

KCCI - Country Wrap: AFGHANISTAN (NOV'18)



Economic situation in Afghanistan

Afghanistan is a junction of trade routes between South & West Asia and is renowned for its world class mineral deposits estimated to be cumulatively worth of ~\$1Tn. However it is going through several systematic shortcomings due to prolonged war situation which has been further worsened by the security problems. The international community remains committed to Afghanistan's development, pledging over \$ 83Bn at ten donors' conferences between 2003 and 2016. In October 2016, the donors at the Brussels conference pledged an additional \$ 3.8Bn in development aid annually from 2017 to 2020. Even with this help, Government of Afghanistan still faces number of challenges, including low revenue collection, anemic job creation, high levels of corruption, weak government capacity, and poor public infrastructure. The drawdown of international security forces that started in 2012 has negatively affected economic growth, as a substantial portion of commerce, especially in the services sector, has catered to the ongoing international troop presence in the country. The government has implemented reforms to the budget process and in some other areas. However, many other reforms will take time to implement.

Major agricultural commodities and revenue generating sectors

The important agricultural commodities of Afghanistan include fruits, wheat, lambskins, sheep skin, opium, wool, mutton, nuts etc. Country's other major revenue generating sectors are bricks, textiles, soap, furniture, shoes, fertilizer, apparel, food-products, non-alcoholic beverages, mineral water, cement; handwoven carpets; natural gas, coal and copper.

Deep rooted Pak-Afghan bilateral trade relations

Pakistan and Afghanistan shares friendly relation strengthened by religious affiliations. Pakistan provides access to Afghanistan for trade through its seaports while latter provides Pakistan with direct routes to Central Asia. In Oct.'10, both countries inked Afghan-Pakistan Transit Trade Agreement (APTTA) for enhancing trade cooperations. In Jul.'12, APTTA was extended to Tajikistan for establishing North-South trade corridor that would facilitate it to use Pakistan's Gwadar and Karachi ports for trade while Pakistan will enjoy trade with Tajikistan under similar terms of transit arrangement through Afghanistan. Both countries have also formed Pak-Afghan Joint Chamber of Commerce (PAJCCI) in Nov.'10, for resolving problems faced by Pakistani and Afghani traders. Pakistan has also joined Ashgabat Agreement and the Lapis Lazuli Corridor. Both of these agreements would foster Pakistan's transit and trade cooperation with various CARs, Afghanistan, Oman, Iran, Azerbaijan, Turkey and Georgia by reducing trade barriers.

Trade between Pakistan and Afghanistan

During 2017, Pakistan exported goods of worth \$ 1,390Mn as against exports of \$ 1,369Mn in 2016 showing meagre growth of 1.5%. Pakistan's goods import increased by around 12% during 2017, reaching 414.81Mn against imports of \$ 369.89Mn in 2016. In a recent development, the new govt. in Pakistan has announced to fast-track steps, including standardisation and automation of custom procedures, up-gradation of infrastructure at crossing points between the two countries in order to improve trade between the two countries. During his first visit to Kabul, Foreign Minister Shah Mehmood Qureshi proposed the setting up of a joint economic commission to further extend economic ties.

However, exporters in Pakistan are facing issues with respect to return of thousands of empty containers from Afghanistan. Businessmen have complained that Afghan authorities do not allow empty containers to cross Torkham border unless the truckers pay "extra charges" for the purpose. Afghan authorities reportedly detain every container for at least for 15 days on the pretext of traffic regulation, but those paying the charges" are allowed to proceed. Such needless restrictions serve to hamper trade rather than enhance it and urgent steps need to be taken to remove them.

Smuggling: Barrier that is hampering the growth of Pak-Afghan trade

The unofficial trade quantum is very significant at the Afghanistan border due to which, according to estimates, goods of worth million dollars are moved in and out of Afghanistan everyday through trucks that go unrecorded. Khyber Pass is reported to have been widely used for parallel trade which has adversely affected the national exchequers on both sides of the border. The situation calls for increasing scrutiny and the installation of modern scanning machines, biometrics and tracking system at Pak-Afghan border.

Potentials for enhancing Pak - Afghan bilateral trade

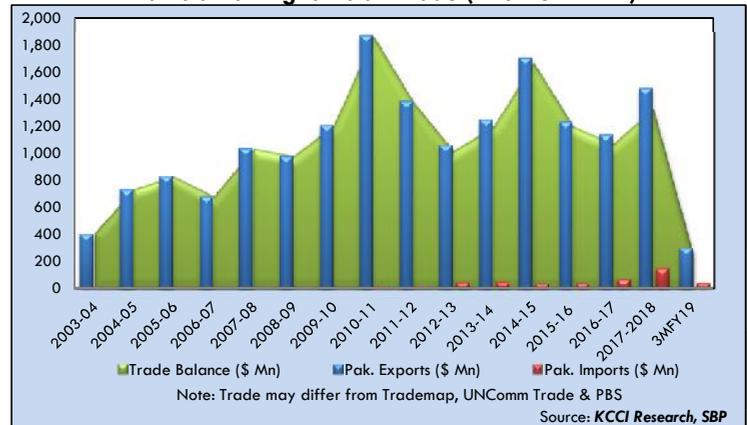
- Pakistan should revive its cement exports to Afghanistan that has witnessed a massive decline.
- Pakistan can look for providing expertise and resources to the growing Afghan services sector.
- Joining CPEC would help Afghanistan in improving its trade and investment scenario in future.
- Development of the TAPI gas pipeline also needs to be expedited in order to alleviate energy shortages in both countries.

Economic Indicators

Indicators	Unit	2016	2017	Change
GDP (PPP)	\$ Bn	67.65	69.45	2.66%
GDP per Capita	\$	2,000	2,000	0.00%
GDP growth	%	2.2	2.7	0.50%
Forex Reserves	\$ Bn	6.90	7.19	4.14%
Exports of Goods	\$ Bn	0.60	1.05	75.54%
Imports of Goods	\$ Bn	6.53	10.78	64.98%
Trade Balance	\$ Bn	-5.94	-9.73	-63.92%
Current Account	\$ Bn	1.41	1.01	-28.03%
FDI - at Home	\$ Bn	N/A	N/A	N/A
FDI - at Abroad	\$ Bn	N/A	N/A	N/A
CPI	%	4.4	5.0	0.60%
Prime Lending Rate	%	15	15	0.00%
Population	Mn	N/A	34.94	N/A
Unemployment	%	23.90	22.60	-1.30%

Sources: KCCI Research, CIA Factbook

Pakistan & Afghanistan Trade (FY04-3MFY19)



Afghanistan's Top 10 Trade Items (2017)

Imports Items	(\$ Mn)	Exports Items	(\$ Mn)
Electrical mach. & equip.	1,415.6	Edible fruit & nuts	403.9
Vehicles, not railway	1,194.1	Gums, resins & vege.	102.5
Mineral fuels & oils	854.9	Natural or cultured pearls	101.5
Tobacco & substitutes	501.5	Edible vege. & roots	86.1
Malt, starches, inulin	434.1	Mineral fuels & oils	69.0
Machinery & app.	401.2	Salt sulphur & cement	47.4
Suaars & confectionery	383.3	Cotton	46.9
Pharma. products	346.5	Coffee, tea & spices	42.8
Aircraft & parts	316.2	Iron & steel	39.9
Plastics & articles	297.0	Oil seeds & fruits	24.1

Sources: KCCI Research, Trademap

Pak - Afghan Top 10 Trade Items (2017)

Pakistan's Export Items	(\$ Mn)	Pakistan's Imports Items	(\$ Mn)
Sugars & confectionery	316.8	Edible fruit & nuts	126.1
Cereals	127.5	Edible vege. & roots	70.0
Edible vege. & roots	104.7	Mineral fuels & oils	68.9
Malt, starches, inulin	97.1	Cotton	46.3
Mineral fuels & oils	94.0	Salt, sulphur & cement	44.9
Salt, sulphur & cement	87.6	Iron & steel	39.8
Pharma. products	74.4	Raw hides & skins	4.5
Edible fruit & nuts	70.8	Coffee, tea & spices	3.7
Dairy produce	42.2	Oil seeds & fruits	3.2
Animal or vege. Fats	42.0	Machinery & apps.	2.8

Sources: KCCI Research, Trademap