Tajikistan's regional trade expansion: potential and possibility

Soliev Ashurboy
Candidate of economic science (PhD),
Finance and Economics Institute of Tajikistan, Rector

Email: ashurboy@mail.ru

Over the entire period of market reforms commodity structure of foreign trade and domestic production structure of Tajikistan has not changed since independence, reflecting the slow progress of structural and economic reforms initiatives. Exports of cotton and aluminum continue to generate about half of GDP and two-thirds of the annual foreign exchange earnings and a quarter of tax revenues. The asymmetry between the country import and export trends experienced in Tajikistan in recent years, tends to increase. Geographical location of Tajikistan and the underdeveloped transport links, coupled with weak regional trade ties strongly influence on the structure of foreign trade.

The fall in world prices for aluminum and cotton during the global financial crisis is an important factor that caused the trade deficit in the country at a rate of 12% of GDP. IMF assessments suggest that higher prices for aluminum and cotton for Tajikistan, 1% could improve the country's trade balance by 0.2% and 0.12% respectively. Thus, if the annual prices for aluminum and cotton remained at an average of 1994 and 2001, the deterioration in the trade balance of Tajikistan during the global crisis would have been less dramatic. However, the increase in world prices for aluminum and servants in 2010-2011, had not much improved the country's trade balance (compared with 2009 in 2010 improved by 6.2%, although the price, for example, cotton fiber, increased by 162% and 142% aluminum).

Analysis of the global economic trends witnesses that 85% of world cotton production and sales and 90% of world aluminum markets concentrated in the hands of several multinational corporations. Tajikistan's production is a small fraction of these markets, given that world production of cotton is about 17 million tons, while total supply on the world aluminum market, is more than 11 million metric tons (in the form of primary ingots of more than 4 million). Even if the production of cotton and aluminum will increase and reach long-term development strategy targets (raw cotton - 800 thousand tons and primary aluminum - 630 thousand tons), the share of companies of the republic in these markets would still be less than 4% (cotton) and 5% (aluminum).

This situation demonstrates the need for urgent action in the area of the country's foreign economic strategy aimed at boosting regional trade within CAREC, EurAsEC, and ECO in order to equalize the balance of trade, and the simultaneous introduction of institutional reforms to create a favorable investment climate for FDI in order to align balance of payments. The balance of foreign trade turnover of Tajikistan with all CIS countries (with share in total imports of the Republic more than 58.8% in 2010) was negative, and real adverse terms of trade (with the exception of Belarus, Armenia, Kyrgyzstan and Uzbekistan in recent years, the proportion which the foreign trade turnover is insignificant). This suggests that under the circumstances, the excess of imports over exports of goods and unfavorable ratio of export and import prices, the forward and backward linkages between macroeconomic positive external (focused in this particular case on CIS countries) and domestic sectors of the economy does not actually exist.

With the globalization of economic relations, taking into account the geographical location of countries in our view, reference should be sent to the country's integration group, to which the Republic of Tajikistan, as well as the formation of retail space around the country. Given this priority supports markets in Central Asia and Afghanistan, as well as the area of the EurAsEC Customs Union.

In order to further improve the analysis of revealed comparative advantages of the Republic of Tajikistan, in our opinion, it is necessary to analyze the current state of implementation of the benefits of trade of the Republic of Tajikistan.

It is evident that so far two products dominate in the exports of the Republic of Tajikistan. That, from the point of view of ensuring economic security, is a threat. Especially when the buyers of these products are foreign countries and these goods do not constitute formative products for the intensification of regional and cross-border trade (0.6% of share of export of primary aluminum and 32.1% cotton fiber of the Republic of Tajikistan is due to CIS countries, the rest is due to the EU, China and Turkey). Overall, the main export partners of Tajikistan in 2010 were China (37.4%), Turkey (31.5%), Russia (8.5%), Afghanistan (4.4%), Latvia (1.7%), Kazakhstan (1.7%) and Italy (1.4%).

Note that electricity exports in total exports share has declined dramatically in 2009-2010 (from 6.3 per cent to 0.3 per cent) as Uzbekistan stopped imports of electricity to Tajikistan. In regard to the products which are forming border trade (final products), their share in exports was insignificant. However, lately intensification of regional (within the countries of CA, Afghanistan, EurAsEC) trade is observed. We will consider the topic later.

Scientific articles

However, this diversified structure of imports of the Republic of Tajikistan must be ensured by exports. The rate of coverage of imports by exports in the country in 2010 was 44.9%. 58.8 per cent of imports of the country accounted to the CIS countries, of which 48.2 per cent to the countries of the Eurasian Economic Community (Russia – 32.2%, Kazakhstan – 11.0%). Imports from Uzbekistan in 2006-2010 decreased in volume almost 4 times from 10.2% to 2.7% because of reduction imports of electricity and gas. The main import partners among foreign countries in 2010 were China (9.0%), Iran (5.3%), United States (3.5%), UAE (2.3%), Turkey (2.3%) and Afghanistan (1.5%). It is noteworthy that in recent years the proportion of Afghanistan's share of exports and imports with the Republic of Tajikistan has a tendency to increase due to the expansion of border trade between the two countries and an increase in the re-export trade of the Republic of Tajikistan with this country.

Figure 1 shows the intensity of trade of the Republic of Tajikistan with some countries that were or are significant for the country's exports. To calculate the index of the intensity of trade based on the export data of the Republic of Tajikistan the countries have been selected which occupied or occupy the highest proportion of exports of goods from the Republic of Tajikistan.

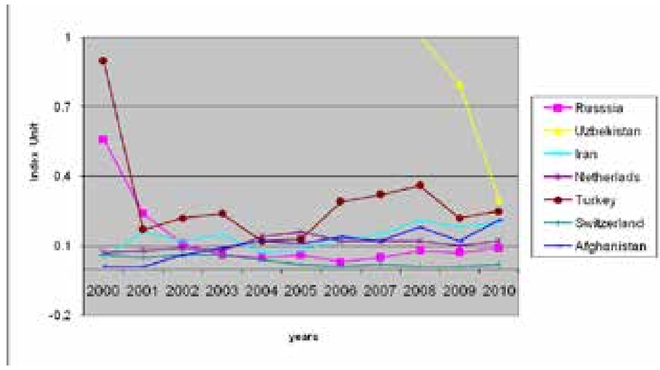

Figure 1.Intensivity of Export of Tajikistan, selected countries
Compiled on: IMF.International Financial Statistics, 2010; Foreign-economic activity of the Republic of Tajikistan.Statistical compendium. – Dushanbe. 2011.

As can be seen from the figure 1, the intensity of trade of the Republic of Tajikistan increases with countries such as Afghanistan, Iran and Turkey. The intensity of trade with the Russian Federation is relatively stable and this justifies the need to increase mutual trade between these countries. However, intensification of trade decreases with Uzbekistan, the Netherlands, Switzerland.China has become the lead trade partner for Tajikistan only in recent years, thus mutual trade of the latter does not allow to calculate intensity of trade for the given years.

Republic of Tajikistan and the Republic of Uzbekistan may renew old trade relations only on the basis of the introduction of the principle of most-favored-nation in mutual trade and the removal of unnecessary transit barriers that can enhance the export opportunities of Tajikistan and, accordingly, mutual trade between the two countries.

The index value of the intensity of trade concludes the need to diversify the geographic structure of exports of the Republic of Tajikistan, expand the variety of export products, taking into account the capacity of the national economy and the further intensification of regional (including cross-border) trade.

Analysis of the commodity composition of exports of the Republic of Tajikistan to neighboring countries shows that some goods were *main products of the regional and cross-border trade.*

As seen at official statistics exports of domestic commodities are mainly traditional raw materials and agricultural products. Although the list of exported agricultural products of the Republic of Tajikistan to the Russian Federation is very large, the table has only those goods for which demand has emerged at the regional level (basically two or more countries).

With regard to foreign products, the list tends to increase. The following table shows the export commodities of regional trade of the Republic of Tajikistan. However, methodologically we may not be limited to this list, because the re-export of goods may contribute to the expansion of the transit of goods through the territory of the Republic of Tajikistan. For an instance, it is possible to identify a number of goods re-exported to neighboring countries and that may be in future structure-regional trade (Table 2).

Table 2.List of re-export goods of Tajikistan with regional trade partners in 2010 (% of total export volume to corresponding country)

Product name	**Kyrgyzstan**	**Uzbekistan**	**Turkmenistan**	**Kazakhstan**	**Russia**	**Afghanistan**
Cars and trucks	1,4	0,4	1,6	2,5	0,3	8,2
Fuel and lubricant products	0	0	63,5	0	0	41,5
Electric apparatus	1,6	0	0	0,1	0	0,3
Mining equipment and bulldozers	0,5	0	0	0,8	1,1	0,06
					0,2	
					0,1	
Banana					0,01	
Medicines						0,4
Car spare parts				0,01	0,03	
Helicopters and airplanes						20,3
Others	1,8		0,8	2,1	2,0	5,0
Total	**5,3**	**0,4**	**65,9**	**5,51**	**3,74**	**76,06**

Calculated on the basis of Foreign-economic activity of the Republic of Tajikistan. Statistical Bulletin. – Dushanbe. 2011

The highest figure of goods re-exported is to Afghanistan, and this list has a tendency to increase. As can be seen from the table more than 76% of exports of the Republic of Tajikistan to Afghanistan, are goods that are not produced in the country, and these goods are imported into the country from China, Russia, Kazakhstan and other countries. Turkmenistan follows Afghanistan as the second destination of this indicator scoring approximately 66% of exports from the Republic of Tajikistan. It is worth to note that goods to Turkmenistan, Uzbekistan and Kyrgyzstan, have a homogeneous structure, whereas re-export to the Russian Federation, Kazakhstan and Afghanistan is more diversified, given that re-exported goods to these markets are in strong demand.

Expansion of re-exports of goods from the Republic of Tajikistan, undoubtedly caused by creation of appropriate infrastructure, especially road communication. Since trade is the main business activity of the country, respectively, the opening of the road route to China via Kulma Pass (Kalasu on the Chinese side) and continuous rehabilitation of Kyrgyz-Tajik road network at Karamik BCP contributed to a sharp increase of imports from China via road shipment. The narrowness of the domestic market in Tajikistan is pushing the country's retail business to market at neighboring countries. Expansion of re-exports business is primarily due to the implementation of publicly funded road reconstruction projects connecting the country with neighboring countries. In the future, implementation of these projects and new railways in Afghanistan and Kyrgyzstan could lead to a sharp increase in export and turning the country into a transit country

Rehabilitation and construction of roads in Tajikistan aimed at implementing the concept of exit strategy from transport dead lock conditions and solving a problem of difficult accessing between the regions of the country in the winter period. In addition, the solution out of the exit strategy allows acceleration of the process of transforming the country into a transit country. However, the solution of problems depends not only on the rehabilitation and reconstruction of international highways, but also the creation of appropriate infrastructure around these highways for the normal movement of goods and movement of automobiles. Such infrastructures include:

- A network of catering;
- Repair of automobiles and maintenance of their parts;
- hotel and guest housings along the corridor routes;
- Parking of international standards;
- Entertainment centers and rest areas;
- Insurance services;
- financial services;
- Storage and warehouses (free storage);
- Car rental and more.

On-going rehabilitation and construction projects and liberalization of the delivery of transport services greatly influenced by the increase in freight traffic. Significantly increased the tonnage of freight roads of the country by private entrepreneurs for years 1998-2010. (Almost 10-fold), and since 2002 in the statistics of the country has a new article: international freight transport, which is solidly growing in numbers in recent years (for 2002-2010. Almost 9 times).

Analysis clearly shows increased focus of international freight forwarding companies to Tajikistan as a transit country. However, state statistics does not show the number of employed in the transportation services that operate on the basis of an individual licenses. The bulk of employment in this sector work as hired (rented cars), or by obtaining patents for the individual conduct of businesses. Also, statistics does not to assess other influential factors impacting various dimensions of the economy, including land development and property values. Such data could be greatly used while conducting feasibility studies for completely new road and railway network land spots. This form of analysis is useful because it demonstrates the localized nature of some transportation impacts, and serves to confirm the value public transportation provides in the market.

In general, the creation of transport hubs linking the Central Asian countries contributes to the development of trade relations of these countries, as well as the deepening of integration processes. Diversification and increase in export volumes are an integral part of future economic growth and development of the region. Diversified output and exports puts companies in terms of competition domestically and internationally, leading to increased productivity. The formation of appropriate infrastructure to improve the transit of goods by road in Tajikistan requires huge investment in this area. The basis of such investments in the first place is a public-private partnership. The development of networks of power and the rest for transport around transport nodes and along roads requires private investments, which require government incentives (tax, etc.). Public facilities (parking, consistent with international standards, public toilets, open and closed warehouses and others) to create through the State program of public investment, grants and technical assistance.

Sources:

1. Tajikistan Official Statistics, "Foreign-economic activity of the Republic of Tajikistan. Statistical compendium". – Dushanbe, 2011.

2. IMF. International Financial Statistics, 2010.

3. Socio-economic condition of the Republic of Tajikistan, Dushanbe, 2012, page 223.