**TREND, DIRECTION AND PERFORMANCE OF AFGHANISTAN’S INTERNATIONAL TRADE**

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**ABSTRACT**

*Afghanistan is at a strategic location which acts as an important corridor in Asia and connects powerful industrial economies such as India and China to Northern Asia and to Europe via dry and seaways and vice versa through the Lapis Lazuli Corridor, Chabahar port and other corridors. The study asses to perceive the performance and trend of Afghanistan’s export and import. Moreover, the study points out to the destinations of Afghanistan's exports by regions and origin of Afghanistan’s imports by regions. The paper descriptively concentrates on direction, trend, and performance of the Afghanistan trade. The data is retrieved from numerous secondary sources encompass National Statistic and Information Authority and Ministry of Trade and Industry of Afghanistan. The period selected is from 2002 to 2018. Moreover, the research is based on quantitative data and descriptive statistics have been used to analyze the trend and direction of the Afghanistan trade. The study shows that there is an ascending direction of Afghanistan's export to Emerging and Developing Asian Economies majorly includes Pakistan, India and Bangladesh, while it indicates adescending export direction to Advanced Economies, Commonwealth Independent States, Middle East, and European Nations. Furthermore, Afghanistan's import shared with the regions is in an unstable form.*

**Keywords:** International Trade, Trends, Direction, Trade Performance, Afghanistan.

**JEL Classification Codes:** F1, F10, F19.

**INTRODUCTION**

Afghanistan is at a strategic location which acts as an important corridor in Asia and connects powerful industrial economies such as India and China to Northern Asia and to Europe via dry and seaways and vice versa through the Lapis Lazuli Corridor, Chabahar port and other corridors. Afghanistan is the world’s 150th considerable export economy in the world. (The Observatory of Economic Complexity, 2017). In 2018, Afghanistan exported (875.18) million USD and Imported (7,406.56) million USD, resulting in a negative trade balance of (-6,531.38) million USD.(International Financial Statistics, International Monetary Fund (IMF) Data, 2018). The GDP of Afghanistan was 20.9 Billion Dollars with 705 Dollars GDP per capita.(National Statistic and Information Authority, 2017).

The opening of new transit routes has boosted trade; the growth of trades between Afghanistan and Central Asian countries has more than doubled in recent years, and economic indicators show that the numbers of trade exchanges between Afghanistan and the countries of Central Asia and India are growing rapidly and steadily. The figures from Afghanistan's exports indicate that in the year 2017, the country's exports grew by approximately 40 percent (National Statistic and Information Authority, 2017). Besides, the monetary policy directly influence trade (Ashamu, 2020)

In the past, Afghanistan suffered heavy pressure because of taking advantage of only one commercial corridor. Unfortunately, these pressures have always been increasing due to Afghanistan's growing political problems with the neighboring countries, even though in recent years it has imposed more stringent rules and regulations on Afghan businessmen and trades. Continued pressure on Afghanistan's economy and trade has further boosted other business corridors, including Chabahar port, the air Corridor with India, and boosting the routes and ports of the Middle East. The volume of Afghanistan's exports to the near and far-flung countries shows that transit policies have effectively resulted, and no country can now force Afghanistan on transit and import of goods.

**METHODOLOGY**

This is a descriptive paper on direction, trend, and performance of the Afghanistan trade. The data is retrieved from numerous secondary sources, such as International Financial Statistics (IFS) of International Monetary Fund (IMF), the Observatory of Economic Complexity (OEC) and National Statistics and Information Authority (NSIA) of Afghanistan. The period selected is from 2002 to 2018. Moreover, the research is based on quantitative data and descriptive statistics such as ratios and percentages have been used to analyze the trend and direction of the Afghanistan trade.

**OBJECTIVES**

* This research paper attempted to emphasize the trend and performance of Afghanistan International Trade.
* To understand the direction of imports and exports with major export destinations and import origins.

**AFGHANISTAN’S TRADE**

Afghanistan located in the heart of Asia has 156 products with 62 export partners exporting (875.18) million USD and imports 331 products (7,406.56 million USD value) from 104 import partners.(World Integrated Trade Solution, 2018).

Afghan President Mohammad Ashraf Ghani addresses a joint meeting of the U.S. Congress, “We are an old country with a proud heritage and a history of trade with our neighbors. We have had a bill of exchanges for at least 2,000 years. And our women could write two and a half thousand years ago. For at least three millennia, we have been a hub for the caravans and trade networks that spread across Asia bringing Chinese silk and Indian textiles to ancient Rome and Renaissance Italy. The 19th century disrupted this world as it did in so many other places. Afghanistan became an isolated buffer, caught between two expanding empires. The emergence of the Soviet Union further isolated our country, culminating in the 1979 invasion and the subsequent war of resistance. Today, however, the isolation is over. First, awareness is growing; Afghanistan is quite literally the heart of Asia. Asia cannot become a continental economy without us. Asia in the next 25 years will have its 1869 moment, the year that east and west coast of the United States were joined through the transcontinental but this completion of the new interconnected Asia cannot happen without us. We are in the midst of 3.5 billion people and we should be able to export something and not just import. Our fragmented geography can once again become the opportunity for integrating central, west, east and south Asia into a network that supports stability and prosperity over a vast swath of service. Diplomatic efforts to advance integration and free hub cross-border trade and support, multicounty investments in energy, transport, and water. We envision Afghanistan that within 20 years become a hub of trade in gas pipelines, power transmission lines, railways, modern telecom and banking services. We are engaging people across Asia for trade. A vast region that extends from India to beyond. We are making headway in the corridor that will link us to Georgia, Turkey, and Europe into reality. We are determined to become the Asian Development roundabout in the platform for the peaceful cooperation of our civilization.” (Ghani, United States Congress, 2015). Further, he declared, “as we look to our neighbors in the South and Central Asia, we are simultaneously strengthening national, global and regional connectivity. Afghans will again become a multi-faceted hub in the 21st century (Ghani, 72nd Session of United Nations General Assembly , 2017).

Table1. Afghanistan’s Trade (USD in Millions)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Export** | **Import** | **Balance of Trade** | **Export Share (%)** | **Import Share (%)** |
| 2002 | 111.84 | 901.54 | -789.70 | 11.04 | 88.96 |
| 2003 | 182.06 | 1,267.63 | -1,085.57 | 12.56 | 87.44 |
| 2004 | 144.63 | 1,730.72 | -1,586.09 | 7.71 | 92.29 |
| 2005 | 147.19 | 2,169.22 | -2,022.03 | 6.35 | 93.65 |
| 2006 | 156.05 | 2,437.56 | -2,281.51 | 6.02 | 93.98 |
| 2007 | 161.33 | 2,630.88 | -2,469.55 | 5.78 | 94.22 |
| 2008 | 540.07 | 3,025.83 | -2,485.76 | 15.15 | 84.85 |
| 2009 | 403.44 | 3,343.58 | -2,940.14 | 10.77 | 89.23 |
| 2010 | 388.48 | 5,162.11 | -4,773.62 | 7.00 | 93.00 |
| 2011 | 375.85 | 6,399.61 | -6,023.77 | 5.55 | 94.45 |
| 2012 | 305.80 | 6,214.63 | -5,908.84 | 4.69 | 95.31 |
| 2013 | 373.96 | 8,561.76 | -8,187.80 | 4.18 | 95.82 |
| 2014 | 414.76 | 7,703.38 | -7,288.63 | 5.11 | 94.89 |
| 2015 | 571.40 | 7,728.02 | -7,156.61 | 6.88 | 93.12 |
| 2016 | 436.18 | 7,048.01 | -6,611.83 | 5.83 | 94.17 |
| 2017 | 526.55 | 8,314.92 | -7,788.37 | 5.96 | 94.04 |
| 2018 | 875.18 | 7,406.56 | -6,531.38 | 10.57 | 89.43 |

Source: International Financial Statistics (IFS) of the International Monetary Fund

The above table of Afghanistan’s trade during the period from 2002 to 2018 highlights the following statements:

* Imports have increased over the era, as have exports.
* Imports have surpassed exports continuously.
* The level of trade deficit increased from USD 789.7 million to USD 6531.38 million.

First, the study will focus on export performance and exports’ growth and later the imports of Afghanistan will be studied to understand the trends and performance of Afghanistan Trade.

**Export Performance and Growth**

Afghanistan export sector draws a fluctuated and unstable graph from 2002 to 2018. In FY 2003, Afghanistan export achieved a growth rate of (38.57 percent). Furthermore, the export sector gained growth (1.74 percent) in FY 2005, (5.68 percent) in FY 2006 and (3.27 percent) in FY 2007. Afghanistan witnessed negative export growth (-25.88 percent) in FY 2004. Moreover, Afghanistan experienced its peak in FY 2008 during the first decade of the 21st century with export growth (70.13 percent). After 2008, the sector growth declined for 4 consecutive years from 2009 to 2012 respectively (-33.86 percent), (-3.85 percent), (-3.36 percent) and (-22.91 percent). The sector slightly increased from 2013 to 2015. In FY 2016, the export fell by (-31 percent). Finally, the export sector boomed in FY 2017 with export growth (17.16 percent) and (39.83 percent) in FY 2018.



Figure1. Afghanistan’s Export

**Import Performance and Growth**

Afghans and the Afghan economy were in the shadow of war for almost 30 years. These continues war, isolated Afghanistan and people lost their hopes. A large number of Afghans immigrated to different countries. As a result, we left as a consumer and importer country.

Despite the exports, imports in Afghanistan increased from 2001 onward. Afghanistan import sector experienced a positive growth for a decade from 2002-2011 respectively by (48.91 percent), (40.61 percent), (36.53 percent), (25.34 percent), (12.37 percent), (7.93 percent), (15.01 percent), (10.50 percent), (54.39 percent), and (23.97 percent). In FY 2012, 2014 and 2016 the import amount declined and in FY 2017 the percentage rose again by (17.98 percent) while in FY 2018 imports decreased by (-10.92 percent).

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Figure 2. Afghanistan’s Import

**Balance of Trade**

The balance of trade in Afghanistan was always in deficit and there is a huge gap between export and import. And the reason is clear "The 19th century disrupted this world as it did in so many other places. Afghanistan became an isolated buffer, caught between two expanding empires. The emergence of the Soviet Union further isolated our country, culminating in the 1979 invasion and the subsequent war of resistance.” (Ghani, United States Congress, 2015). Moreover, War, Fragile governments, Geopolitics location, being Landlocked, Higher cost of production, Lack of publicity and advertisement, Low production, Unstable economy, Speed-less industrial development put more pressure on Afghanistan’s trade deficit.



Figure 3. Afghanistan’s Balance of Trade

**DIRECTION OF AFGHANISTAN’S TRADE**

**Afghanistan’s Exports Direction by Region**

Afghanistan is engaged with 62 partners from different regions and continents of the world and in this study the regions classified as advance economies, emerging and developing Asian countries, Commonwealth of the Independent States, African countries, European Union and the Middle East.

Advanced Economies: Austria, Belgium, Finland, France, Germany, Greece, Italy, Latvia, Lithuania, Netherland, Portugal, Slovak Republic, Spain, Australia, Canada, Hong Kong (China), Denmark, Japan, Korea, New Zealand, Norway, Singapore, Sweden, Switzerland, United Kingdom, and United States. Furthermore, Emerging & Developing Asian Countries: Bangladesh, China, India, Indonesia, Malaysia, Myanmar, Sri Lanka, Thailand, and Vietnam, Commonwealth of Independent States (CIS): Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan, Ukraine, and Uzbekistan. Moreover, Africa: All countries located in the Africa continent and Middle East: Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Yemen.



Figure 4. Afghanistan’s Export Direction by Region

Source: International Financial Statistics (IFS) of the International Monetary Fund

After the civil war and Taliban regime, the new government gets into power and the interaction with the world rehabilitated once again. Commonwealth States were 43 percent holders of Afghanistan export shares in 2002, while in 2010 the share of CIS States declined four times and decreased to 12 percent and in 2018, the amount reached to surface of the graph with approximately 1 percent share. The export of Afghanistan with advance economieswere only 8 percent in FY 2002, declined to 6 percent in FY 2010 and reached to 2 percent in FY 2018. In the same case with Middle East countries, Afghanistan exports with the Middle East were 16 percent in FY 2002, decreased to 14 percent in FY 2010 and decreased twice and shows only 7 percent share in FY 2018. European Union formed an 8 percent share of Afghanistan exports in FY 2002. But in 2010 and 2018 the share of EU falls into 5 percent and 1 percent. Afghanistan could not contribute to African Markets during the period from 2002 to 2018 and export share with African nations was below 1 percent from 2002 to 2018. This small share of Afghanistan export to African countries is due to distance, language problems, unfamiliarity to the African market and low demand to Afghan commodities.

Emerging & Developing Asian Countries (Bangladesh, China, India, Indonesia, Malaysia, Myanmar, Sri Lanka, Thailand, and Vietnam) export share doubled from 10 percent in FY 2002 to 20 percent in FY 2010. Due to Afghanistan's geo-strategic location, the export interaction with emerging and developing Asian countries are growing day by day and in FY 2018 this amount reached (389.72) million USD which shows the contribution of 44 percent. This amount again boomed two times than in FY 2010.

Other remain countries and regions made 15 percent contribution to Afghanistan export in FY 2002. The contribution increased to 43 percent in FY 2010 and 45 percent in FY 2018. These numbers show that Afghan traders found new markets during the period from 2002 to 2018. Furthermore, the new transit routes have also opened for Afghan exporters such as Lapis Lazuli (an International Transit Route opened in 2018 linking Afghanistan to Europe and Turkey via Turkmenistan, Azerbaijan, and Georgia), Chabahar Port (a seaport located in Iran, on the Gulf of Oman and connects Afghanistan to India and India to Afghanistan and Northern and Central Asia) and air corridors to India and China. These routes made Afghanistan export its commodities to different regions and countries.

**Afghanistan’s Import Direction by Region**

Afghanistan imports 331 products (7,406.56 million USD value) from 104 countries.(World Integrated Trade Solution, 2018). In FY 2002, Afghanistan imported from different countries and regions but in 2018, these places compressed to few regions which are Advance Economies, Emerging and Developing Asian countries, Commonwealth of the Independent States, African countries, European Union and the Middle East.



Figure 5. Afghanistan’s Import Direction by Region

Source: International Financial Statistics (IFS) of the International Monetary Fund

Imports from Advance Economies increased from 9 percent share in FY 2002 to 23 percent share in FY 2010 while the share decreased to 10 percent in FY 2018. Emerging and Developing Asian countries were only 8 percent contributor to Afghanistan's imports and further this number increased to 19 percent in FY 2010 and 26 percent in FY 2018. Commonwealth Independent States (CIS) showed that these countries are the most important import origin for the Afghanistan trade. In FY 2002, CIS states attained only 6 percent but during the period from 2002 to 2018, the states' share increased to 33 percent in FY 2010 and 27 percent in FY 2018.

Due to distance, language problem, cultural and environmental differences, unfamiliarity to the African market and low demand to African commodities, the import from African countries were less than 1 percent during the period from 2002 to 2010 and reached to 1 percent in FY 2018.

Afghanistan and Middle East countries are bond with each other. Culture, clothing, dishes make this bond closer but the import of Afghanistan from the Middle East is not stable. Afghanistan's imports from Middle East countries draw 23 percent share in FY 2002 and this piece compress to 11 percent in FY 2010 while the share-piece decompressed to 19 percent in FY 2018.

European Union share heightened from 1 percent in FY 2002 to 10 percent in FY 2010 but dropped to 2 percent in FY 2018 and this graph shows that import interaction with EU is unstable as well.

Afghan Traders imported 53 percent of all commodities from regions and countries other than the above-mentioned regions in FY 2002. While this performance limited by 4 percent in FY 2010 and the share raised to 15 percent in FY 2018.

**CONCLUSION**

Afghanistan is facing the challenge of a rapidly increasing trade deficit and the reasons behind low export performance are consequent War, Fragile governments, Geopolitics location, being Landlocked, Higher cost of production, Lack of publicity and advertisement, Low production, Unstable economy and Speed-less industrial development.

The numbers indicated that the export and import are increasing as well the trade balance deficit, despite growth in export of the country, still, it is slower than import in the country which different obstacles trigger the situation.

Afghanistan’s trade with Emerging and Developing Asian countries (Bangladesh, China, India, Indonesia, Malaysia, Myanmar, Sri Lanka, Thailand, and Vietnam) have revealed an upward trend. Emerging and Developing Asian countries were only 8 percent contributor to Afghanistan's imports in FY 2002 and further, this number increased to 19 percent in FY 2010 and 26 percent in FY 2018. Emerging & Developing Asian Countries export share doubled from 10 percent in FY 2002 to 20 percent in FY 2010. Due to Afghanistan's geo-strategic location, Trade interaction with emerging and developing Asian countries are growing day by day and in FY 2018 the export amount reached (389.72) million USD which shows the contribution of 44 percent. This amount again boomed two times than in FY 2010.

Afghanistan’s exports with Advanced countries were only 8 percent in FY 2002, declined to 6 percent in FY 2010 and reached 2 percent in FY 2018. Moreover, Imports from advance economies increased from 9 percent share in FY 2002 to 23 percent share in FY 2010 while the share decreased to 10 percent in FY 2018.

Commonwealth States were 43 percent holders of Afghanistan export shares in 2002, while in 2010 the share of CIS States declined four times and decreased to 12 percent and in 2018, the amount reached to surface of the graph with approximately 1 percent share. On the other hand, the Commonwealth Independent States (CIS) showed that commonwealth countries are the most important import origin for the Afghanistan trade. In FY 2002, CIS states attained only 6 percent of import but during the period from 2002 to 2018, the states' share increased to 33 percent in FY 2010 and 27 percent in FY 2018.

Afghanistan exports with the Middle East were 16 percent in FY 2002, decreased to 14 percent in FY 2010 and decreased twice and showed only 7 percent share in FY 2018. While imports of Afghanistan from the Middle East are not stable. Afghanistan's imports from Middle East countries draw 23 percent share in FY 2002 and this piece compress to 11 percent in FY 2010 while the share-piece decompressed to 19 percent in FY 2018.

European Union formed an 8 percent share of Afghanistan exports in FY 2002. But in 2010 and 2018 the share of EU falls into 5 percent and 1 percent. Notwithstanding, European Union share heightened from 1 percent in FY 2002 to 10 percent in FY 2010 but dropped to 2 percent in FY 2018 and this graph shows that import interaction with the EU is unstable as well.

Afghanistan could not contribute to African Markets during the period from 2002 to 2018 and export share with African nations was below 1 percent from 2002 to 2018. This small share of Afghanistan export to African countries is due to distance, language problems, unfamiliarity to the African market and low demand to Afghan commodities. At the same time, the import from African countries was less than 1 percent during the period from 2002 to 2010 and reached 1 percent in FY 2018.

Although the trade balance of the country so far reflects a significant impedance in terms of imports relative to exports, with the implementation of good industrial, commercial and transit policies, over time, it is possible to establish a reasonable balance between these two important factors "Balance and economic stability".

Import substitution and export promotion are two vital strategies that narrow the gap between export and import deficit. Moreover, the Afghan government should encourage businessmen to invest inside Afghanistan and produce those commodities that we import. Further, Afghan authorities should organize training workshop to promote unskilled to skilled labor. Nevertheless, unnecessary products should be limited or the tariffs should increase. Finally, Chabahar port, Lapis Lazuli routes and other air corridors should be used practically and regularly.

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