TECHNICAL ECONOMIC REPORT

Cost of Non-Cooperation Between South and Central Asia

Benefits, Challenges, and Opportunities

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Executive summary

This study asks a simple question: **what is the economic cost of limited cooperation between South and Central Asia, and why have countries struggled to realise the potential gains from greater integration?** The analysis covers Afghanistan, India and Pakistan, together with Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan. Afghanistan is central to the study because of its long-standing ambition to become a trading hub between the two regions.

The study combines quantitative modelling with political economy analysis. A GTAP computable general equilibrium (CGE) model is used to simulate three scenarios: tariff removal, tariff plus non-tariff measure reform, and a third scenario that also assumes a substantial increase in India-Pakistan trade. For Afghanistan, the sectoral results are linked to an Afghanistan Social Accounting Matrix (A-SAM) multiplier model to estimate household income and poverty effects. Employment effects are also estimated, while expert semi-structured interviews are used to examine why economically beneficial reforms have often proved difficult to implement.

Start with the GDP results. Under Scenario 1, real GDP is **5.79 percentage points above the baseline in Afghanistan** and **5.98 percentage points above it in the Kyrgyz Republic**. When NTM reform is added under Scenario 2, these effects rise to **6.73 and 6.43 percentage points**, respectively. Under Scenario 3, the effects are largest in Afghanistan (+9.50 percentage points), the Kyrgyz Republic (+7.66) and Pakistan (+5.70). The effects are smaller in Tajikistan (+2.59), India (+2.39), Kazakhstan (+0.50) and Turkmenistan-Uzbekistan (+0.36). These are **conditional simulation effects relative to the baseline average growth rates between 2021 - 2025, not forecasts of annual growth**.

The employment and poverty effects are also sizeable. Under Scenario 3, the model implies around **12.4 million more employed people relative to the baseline**, including about 8.0 million in India, 3.5 million in Pakistan and 0.73 million in Afghanistan. This is a difference in employment levels, not 12.4 million jobs created each year. For Afghanistan, the poverty rate falls from **54.5% to 50.4%**, a reduction of about **4.1 percentage points**, equivalent to roughly **1.3 million fewer people living below the poverty line** using the population estimate applied in the analysis.

Not all effects increase as the scenarios become more comprehensive. India's GDP and export effects are slightly lower under Scenario 2 than Scenario 1. Real factor-income effects under Scenario 3 are also lower than under Scenario 2 in Afghanistan, India, the Kyrgyz Republic and Tajikistan, while the Kyrgyz Republic's employment effect falls. The important point is that **larger GDP or export gains do not automatically translate into equally large gains in factor income or employment**. The model captures changes in relative prices, sectoral composition and resource allocation, but the available outputs do not allow each of these movements to be attributed to a single mechanism.

What, then, prevents countries from realising these gains? The interviews point to a connected set of constraints. Political and security objectives frequently override economic ones. Border rules, customs procedures, visa requirements and other administrative processes raise the cost and uncertainty of doing business. Infrastructure remains incomplete, while large regional projects face financing, coordination and implementation problems. Regional cooperation is also still heavily centred on governments, with limited participation by firms, traders and other non-state actors.

The interviews do not suggest waiting until all of these constraints disappear. The policy direction is more incremental. Afghanistan needs clearer institutional responsibility for regional economic policy, more predictable border and commercial administration, economically justified transport investment and stronger market participation. At regional level, countries should protect economic channels during periods of political tension, pursue deliverable bilateral and sub-regional initiatives alongside larger projects, and involve market actors more systematically.

The overall conclusion is not that integration is automatic, or that all barriers should simply be removed. It is that **the economic gains from greater cooperation could be substantial, but realising them depends on institutions, implementation and political incentives as much as on geography or trade policy itself.**

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1. Introduction

Start with the basic puzzle. South and Central Asia are geographically close and, in several areas, economically complementary. Central Asian economies have tradeable surpluses in energy and other primary resources for which South Asia has substantial demand. South Asia, in turn, offers much larger markets and services in areas such as education and health (RECCA, 2017). But geography and complementarity do not automatically produce trade.

Tariffs, non-tariff measures, weak border administration, security concerns and wider political economy all raise the transport costs and uncertainty of moving goods, services and people across the region (Krugman et al., 2018; Kathuria et al., 2018). The result is that trade between South and Central Asia remains small relative to the size, proximity and potential complementarity of the two regions. For instance, in 2020, merchandise trade between India and Pakistan and the five Central Asian republics amounted to only about US$2.0 billion, equivalent to roughly 1.4% of Central Asia's total merchandise trade (authors' calculation based on Export-Import Bank of India, 2022, and Pakistan Business Council, 2025).

What exactly do we mean by South and Central Asia in this study? We define South Asia narrowly as India and Pakistan, and Central Asia as Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan. Afghanistan sits geographically between the two groups, giving us a total of eight countries in the study. The quantitative analysis is restricted to these economies, with Turkmenistan and Uzbekistan combined in the GTAP aggregation. The qualitative analysis is wider where other actors and institutions affect cooperation among these countries.

Afghanistan is central to the study for another reason. Successive policy frameworks in Afghanistan have presented the country as a potential shortest land bridge between South and Central Asia (ANDS, 2008; ANPDF I, 2016; ANPDF II, 2020). There is an obvious economic logic behind that ambition. Afghanistan is landlocked, highly import-dependent and fiscally constrained. More trade, transit and regional infrastructure could expand domestic markets and create additional sources of economic activity and revenue. But there is a problem with treating geography as enough.

Afghanistan's location gives it a potential advantage, but that advantage depends on security, infrastructure, institutions and the policies of neighbouring states. A geographically short route is not necessarily the route that traders will choose if it is unreliable, costly or politically difficult. So Afghanistan's ambition to become a regional trading hub should be understood as a contingent opportunity, not an automatic advantage.

India-Pakistan relations are also central to the analysis. Why? Because the political relationship between the two countries affects much more than bilateral trade. Trade between India and Pakistan in FY2018/19 was approximately $2 billion (UN Comtrade, 2019; project calculations), far below estimates of its potential level, and restrictions between the two countries also affect Afghanistan's access to India through Pakistan and, more broadly, the movement of trade between South and Central Asia (Kathuria et al., 2018).

This gives us a useful counterfactual. What would happen if some of these barriers were reduced? And what is being lost because they remain in place? That is the sense in which this study examines the cost of non-cooperation. The study asks five main questions. What changes in GDP, exports, factor income

and employment are associated with lower regional trade barriers? What do the modelled sectoral effects imply for household income and poverty in Afghanistan? How does greater India-Pakistan trade affect the wider region, and Afghanistan in particular? Which domestic, regional and international political economy factors obstruct cooperation? And what policy directions follow when the quantitative and qualitative evidence are considered together?

To answer these questions, the study combines several methods. First, it uses a Global Trade Analysis Project (GTAP) model to estimate the effects of improvements in tariffs, non-tariff measures and India-Pakistan trade. Second, it links the modelled sectoral effects for Afghanistan to an A-SAM multiplier model to examine the implications for household income and poverty. Third, it extends the analysis to employment for all the eight countries. Finally, it uses expert interviews to examine whether the reforms simulated in the model are politically and institutionally feasible. This study is the first of its kind, to our best knowledge, no other studies have attempted to estimate the cost of non-cooperation for these blocs.

This combination matters because the model can tell us what might happen under a given set of assumptions, but not whether those assumptions are likely to be realised. That distinction is important throughout the report. The results are conditional counterfactuals. They estimate what could happen under the specified reforms. They do not forecast a dated path to regional integration, and they do not imply that trade liberalisation on its own is sufficient to produce development.

2. Methodology

The study uses a sequential mixed-method approach (authors' design). The computable general equilibrium (CGE) model (i.e. GTAP model) estimates economy wide responses to specified trade policy shocks. The Afghanistan multiplier model and poverty analysis translates sectoral output changes into household outcomes. Then employment calculations convert changes in labour demand into country totals. Semi structured interviews and the literature then identify constraints and mechanisms not captured in the empirical model, including institutions, security, political incentives, implementation capacity and more.

GTAP is a multiregional, multisectoral CGE model that captures production, consumption, factor markets, and bilateral trade linkages. The model used here contains 34 commodities or activity groups and 39 countries or regional groups. The 8 economies studied here are represented separately as Afghanistan, India, Pakistan, Kazakhstan, the Kyrgyz Republic and Tajikistan, with Turkmenistan and Uzbekistan combined due to lack of data availability. The results identify changes in the real-GDP, export volume, labour demand, and the real factor income. These are reported as changes in percentage points from the pre-simulation values.

The Afghanistan component in GTAP uses A-SAM developed by the Biruni Institute in 2020. The matrix contains 38 activities and commodities, labour and capital, households by income quintile, firms, government, taxes, savings-investment and the rest of the world. Labour is disaggregated by gender and skill. The A-SAM draws primarily on the 2018 national input-output data from surveys such as ALCS 2016-17, ILOSTAT, fiscal and balance of payments data. For GTAP integration, the 38 production sectors were mapped into 34 groups. The A-SAM is balanced as an economy wide accounting system: receipts and expenditures are recorded across production, institutions, factors, and external accounts.

For the poverty analysis, GTAP sectoral output changes from Scenario 3 are applied to the corresponding A-SAM activities, and the multiplier matrix propagates direct and indirect income effects to household quintiles (Joya, 2020; Miller and Blair, 2009; Breisinger et al, 2010).

The NTM estimation for Afghanistan follows the quantity-based gravity approach of Kee and Nicita (2016) and address endogeneity through a two-stage instrumental variable strategy. Afghanistan tariff rates are instrumented with Pakistan's tariffs using OLS, while the Afghanistan NTM indicator is instrumented with Pakistan's NTM indicator using a first-stage probit and an inverse Mills ratio. The second stage, models bilateral HS6 import weight with fitted tariffs, the NTM indicator, and interactions with importer and exporter shares in world trade. Controls include exporter GDP and GDP per capita, distance, regional trade-agreement status, common language, and common border. The dependent variable is imports quantity in kilograms at the HS6-exporter level. The study selects a zero-inflated negative binomial model with robust standard errors. The estimated coefficients are converted into ad valorem equivalents (AVEs). These are Afghanistan estimates and should not be described as a regional elasticity.

The GTAP analysis runs three simulations against the baseline (Table 1). Scenario 1 and Scenario 2 are standard tariff and NTM shocks including changes to transport costs. Scenarios 3 builds a stylised India-Pakistan trade shock to the reforms in Scenario 2. Bilateral merchandise trade is taken to be approximately US$1.5 billion, equivalent to around 1.5 percent of Pakistan's total global trade and 0.2 percent of India's. The scenario assumes a five-fold increase to US$7.5 billion, raising bilateral trade to approximately 9 percent of Pakistan's and 1 percent of India's. The five-fold increase is a modelling assumption intended to represent a substantial easing of bilateral trade constraints rather than a forecast of future trade. For context, bilateral trade had been substantially higher immediately before the 2019 fall out, reaching approximately US$2.56 billion in FY2018/19 (UN Comtrade, 2019; project calculations).

Table 1: Simulated scenarios and assumptions

Scenario	Recovered implementation	Interpretation
Baseline	No policy shock. 2021-25 is the baseline and divides the five-year real GDP changes by five to obtain an average.	Baseline
Scenario 1: tariff reform	Tariffs removed in the study economies with slightly improved transportation cost (of approx. 3.8 percent).	Real GDP deviation from the baseline.
Scenario 2: tariff and NTM reform	Scenario 1 plus NTM reform	Nested on Scenario 1.
Scenario 3: India-Pakistan expansion	Scenario 2 plus a five-fold increase in India-Pakistan bilateral trade, from approximately US$1.5 billion to US$7.5 billion.	Nested on Scenario 2; incremental effect is S3 minus S2.

Source: Authors' construction

Employment changes are constructed from GTAP occupational labour demand effects. For each country, changes for technicians, clerks, service workers, officials, and agricultural workers are weighted by their employment shares. The weighted Scenario 3 deviation is then applied to an ILOSTAT employment base.

The resulting country differences sum to 12.38 million people. The calculation is a scenario-to-base level comparison. The Afghanistan poverty analysis uses the 2018 A-SAM multiplier model and household quintile accounts based on ALCS 2016-17. Scenario 3 sectoral output changes are entered as shocks.

The qualitative approach involves interviewing economists, policymakers, diplomats, researchers, and practitioners from the region. The interviews covered political economy, trade bottlenecks, feasibility, India-Pakistan relations, Afghanistan's role and more. A total of 18 semi structured interviews were held from March to July 2021, predominantly online because of COVID-19 restrictions. The analysis uses a thematic synthesis rather than statistical representation. The qualitative evidence is purposive, interpretive, and based on a snowball sampling technique. It is well suited to identifying mechanisms, and competing perspectives but does not establish their prevalence across the region. Quotations are therefore used selectively and only where already attributable in the report.

3. Analytical and regional framework

If the cost of trading across borders falls, firms and consumers can buy from a wider set of markets, production can shift towards activities in which countries have a comparative advantage, and trade between nearby economies should increase. Comparative advantage and differences in factor endowments provide the basic case for specialisation, while gravity relationships predict greater trade between economically larger and geographically closer partners when policy and transport frictions are lower (Krugman et al., 2018).

But the effects do not stop with the sectors directly affected by trade reform. In a CGE model, lower trade costs change relative prices. Firms change what they produce, demand for labour and capital changes, household incomes change and trade flows adjust across the economy. This is why the quantitative analysis looks beyond trade. It asks what happens to GDP, exports, factor income and employment, and, for Afghanistan, what the resulting sectoral changes mean for household income and poverty.

There is also no reason to expect every country, sector or factor of production to gain by the same amount. The effects depend on the size of the economy, its initial exposure to regional trade and its production structure. Some sectors or factors can lose even when aggregate output rises (De Benedictis and Taglioni, 2011). This is important for interpreting the results later in the report. A larger GDP effect does not automatically imply a larger export, employment or factor-income effect.

The next question is: which trade costs matter? Tariffs are the most visible. They directly raise the price of imported goods. But they are only one part of the cost of trading across borders. Non-tariff measures include sanitary and phytosanitary requirements, technical regulations, quantity restrictions, price-control measures, licensing and pre-shipment requirements (Looi Kee and Olarreaga, 2009). Many of these measures serve legitimate policy objectives. The problem arises when they are opaque, duplicative or unnecessarily restrictive (Kathuria et al., 2018). This distinction is built directly into the simulation design. Scenario 1 asks what happens when tariffs are removed. Scenario 2 adds wider NTM reform. The comparison between the two therefore tells us whether reducing tariffs alone captures most of the potential gains, or whether other trade costs matter as well.

But even a positive economic result does not tell us whether governments will actually cooperate. That is the starting point for the political economy part of the study. States do not make decisions on the

basis of aggregate economic gains alone. National interests, domestic political incentives and security concerns also matter. Institutions can make cooperation more credible by establishing rules and commitments, but only where those commitments can be enforced and governments are willing to accept some constraints on unilateral action (Söderbaum and Shaw, 2003; Keohane, 1984).

This gives us the central question for the interview analysis: if greater cooperation can produce economic gains, why have those gains been so difficult to realise? In South and Central Asia, interstate relations remain central. But governments are not the only actors that matter. Regional organisations, global powers, firms, traders, local authorities and civil society can also affect which forms of cooperation are possible and which survive political shocks (Moravcsik, 1993; Schirm, 2002).

For that reason, the report distinguishes between state-centred and multi-actor cooperation (Söderbaum & Shaw, 2003). Some forms of cooperation necessarily require governments. Tariffs, transit agreements and major infrastructure projects cannot be organised without state participation. But economic exchange does not have to depend entirely on high-level interstate relations. Firms, traders, border communities and other non-state actors can sustain commercial relationships, identify practical barriers and generate information about where viable economic opportunities exist.

This distinction becomes important later in the interview findings and recommendations. It helps us ask whether cooperation must begin with comprehensive regional agreements, or whether bilateral, sub-regional and market-led arrangements can create practical forms of integration that later support wider cooperation (Rahimi & Hassani, 2020).

Afghanistan brings these economic and political questions together. Successive Afghan governments have sought to use the country's geographical position as the shortest land bridge between South and Central Asia, partly as a way of expanding trade, transit and sustainable sources of revenue. In that spirit, the Islamic Republic of Afghanistan participated in RECCA, the Heart of Asia-Istanbul Process, CAREC and major regional projects including TAPI, CASA-1000, TUTAP, the Lapis Lazuli route and the Chabahar corridor (Singh, 2017; Middlebrook et al., 2015; RECCA, 2017; ADB, 2011).

But the existence of a corridor, agreement or regional platform does not itself mean that integration is taking place. A project still has to be prepared, financed and implemented. Borders have to function. Domestic institutions have to coordinate. And the route has to remain usable when political or security conditions deteriorate. This changes the question we ask about Afghanistan. The issue is not simply whether Afghanistan is geographically well placed. It clearly is. The more important question is: can Afghanistan turn that geography into a route that traders and neighbouring countries will actually choose?

That depends on whether the route is secure, reliable and cost-effective relative to the alternatives. This is why the interview analysis later treats Afghanistan's transit-hub ambition as a potential advantage rather than an automatic one, and why the policy recommendations focus on border administration, institutional coordination and economically justified transport investment.

India-Pakistan relations provide another glimpse into why difficulties continue to bar cooperation. The dispute between the two countries remains a major constraint on trade in the southern part of the study region (Kathuria et al., 2018). Restrictions on their bilateral trade also affect Afghanistan and the wider movement of goods between South and Central Asia. Scenario 3 therefore asks a specific counterfactual question: what happens to the region when India-Pakistan trade increases substantially

in addition to the tariff and NTM reforms already assumed in Scenario 2? The comparison between Scenarios 2 and 3 is therefore particularly important. It allows us to separate the additional effect associated with greater India-Pakistan trade from the effects of the wider trade reforms.

Finally, South and Central Asian cooperation does not take place in an empty regional space. Central Asian economies also operate within Russian, Chinese and Eurasian economic and institutional relationships (Alimov, 2018; Dragneva & Wolczuk, 2017). These relationships can provide finance, infrastructure and access to other markets, but they can also affect which corridors countries use and the incentives they face when negotiating new arrangements.

This matters for Afghanistan as well. Its proposed route between South and Central Asia is competing with other routes and economic relationships. The relevant question is therefore not whether Afghanistan's geography is unique. It is whether the combination of geography, infrastructure, institutions and political reliability makes its route competitive with the alternatives.

4. Quantifying the benefits of regional economic cooperation

The GTAP results should be read as conditional percentage deviations from a pre-simulation base. The baseline records average annual growth assumptions between 2021-25. Table 1 outlines the assumptions behind each scenario in the study.

Real GDP effects

Start with the main result. Lowering trade barriers increases real GDP relative to the baseline in every economy in the model. But the size of that effect varies considerably across countries.

Under Scenario 1, which removes tariffs, the largest effects are in the Kyrgyz Republic and Afghanistan. Real GDP is 5.98 percentage points above the baseline in the Kyrgyz Republic and 5.79 percentage points above it in Afghanistan. The effects are considerably smaller in Pakistan (+1.67 percentage points), India (+1.62), Tajikistan (+1.40), Kazakhstan (+0.48), and Turkmenistan-Uzbekistan (+0.29).

What happens when non-tariff measures are also removed? For most countries, the gains increase. Afghanistan rises from 5.79 percentage points above the baseline under Scenario 1 to 6.73 percentage points under Scenario 2. Pakistan increases from 1.67 to 2.73 percentage points, and the Kyrgyz Republic from 5.98 to 6.43 percentage points. This matters because it shows that tariffs are only part of the trade costs captured by the model.

India is the exception. Its real GDP effect falls slightly, from 1.62 percentage points under Scenario 1 to 1.51 under Scenario 2. This is not necessarily inconsistent with the model. Removing different trade barriers changes relative prices, trade flows and the allocation of resources across sectors. But the model outputs available for this study do not tell us exactly which of these mechanisms produces the small decline in India. So we should not read too much into it.

The biggest changes come under Scenario 3. This scenario keeps the tariff and NTM reforms from Scenario 2 and adds a five-fold increase in India-Pakistan trade. Afghanistan's real GDP is now 9.50 percentage points above the baseline, the largest effect in the model. The Kyrgyz Republic follows at 7.66 percentage points and Pakistan at 5.70. The effects are smaller in Tajikistan (+2.59), India (+2.39), Kazakhstan (+0.50), and Turkmenistan-Uzbekistan (+0.36).

The useful comparison here is not just Scenario 3 against the baseline. It is Scenario 3 against Scenario 2, because that tells us what happens when the additional India-Pakistan trade assumption is introduced. Pakistan gains another 2.97 percentage points. Afghanistan gains another 2.77 percentage points. The Kyrgyz Republic gains 1.23 points, Tajikistan 0.90 and India 0.88. The additional effects on Kazakhstan (+0.01) and Turkmenistan-Uzbekistan (+0.03) are very small.

This is an important result. The benefits from increased India-Pakistan trade do not stop at India and Pakistan. Afghanistan receives an additional GDP effect almost as large as Pakistan's. In other words, the model suggests that restrictions on bilateral India-Pakistan trade also impose costs elsewhere in the region.

The second thing to notice is how uneven these gains are. Afghanistan and the Kyrgyz Republic consistently record some of the largest proportional effects, while Kazakhstan and Turkmenistan-Uzbekistan record much smaller ones. One explanation is their different exposure to regional trade. Afghanistan is much more dependent on trade with the economies included in the model, whereas regional trade accounts for a much smaller part of India and those other countries overall volume of trade. The same regional trade shock can therefore produce very different proportional effects across countries.

Table 2: Real GDP Change by Scenario: Deviation from Baseline (Percentage Points)

Economy	Baseline	Scenario 1	Scenario 2	Scenario 3
Afghanistan	4.00	5.79	6.73	9.50
India	6.74	1.62	1.51	2.39
Kazakhstan	4.20	0.48	0.49	0.50
Kyrgyzstan	2.28	5.98	6.43	7.66
Pakistan	4.93	1.67	2.73	5.70
Tajikistan	2.48	1.40	1.69	2.59
TKM & UZB	2.28	0.29	0.33	0.36

Exports effects

Exports increase relative to the baseline in every economy under the reform scenarios. But, as with GDP, the size of the effect differs considerably across countries.

Under Scenario 1, the largest export effects are in the Kyrgyz Republic, Afghanistan and Tajikistan. Exports are 17.10 percentage points above the baseline in the Kyrgyz Republic, 12.38 percentage points above it in Afghanistan, and 10.93 percentage points above it in Tajikistan. Pakistan also records a sizeable increase of 5.03 percentage points. The effects are much smaller in India (+1.62 percentage points), Kazakhstan (+0.42) and Turkmenistan-Uzbekistan (+1.13).

What happens when NTMs are also removed under Scenario 2? Again, the gains generally increase. Afghanistan rises to 14.56 percentage points. The Kyrgyz Republic increases to 18.57 percentage points, Pakistan to 6.84, and Tajikistan 12.42. India is again the small exception. Its export effect falls slightly

from 1.62 percentage points under Scenario 1 to 1.52 under Scenario 2. As with the GDP result, the model outputs do not tell us exactly what produces this small decline, so it should not be given a stronger interpretation than the results support.

The largest export effects appear under Scenario 3. The Kyrgyz Republic records the biggest increase, with exports 22.58 percentage points above the baseline. Afghanistan follows closely at 22.61 percentage points. Tajikistan and Pakistan also record large gains, at 15.87 and 15.20 percentage points respectively. The effects are much smaller in India (+2.54), Turkmenistan-Uzbekistan (+1.69) and Kazakhstan (+0.57).

Again, the useful comparison is Scenario 3 against Scenario 2. This shows what changes when the additional India-Pakistan trade assumption is introduced. Pakistan's export effect rises by another 8.36 percentage points, the largest additional increase in the model. Afghanistan gains another 8.05 percentage points. The Kyrgyz Republic gains 4.01 points, Tajikistan 3.45 and India 1.02. The additional changes for Kazakhstan and Turkmenistan-Uzbekistan are much smaller.

There is another pattern worth noticing. The countries with the largest GDP effects also tend to record some of the largest export effects. Afghanistan and the Kyrgyz Republic stand out in both sets of results. That makes sense. Lower trade barriers affect the traded parts of the economy directly, so countries that are more exposed to regional trade can experience particularly large changes in exports.

The export effects are also much larger than the corresponding GDP effects. Take Afghanistan. Under Scenario 3, exports are 22.61 percentage points above the baseline, compared with a real GDP effect of 9.50 percentage points. In the Kyrgyz Republic, the corresponding figures are 22.58 and 7.66 percentage points. This does not mean that exports and GDP are measuring the same thing at different scales. Exports cover the traded part of the economy, while GDP captures changes across the economy as a whole.

There is one final point to keep in mind. A large increase in total exports does not mean that every sector or producer gains. The underlying sectoral results include both positive and negative changes. So part of what the model is showing is an expansion in trade, but part of it is also a reallocation of economic activity between sectors as relative prices, market access and competitiveness change.

The takeaway is fairly clear: the export effects of deeper regional cooperation are large, but they are not evenly distributed. Afghanistan, the Kyrgyz Republic, Tajikistan and Pakistan respond strongly to lower regional trade barriers, while the effects are much smaller in India, Kazakhstan and Turkmenistan-Uzbekistan.

Table 3: Export Change by Scenario: Deviation from Baseline (Percentage Points)

Economy	Baseline	Scenario 1	Scenario 2	Scenario 3
Afghanistan	1.05	12.38	14.56	22.61
India	0.2	1.62	1.52	2.54
Kazakhstan	-0.1	0.42	0.52	0.57
Kyrgyzstan	2.47	17.1	18.57	22.58

Pakistan	-0.1	5.03	6.84	15.2
Tajikistan	0.11	10.93	12.42	15.87
TKM & UZB	-0.02	1.13	1.43	1.69

Real factor-income effects

Real factor income increases relative to the baseline under all three scenarios. In other words, the reforms raise the real returns accruing to labour and capital. But there is an important difference between these results and what we saw for GDP and exports: the factor-income gains do not necessarily get larger as the scenarios become more comprehensive.

The clearest example is the move from Scenario 2 to Scenario 3. Scenario 3 produces larger GDP and export effects in several economies, but factor-income gains actually fall in Afghanistan, India, the Kyrgyz Republic and Tajikistan. The Kyrgyz Republic is the most striking case. Its factor-income effect falls from 4.35 percentage points above the baseline under Scenario 2 to just 1.08 percentage points under Scenario 3.

Why can GDP and exports rise while factor income falls? Because they are measuring different things. GDP tells us what happens to total economic output. Exports tell us what happens to goods and services sold abroad. Factor income tells us what happens to the real returns received by labour and capital. There is no reason these three effects must move by the same amount.

The Kyrgyz Republic makes this particularly clear. Under Scenario 3, it records an export effect of 25.05 percentage points above the baseline and a real GDP effect of 7.66 percentage points. Yet its real factor-income effect is only 1.08 percentage points. So the model is generating considerably more output and trade, but those additional gains are not translating proportionately into higher real returns to labour and capital.

How can that happen? Trade reform changes more than the total amount an economy produces. It also changes what gets produced, relative prices, and where labour and capital are used. Some sectors expand while others contract. Labour and capital then move between those sectors, and their real returns change with them. A country can end up with higher GDP and exports without seeing an equally large increase in factor income.

The same pattern appears, although less dramatically, in Afghanistan, India and Tajikistan. In each case, the factor-income effect is lower under Scenario 3 than under Scenario 2 even though Scenario 3 produces stronger aggregate economic or trade effects. This is not a contradiction. It tells us that the size of the overall economic gain and the way that gain is transmitted to labour and capital are two different questions.

The takeaway is that GDP and export gains should not automatically be read as equivalent gains in household or factor incomes. The simulations show that deeper regional cooperation can increase output and trade substantially, but how much of that gain translates into higher real returns to labour and capital depends on how production, prices and resources adjust within each economy.

Table 4. Real Factor Income by Scenario: Deviation from Baseline (Percentage Points)

Economy	Baseline	Scenario 1	Scenario 2	Scenario 3
Afghanistan	3.66	1.62	1.74	1.23
India	7.17	0.65	0.77	0.61
Kazakhstan	3.76	0.62	0.68	0.71
Kyrgyzstan	1.43	3.75	4.35	1.08
Pakistan	5.08	1.01	0.86	0.94
Tajikistan	0.78	1.54	1.66	1.21
TKM & UZB	0.75	0.55	0.67	0.72

Employment effects

Starting with the headline number. Under Scenario 3, the model implies 12.38 million more employed people across the region relative to the baseline. But that number is heavily concentrated in the largest economies. India accounts for about 8.05 million of the additional employed people and Pakistan another 3.48 million. Afghanistan adds about 0.73 million. The numbers are much smaller in the Kyrgyz Republic, at around 0.08 million, and Tajikistan, at around 0.04 million. The model shows no employment change for Kazakhstan or the combined Turkmenistan-Uzbekistan region.

At first glance, this makes India look like the biggest beneficiary. But there is an important distinction between the number of additional employed people and the proportional employment effect. India has by far the largest labour market in the group, so even a relatively small percentage-point change translates into a very large number of people.

Afghanistan illustrates the opposite case. Under Scenario 3, employment is 7.75 percentage points above the baseline, one of the largest proportional effects in the model. But because Afghanistan's labour market is much smaller than India's, this translates into around 0.73 million additional employed people rather than several million.

What happens as the scenarios become more comprehensive? In most cases, the employment effect increases. Afghanistan rises from 4.85 percentage points above the baseline under Scenario 1 to 5.43 under Scenario 2 and 7.75 under Scenario 3. Pakistan shows an even sharper increase, from 0.73 to 2.02 and then to 5.05 percentage points.

But this pattern does not hold everywhere. The Kyrgyz Republic is the clearest exception. Its employment effect rises from 5 percentage points above the baseline under Scenario 1 to 6.99 under Scenario 2 but then falls to 3.54 percentage points under Scenario 3. This happens even though Scenario 3 produces larger GDP and export effects for the Kyrgyz Republic.

Why can GDP and exports rise while the employment effect falls? Again, because these measures are capturing different things. Trade reform changes the composition of production. Some sectors expand, others contract, and different sectors use different amounts and types of labour. An economy can therefore produce and export more while generating a smaller increase in employment if activity shifts towards sectors that use relatively less labour. These model results do not tell us exactly which sectors

or labour categories are driving the Kyrgyz result. So the safest conclusion is simply that larger GDP and export gains do not automatically imply larger employment gains.

There is one final point that matters for interpreting the 12.38 million employment figure. This is not 12.38 million new jobs every year. It is the difference between the employment level under Scenario 3 and the employment level under the baseline.

The takeaway is that greater regional cooperation can produce substantial employment gains, particularly in India, Pakistan and Afghanistan. But the size of those gains depends both on the size of each country's labour market and on how production and labour demand adjust to the reforms.

Table 5. Employment Change by Scenario: Deviation from Baseline (Percentage Points)

Economy	Baseline	Scenario 1	Scenario 2	Scenario 3
Afghanistan	4.93	4.85	5.43	7.75
India	2.08	1.10	0.88	1.84
Kazakhstan	2.65	0.00	0.00	0.00
Kyrgyzstan	3.62	5.00	6.99	3.54
Pakistan	4.09	0.73	2.02	5.05
Tajikistan	4.82	0.59	0.76	1.79
TKM & UZB	3.22	0.00	0.00	0.00

Afghanistan growth incidence analysis

The next question is whether the gains in GDP and trade actually reach households. We only examine this for Afghanistan using a growth incidence analysis. The sectoral output changes from Scenario 3 are fed into the Afghanistan Social Accounting Matrix (A-SAM) multiplier model to estimate what happens to household incomes and, from there, to poverty.

The result is sizeable. Afghanistan's poverty rate falls from 54.5% under the baseline to 50.39%. That is a reduction of 4.11 percentage points. What does that mean in terms of people? Using a 2020 population of 31.82 million, a 4.11 percentage-point fall in the poverty rate corresponds to roughly 1.31 million fewer people living below the poverty line compared with the baseline.

This is important because the GTAP results by themselves tell us what happens to output, trade and factor incomes. They do not tell us directly how those gains are distributed across households. The growth incidence analysis takes the next step and asks whether the sectoral gains generated by the model translate into higher household incomes and lower poverty. In Afghanistan, the answer from this exercise is yes.

There is an important point about interpretation. The 1.31 million figure is not an annual number. It does not mean that 1.31 million people leave poverty every year. It is the estimated difference between the number of people living in poverty under Scenario 3 and the number under the baseline, using the population assumed in the analysis. Put differently, the comparison is: Baseline: 54.5% of the population

below the poverty line. Scenario 3: 50.39% below the poverty line. Difference: 4.11 percentage points, or about 1.31 million people.

The takeaway is that the potential gains from regional cooperation are not limited to higher GDP or more trade. In Afghanistan, the modelled sectoral gains also translate into higher household incomes and a lower poverty rate. The precise magnitude should still be interpreted with caution because it depends on the simulated sectoral effects and the multiplier framework used to transmit those effects to households.

5. Political economy

The quantitative analysis tells us what could happen if trade barriers were reduced and regional connectivity improved. It does not tell us why reforms that appear economically beneficial have so often been difficult to implement.

To answer that question, the study interviewed 18 policymakers, academics and regional experts in 2021. The interviews point to a fairly clear distinction: there may be an economic case for cooperation, but whether that cooperation happens depends on political incentives, institutions and implementation. Interviewees identified political tensions, weak institutions, unreliable connectivity and competing geopolitical interests as important constraints. But they also argued that cooperation does not have to wait for a comprehensive regional settlement. Bilateral agreements, border-level trade and greater involvement of firms and other non-state actors can provide other routes towards integration. We outline seven findings as follows:

Finding 1: The economic case for cooperation is strong, but political and security incentives frequently override it.

Starting with the economic case. Interviewees broadly recognised opportunities for greater trade and investment between South and Central Asia. Central Asia has surpluses in energy, food and natural resources, while South Asia has much larger consumer markets and substantial demand for energy and raw materials. The opportunities also go beyond merchandise trade. Healthcare, pharmaceuticals, education and many other sectors were identified as areas where South Asian economies, particularly India, could serve markets in Afghanistan and Central Asia. The case and benefits of for additional connectivity between Central Asian economies were discussed.

This does not mean that every country or every sector is naturally complementary. The interviews were more specific than that. Their argument was that there are particular areas where mutually beneficial exchange is possible, but where the potential remains underdeveloped. So why are these opportunities not already being exploited? The central problem raised in the interviews is that economic gains are not the only thing governments care about. Salman Zaidi[1] described India and Pakistan as security states whose interests are not determined by economics. Other interviewees similarly pointed to Afghanistan-Pakistan relations as factors shaping trade and transit decisions. Dr Ratnakar Adhikari[2] was particularly pessimistic about the prospects for deeper regional integration without an improvement in India-Pakistan relations.

[1] Programme Manager, Jinnah Institute.
[2] Executive Director, EIF Executive Secretariat, World Trade Organization.

The point is straightforward. A trade arrangement can make economic sense and still not happen if political or security objectives take priority.

But the interviews did not conclude that cooperation has to wait until those political problems disappear. Janan Musazai[3] argued that regional projects should proceed where possible rather than waiting for complete security and political stability. Professor Nisha Taneja[4] made a related argument from the other direction: economic interdependence itself needs to become valuable enough that the benefits of cooperation begin to outweigh the costs of conflict. The finding is not that politics makes cooperation impossible. It is that political and security incentives can override the economic case, but they do not necessarily prevent all forms of cooperation from moving forward.

Finding 2: Trade barriers extend beyond tariffs to the institutions and processes governing cross-border trade.

It is easy to think about trade barriers mainly in terms of tariffs. The interviews suggest that this misses a large part of the problem. Interviewees repeatedly raised customs procedures, documentary requirements, visas, regulatory uncertainty and less transparent non-tariff measures. Salman Zaidi argued that the main difficulty was often the bureaucratic process rather than the tariff itself. Janan Musazai similarly pointed to trade and transit regulations, visa requirements and customs clearance as constraints that could be addressed if the political commitment existed.

There are also problems that sit outside customs administration. Muqaddesa Yourish[5] pointed to Chabahar port. The infrastructure and corridor existed, but limited access to appropriate infrastructure and other services made it harder for Afghan and Indian traders to use it effectively. Professor Bohdan Krawchenko[6] raised a different example: petty and informal cross-border traders whose livelihoods can be affected by government interference at the border.

This leads to an important distinction. A trade route can exist on paper and still be expensive or difficult to use in practice. The same is true of a trade agreement. That helps explain why the quantitative analysis distinguishes between tariff reductions and wider reductions in non-tariff and trade costs. Improving regional trade is therefore not only about changing tariff schedules. It also requires attention to customs administration, regulatory predictability, transit rules, financial services and how border institutions actually operate day to day.

Finding 3: Afghanistan's position as a regional transit hub is conditional on reliability, competitiveness and trust.

Afghanistan sits geographically between South and Central Asia. That gives it an obvious potential role in connecting the two regions. Several interviewees saw this as an important opportunity. Dr Wahid Waissi[7] described regional connectivity in the best interest of Afghanistan and highlighted its potential role in linking India and Pakistan with Central Asian energy and natural resources. Afghanistan has also

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[4] Indian Council for Research on International Economic Relations.
[5] Former Deputy Minister for Commerce and Industry, Afghanistan.
[6] Senior Research Fellow and Head of Graduate School of Development, University of Central Asia.
[7] Afghanistan Ambassador to Australia.

promoted this idea through initiatives such as RECCA, the Heart of Asia process and participation in regional transport and energy projects.

But there is a problem with treating geography as sufficient. Dr Roman Mogilevsky[8] pointed out that Kazakhstan and the Kyrgyz Republic can already trade with Pakistan through China, even though the route through Afghanistan may be shorter. Professor Prabir De[9] pointed to Iranian ports and corridors as alternatives when routes through Pakistan are politically constrained. Professor Anja Mihr[10] questioned the commercial basis of Afghanistan's proposed transit role. Waissi raised an even more basic question: can neighbouring countries rely on Afghanistan to provide secure and continuous transit?

So the relevant question is not simply: Is Afghanistan geographically well located? It clearly is. The more important question is: Can Afghanistan provide a route that traders and neighbouring economies will actually choose over the alternatives?

That depends on reliability, security and cost. Afghanistan's location is therefore a potential comparative advantage, not an automatic one. If alternative routes are more reliable or commercially attractive, being geographically shorter is not enough. The value of Afghanistan's geography ultimately depends on the infrastructure and institutions that make that geography usable.

Finding 4: Regional cooperation faces a persistent gap between ambitious initiatives, finance and implementation.

The region does not suffer from a shortage of ambitious projects. TAPI, CASA-1000, TUTAP and various rail and transport corridors are all intended to connect markets that are currently fragmented. The harder question is: Why do so many regional initiatives struggle to move from proposal to implementation?

The interviews point to several connected problems. Large regional projects require substantial financing, coordination between several governments, security arrangements, multinational firms and political commitment that has to survive over long periods. Nazir Kabiri[11] noted that major regional projects remained far from full implementation. Salman Zaidi described a broader tendency for governments to support connectivity rhetorically without consistently translating that support into practical action or even credible appraisal.

Financing is part of the problem, but the interviews make clear that it is not the whole problem. Janan Musazai identified infrastructure and financing constraints around projects such as TAPI and CASA-1000. Muqaddesa Yourish similarly raised the difficulty of financing integrated regional transport and transit networks. But even if the money is available, somebody still has to design the project, evaluate the agreement, coordinate the agencies involved, monitor implementation and maintain the commitments through political change.

This institutional problem was particularly prominent in the Afghanistan interviews. Nazir Kabiri and Jawed Ludin[12] described disarray in the domestic institutional arrangements governing economic policy.

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[9] Research and Information System for Developing Countries (RIS).
[10] Political scientist, OSCE Academy Bishkek and DAAD.
[11] Deputy Policy, Ministry of Finance, Afghanistan.
[12] Former Deputy Minister for Foreign Affairs, Afghanistan.

Waissi argued that political transitions repeatedly disrupted continuity in regional initiatives. Haroon Sharif[13] broadened the point to both Afghanistan and Pakistan, arguing that countries need stronger domestic capacity to formulate economic policy rather than relying on donors and external powers to design projects. The 'implementation gap' is not just about funding or infrastructure. Domestic institutional capacity is one of the links between announcing a regional project and actually delivering it.

Finding 5: Regional integration is shaped by China, Russia and overlapping geopolitical and economic blocs.

South and Central Asian cooperation does not happen in isolation. Countries in the region already have economic and political relationships with China, Russia, other existing regional organisations, the US and others. China came up particularly strongly in the interviews, but interviewees did not agree on what its growing role means. Janan Musazai highlighted the Belt and Road Initiative (BRI) and Chinese investment in regional connectivity. Haroon Sharif went further and argued that China has the economic weight to provide leadership for greater regional integration.

Others were more cautious. Anja Mihr raised concerns about the political implications of China's growing influence in Central Asia, Pakistan and Afghanistan. The interviews therefore do not give us a simple answer that China's role is either beneficial or harmful. What they do show is that China has become an important part of the political economy within which regional connectivity decisions are made. Its infrastructure investment, relationship with Pakistan and growing economic links with Central Asia affect both the opportunities available to countries and the routes they choose.

Russia also remains important, especially in Central Asia. Roman Mogilevsky pointed out that economic relations involving Kazakhstan and the Kyrgyz Republic cannot be separated entirely from their membership of the Eurasian Economic Union and their wider relationship with Russia. This means that South and Central Asian integration will not replace these existing relationships. It will develop alongside them. Any attempt to deepen cooperation between the two regions therefore has to account for the incentives created by existing economic corridors, regional institutions and geopolitical partnerships.

Finding 6: Practical integration can proceed through bilateral, subregional and non-state channels.

There was no complete agreement among interviewees about the best scale at which integration should proceed. Some argued for starting smaller. Roman Mogilevsky and Bohdan Krawchenko suggested that Afghanistan should first develop workable agreements with its immediate neighbours and focus on border communities. Jawed Ludin strongly supported bilateral engagement and pointed to the transit trade agreement between Afghanistan and Pakistan (i.e. APTTA) as an agreement with considerable potential. Prabir De and Nisha Taneja also saw smaller bilateral and subregional arrangements as practical ways of making progress when wider regional integration remains politically difficult.

Others put more emphasis on the region as a whole. Haroon Sharif and Dr Rajan Ratna[14] argued that treating South and Central Asia as an integrated region offers greatest economic potential. These positions do not necessarily contradict each other. A bilateral agreement can be a step towards regional integration rather than an alternative to it. Where a comprehensive agreement is politically difficult,

[13] Former State Minister for Investments, Pakistan.
[14] Deputy head, United Nations Economic and Social Commission for Asia Pacific (UNESCAP)

smaller arrangements can establish functioning trade links, demonstrate that cooperation produces benefits and potentially create incentives for broader agreements later.

There is another part of this finding that matters. Interviewees also argued that regional integration has been too heavily centred on governments and high-level political processes. Bohdan Krawchenko highlighted the importance of small cross-border trade to local livelihoods. Mogilevsky pointed to the role of border localities. This points to a more bottom-up route. Firms, traders, border communities and other non-state actors can identify commercially viable opportunities and develop economic relationships alongside formal government agreements. Over time this creates an indispensable role them as stakeholders in the regional negotiations too.

The argument is not that governments become unimportant. It is that regional integration does not have to depend entirely on governments reaching comprehensive political agreements before economic cooperation can begin.

Finding 7: Afghanistan's regional economic agenda lacks clear institutional ownership and strategic oversight.

Afghanistan does not lack institutions working on regional economic cooperation. The problem, according to the interviews, is that responsibility is spread across several of them without a single institution directing the overall agenda.

Before 2021, different parts of the agenda sat across government. The Ministry of Foreign Affairs led initiatives such as RECCA and the Heart of Asia process. The Ministry of Finance managed bilateral economic committees, the Ministry of Economy dealt with the regional dimensions of the SDGs, and the Ministry of Commerce and Industry handled agreements such as APTTA. Interviewees argued that the regional economic agenda had effectively become 'homeless'.

Why does this matter? Because regional economic policy cuts across foreign affairs, trade, infrastructure and domestic economic policy. Without a clear centre of direction, Afghanistan could identify what it wanted internationally but struggle to follow through. Nazir Kabiri described the problem directly: "I think we are quite clear about what it is that we want and how we want to go about it, but we don't have the institutional coherency."

The High Economic Council was intended to provide higher-level economic direction during the National Unity Government (2015-2019). But Jawed Ludin argued that it became a micromanagement entity rather than concentrating on policy. What is missing, is not another implementing ministry. It is a unifying strategic structure with the expertise and oversight authority to set direction, secure political support and assess regional initiatives from an economy wide perspective.

This should not be confused with centralised economic decision-making. The proposed role is to guide and oversee policy, not to tell firms, farmers or local actors what to produce or trade. Operating would remain with the responsible ministries and agencies. The institutional gap is therefore one of strategic direction, expertise and accountability, rather than a shortage of government bodies working on regional cooperation.

Overall interpretation

Put the seven findings together and a fairly coherent picture emerges. The problem is not that South and Central Asia lack economic opportunities. The quantitative analysis identifies potentially substantial gains, and the interviewees themselves recognised opportunities in trade, transit, energy, services and investment. The harder problem is converting those opportunities into actual economic exchange and markets.

Security priorities can override commercial ones. Border institutions can make formally open routes difficult to use. Regional projects can be announced without the institutional capacity needed to implement them. Afghanistan may offer a geographically attractive route but still has to compete with alternatives and become a trusted partner. And all of this takes place within a wider political economy shaped by China, Russia, the US and other existing regional relationships.

Does that mean meaningful cooperation has to wait until all of these problems are solved? The interviews largely suggest otherwise. The more practical route is incremental: improve how borders and transit arrangements work, make transport links more reliable, strengthen domestic capacity to implement agreements, pursue bilateral and subregional opportunities where they are feasible, and give firms, traders and local actors a larger institutional role for engagement.

Large regional projects and comprehensive agreements still matter. But they are not the only route to integration. The interview evidence suggests that regional cooperation can also be built gradually through smaller arrangements that work in practice.

6. Policy recommendations

Let’s start with what the evidence does not support. The analysis does not support prescribing a fixed share of Afghanistan's development budget for rail infrastructure or other such specific policies. It does not support treating geopolitics and economic cooperation as if they can be completely separated. And it does not support abandoning large multinational infrastructure projects simply because they are difficult to manage, finance or monitor.

What does the evidence support? Economic benefits and opportunities exist between the two blocs that are lost. A more focused set of priorities: a single directing mind for regional economic policy, lower and more predictable trade costs, infrastructure investment that passes economic appraisal, wider participation by firms and other market actors, and a more incremental approach to implementation.

The recommendations therefore operate at two levels. The first asks: What can Afghanistan do itself to become a more credible and effective participant in regional economic cooperation? The second asks: What needs to change between countries at the regional level?

There is also a timing issue to keep in mind. Some of the recommendations are likely to remain relevant across different political periods. But specific comments about Afghanistan's institutional structure refer to the arrangements that existed before 2021. The broader approach is deliberately pragmatic. Regional economic cooperation does not have to wait until every political dispute in the region has been resolved. But neither should smaller bilateral initiatives be treated as substitutes for major regional infrastructure or wider agreements.

Afghanistan

Establish a single directing mind for regional economic policy.

The first problem is institutional responsibility. Regional economic policy cuts across trade, transport, infrastructure, customs, investment and foreign relations. If each ministry or agency approaches regional agreements primarily through its own mandate, there is a risk that nobody is looking at the overall economic interest. Afghanistan should therefore assign clear responsibility to a lead institution for directing and coordinating regional economic policy across government.

What should that institution actually do? First, major agreements, investments and regional initiatives should be assessed from a national and economy wide perspective, rather than only through the priorities of the ministry or political affinity of the day. Second, major commitments should be subject to technical appraisal before they are made. Third, implementation should be monitored across government so that responsibilities, progress and outcomes are clear.

The purpose is not to create another institutional layer. It is to make sure that someone has clear responsibility for the overall direction of regional economic policy. The objective is a more coherent national approach, clearer accountability and greater continuity in implementation.

Standardise and simplify border and commercial administration.

The interview findings showed that the cost of doing business at the border is not determined by tariffs alone. What happens at the border matters just as much. A trader using one border crossing should not face a completely different set of requirements, documents or procedures from a trader using another. Afghanistan should establish consistent procedures and service standards across its major five border crossings. Customs and other border processes should be simplified and progressively digitised. Requirements should be clearer, duplicative steps reduced, processing times made more predictable and unnecessary discretion reduced. These should be continually monitored by the directing single authority with the vision to remove bottlenecks.

Why does this matter? Because the cost of crossing a border is not only the official fee or tariff. Time, uncertainty and administrative delays also impose costs on traders and transport operators. The objective is twofold: reduce the direct cost of trading and reduce the uncertainty surrounding the process.

Prioritise an integrated national transport network through public and private investment.

Transport infrastructure remains important, but the recommendation is not simply to build more roads or rail. The more useful question is: which investments actually improve the functioning of Afghanistan's national and regional trade network? Afghanistan should prioritise highways, rail and other transport links that connect its five major border crossings to one another through a national network linking Kabul and the five main zones. But these investments should not be chosen simply because they are large or strategically prominent. They should be appraised and sequenced according to demand, network value, cost, security and implementation capacity.

The financing question matters too. Public funding will remain important, but domestic and international private sources of finance should also be explored where appropriate. These could include public-private partnerships and other incentive mechanisms such as land value capture, long-term

leases and other suitable instruments. The key point is that private finance should not be pursued for its own sake. Each arrangement should still be tested for commercial viability, value for money and fiscal risk. The recommendation is not simply building infrastructure. It is building the parts of the network and mode of transport that make economic sense, and use the financing structure that best fits the project.

Strengthen market participation in bilateral and sub-regional initiatives

Regional economic policy has often been driven through government-to-government processes. The interviews and theory both suggest that this is too narrow. Businesses, traders, industry associations and border communities often know where the practical opportunities and constraints are because they deal with them directly. Afghanistan state should create regular channels through which these groups can contribute to the design and monitoring of bilateral and sub-regional initiatives. More importantly, the ultimate objective should be to institutionalise and define these roles so bilateral relations are not always in the monopoly of the government. What would they contribute? They can help identify commercially viable opportunities, practical trade routes and administrative problems that may not be obvious from the centre of government.

Government still has an important role. It should improve access to market information and address the constraints that prevent firms from taking advantage of new regional opportunities. The objective is simple: regional initiatives should respond to genuine commercial demand, not only to government priorities.

Region

Protect economic channels during periods of political tension

Political relations between countries in the region will not always be stable. The question is whether every political dispute also needs to interrupt economic activity. Where security conditions allow, countries should maintain routine customs, transit, technical and business communication even when wider political relations deteriorate. Existing trade and transit arrangements should not be routinely suspended or used as instruments in broader political disputes. This does not mean that disruptions can always be avoided. Therefore, ending government monopolies in the regional relationships by institutionalising the role of other stakeholders becomes important. It allows building channels that endure political crisis/dispute.

Why does this matter? Because firms make decisions based not only on the cost of trade, but also on whether they can rely on routes and agreements continuing to operate. The objective is to reduce uncertainty, protect established commercial relationships and prevent political tensions from unnecessarily disrupting regional economic activity.

Sequence regional cooperation through deliverable initiatives

Large regional projects still matter. But they are often slow, difficult to finance and politically complex. That does not mean countries should stop pursuing them. Instead, large projects should proceed alongside smaller bilateral and sub-regional initiatives that can be implemented more quickly and demonstrate tangible benefits. These could include improvements to border operations, bilateral trade

and transit arrangements, border markets and other measures that address clearly identified constraints to trade.

The larger projects should continue where they are economically justified. But they should also be subject to credible appraisal, financing and implementation arrangements. The logic is straightforward: do not wait for the largest regional projects before making progress where progress is already possible. Smaller initiatives can build functioning economic relationships and implementation credibility while more ambitious regional projects are being developed.

Institutionalise market participation in regional cooperation

The same argument about market participation applies at the regional level. Governments are responsible for policy and international agreements. But governments do not always see the practical obstacles that firms, traders and local actors face. Regional platforms should therefore establish regular channels through which firms, traders, business associations, research organisations and relevant local actors can contribute to the design and monitoring of economic initiatives.

Their role should be practical. They can identify commercially viable opportunities, flag barriers to trade and point out implementation problems that may not be visible through government-to-government processes alone. They can also provide feedback on whether agreed reforms are actually working in practice. The objective is not to transfer security responsibility away from governments. It is to make regional cooperation more responsive to commercial realities while keeping governments responsible for policy and international agreements.

Apply clear tests to security-related trade restrictions

Security concerns are real. But that does not mean every political or security dispute should automatically lead to restrictions on trade and transit. Where restrictions are genuinely necessary, governments should ask three basic questions. What is the specific security risk? Is the restriction proportionate to that risk? And does the restriction still need to remain in place once the original justification has changed or disappeared?

Security agencies and economic authorities should coordinate so that legitimate security objectives are achieved with the least unnecessary disruption to trade and transit. The principle is not that security should be subordinated to trade. It is that security measures should address identifiable risks rather than become persistent and unpredictable barriers to economic activity.

Taken together, these recommendations point towards the same overall approach. Afghanistan and the wider region do not need to choose between ambitious regional integration and smaller practical steps. Both can proceed together. The immediate priority is to make cooperation work better in practice: clearer institutional responsibility, more predictable borders, economically justified transport investment, stronger participation by market actors, and initiatives that can actually be delivered. And learn by doing so. That is the route through which the potential gains identified in the quantitative analysis are more likely to move from simulation into practice.

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