, which is located 60 km away from Mazar-e-sharif city of Balkh Province.

Uzbekistan and Afghanistan signed a series of agreements to expand trade and economic relations between the two countries in 2007. It was established the intergovernmental

commission on trade and economic cooperation. The Uzbekistan government committed to assist Afghanistan in transit and transport of goods, construction of automobile roads, railways, bridges and almost all transport communication means; to develop agriculture, irrigation and tourism, and also agreed to provide more electric power in Afghanistan.

Also, within the projects framework of Afghanistan reconstruction, Uzbekistan built 11 bridges on the way from Mazar-e-Sharif to Kabul.<sup>viii</sup> It is assumed that Uzbekistan will increase the supply of electricity to Kabul and other provinces after the completion of the high voltage line from Kabul to the side of the state border with Uzbekistan.

According to the State Committee of Statistics, the trade turnover between Uzbekistan and Afghanistan for the first time in the history of the Uzbek-Afghan relations exceeded \$ 1 billion of US dollars. In 2012 the trade turnover of Uzbekistan to Afghanistan amounted to \$ 1,074 billion (including export - \$ 1 billion 73.3 million, import - \$ 0.8 million).<sup>ix</sup> Afghanistan's share of the total turnover amounted to 4.1%. Uzbekistan supplies to Afghanistan electricity, metals, agricultural products and foodstuffs and provides services in the construction sector.

**Table 1**

(In millions of U.S. dollars)

| Export                                | 2010    | 2011    | 2012      |
|---------------------------------------|---------|---------|-----------|
| Export from Uzbekistan to Afghanistan | \$655.6 | \$797.7 | \$1,073.3 |
| Export from Afghanistan to Uzbekistan | \$0.2   | \$0.9   | \$0.8     |

Uzbekistan has completed construction of a railway linking Uzbekistan and Mazar-e-Sharif. The railway has a length of 106.5 km, the length of the main way is 75 km, road capacity is 8 pairs of trains per day, or more than 9 million tons of cargo a year. The construction was opened in late May 2010. All work was carried out with the financial support of the Asian Development Bank. ADB has allocated to Afghanistan a grant in the amount of U.S. \$ 165 million for the construction of the railway line "Khairaton - Mazar-e-Sharif". Uzbek private company was responsible for the implementation of technical aspects. Uzbekistan was interested in implementing of the project as a new branch Afghanistan joined the network of Uzbek railways.

The line should be equipped with alarm devices, telecommunications and electricity in accordance with the technical standards and requirements applicable in Uzbekistan. The project envisages the construction of two stations and two sidings, container yard at the station Mazar-e-Sharif, and the implementation of the modernization of the existing station Khairaton.<sup>x</sup> In November 2010, the construction of the railway was completed. The road assigned to the temporary management of the company "Uzbekistontemiryullari."

"Uzbekistontemiryullari" is currently working on feasibility study for the expansion of the railway that going to Herat,<sup>xi</sup> a city in the western region of Afghanistan, which is planned to implement in 2013-2015. The railway will connect the Tajik-Afghan border point on the river Panj an existing branch in Mazar-e-Sharif. From there, the rails will be laid in Herat, where they can be connected to another uncompleted road to the western border of the country.

The government of Uzbekistan assigned Joint Venture in the form of a limited responsibility of «UzVneshTrans» and the Ministry of Foreign Economic Relations, Investments and Trade to consider possible establishment of an international logistics center using the European and international standards and know-how in Surkhandarya region.<sup>xiii</sup> The project financing of total cost of \$ 10.4 million will be implemented through a grant from the European Commission in the amount of \$ 2.6 million and funds of the Uzbek side of \$ 7.8 million According to experts, the creation of an international logistics center in Surkhandarya region contributes to an increase in the Uzbek-Afghan trade.

### C. Imported goods and productions in Afghanistan

Imports of Afghanistan amounted 6,390 billion for the fiscal period (21 of March), 2011-2012. While for the period 2010-2011 amounted 5,154 billion U.S. dollars. Main import commodities: petroleum products (33% of total imports), machinery (15%), food (14%), metal and metal products (9%).

**Table2**

| Countries    | 2010-2011       |        | 2011-2012       |        |
|--------------|-----------------|--------|-----------------|--------|
|              | In \$US dollars | %      | In \$US dollars | %      |
| Pakistan     | 597 502 822     | 11,59% | 877 754 493     | 13,74% |
| Russia       | 181 394 091     | 3,52%  | 804 167 856     | 12,58% |
| Uzbekistan   | 1 087 926 520   | 21,11% | 732 449 509     | 11,46% |
| Iran         | 386 411 377     | 7,50%  | 581 655 193     | 9,10%  |
| China        | 703 845 093     | 13,66% | 577 177 968     | 9,03%  |
| Turkmenistan | 117 059 599     | 2,27%  | 352 976 980     | 5,52%  |
| Japan        | 494 368 703     | 9,59%  | 411 827 185     | 6,44%  |
| Kazakhstan   | 207 982 552     | 4,04%  | 333 309 029     | 5,22%  |
| Germany      | 422 289 588     | 8,19%  | 244 398 439     | 3,82%  |
| Tajikistan   | 98 127 788      | 1,90%  | 226 888 290     | 3,55%  |
| UAE          | 105 570 830     | 2,05%  | 199 638 491     | 3,12%  |
| Latvia       | 0               | 0,00%  | 149 711 338     | 2,34%  |
| Turkey       | 108 694 018     | 2,11%  | 138 211 010     | 2,16%  |
| India        | 112 907 128     | 2,19%  | 103 876 928     | 1,63%  |
| Korea        | 57 254 020      | 1,11%  | 98 716 435      | 1,54%  |

|                             |                      |             |                      |             |
|-----------------------------|----------------------|-------------|----------------------|-------------|
| USA                         | 78 480 105           | 1,52%       | 90 619 835           | 1,42%       |
| Azerbaijan                  | 53 694 555           | 1,04%       | 70 476 931           | 1,10%       |
| Malaysia                    | 53 283 536           | 1,03%       | 59 921 524           | 0,94%       |
| SaudiArabia                 | 53 694 555           | 1,04%       | 50 975 773           | 0,80%       |
| Othercountries(lessthan 1%) | 233 762 988          | 4,54%       | 285 557 740          | 4,47%       |
| <b>Totalimports</b>         | <b>5 154 249 868</b> | <b>100%</b> | <b>6 390 310 947</b> | <b>100%</b> |

The statistics were provided by the Central Statistical Organization of Afghanistan.

It should be noted that many companies located in border towns in Pakistan (Peshawar and Quetta) and Iran (Mashhad) focus only on the production of goods for Afghanistan. Low prices for transportation, the availability of the channels of social network and a common language in Pakistan and Iran, and from China - the low cost of the goods is an important factor in trade turnover.

Noteworthy, Uzbekistan held the top spot in the supply of imported goods to Afghanistan for the period of 2010-2011, with 21.11% of the total imports. This is significantly higher than imports from Pakistan with 11.59% and from China with 13.66%. However, imports decreased significantly from 21.11% to 11.46%, it is worth to analyze the causes of decline of imports from Uzbekistan. Imports from Russia increased 3.5 times over the previous period. The general trend shows an increase in trade with the Central Asian Republics.

The analysis of data by country for 2005 shows the increasing role as an importer of the following countries: Russia, Uzbekistan, Kazakhstan, China, Turkmenistan and Tajikistan. According to the Central Statistical Organization of Afghanistan import from Uzbekistan was the following:

**Table 3**

| Name of products | 2010-2011      |        | 2011-2012      |        |
|------------------|----------------|--------|----------------|--------|
|                  | in U.S. dollar | %      | in U.S. dollar | %      |
| Energysources    | 364 389 657    | 33,49% | 377 102 664    | 51,49% |
| Diesel           | 265 974 873    | 24,45% | 109 993 686    | 15,02% |
| Metalbars        | 167 560 861    | 15,40% | 103 529 501    | 14,13% |
| Gasoline         | 147 161 749    | 13,53% | 82 058 683     | 11,20% |
| Beans            | 13 718 015     | 1,26%  | 16 277 506     | 2,22%  |
| Liquidgas        | 36 057 728     | 3,31%  | 13 442 718     | 1,84%  |
| Wheatandflour    | 4 830 295      | 0,44%  | 5 966 590      | 0,81%  |
| Fertilizers      | 6 405 277      | 0,59%  | 2 811 977      | 0,38%  |

|                     |                      |             |                    |             |
|---------------------|----------------------|-------------|--------------------|-------------|
| Metalsheets         | 11 990 216           | 1,10%       | 2 102 148          | 0,29%       |
| Liquidresin         | 2 568 236            | 0,24%       | 1 106 348          | 0,15%       |
| Greenpeas           | 516 188              | 0,05%       | 1 033 595          | 0,14%       |
| Splitpeas           | 422 702              | 0,04%       | 960 217            | 0,13%       |
| Steelbeams          | 3 919 247            | 0,36%       | 851 645            | 0,12%       |
| Constructiontimber  | 1 398 762            | 0,13%       | 669 462            | 0,09%       |
| Men'sShoes          | 379 080              | 0,03%       | 574 752            | 0,08%       |
| Toiletpaper         | 704 435              | 0,06%       | 552 306            | 0,08%       |
| Otherproducts       | 59 929 199           | 5,51%       | 13 415 711         | 1,83%       |
| <b>Totalimports</b> | <b>1 087 926 520</b> | <b>100%</b> | <b>732 449 509</b> | <b>100%</b> |

It must be emphasized that the data provided by the Central Statistical Organization of Afghanistan differ from the data of the State Committee of Statistics of Uzbekistan because of the counting period of the fiscal year. However, it should be noted that according to the Central Statistical Organization of Afghanistan, import from Uzbekistan reduces, which is different from the data of the State Statistics Committee of Uzbekistan.

It should be noted, electricity and petroleum products account for nearly 94.4% of total exports, which are exported by state companies or private companies where the majority shares are controlled by government agencies. In terms of sales other goods, which should be noted are fertilizers, metal sheets, steel beams, construction timber, men's shoes, and toilet paper.

Uzbekistan produces a wide range of products, which have a constant demand in Afghanistan. In addition to the existing list, Uzbekistan can supply or increase the export of the following goods:

- Foodstuffs: baby food, canned foods, vegetable oil (sunflower, cotton)
- Dairyproducts
- Beverages: juices, mineral water and other soft drinks
- Medical supplies: pharmaceutical products, medical equipment
- Mineralfertilizers
- Tobacco
- Construction materials: paint, goods from plastic material, plastic pipes
- Carsandspare parts
- Textileproducts
- Plasticproducts
- Electrical equipment assembled in Uzbekistan
- Clothing and footwear

After the meeting with representatives of the State joint stock foreign trade company "Uzmarkazsanoateksport" and foreign trade company "Uztadbirkoreksport", operating at MFERIT, it was found there are no special restrictions on the export of goods and products to Afghanistan. Both companies have recognized that the share of small and medium-sized businesses is negligible, which means that it is necessary to create a more favorable conditions for Uzbek entrepreneurs.

## Section III. Export of goods and products of Uzbekistan

### A. Potential and opportunities of export to Afghanistan

As already mentioned above, almost all goods and products that require processing in Afghanistan are imported from other countries due to the lack of production in the country. Creation of industrial enterprises will take a long time because of the limited infrastructure: the lack of domestic energy resources, the railroad in the country. There is no doubt that the Afghan market has a great potential for the expansion of exports, particularly for small and medium businesses. The following are the market opportunities in Afghanistan.

- Population. According to the World Bank, the Afghan population was about 31 million people in 2011. It is a large market of consumers who need a variety of goods.
- Production. There is no production on an industrial scale in Afghanistan. Many plants and factories, built with support of the Soviet Union, have been destroyed and stopped working during the civil war. There are recently built small factories and processing plants which can not satisfy domestic market.
- Cost of goods. The lack of electricity creates significant expenses in the production, which is a consequence of the high costs of producing goods and products. The energetic infrastructure was destroyed during the civil war. In 2012, only 33% of population of Afghanistan and 70% of the population of Kabul has access to electricity.<sup>xiii</sup> Electricity is imported from Uzbekistan, Tajikistan, Turkmenistan and Iran. Companies use electrical generators that operate with diesel fuel.

Undoubtedly, all countries have above described advantages for exports to Afghanistan. However, it should be noted that there are several advantages that has Uzbekistan in comparison with other countries. These advantages are based on the geographical location, historical development of relations of the two countries and other factors:

- Previous experience in trade relations. Trade relations between Uzbekistan and Afghanistan have positive experience in the past. Uzbekistan has a good reputation of economic and trade partner.
- Cost of transport. Afghanistan imports lots of goods from other countries. Goods are delivered by different ports. As already noted, Afghanistan is a landlocked country, and therefore require additional expenses for delivery of the goods. That means the cost of delivery of goods from Uzbekistan is significantly lower.
- Security of business running. Northern region of Afghanistan is the most secure place in comparison with other regions. Balkh Province is the third most-



developed industrial zone after Kabul and Herat. According to Afghanistan Chamber of Commerce and Industries, Balkh province's economic growth was 22% in 2011 and 35% in 2012. High economic growth was due to the high level of security and established infrastructure, and active business community.

- Northern region infrastructure. Many entrepreneurs from other provinces are trying to move the businesses in Balkh Province because of the existing infrastructure, such as access to transport corridor, broad and diversified asphalt road that connects with the other provinces, access to electricity, active local markets. Transportation road connects all the provinces in the northern region, as well as Kabul, the Afghan capital.
- Economic and business center. City of Mazar-e-Sharif is an important economic and business center of the entire northern region, also used by entrepreneurs as a place for wholesale goods to other provinces, not only for the northern region.
  - There are several wholesale markets in Mazar-e-sharif: the market for the exchange and transfer of funds, clothing market, the market for different types of furniture, medical supplies market, electrical appliances market, carpets market, office equipment market, plastic products market, dried fruit market, fresh fruit market, grain market, an area for car sales, the market of metal goods (valves, iron sheets), and the market of gold jewelry.
  - There are also warehouses, hotels, and bus stations, parking space for heavy trucks, gas stations and workshops for trucks.
  - There are branches of 10 commercial banks in Mazar-e-sharif that provide a wide range of financial services.
- Population segment: The main part of the population in the northern region is ethnic Uzbeks, Tajiks, and Turkmens. The number of Uzbeks and Turkmens is about 2.7 million (9% of the total population) and 0.9 million (3% of the total population) according to the Afghan Center for Social and Economic Research.<sup>xiv</sup> This makes it easier to overcome the language barrier at the initial stage.

## **B. Export rules and regulations of Uzbekistan**

There is no duty on exported goods in Uzbekistan.<sup>xv</sup> However, it should be noted that some of the goods are subject to tax in the sale for both domestic market and for export: alcohol and tobacco products, natural gas, refined petroleum products. Currently in Uzbekistan enterprises engaged in centralized exports (gas, cotton, precious metals), are obliged to sell 100% of foreign exchange earnings; decentralized exports - 50%. There are various benefits for exporters in Uzbekistan.

- Value-added tax. According to the Tax Code of the Republic of Uzbekistan (Article 212), the export of goods for free currency is taxed at a zero rate, which means releasing them from the payment of the value added tax for the material

resources used in the production of exported goods. The exception is the intermediary organizations and enterprises that produce for export commodities. Such goods classified as precious metals.

- Excise tax. The export goods are not subject to excise tax: sale of excisable goods for export by their manufacturers, with the exception of certain types of excisable goods, determined by the Cabinet of Ministers of the Republic of Uzbekistan; transfer of excisable goods - processed products derived from goods placed under the customs regime of "processing on the customs territory" provided their following taking away from the customs territory of the Republic of Uzbekistan
- Income tax. According to Decree of the President of the Republic of Uzbekistan dated June 5, 2000 "On additional measures to stimulate producers of export products" (№ UP-2613 from 05/06/2000), enterprises-exporters of all patterns of ownership (except for trade and intermediary companies and enterprises that export raw material) are exempt from income tax derived from the export of their own production for freely convertible currency. This measure has been extended to small businesses, who are the payers of single tax.

For enterprises-exporters established a procedure for the payment of income tax depending on the share of exports of goods of own production sold for freely convertible currency in total sales: if the export share of 15 to 30 percent – fixed income tax rates are reduced by 30 per cent; with the share of exports 30 percent or more - fixed income tax rates are reduced by 2 times.

This privilege does not apply to trade and intermediary companies, as well as manufacturing companies that export goods in a list approved by the Decree of the President of the Republic of Uzbekistan from 10/10/1997 № UP-1871.

- Property tax. Decree of the President of the Republic of Uzbekistan dated June 5, 2000 "On additional measures to stimulate producers of export products" (№ UP-2613 from 05/06/2000) introduced the procedure for paying property tax, according to which the size of property tax depends on the share of exports of goods produced in total sales. So that if the export share is 20-50%, fixed tax rate is reduced by 50%, with 50 percent or more - property tax will not be charged.

This privilege is extended to all kinds of enterprises producing export products and selling by themselves or through a specialized foreign trade associations and companies. These exemptions do not apply to trade and intermediary companies, as well as manufacturing companies that export raw material for freely convertible currency - cotton, cotton yarn, oil, oil products, gas condensate, and natural gas, and electro energy, precious, ferrous and non-ferrous metals.

Resolution of the President of the Republic of Uzbekistan dated on 28 March of 2011 № of PP-1512 "On additional measures to stimulate the accelerated development of the textile industry" the textile enterprises are exempt from

property tax until January 1, 2016 that sell the 80 per cent or more of their products, including semi-finished products (yarn, fabric, knitted fabric and cotton spinning waste) for freely convertible currency.

Some goods in Uzbekistan are under the partial prohibition. The relevant government agency or the Cabinet of Ministers of the Republic of Uzbekistan gives a permit for export:

- Grains: wheat, rye, barley, oats, rice, corn, buckwheat;
- Bakery products (except confectionery, cakes and biscuits own production);
- Flour, cereals;
- Livestock, poultry;
- Meat and edible meat offal, edible poultry offal;
- Sugar;
- Dried milk;
- Ethanol;
- Raw tea, tea;
- Vegetable oil;
- Raw hides and skins (including non-standard), furs, including karakul (including non-standard);
- Waste and scrap of non-ferrous metals;
- Silkworm cocoons suitable for reeling, raw silk (not thrown), silk waste (including cocoons unsuitable for reeling, yarn waste and cocoon loosened waste);
- Waste and recycling of polyethylene terephthalate
- Weapons, ammunition, military equipment, spare parts, components and equipment to them
- Nuclear material (including material in the form of fuel assemblies), technology, equipment, facilities, special non-nuclear materials - sources of ionizing radiation.
- Rocket and space complexes, communication and control systems, regulatory and technical documentation on their production and operation.
- The results of the scientific research and project documents, as well as basic exploratory research to create weapons and military equipment.
- Cancelled securities, precious and rare earth metals, their alloys and semi-finished products in raw form, as well as their waste and scrap, precious and semi-precious stones.

The items referred to this clause may be removed by resolution of the Cabinet of Ministers of the Republic of Uzbekistan.

- Animals, plants, ornamental plants listed in the Red Book of the Republic of Uzbekistan;
- Works of art and antiques (picture, sculptures, paintings, items made from porcelain, crystal, leather, ceramics, wood, precious and non-precious metals and

stones, artistic clothes, books, musical instruments, stamps) and other objects of artistic, scientific or cultural value;

The items referred to this clause may be taken by permission of the Ministry of Culture of the Republic of Uzbekistan, in agreement with MFERIT of the Republic of Uzbekistan and the payment of customs duty at the rate of 100% of the evaluation referred to permits for export.

### C. Import rules and regulations of Afghanistan

The policy of the Government of Afghanistan to trade is fairly free. Due to the lack of production on an industrial scale, the conditions for imports are quite favorable. Import prohibitions apply to only a few products. There are no seasonal restrictions, quotas and other non-tariff import barriers. The following list of goods subject to total prohibition on the import to Afghanistan:

**Table4**

| Products                               | Source  |
|--|---|
| Alcoholic drinks                       | Specified in the harmonized tariff of Afghanistan           |
| Weapons and ammunition                 | President's Decree № 1971 from 21 March 2010                |
| Chemical fertilizers, ammonium nitrate | President's Decree № 28 from January 21, 2010               |
| Cotton seeds                           | Specified in the harmonized tariff Afghanistan              |
| Alive pigs, all pork products          | Specified in the harmonized tariff Afghanistan              |
| Narcotics, narcotic substances         | Specified in the harmonized tariff Afghanistan              |
| Plastic packets                        | The act of the Cabinet of Ministers № 1 from March 28, 2011 |

The data were obtained from the website of the Ministry of Trade and Investment of Afghanistan. The document "An Inventory to importing goods into Afghanistan" was developed with the assistance of the project TAFE / USAID.

Other products are authorized to import; however, there are certain restrictions for some products. It is very important to check if there is permission from the relevant government agencies in Afghanistan before sending the goods or products.

Uzbek entrepreneurs beforehand need to consult in advance with the Afghan partners in regard to goods that require a license. If the goods will be detained by customs to find details, it can seriously complicate future cooperation.

In the table below are the goods and products that can be delivered from Uzbekistan.

**Table5**

| Products  | Source  |
|---|---|
| Agrochemicalsandpesticides  | The Directorate of Plant Protection and Quarantine, Ministry of Agriculture, Irrigation and Livestock |
| Food stuffs (other than animals, animal products, fresh fruits and vegetables), medical supplies, water | Laboratory of the Department of Drugand Food stuffs Control, Ministry of Public Health                |
| Freshfruitsandvegetables  | The Directorate of Plant Protection and Quarantine, Ministry of Agriculture, Irrigation and Livestock |
| Pharmaceuticals products , medicines, medical tools   | General Directorate of Pharmacy, Ministry of Public Health  |
| Seed  | Director of Seed Production, Ministry of Agriculture, Irrigation and Livestock                        |
| Veterinaryequipmentandsupplies  | General Directorate of Animal Health, Ministry of Agriculture, Irrigation and Livestock               |

The data were obtained from the website of the Ministry of Trade and Industry of Afghanistan. The document "An Inventory to importing goods into Afghanistan" was developed with the assistance of the Tafa / USAIDproject.

Some government agencies publish on the website the list of authorized products. For example, a list of medicines and pharmaceutical products and tools can be found on the website of the Ministry of Health. At the moment, this sector has good prospects for expansion. According to statistics of the Ministry of Trade and Industry of Afghanistan, Afghanistan imports 96% of the drug, while 60% of them are manufactured in Pakistan. Pakistan annually exports to Afghanistan pharmaceutical products and

medicines worth more than \$ 1 billion of US dollars. Afghanistan is one of the largest consumers of antibiotics in the world.<sup>xvi</sup>

#### **D. Existing obstacles**

Undoubtedly, the entrepreneurs of Uzbekistan and Afghanistan have enough advantages to expand trade relations. However, there are certain obstacles despite the proximity of the border. It is necessary to consider the existing constraints for successful cooperation.

1. The language barrier. The majority of the Afghan population speaks two languages, Dari and Pashto. This is a serious limitation for entrepreneurs of the two countries at negotiations. Many Afghans began to learn English after 2001, which known mostly of the young people. The Russian language is known by small proportion of the older generation, who studied at Kabul University. Despite the knowledge of the Uzbek by ethnic Uzbeks in the northern region, the language barrier limits the negotiations and negotiation of contract terms with other ethnic groups. It should also be noted that at the registration of the contract in governmental agencies, entrepreneurs must have the original English and Dari. Currently, many companies in Afghanistan have employees with knowledge of the English language.
2. The lack of information on the products in local languages. Products exported by Uzbekistan at the moment, such as electricity and petroleum products; do not require detailed information on the composition. However, for other products where the supply from Uzbekistan are minor and have great potential (food stuffs or medications), it is important to review the information which introduce the product. Afghan importers require detailed information on the composition, method of application and other information about the product in Dari and preferably in Pashto as well.
3. Sales promotion. The brand names, produced in Uzbekistan, are not known by the consumers in Afghanistan. Afghan entrepreneurs do not have enough knowledge about the products offered by production companies of Uzbekistan. For example, the brand name of medications for headaches may be associated with another drug.
4. Cost of goods and products. Uzbek entrepreneurs often offer high prices for their products or goods. Perhaps this is due to the assumption that most of the goods in Afghanistan are imported from other countries. However, it should be taken into account that products of Uzbekistan do not have their regular customers. According to the Afghan entrepreneur, the price for agricultural machinery from Uzbekistan is 10% -15% higher to compare with the same product from Russian.
5. Cultural and religious traditions. When advertising of goods or products to be introduced in Afghanistan, it is necessary to take into account cultural values.

When importing meat or canned food, it is necessary to point out that the animal was slaughtered by Islamic canons. For example, on the package with chicken or beef imported from Brazil, it is indicated in English and Arabic that the meat is halal.

6. Lack of information about products that have a demand. Uzbek entrepreneurs do not have an idea about the market trend in Afghanistan. It is advised to conduct a market research and study and start the supply of products, where the positions of the competitors are not stable.
7. Difficulties in getting a visa. It is important to smooth the visa regime for Afghan entrepreneurs. One of the main reasons that slowing down the development of trade relations – difficulties in getting a visa. The possible introduction of simplified rules for Afghan entrepreneurs would facilitate the process of getting visa.
8. Lack of attention from government agencies, business associations. Uzbekistan does pay enough attention to the development of trade relations with Afghanistan
9. Disputes in transport and logistics. It is important to resolve the issues addressed the Chamber of Commerce regarding the delay of goods and products, i.e. import from other countries to Afghanistan and export from Afghanistan to other countries.

## **E. Recommendations**

There is no doubt, that goods and products from Uzbekistan have good opportunities for sale at the market of Afghanistan. Taking into account the geographic location and the reduction of trade turnover with Pakistan, Uzbek entrepreneurs have a unique opportunity to fill the niche and to attract potential customers. Improvement and the establishment of trade relations do not require large capital investments. However, before the start business activity, it is important to consider the specifics of business running in Afghanistan.

1. Assistance in obtaining visas to Afghan entrepreneurs. If there is a serious interest on both sides, it makes sense to hold private meetings to establish personal contact, and if necessary, to learn about the production. Obtaining visa for Afghanistan citizens is a very complicated process. Uzbek entrepreneurs need to assist the Afghanistan partners in obtaining a visa. In order to ensure serious intentions of Afghanistan entrepreneurs, you can consult with the Chamber of Commerce of Afghanistan. If necessary, it is possible to check the information on entrepreneur and the company through the Uzbek consulate in Mazar-e-Sharif.
2. The exhibition of goods and products in Mazar-e-Sharif. Exhibitions and fairs are a serious step to raise awareness of Afghan importers on the offered goods from

Uzbekistan. It is important to hold the first exhibition of goods and products of Uzbekistan in Mazar-e-Sharif in the near future. The security can be provided with the help of the Chamber of Commerce of Afghanistan and the administration of the Governor of Balkh Province.

3. Determining the price of goods or products. Uzbek entrepreneurs need to make a comparative analysis of prices for similar products in the market in Afghanistan. It is advised to set a minimum income at the preliminary stage, in order to enter the market,
4. Simplification of permission procedures of the goods. Some goods and products from Uzbekistan require permission for export. For example, it is required permission to export the beans, which takes time. The introduction of a simplified trade regime with Afghanistan would be significantly improving the situation.
5. Combining efforts to enter the market. The most effective approach is to combine the efforts of several companies. For example, pharmaceutical companies in Uzbekistan could combine efforts in advertising and presentation of training services for Afghanistan doctors in clinics and hospitals at Uzbekistan. Training of Afghan doctors is very important approach for establishing of loyal group for further promotion.
6. Opening of the trading house or exhibition rooms. Another important step would be to open the trading house with the introduction of various products from Uzbekistan. It is also possible the opening of the exhibition room at the office of Chamber of Commerce, which is located in the center of Mazar-e-Sharif. It will provide easy access for entrepreneurs. Current Uzbekistan legislation allows opening trading houses and offices for market research abroad.
7. Revive the work of the intergovernmental commission on trade relations. A positive experience can be borrowed from commissions on the trade relations of Kazakhstan and Afghanistan. Recently, there has been considerable progress in trade relations between Kazakhstan and Afghanistan.
8. Hold regular business to business meetings. There should be regular business to business meetings by sectors. Meetings should be conducted in Afghanistan and Uzbekistan. Chambers of Commerce and Industries Afghanistan and Uzbekistan can coordinate holding business to business meetings. Afghanistan entrepreneurs have little idea about the goods specifics from Central Asia. It should be noted considerable success after holding a business to business meeting of Afghanistan and Kazakhstan entrepreneurs.
9. Advertising campaign. Goods and products from Uzbekistan may not be familiar to consumers in Afghanistan; therefore, it is necessary to go all the stage to introduce a new brand. It is necessary to make a revolution in the preferences of potential customers. Perhaps, it might be necessary to have an aggressive



advertising campaign, depending on the goods or products. Available advertising channels in Afghanistan are television, radio, billboards and magazines.

10. Information about the product in Dari and Pashto. No doubt, the entrepreneurs of Uzbekistan should pay special attention to this issue. Composition, method of use and other useful information should be provided in Dari and Pashto, preferably on the label of the product.
11. Brand name. It is important to consult with local entrepreneurs, and, if necessary, replace the name of the product from Russian or other languages to Dari or Pashto.
12. Cultural and religious values. Advertising and promotional materials, which introduce goods and products, should not contradict the cultural values. It should be noted that religious factor is an important role in Afghanistan. If the promotional product has the image of a woman, it is important to make sure that it is displayed in accordance with cultural values.
13. Close contacts with Chamber of Commerce of Balkh province. Mutual cooperation of Chambers of Commercial and Industries of Afghanistan and Uzbekistan need a serious improvement. There are other organizations in Uzbekistan, which can work with the Chamber of Commerce of Afghanistan.
14. Representation of the Chamber of Commerce of Uzbekistan in Afghanistan. Based on positive experience of trade turnover expansion between Kazakhstan and Afghanistan, it is advised to open an office of the Chamber of Commerce of Uzbekistan at consulate in Mazar-e-Sharif.
15. Have permanent access to the Tajik or English speaker. Knowledge of the Tajik language can greatly facilitate the negotiations. Dari and Tajik do not have much difference. However, in the preparation and signing of contracts, it is necessary to have access to an English speaker.

## Section IV. Export of goods and products from Afghanistan

### A. Potential and the possibility of exporting products to Uzbekistan

For sustainable trade relations, it is important to assist not only to the export of goods and products from Uzbekistan to Afghanistan, but also in the opposite direction. Due to lack the production facilities, exports from Afghanistan is possible only in the form of raw materials. Export goods and production of Afghanistan are diverse: high-quality marble, precious and semi-precious stones, dried fruits, fresh fruits, handmade carpets, and saffron and lamb skin. However, Uzbekistan has set import tariffs to protect its domestic market. The below table provides with import tariffs in Uzbekistan on goods and products, which Afghanistan exports to other countries at the moment:

**Table 6**

| Name of products | Tariff rate |
|------------------|-------------|
| Fresh grapes     | 60%         |
| Fresh apples     | 60%         |
| Pomegranate      | 60%         |
| Red raisin       | 60%         |
| Almonds          | 60%         |
| Sweet-root       | 20%         |
| Marble           | 60%         |
| Watermelons      | 60%         |
| Precious stones  | 60%         |
| Cotton           | 20%         |
| Carpets          | 60%         |
| Saffron          | 20%         |

The data were obtained from the website of the Ministry of Commerce and Investment of Afghanistan.

Most of abovementioned products are produced in Uzbekistan, thus it is necessary to consider the opportunities which are in interest of Uzbekistan entrepreneurs. Otherwise, Uzbekistan entrepreneurs will consider the goods and products of Afghanistan as competitive products. According to the Chamber of Commerce of Afghanistan, Uzbekistan several times delayed the shipment of dried fruit sent to Russia on the border with Afghanistan. However, Uzbekistan denied the claim and noted that did not prevent the export of dried fruit from Afghanistan to Russia.

Taking into account the difficulties of exporting dried fruits through Pakistan, it is a good opportunity for Uzbek entrepreneurs to collaborate. According to Khan Jan Alokzay,

Deputy Chairman of ACCI, 80% of the fruit shipped from Afghanistan to India through Pakistan. However, currently the transit of fruits is prevented by border police of Pakistan. Due to this reason, more than half the fruit are sold at low prices or to spoiled in warehouses.<sup>xvii</sup>

The Trade Accession and Facilitation of Afghanistan project in Afghanistan, funded by USAID and implemented by Chemonics Corporation, provided support for the participation of a group of Afghan entrepreneurs at the international exhibition "Agriculture - AgroWorldUzbekistan" in Tashkent on 3-5 April 2013. Afghan entrepreneurs have demonstrated dried fruit, fresh fruit, and seeds. Visitors of the exhibition tasted agricultural products, noted the following:

- Organic taste, smack of chemicals or other chemical additives. As mentioned above, chemical fertilizers are prohibited to import.
- Natural appearance. Due to the fact that farmers in Afghanistan are using old technology in drying, dried fruits look natural. The oil is or chemical for extending the life shell are not used after drying.
- To compare with the agricultural products grown in Uzbekistan, some Afghan products has the following differences:
  - Kandahar and Tashkurgan pomegranates have specific differences. Kandahar pomegranates are thin-skinned and provide high juice content. Kandahar pomegranates are the most famous variety of pomegranates. Tashkurgan pomegranates are thick-skinned and can be stored from 6 to 9 months, depending on storage conditions. Both varieties have a sweet taste.
  - Light green raisins are not produced in Uzbekistan, they have a good taste and not too sweet in comparison with black raisins

Uzbekistan entrepreneurs were interested in working with Afghanistan partners. After highlighting the features of products of Afghanistan, Uzbekistan entrepreneurs were interested in re-exports. A very important factor is that the products of Afghanistan have its own niche at the traditional markets of Uzbekistan.

Also in the project of framework TAFE has provided with samples of marble and onyx to construction companies in Uzbekistan, which were interested in the import of white onyx. White onyx is used for decoration work. However import capacity is small because the onyx is a costly material and used in the decoration of expensive buildings.

During the implementation of current scope of work, there have been a number of meetings with entrepreneurs, "Uzmarkazsanoateksport" and "Uztadbirkoreksport", UNDP project representatives. The result of these meetings showed that the enterprises of Uzbekistan may be interested in providing services for processing of raw materials. With changes of market trends, some European countries are moving toward import of processing services. Uzbekistan has a significant experience in processing of raw materials and production of output. After analyzing of information received and based on

practical experience to promote the export of goods and products of Afghanistan, the following directions were identified:

1. Direct export. Direct export of Afghanistan is only possible with high-quality marble and precious stones. The marble is extracted in Uzbekistan; however, there are no deposits of onyx. The demand capacity is not significant and will not play a significant role in increasing exports from Afghanistan. There are no large-scale construction projects at this point in Uzbekistan that would need a lot of quantity of onyx.
2. Re-export of dried fruit, fresh fruit. Dried fruits and fresh fruits from Uzbekistan have their trade name or brand name, and are in high demand in Kazakhstan, Russia, Ukraine and Belarus. Access to the markets of these countries is possible with the assistance and involvement of Uzbek entrepreneurs.
3. Tolling or export processing services of raw material. There are many diversified enterprises for processing of various raw materials in Uzbekistan. Uzbekistan can offer services in the processing of raw materials and further export.

## **B. Processing of raw material**

After analysis of export possibilities, as described above, it can be concluded that the processing of raw materials from Afghanistan at enterprises in Uzbekistan is the most promising and mutually beneficial direction for the following reasons:

- i. Any processing of raw materials in Afghanistan or in European countries will be much more expensive due to the lack of infrastructure in Afghanistan and the high operational cost in the European countries. Processing of raw material in Uzbekistan will be a lot cheaper because there are already well-established processing facilities on the types of raw materials that are produced in Afghanistan.
- ii. There are many entrepreneurs in Afghanistan involved in selling of dried and fresh fruits. However, only a few of them have their own processing plants. Often, entrepreneurs are in a turn for processing the raw material. There are few processing plants that meet international quality standards.
- iii. Processing plants can be opened in Termez, or on the transport corridor to reduce transport expenses. The most promising businesses will be opening an enterprise for processing of dried fruits, especially raisins and apricots: drying, sorting and packing.
- iv. Afghan entrepreneurs can process the raw materials on their own; they can open a foreign or joint venture in Uzbekistan. It is an important fact that Afghan entrepreneurs can control the complete value chain production. Terms and

conditions for opening a foreign or joint venture will be discussed in the next chapter.

For example, an Afghan entrepreneur signs a contract with a buyer in Europe for the delivery of dried fruit, fresh fruit, marble or precious stones. Processing in Afghanistan and the European country is much more expensive, as a result the price for a final product goes up. Afghan entrepreneur signs a contract with the Uzbek entrepreneur for processing raw materials. In accordance with the contract, an Afghan entrepreneur sends raw materials to Uzbekistan. After the processing of raw materials, an Afghan entrepreneur compensates Uzbek entrepreneur expenses incurred by processing and a certain sum as profit.

All terms and conditions are negotiated in the contract, and the legal rights for processed products belong to the Afghan entrepreneur. After processing, Uzbek partner should send processed products back to Afghanistan or to other country, where products should be exported. The development of collaboration on processing of raw materials would have a positive impact on economic development of Surkhandarya region. Enterprises in Termez can be completely focused on processing raw materials from Afghanistan. Such cooperation is mutually beneficial, both countries will benefit from this trade interaction:

**Table 7**

| Advantages of Afghanistan   | Advantages of Uzbekistan  |
|---|---|
| <ul style="list-style-type: none"> <li>• Transport Corridor. As it was mentioned above, Uzbekistan is on the transport corridor from Afghanistan to Europe. Uzbekistan can process raw materials and send further to a country-importer.</li> </ul> | <ul style="list-style-type: none"> <li>• Opening of new enterprises. If Afghan entrepreneurs will be interested in processing facilities, it will be a need for opening of new enterprises.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Certification services. Afghan entrepreneurs can benefit from the certification of the goods after processing. Certification of goods in Uzbekistan meets international standards.</li> </ul>              | <ul style="list-style-type: none"> <li>• Increase of income of enterprises in the form of a freely convertible currency. Services for processing of raw materials will increase the turnover and profitability of Uzbek enterprises.</li> </ul> |
| <ul style="list-style-type: none"> <li>• Packaging of processed products. An additional advantage is reasonable cost of packaging material since Uzbekistan produces some kinds of raw materials for packaging material.</li> </ul>                 | <ul style="list-style-type: none"> <li>• Creation of additional jobs. Opening of new enterprises will create new jobs.</li> </ul>   |

### **C. Export rules and regulations of Afghanistan**

There are no any special restrictions for export in Afghanistan. In order to start the export, enterprise should be registered at the Central Department of Business Registration of Afghanistan under the Ministry of Commerce and Investment of Afghanistan or at the Afghanistan Investment Support Agency, if the entrepreneur is going to invest in economy of Afghanistan. If the entrepreneur intends to do commerce, it is necessary to

get a license from the Directorate of Business Licensing under the Ministry of Commerce and Investment of Afghanistan.

- Goods under complete prohibition are antiques, ancient artifacts and archaeological relics.
- Goods for limited exports are natural resources, scrap metal, used glass, plastic and coal. An export permit can be obtained from the Ministry of Mining for minerals and from the Ministry of Commerce and Investment for scrap metal, used glass, plastic and coal.

There are several institutions in Afghanistan that support the export procedures and registration of documents: Chamber of Commerce and Industries, Export Promotion Agency operating under the Ministry of Commerce and Investment, "Export One Window" operating under the Department of Customs.

Active support is provided by the Afghanistan Chamber of Commerce and Industries, which is not only support the business, but also provide with documents for export. Afghanistan Chamber of Commerce and Industries issues a certificate of origin. Service fee for issuance of the certificate is 50 Afghani (1 U.S. dollar equals 50 Afghani) and an administration fee of 0.1% on the conditions of delivery FOB from value of the goods to be exported, if assistance is required by the Chamber to fill out forms.

Products exported from Afghanistan are imposed or exempted from duty in accordance with the classification of the goods, which is described in details at the harmonized list of tariffs for Afghanistan in 2012. Entrepreneurs should make other payments on exports, such as:

**Table 8**

| Name of the type    | Rate  | Comments   |
|---------------------|---|--|
| Fixed taxes         | 2% (customs duty + customs value), or<br>3% (customs duty + customs value) if the entrepreneur does not have a license to do business | Applies to all export and considered as a pre-payment of entrepreneur's income tax liability |
| taxes from turnover | 2% (customs duty + customs value)   | Not considered as a pre-payment  |

#### **D. Rules and regulations of re-export and tolling in Uzbekistan**

As it was mentioned above, the Uzbekistan entrepreneurs may be interested in re-exports and exports of services. Below it will be discussed a general rules and regulations for re-export and tolling. In accordance with Article 20 of the Customs Code of the Republic of Uzbekistan, the re-export of a regime when foreign goods are taken away from the customs territory.

- Import duties, taxes and other measures of economic policies are not applied when goods are imported into the customs territory, if the goods are declared to the customs department as intended exclusively further to be taken away in re-export mode. Actual export of such goods shall be made not later than six months from the date of acceptance of the customs declaration.
- When goods are not actually exported, then import duties, taxes, and the interest should be paid in order determined by the legislation.
- When goods are actually exported in re-export mode, import duties, taxes and other economic sanctions are not applied, which should be implied on exported goods, except for cases required by law.
- When goods are actually exported in re-export mode, it should be reimbursed the paid import duties and taxes if the following requirements were observed:
  - re-exported goods are in the same condition when they were at the time of import, except for normal wear and tear or loss under normal conditions of transport and storage;
  - export of goods under the re-export mode takes place within two years from the date of import;
  - re-exported goods are not used to generate income.

Here are the main conditions of tolling as described in Article 30 of the Customs Code of the Republic of Uzbekistan:

- Under the operation on processing on the territory of the Republic of Uzbekistan (hereinafter - the transaction processing) should be considered the activity undertaken by economic entities of the Republic of Uzbekistan, aimed at the implementation of the transactions with foreign partners on:
  - processing of goods;
  - repair of goods, including restoring them and putting in order;
  - production of goods, including installation, assembly and adjustment for other goods;
  - use of all or part of other goods that assist processing recycling or facilitate processing.
- When foreign goods are processed on the customs territory of the Republic of Uzbekistan, foreign goods are used in the prescribed order for processing on customs territory without being subject to economic sanctions and reimbursement of the amount paid of import customs duties and taxes if export products will be taken away from the customs territory under the export mode.
- When foreign foods are processed under customs control, foreign goods are used in the prescribed order to the customs territory of the Republic of Uzbekistan, without being subject to customs duties, taxes and economic sanctions for

processing under customs control, followed by placement of processed products under the conditions of release for free circulation or for another customs regime.

- The economic sanction means restrictions on the importation into the Republic of Uzbekistan and out of the Republic of Uzbekistan of goods and vehicles, including quotas, licensing, and other regulatory measures the interaction of the republic's economy and the world economy.
- The import of specific goods identified by the Government of the Republic of Uzbekistan for the processing operations carried out in accordance with current legislation.

#### **E. Existing obstacles**

The Uzbekistan government is very careful position for expanding trade relations with Afghanistan due to well-know reasons: the spread of terrorism, religious fundamentalism, and the transit of narcotics. Afghanistan is on the first place for the production of narcotics. Expanding trade relations will attract the transit of drugs through Uzbekistan.

1. Security issues. Security issues are highly relevant due to upcoming withdrawal of the international troops in 2014. It is important to involve all government agencies in Uzbekistan to get approval for cooperation between the two countries in order to avoid delays and unplanned inspections.
2. Lack of information. After discussion with entrepreneurs, «Uzmarkazsanoateksport», "Uztadbirkoreksport", international institutions, it was discovered that the business community in Uzbekistan has little idea of Afghanistan. The main source of information is taken from the mass-media, which mainly provides negative events.
3. Weak interaction of Chambers of Commerce, and government agencies. Afghanistan Chamber of Commerce and Industries has expressed interest in expanding cooperation with partners from Uzbekistan. Compared with other neighboring countries bordering Afghanistan, Uzbekistan and Turkmenistan have the weakest interaction with partners from Afghanistan.

#### **F. Recommendations**

As described above, the most promising trend is tolling or processing of raw materials from Afghanistan at the production enterprises in Uzbekistan. Taking into account the geographical location of Uzbekistan and the availability of production enterprises, Uzbekistan can establish long-term cooperation. The advantage of this trend is that the Afghan entrepreneurs can run the processing enterprises by themselves if they open a



joint venture in Uzbekistan. It is necessary to take the following measures for the successful expansion of this cooperation:

1. Hold consultations and meetings with the Chamber of Commerce of Afghanistan and the Chamber of Commerce of Uzbekistan, as well as with state-controlled companies, operating under MFERIT in order to determine the plan of action. The action plan will include a phased implementation of actions. It is important to involve the international organizations' projects in Uzbekistan and Afghanistan.
2. Appoint a coordinator in Uzbekistan and Afghanistan to cooperate for the implementation of the action plan. Coordinators may be designated by the Chambers of Commerce of Uzbekistan and Afghanistan.
3. Conduct an inventory of businesses in Uzbekistan engaged in processing of dried fruits, fresh fruits, marble and precious stones. Conduct a survey of entrepreneurs in Afghanistan through the Chamber of Commerce, interested in the processing of these products in Uzbekistan.
4. Hold business-business meetings meeting of entrepreneurs of Uzbekistan and Afghanistan. It is important to hold the first meeting in Tashkent. It is necessary thoroughly prepare all information on the companies with a detailed description of services, photo and video materials, as well as a demonstration of the samples of processed products.
5. Technical and possible partial financing of pilot projects for tolling. Consider the technical and possible partial financing of pilot project for getting result of practical experience.If the pilots are successful, Afghan entrepreneurs pay attention to this trend.
6. Provide information on business opportunities in Afghanistan. It is important to carry out several activities at the Embassy for an explanation of business opportunities in Afghanistan with the assistance of the Embassy of Afghanistan in Uzbekistan.
7. Transport and logistics issues. It should be taken the measures to resolve the issues of transport and logistics on the border between Uzbekistan and Afghanistan.Consider the possibility to establish a more transparent procedures when moving cargo across the border. The delay in shipment at the border creates serious obstacles for business promotion.

Uzbekistan and Afghanistan have experience in tolling. There are a growing number of companies providing processing services in Uzbekistan. Afghanistan supplies handmade carpets in Pakistan, where carpets are further processed and exported from Pakistan to other countries. Another example is processing of the precious stones in Jaipur, India.Afghan entrepreneurs supply raw materials to Jaipur, where precious stones are cut and polished and then further exported to other countries. Also it should be noted the

export of marble blocks from Afghanistan to other countries, where the blocks are cut and polished.

## **Section IV. Rules and regulations of business registration in Uzbekistan**

### **A. Advantages of opening a business in Uzbekistan**

As already mentioned above, processing of raw materials from Afghanistan, followed by exports to other countries is the most promising trend. However, many Afghan businessmen prefer to control the entire production chain from raw material to finished product, thereby reducing the costs of production. The Afghan businesses can open your own business on the territory of Uzbekistan to achieve this goal.

There are 19 Afghan firms and companies accredited by the Ministry of Foreign Economic Relations, Investments and Trade of Uzbekistan. According to the database of the State Committee of Statistics of the Republic of Uzbekistan, there are 112 enterprises with the participation of the Afghan capital, including 24 companies with 100 percent of foreign capital working in the country at the moment.

There are 30 commercial banks operating with a license from the Central Bank of Uzbekistan in the banking sector. There are 28 international commercial banks, which have a positive rating. Commercial banks can offer a wide range of financial services (for more information see Annex B).

Uzbekistan has created all the conditions for foreign citizens and foreign legal entities to establish and run their own business. Rising prices for some types of export goods in addition to effective macroeconomic policies, large financial reserves and accumulated funds in the Fund for Reconstruction and Development of Uzbekistan helped protect the economy from the global financial crisis. The following is a more detailed explanation about the benefits of opening a business in Uzbekistan:

- **Political and economic stability.** Uzbekistan is one of the most steadily developing countries in Central Asia. Uzbekistan shows successful growth over the past years. According to the World Bank's growth of gross domestic product (GDP) of Uzbekistan in the year 2012 was 8.2%,<sup>xviii</sup> which is supported by revenues from export of commodity, remittances of citizens working abroad (mainly from Russia), and a large state investment program. According to the World Bank forecast growth of GDP in 2013 may reach 7.5%. According to the International Monetary Fund, the external position of Uzbekistan remains strong and is supported by high export growth rates and increase in remittance inflows.
- **Investment climate.** Uzbekistan has developed and adopted a broad system of legal guarantees and privileges for foreign investors to create a favorable investment climate. Uzbekistan has adopted a law "On guarantees and measures of protection of the rights of foreign investors," which establishes guarantees and protection of the rights of foreign investors carrying out investment activities on the territory of the Republic of Uzbekistan and a law "On Foreign Investments", which defines the legal framework and procedures for foreign investment in the

territory of the Republic of Uzbekistan. Uzbekistan has successfully operates a number of international companies such as Coca-Cola, GeneralMotors, Nestle, Class, Knauf and others.

If subsequent legislation of the Republic of Uzbekistan worsens conditions for investment, the law in force at the date of investment will be applied to foreign investors for ten years from the date of investment. The foreign investor has the discretion to apply the provisions of the new legislation that improve its investment. More detailed legislative rights may be considered in Annex A.

- Qualified human resources. Uzbekistan has a skilled workforce, supported by work experience in various diversified businesses and the education system. Workforce is rather affordable and exported to other countries.
- Multiple benefits for investors. There is mode set in Uzbekistan which provides foreign investors with conditions not less favorable than the appropriate conditions for investments for individuals and legal entities of the Republic of Uzbekistan. The legislation in Uzbekistan encourages foreign direct investment, especially in the priority sectors of the economy such as such as the production and processing of agricultural products, consumer goods and construction materials, medical equipment, machinery and equipment for agriculture, light and food industries, collection and processing of secondary raw materials and waste.
- Infrastructure: transport roads, electricity. Uzbekistan has an extensive network of railways, with a total length of 3986 kilometers, and automobile roads with a total length of more than 183 thousand kilometers. Uzbekistan produces enough electricity, not only for their own needs, but also exports to other countries.
- Free Industrial Economic Zone (FIEZ). Uzbekistan has free economic zone in Navoi and Angren, where there are additional customs, currency and tax benefits. Enterprises registered in FIEZ "Navoi" and "Angren" exempt from all taxes. FIEZ "Navoi" and "Angren" created favorable conditions for the simplified mode of entry, exit, residence and recruitment of foreign citizens in accordance with the approved rules.

Angren was originally built as an industrial city with production facilities, which can be operated without investing a large amount of investment and has skilled labor. Benefits of FIEZ "Navoi" are in multi-modal transport hub and the location on the road corridor. It was opened international logistics center for air transportation in Navoi.

## **B. Rules and regulations of business registration**

There are no restrictions on the form of investments in Uzbekistan. Foreign investors can establish enterprises in the republic in any the legal form permitted by the law.

- Foreign venture (FV), full foreign ownership;
- Joint venture (JV), partial foreign ownership;
- Acquisition of a portion or all of the shares of privatized enterprises;

The founders may be as foreign citizens and foreign legal entities. Enterprises with foreign investments are considered newly created enterprises that meet the following conditions:

- The size of the authorized capital of the company not less than an amount equivalent to 150 thousand U.S. dollars;
- One of the participants of the enterprise is a foreign entity;
- The share of foreign investment is not less than 30 percent of the share capital of the company.

Legal entity with foreign capital, whether foreign venture or joint venture, may receive the status of «enterprise with foreign investments" if meet certain conditions. This gives further obtaining a number of preferences and privileges as exemption from taxes and customs duties, and other preferences and exemptions for certain time.

### **1. Type of enterprise**

Enterprises can be created in the form of economic partnership (full and limited), limited and additional liability company (open and closed), a subsidiary company and other forms not prohibited by law.

- Limited Liability Company (LLC). In accordance with the legislation of Uzbekistan, foreign investors can open:
  - Simple limited liability company (with share of foreign capital) – registered in the inspection for business registration at local municipal offices. The minimum share capital: 40 minimum salaries (about 1600 U.S. dollars). Founders of simple limited liability company can be foreign legal entities and foreign individuals. The period of the authorized capital formation is 1 year.
  - Limited Liability Company to be registered as "an enterprise with foreign investment" should have the share of foreign capital not less than 30% and registered at the Ministry of Justice of Uzbekistan. Foreign participant of enterprise with foreign investment can only be foreign legal entities. The minimum share capital is \$150 000 U.S. dollars. Period of the authorized capital formation is 1 year.

- Joint Stock Company (JSC). The joint-stock companies are divided into open and closed in Uzbekistan. Also joint stock companies may be established as an enterprise with foreign investment, however, and the need to comply with minimum requirements for the authorized capital. The minimum share capital - 400,000 U.S. dollars for all kinds of joint-stock companies.
- Representative office/Branch. There is only the possibility of opening representative offices of foreign commercial companies in Uzbekistan. The accreditation period is from 1 to 3 years (renewable). State duty on the accreditation of representative office at the moment remains fixed at U.S. \$ 1200. According to the law of Uzbekistan registration of foreign branches is not considered and not possible.

Depending on the form of a legal entity state registration with the simultaneous staging of registration with the tax authorities and statistical carried out:

- Ministry of Justice - enterprises with foreign investments;
- Inspections for registration of business entities under district and cities municipals - all business entities, including enterprises with foreign capital, except for the enterprises with foreign investments.

## **2. Documents**

Preparing the necessary documents for the state registration can be carried out both by the founders of the legal person, as well as on a contractual basis by the Chamber of Commerce of the Republic of Uzbekistan or other consulting firms.

For state registration of business entities as a legal entity in the registration authority (in person or by mail) submitted an application form. The application for state registration should include:

- Two originals of constituent documents in official language (the official language in Uzbekistan is Uzbek language), certified in prescribed order at notarial office (constituent document submitted to the registration authority for the state registration of legal entities, is a charter or constituent agreement and chapter or only constituent agreement, while for limited and additional liability – constituent agreement and chapter, and for business partnerships - only constituent agreement, for joint stock companies - only the chapter);
- Bank payment document confirming payment of the state fee or registration fee, the amount of which fixed by law. For state duty for state registration of foreign investment enterprises at the Ministry of Justice will be charged \$ 5 minimum wages, as well as \$ 500 US dollars;

- Original certificate of absence of identical or confusingly similar trade names, to be received in the district (municipal) offices of state statistics for a period not exceeding two working days;
- Sketches stamps in 3 copies.

In addition to the registration of enterprises with foreign investment and other enterprises with participation of foreign capital in conjunction with the above documents, the following shall be submitted:

- Documents on foreign founders from the trade register at the place of registration of legal entity, legalized in prescribed order by consulate of the Republic of Uzbekistan. Document on foreign founders from trade register must contain the name of a foreign legal entity, its location, size of authorized capital, organizational and legal form, and registration date and the duration and details of the person authorized to sign on behalf of a foreign legal entity. Indicated documents are in power during the year from the date of issue. If the contribution of the foreign founder in the authorized capital of the enterprise (organization) is the intellectual property, the applicant shall submit an evaluation report compiled by an appraiser in accordance with legislation;
- Documents, confirming contribution of each of the founders of 30% of the size of its share in the authorized capital of the company (bank certificate on contribution of cash on the temporary local checking and foreign currency accounts, the customs document confirming the importation the property into the territory of the Republic of Uzbekistan, act of transfer of property, the document confirming the right to property and other documents).

After state registration to start a business, the entrepreneur should necessarily visit the banks for the opening bank accounts. To open bank accounts an entrepreneur should submit to the bank the following documents:

- Application indicating the address of the business place and types of accounts opened;
- Copy of certificate of state registration;
- Samples of signatures of the Chairman and Chief Accountant and two copies of a round stamp certified by the notarial office;

### **3. Time period of registration and expenses**

As described above it is necessary to collect the documents to be translated into the official language, where translation should be certified by the notarial office.

- The time period for registration by various governmental bodies takes 7 to 30 days, depending on the complexity of each case.
- A decision on state registration or refusal to register at the registration authority takes from the date of receiving of the registration application with all necessary documents no later than 3 business days.
- The time period for reviewing of the application and opening bank accounts does not exceed 2 banking days from the date of receiving of the indicated documents.

**Table 9**

| Name of service  | Price (Uzbek Soums) |
|--|---------------------|
| Notarial certification of constituent agreement (per document) (25% from minimum wage)                               | 22 882,50           |
| Notarial certification of original of signature at the time of opening the bank accounts (2% from minimum wage)      | 1 830,60            |
| Registration fee (2 minimum wages)   | 183 060,00          |
| Legalization by the consulate by issuing document on foreign founder from the trade register (about 7-10 US dollars) | -                   |
| Translation of documents from the trade register (per page) (about 7-10 US dollars)                                  | 22,000 - 27,000     |
| Notarial certification of original of translator's signature (10% from minimum wage)                                 | 9 153,00            |
| Making stamps  | 100 000 - 140 000   |
| State duty (5 minimum wages)   | 457 650             |
| State duty for enterprise with foreign investment  | \$500               |
| Translation of documents to Uzbek  | -                   |

The cost of business running and other useful information about other services can be found in the directory "The cost of business running in Uzbekistan" developed by the Chamber of Commerce of Uzbekistan with support of UNDP project.

### C. Existing obstacles

Undoubtedly, Afghan entrepreneurs are interested in starting their own businesses in Uzbekistan; however, despite the above described advantages of opening your own business, Afghan entrepreneurs are in no hurry to open their own businesses in



Uzbekistan. There are certain obstacles exist at the moment in order to attract Afghan entrepreneurs.

The meeting with Mr. Aziz Shah Koofi, Commercial Attaché and Mr. Fardin Frotan, head of economic unit at the Embassy of Afghanistan in Uzbekistan, as well as, with Afghan entrepreneurs, interested and already working in Uzbekistan identified existing obstacles for opening and running of own business in Uzbekistan. The main reasons are related to the existing rules and regulations adapted in relation to citizens of Afghanistan.

1. Visas to Uzbekistan.

- Afghan entrepreneurs reported difficulties in obtaining a visa to Uzbekistan as one of the main reasons. Even big entrepreneurs cannot get a visa. There are cases where the visa has been properly prepared through a travel agency and approved by the Ministry of Foreign Affairs of Uzbekistan, but was denied at the consulate of Uzbekistan in Afghanistan. Many travel agencies refuse to work on visa for Afghan citizens, due to the high probability of rejection. Usually review of visa application takes about 3 weeks for Afghan citizens.
- Long-term visa for Afghanistan entrepreneurs. Currently visas are issued for 6 months. Repeated appeal takes some time, which creates some inconvenience. Although it should be noted that visas to Afghanistan also issued for 6 months.

2. Transit of goods and products through Uzbekistan

- Inspection of imported and exported goods sent as a transit through Uzbekistan takes considerable time. Customs procedures in Uzbekistan imply complete inspection of all imported and exported goods from Afghanistan sent through Uzbekistan. This creates considerable inconvenience. For example, even if the goods are shipped and sealed in Russia or China, Uzbekistan Customs Service still will open the sealed goods for inspection.
- Transport of goods imported and exported through the river port Termez. By rail containers are delivered to the border, where the containers are unloaded and sent to the river port of Termez. Containers are loaded onto a barge, which delivers them to the territory of Afghanistan. As a consequence of Afghan entrepreneurs bear the additional costs of loading and unloading, as well as a waste of time.

3. Transactions with a freely convertible currency in Uzbekistan.

- Restrictions on currency conversion. One of the reasons to deter investment in Uzbekistan is the restrictions on currency conversion. Afghan entrepreneurs have expressed concerns about the repatriation of profits.

- Mandatory sale of foreign currency earnings. There is a requirement for the mandatory sale of foreign currency earnings, up to 50% of foreign exchange earnings in Uzbekistan.
4. Lack of investment in Afghanistan by the Uzbekistan entrepreneurs. There are a lot of foreign and joint venture with the participation of other countries in Afghanistan, however, no company with capital of Uzbekistan.
  5. Concern of Uzbekistan entrepreneurs. Meetings and discussion with Uzbek entrepreneurs identified certain concern of Uzbekistan entrepreneurs. Uzbek entrepreneurs are reluctant to cooperate because of the negative image created about Afghanistan over the past year by various mass-media. Most concerns about payment or co-investments, despite the proximity and other factors Uzbek entrepreneurs are not able to move freely in Afghanistan for many reasons, including, the specific local business running.

#### **D. Recommendations**

Afghan entrepreneurs are interested in the stability of the economic development of Uzbekistan. Many entrepreneurs in the northern region have expressed interest in starting their own businesses, and several big Afghan businesses already operating in Uzbekistan. Undoubtedly, the problems in attracting Afghan entrepreneurs to invest in Uzbekistan, described above, require the assistance of the government authorities and institutions.

It is also worth noting that for a major breakthrough in improving trade relations, it is necessary support and assistance at the government level of both countries. At the moment, there is a favorable situation for both countries: Afghanistan needs an alternative transport corridor, new markets and alternative products for the domestic market. While Uzbekistan also needs new markets for its products and services for export.

It is important to note that there is interest on both sides, for which are necessary to create conditions for further development. A very important step for the successful cooperation will be to identify organizations that will help promote initiatives from Afghan businessmen.

1. To negotiate with the Uzbekistan entrepreneurs, those who are interested in starting joint ventures with Afghanistan entrepreneurs. As already mentioned above, it can be suggested to processing companies to offer to Afghan entrepreneurs to invest the funds as participation share. It is necessary to make an inventory of processing enterprises in Uzbekistan, determine the capacity and to identify companies that are in need of upgrading and increasing capacity.

2. Negotiate with government agencies, where possible assistance. It is necessary to contact government agencies such as the State Committee of Customs, the Ministry of Foreign Affairs, Ministry of Foreign Economic Relations, Investments and Trade. Perhaps further analysis to find practical solutions obstacles will be needed.
3. Consider issues related to the issuance of visas with the Ministry of Foreign Affairs and travel agencies. There are two types of visa - business and tourist:
  - The best option for obtaining visas for citizens of Afghanistan - through travel agencies. It is necessary to analyze the cases of visas rejection to citizens of Afghanistan and to inform the travel agencies on visa procedure for further informing of Afghan citizens.
  - It is necessary to study the procedures for issuing business visas and analyze cases of visas rejection to Afghanistan citizens and to inform the Chamber of Commerce of Uzbekistan and Afghanistan in order to provide advice to entrepreneurs.

Contract the Ministry of Foreign Affairs with respect to length of stay and repeat the process of obtaining a visa for entrepreneurs who have opened their enterprises in Uzbekistan.

4. Contact the State Committee of Customs for more information regarding the inspection procedures. Analyze violations by Afghan entrepreneurs of customs procedures and explain it to them. Analyze cases of delay of goods and products to and from Afghanistan and to develop a technique to avoid delays associated with incomplete and incorrect paperwork.
5. Contact the MFERIT and propose the resumption of the work of the Intergovernmental Committee on Economic Cooperation. It is important to discuss and get assurances from government agencies to develop a mechanism to create a favorable environment for cooperation on mutually beneficial terms. This will help entrepreneurs to be more serious for the undertaken obligations.
6. Contact the Chamber of Commerce of Uzbekistan with a proposal for identifying potential sectors for investment projects in Uzbekistan which could interest Afghan entrepreneurs. Promising projects may be in the sector of processing dried fruits, fresh fruits, handmade carpets and precious stones.
7. Contact the Chamber of Commerce of Balkh province with a proposal for identifying promising areas of investment projects in the northern region, which could interest Uzbek entrepreneurs. Promising projects may be in the sector of mining, extraction of minerals, oil, gas, further development of infrastructure networks and power facilities, transport and other communications. At this stage it would be appropriate to attract investments from Uzbekistan guaranteed by the government of Afghanistan.

8. Conditions for conversion to joint or foreign ventures. In order to attract investment, contract the MFERIT with a proposal to create additional incentives for conversion of currency for joint ventures and foreign enterprises. Amount of conversion of currency can be proportional to the investment of the foreign partner.
9. Provide assistance to Afghan entrepreneurs. It is necessary to radically change the Uzbekistan entrepreneurs' idea on Afghan entrepreneurs. Technical assistance and partial funding of pilot projects on processing would have a positive impact on the image of Afghan entrepreneurs. A broad coverage through various media on companies working with Afghan entrepreneurs will have a good impact.

## ANNEXA.

### Legal rights and guarantees for foreign investors

| Types of guarantees                 | Content of guarantees and benefits   | Legislative documents   |
|-------------------------------------|--|---|
| Guarantees the stability of the law | <p>If subsequent legislation of the Republic of Uzbekistan worsens conditions for investment, the law in force at the date of investment will be applied to foreign investors for ten years from the date of investment, in the following cases:</p> <ul style="list-style-type: none"> <li>- increasing the size of (rate) tax on income received in the form of dividends, paid to foreign investors;</li> <li>- the introduction of additional requirements that complicate the procedure of repatriation or reduce the amount of income (profit) of a foreign investor, transferred abroad, except in cases of suspension of repatriation of funds by the Government of a foreign investor under the non-discriminatory application of legislative acts in cases of insolvency and bankruptcy of enterprises with foreign investors or for the protection of creditor's rights, criminal acts or administrative offenses committed by a foreign investor - an individual or a necessity to suspend such repatriation in accordance with a court or an arbitral award;</li> <li>- introduction of quantitative restrictions on the volume of investments and other additional requirements on the size of investments including in form of increasing the minimum size of foreign investment in enterprises with foreign investment;</li> <li>- restrictions on the share of the foreign investor in the authorized agency of enterprises in republic</li> <li>- introduction of additional procedures of registration and extension of visas of foreign investors, as well as other additional requirements for the implementation of foreign investment.</li> </ul> <p>If any of these types of deterioration in the terms of investing will be in place then foreign investor shall notify the authorized agency on the use of guarantees. In case of disagreement with the notification of the foreign investor, authorized agency may apply to the Ministry of Justice for a legal opinion. In the case of receiving the legal opinion of the Ministry of Justice on the illegality of the use by foreign investor guarantees authorized agency may apply to the court with the relevant claim without payment of state duty.</p> <p>Disagreement with the notification of the authorized agency of the foreign investor, its appeal to the Ministry of Justice for a legal opinion in the court for the illegality of the guarantee by a foreign investor is not grounds for suspension of application in respect of a foreign investor guarantees.</p> | <p>Law of the Republic of Uzbekistan "On guarantees and measures of protection of the rights of foreign investors", Article 3;</p> <p>Appendix № 1. to the resolution of the Cabinet of Ministers on 2 August 2005. № 180 "Regulations on the application of guarantees established part of fourth Article 3 of the Law of the Republic of Uzbekistan" On guarantees and measures of protection of the rights of foreign investors. "</p> |
| Guarantee on safety of ownership    | Foreign investments and other assets of foreign investors in the Republic of Uzbekistan is not subject for nationalization. Foreign investments and other assets of foreign investors are not subject to requisition, except for cases of natural disasters, accidents, epidemics, epizootic. The decision taken by the Cabinet on   | Law of the Republic of Uzbekistan "On guarantees and measures of protection of the rights of foreign  |

| Types of guarantees  | Content of guarantees and benefits   | Legislative documents  |
|--|--|--|
|  | requisition of Ministers. The compensation, payable in these cases, to the foreign investor should be adequate caused losses   | investors," Article 5  |
| Guarantees on use of funds   | <p>Income of a foreign investor, received in Uzbekistan can be reinvested in the territory of the Republic of Uzbekistan or used in any other way, at the discretion of the foreign investor.</p> <p>Enterprises with foreign investment, in accordance with the law have the right to:</p> <ul style="list-style-type: none"> <li>• open, use and dispose of accounts in any currency at any bank in the Republic of Uzbekistan, as well as abroad;</li> <li>• receive and repay loans in foreign currency.</li> </ul>  | Law of the Republic of Uzbekistan "On guarantees and measures of protection of the rights of foreign investors," Article 6 |
| Guarantees on funds transfer   | Foreign investors are guaranteed the free transfer of funds in foreign currency in the Republic of Uzbekistan, and from it, without any restrictions, with condition if payment of taxes and other obligatory payments in accordance with the laws of the Republic of Uzbekistan are paid.   | Law of the Republic of Uzbekistan "On guarantees and measures of protection of the rights of foreign investors," Article 7 |
| Guarantees on return of foreign investment due to the termination of investment activity | After termination of investment activity of foreign investors have the right to free repatriation in cash or in kind of assets resulting from the termination of investment activity without prejudice to the obligations of the foreign investor in respect of the Republic of Uzbekistan or other creditors.   | Law of the Republic of Uzbekistan "On guarantees and measures of protection of the rights of foreign investors," Article 8 |
| Insurance protection   | <p>Insurance of foreign investors provides insurance protection and guarantees against political and other risks, including:</p> <ul style="list-style-type: none"> <li>• expropriation of property, and any legislative and administrative measures, leading to withdrawal of property or alienation from her loss of control over her or income derived from it;</li> <li>• restrictions on transfer of foreign currency out of the country;</li> <li>• changes in the law that discriminate against particular groups of investors;</li> <li>• intervention of governments, public authorities in the field and their officials in the contractual relations of investors;</li> <li>• war, civil disturbance or other similar events;</li> <li>• other kinds of political and other risks associated with foreign investors and foreign investments.</li> </ul> | Law of the Republic of Uzbekistan "On foreign investments", Article 16   |
| Guarantees on transfer of wages abroad   | The labor contracts should address the issues on wages, vacations and pensions for foreign workers separately with each of them. Wages of these workers can be transferred by them to other countries without any restrictions after the payment required by law, taxes and mandatory payments.  | Law of the Republic of Uzbekistan "On foreign investments", Article 14   |

| <b>Types of guarantees</b>  | <b>Content of guarantees and benefits</b>   | <b>Legislative documents</b>  |
|---|---|---|
| <p>Additional, to the established laws of guarantees and protection measures (incentives and preferences)</p> | <p>Granted to foreign investors in each case for investing:</p> <ul style="list-style-type: none"> <li>- In priority sectors to ensure sustainable economic growth, progressive structural changes in the economy of the country;</li> <li>- In the priority project to ensure the strengthening and expansion of production and export potential of the country and its integration in world economy network;</li> <li>- Projects in small business, the implementation of which is aimed at processing of raw materials, production of consumer goods and services, creation of jobs.</li> </ul> <p>In order to ensure that the obligations of foreign investors who provided additional guarantees and measures of protection (benefits and preferences) between the Ministry of Foreign Economic Relations, Investments and Trade of the Republic of Uzbekistan on behalf of the Government of the Republic of Uzbekistan, and the foreign investor (s) on the mandatory basis should be signed an investment agreement. The draft of investment agreement should be submitted to authorized agencies and considered within fourteen working days and enters in force on the date of the decision on its approval unless otherwise provided by this decision.</p> | <p>Appendix № 2 to the Resolution of the Cabinet of Ministers from 2 August 2005. № 180 "Regulations on the conclusion and implementation of investment agreements"</p> |

## ANNEX B.

### Commercial banks of Uzbekistan

|    | <b>name of bank</b>  | <b>address</b>  | <b>phone</b>                        |
|----|--|---|-------------------------------------|
| 1  | National Bank of Foreign Economic Activity of the Republic of Uzbekistan     | 100084, Tashkent, Yunusobod district, st. Amir Temur, 101<br><a href="http://www.nbu.com/">http://www.nbu.com/</a>                  | 238-56-65<br>238-56-56              |
| 2  | State-commercial National Bank of the Republic of Uzbekistan                 | 100017, Tashkent, Hamza district, st. Katartal, 46<br><a href="http://www.halkbank.uz/">http://www.halkbank.uz/</a>                 | 273-86-48                           |
| 3  | State Joint-Stock Commercial Bank "Asaka"                                    | 100015, Tashkent, Mirabaddistrict, st. Nukus, 67<br><a href="http://www.asakabank.com/">http://www.asakabank.com/</a>               | 120-81-10                           |
| 4  | Joint-Stock Commercial Mortgage Bank "Ipoteka Bank"                          | 100000, Tashkent, Mirzo-Ulugbek district, st. Mustakillik17<br><a href="http://www.ipotekabank.uz/">http://www.ipotekabank.uz/</a>  | 150-11-22                           |
| 5  | Open Joint-Stock Commercial Bank "Uzpromstroybank"                           | 100000, Tashkent, Yunusobod district, st. Shaxrisabz 3<br><a href="http://www.uzpsb.uz/">http://www.uzpsb.uz/</a>                   | 120-45-45<br>120-45-01              |
| 6  | Open Joint-Stock Commercial Bank "Agrobank" (formerly known as Pahta Bank)   | 100096, Tashkent, Chilanzar district, st. Mukimi 43<br><a href="http://www.pakhtabank.com/">http://www.pakhtabank.com/</a>          | 120-88-33<br>273-25-15<br>150-25-42 |
| 7  | Open Joint-Stock Commercial Bank "Kishlokkurilish Bank" (formerly GallaBank) | 100060, Tashkent, Mirabad district, st. Shakhrisabz, 36<br><a href="http://www.gallabank.com/">http://www.gallabank.com/</a>        | 233-42-25                           |
| 8  | Open joint-stock commercial bank "Turon Bank"                                | 100011, Tashkent, Shayhantaur district, st. Abay 4-a<br><a href="http://www.turonbank.uz/">http://www.turonbank.uz/</a>             | 244-33-94                           |
| 9  | Open Joint-Stock Commercial Bank "Microcredit Bank"                          | 100069, Tashkent, Chilanzar district, st. Lutfiya 14<br><a href="http://www.microkreditbank.uz/">http://www.microkreditbank.uz/</a> | 273-28-12                           |
| 10 | Uzbek-German Open Joint-Stock Commercial Bank "Savdogarbank"                 | 100060, Tashkent, Mirabad district, st. Sayyid Baraka, 78<br><a href="http://www.savdogarbank.uz/">http://www.savdogarbank.uz/</a>  | 252-72-21                           |
| 11 | Open Joint-Stock Commercial Bank "Aloqabank"                                 | 100000, Tashkent, Mirabad district, st. Oibek30<br><a href="http://www.alokabank.uz/">http://www.alokabank.uz/</a>                  | 252-78-74                           |
| 12 | Private open joint stock bank "Trust Bank"                                   | 100015, Tashkent, Shayhantaur district, st. Navoi, 7<br><a href="http://www.trastbank.uz/">http://www.trastbank.uz/</a>             | 244-76-22<br>242-23-43              |
| 13 | Joint-Stock Innovation Commercial Bank "IpakYuli"                            | 100135, Tashkent, Chilanzar district, st. Farhad, 12<br><a href="http://www.ipakyulibank.com/">http://www.ipakyulibank.com/</a>     | 276-85-52<br>120-38-88              |
| 14 | Open Joint-Stock Commercial Bank "Hamkorbank"                                | 110011, Andijan, Avenue, Babur, 85<br><a href="http://www.hamkorbank.uz/">http://www.hamkorbank.uz/</a>                             | (8-3742)<br>24-70-39<br>22-30-11    |
| 15 | Joint-Stock Commercial Bank "Kapitalbank"                                    | 100000, Tashkent, Mirabad district, st. Matbuotchilar, 32<br><a href="http://www.kapitalbank.uz/">http://www.kapitalbank.uz/</a>    | 232-07-01<br>113-01-31              |
| 16 | Private open joint-stock commercial investment bank, "Turkestan"             | 100000, Tashkent, Yunusobod district, st. Amir Temur pr.1, 6  | 232-09-34<br>233-89-37              |
| 17 | Open Joint-Stock Commercial Bank "Samarkand"                                 | 103008, Samarkand, st. Firdavsiy, 75<br><a href="http://www.samarqandbank.uz/">http://www.samarqandbank.uz/</a>                     | (8-366)<br>233-02-75<br>233-69-75   |
| 18 | Private Open Joint-Stock Commercial Bank "Universal Bank"                    | 113000, Kokand, st. Istiklol, 18<br><a href="http://www.universalbank.uz/">http://www.universalbank.uz/</a>                         | (8-373)<br>552-98-05                |
| 19 | Private Open Joint-Stock Commercial Bank "Bank Ravnaq"                       | 100021, Tashkent, Shayhantaur district, st. Furqat, 2<br><a href="http://www.ravnakbank.uz/">http://www.ravnakbank.uz/</a>          | 120-36-66                           |
| 20 | Private closed joint-stock commercial bank                                   | 100011, Tashkent, Shayhantaur district,   | 244-90-42                           |



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|    | "Davir-bank"   | st.Navoi-Zarkaynar, Block A   |                        |
| 21 | Open Joint-Stock Commercial Bank "Credit-Standard"                     | 100000, Tashkent, Mirabad region, st.Kunaeva, 25<br><a href="http://www.credit-standard.uz/">http://www.credit-standard.uz/</a> | 232-24-32<br>140-12-00 |
| 22 | Closed Joint Stock Company "Bank UzKDB"                                | 100000, Tashkent, Mirabad region, st.Oibek, 32<br><a href="http://www.kdb.uz/">http://www.kdb.uz/</a>                           | 120-80-00              |
| 23 | Closed Joint Stock Company "Uzbek-Turkish Bank"                        | 100043, Tashkent, Chilanazar district, Ave DruzhbyNarodov 15a<br><a href="http://www.utbk.uz/">http://www.utbk.uz/</a>          | 273-83-25<br>181-30-30 |
| 24 | Closed Joint Stock Company "RoyalBankofScotlandUzbekiston NB"          | 100000, Tashkent, Yunusobod district, st. U. Nasyrova 77<br><a href="http://www.abnamro.com/">http://www.abnamro.com/</a>       | 120-61-41              |
| 25 | The subsidiary bank "Banks Saderat Iran" in the Republic of Uzbekistan | 100060, Tashkent, Mirabad district, st. Chekhov, 10<br><a href="http://www.saderbank.uz/">http://www.saderbank.uz/</a>          | 140-16-53<br>152-75-89 |
| 26 | Private Open Joint-Stock Commercial Bank "InvestFinanceBank"           | 100000, Tashkent, Shayhantaur district, st.Navoi, 18-a  | 140-50-60              |
| 27 | Private Open Joint-Stock Commercial Bank "Amirbank"                    | 148108, Samarkandst., M.Baraka, 49  | (8-366)<br>231-07-22   |
| 28 | Private open joint-stock commercial bank «AsiaAlliancebank»            | 100128, Tashkent, st.Shayhantaur, 87A<br><a href="http://www.aab.uz/">http://www.aab.uz/</a>                                    | 241-22-66              |
| 29 | Closed Joint-Stock Commercial Bank "Hi-Tech BANK"                      | 100060, Tashkent, st.Taras Shevchenko, 35B, D.A<br><a href="http://www.htb.uz/">http://www.htb.uz/</a>                          | 150-68-33              |
| 30 | Private closed joint stock commercial bank "Orientfinans"              | 100029, Tashkent, st. Yakkachinar, 7a   |                        |

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- <sup>i</sup>Trade turnover between Uzbekistan and Afghanistan for the first time exceeded \$1 billion US dollars  
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[http://www.socionauki.ru/journal/files/iis/2012\\_1/164-179.pdf](http://www.socionauki.ru/journal/files/iis/2012_1/164-179.pdf)
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- <sup>xi</sup>Uzbekistan intends to expand the railway Hayraton-Mazar.  
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