

Afghanistan in South Asia: Economy, Trade, and Investment; Issues and Prospects

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I. Introduction

Afghanistan is one of the poorest countries in South Asia. It is located on the old historical Silk Road, the country that serves as a bridge between Central Asia, the Middle East, and South Asia. Afghanistan has 31.40 million population with a per capita Gross National Income (GNI) of US\$ 611 and an annual rate of inflation of 5.2 percent (ADB, 2020). About 49.4 percent population of Afghanistan still falls on the absolute poverty line, underemployment rate among the workable population remains at 25.6 percent. Afghanistan is truly a multicultural land and there has been a Chinese civilization impact on the country. Owing to the global power play between the major contenders; Afghanistan has been subjected to foreign invasions and instructions quite frequently, mainly owing to its geographical location(Khan, 2015).

Agriculture is traditionally a driving force of the Afghan economy. Prior to Taliban rule and decades of conflict, Afghanistan was not only able to produce enough food for its own population but also exported many agricultural products, such as almonds, pomegranates, pistachios, raisins, and apricots(Rahimi & Artukoglu, An Assessment of Foreign Trade Structure of Afghanistan Agricultural Products, 2019). As a result of long-running conflict and political turmoil, Afghanistan's population is among the world's most deprived, with a national poverty rate exceeding 50 percent, and the population also faces very significant issues with undernourishment(ADB, 2021). Most of the population continues to be engaged in agriculture, through the destruction caused by the war has been a force for urbanization by driving many people from the countryside. Many Afghans brought up in refugee camps, lack the farming facilities and skills that they need to survive (Sial, 2021).

II. War-Torn Economy, Present State, and Problems

Afghanistan is a prime example of a country where the absence of peace has had a devastating impact on economic development. According to the GPI 2023 report, the economic impact of violence in Afghanistan remains significant, with the country incurring a large-scale cost equivalent to 47% of its GDP (IEP, 2023). Afghanistan is away from the World's lowest life expectancy at 53.25. Afghanistan also faces unique challenges including being one of the World's poorest populations (Teston & al., 2021).

Afghanistan has received enormous international support over the past two decades. International support underpinned economic growth, the development of core government services delivery compatibilities, and rapid improvement against critical development indicators (The World Bank, 2022). Amid pervasive weaknesses in governance and institutions; growth was highly concentrated in aid driven service economy. The Afghan economy has been bedeviled by a plethora of problems chiefly due to slow and weak economic growth. The causes of such poor growth of the Afghan economy is caused due to severe droughts and intensifying insecurity (The World Bank, 2020). Severe drought reduces both labor and agricultural productivity, while insecurity reduces investments. This insecurity has further led to the internal displacement of people and refugee returns which continues to pose a great risk to the general well-being of the economy (Sahebe, 2020). The Taliban's unexpectedly taking control of Afghanistan brings shock to the long-suffering Afghan people and the country's weak economy. Already plagued by insecurity, COVID-19, corruption, government over-centralization and mismanagement, declining revenues, and drought; the Afghan economy now faces a host of challenges in the aftermath of the Taliban's takeover and the international community cracking down on aid and assistance (Rahimi M., 2022).

Afghanistan's Gross Domestic Product (GDP) stood at US\$ 19.36 billion in 2018 with a mere 1.0 percent GDP growth. By 2018, its agriculture sector's contribution to GDP remained at 19.88 percent. This means the trade and service sector's contribution to Afghanistan's GDP increased over the years (see, Annex Table No. 1). In 2018, inflation in Afghanistan remained at single digit, i.e. 3 percent only. In 2022, Afghanistan's GDP stood at 20.1 billion with 13.8 percent of inflation, with a total population of 31.40 (ADB, 2023). By this time, the poverty-ridden Afghani population's share of the total population stood at 49.4 percent. Supply-side constraints coupled with drought attributed to such a higher level of inflation in Afghanistan in 2022. The Taliban's recapture of Afghanistan in August 2021 has had dire economic, political and security consequences. With the world's lowest living standards, Afghanistan is also experiencing economic, health, and humanitarian crises, food insecurity is especially acute (HF, 2023). After the takeover, Afghanistan's real GDP immediately contracted by 20 percent. Though with a large amount of UN and international aid, the economy somewhat, GDP contracted by 3.6 percent in 2022 (UNDP, 2023). Poverty and food insecurity are highly prevalent in Afghanistan and are

concentrated in rural areas. The drought in 2018 and 2019, which displaced over 400,000 people, underscores the risks presented by climate change(The World Bank, 2021).

III. Afghanistan's International Trade and Inward Investment

Trade could be a boon for speeding up growth in Afghanistan. In general, trade is believed to promote efficient allocation of resources, allow the country to realize economies of scale and scope; facilitate the diffusion of knowledge; faster technological progress; and encourage competition in both domestic and international markets, which leads to an optimization of production processes and development of new product(The World Bank, 2023). As a landlocked country, Afghanistan has mainly relied on Pakistan for transit trade with the rest of the World (Rahim, 2018).

Afghanistan's export was US\$ 0.341 billion in 2011 and stood at 1.24 billion in 2020. Likewise, its imports remained at US\$ 6.13 billion in 2011 and decreased to US\$ 5.31 in 2020. Afghanistan's export trade remained weak over the years. Afghanistan's trade deficit stood at US\$ 4.1 billion in 2020 (see, Annex, Table No. 2). Afghanistan's exports and imports remained at US\$ 1.04 billion and US\$ 5.6 billion respectively in 2021 with a trade deficit of US\$ 5 billion(LB, 2023). Countries like India, Pakistan, China, Iran, Vietnam, Germany, etc., are major export trade partners of Afghanistan. Likewise, Iran, Pakistan, India, and Japan are their major import trading partners. Other export and import trading partners of Afghanistan are: Malaysia, Commonwealth Countries, USA, UAE, Turkey, Vietnam; etc (See, Annex, Table No. 3). Afghanistan's export items are mostly agricultural products, medical plants, mine and minerals, precious and semi-precious gems, carpet, handicrafts, etc; while the import of Afghanistan from international market encompasses almost everything from food to cloths, petroleum, medicine, capital goods, and construction items(Ashrafi & and Kalaiah, 2020).

FDI has an important role in the development of the economy. FDI is known as the way to finance the deprived country. For poor countries, FDI is particularly known as the source of financing, FDI is the way to improve the gap between saving and investment(Khakan & and Rabia, 2016). FDI in making capital to develop their services, bring new technology, bring money, and use for technological improvement (Rahman, 2017).

Though Afghanistan has rich deposits of natural resources, it cannot make use of most of its known mineral resources due to inadequacy of technical facilities, poor transportation networks, and insufficient investment capital. This kind of investment requires a vast amount of money. The lack of such capital stock in the country raises the importance of FDI coming to the country(Shafaq & and Eryigit, 2020). The data depicts that FDI in Afghanistan in 2008 recorded US\$ 288 million (Basij H. a., 2019). In 2018, FDI flow for Afghanistan remained at US\$ 12.0 million, a sharp drop

this FDI inflow in 2019, which remained at a mere US\$ 2.0 million. However, by 2021, this FDI inflow for Afghanistan again rose to US\$ 21 million (See, Annex Table No. 4).

IV. Issues on Economy, Trade, and Investment; Way Forward

In spite of its abundant resources as mineral ores; water, and cultivable land; Afghanistan is still one of the least developed countries in the world. Prolonged war in Afghanistan which happened in the past, obstructed its growth. The old mode of production techniques applied in agriculture to cultivate crops have failed to yield more agricultural products for Afghanistan. Due to prolonged war, Afghanistan lost additional earnings that could have been borne from its tourism, investment, and other sectors. Furthermore, rampant poverty, poor harvests, and slow expansion of the industrial sector along with the poor state of exploration of its mining sector could not be supported that much to generate internal revenue desirable for Afghanistan's development. The overall rule of law is very weak in Afghanistan. Additionally, the fall of Afghanistan to the Taliban left business freedom in disarray and the physical well-being of entrepreneurs far from guaranteed (THF, 2023).

Afghanistan has a low volume of international trade. It is facing growing trade deficit problems in the international trading regime. Perpetual conflict has resulted in crippled trade and transport infrastructure for several decades which obviously is a major factor in relatively greater trade costs. According to ADB estimate, "trade cost in Afghanistan is 50 percent greater than other countries of central Asia despite its strategic location"(Sawtee, 2018). Afghanistan remains unable to utilize its untapped export potential in the world market, despite having abundant natural resources, rich and generous water resources as well as agro-ecological conditions for agricultural products and partially developed manufacturing sectors(The World Bank, 2020).

Afghanistan recorded an average annual FDI inflow decline of 15.6 percent from 2017 to 2021, which was lower than the Asia-Pacific's 3.8 average annual FDI inflow growth(ESCAP, 2023). The prolonged war in Afghanistan was responsible for the low profile of FDI. Besides, inadequate infrastructure, lack of skilled labor, and insecurity confessed by investors are also other causes for low profile FDI received by Afghanistan. While the legal framework for the financial sector has been liberalized and entry of foreign private banks has occurred, the provision of formal financial services in Afghanistan (such as credit) is still in a nascent phase(The World Bank, 2005). A study indicates that the "Main reason for low FDI in Afghanistan is the paucity of capital and lack of latest technology"(Basij H. e., 2019).

In order to sustain an economy, Afghanistan should purposively invest more in agriculture infrastructures as the construction of irrigation projects with the use of abundant labor available in rural areas. Provision of better seed, fertilizer, and seed money for poor Afghan farmers during the time of harvest by regional as well as local government bodies, and microfinance institutions could

support to yield better harvest to feed its population. Afghanistan produces grapes, apricots, walnuts, pomegranates, etc., fruits in rural areas. Encouraging Afghani farmers to produce such fruits yields additional earnings and employment for them in country sites. Export of such produce could also support the Afghani Government to earn additional foreign currency. Involvement of poor Afghani women in running small-scale enterprises in rural areas could support to uplift their poor level of socio-economic status. For this, the Afghani government should make the provision of seed money and training at the grassroots level targeting them. Diversification of its trade and reform in its existing trade policy, Afghanistan could lessen gradually its growing trade deficit. Additionally, Afghanistan could open up the tourism sector so as to have more tourist flow to generate foreign exchange earnings and assurance of additional employment opportunities.

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ANNEXES

Annex Table No. 1
GDP, Growth and Inflation

Years	GDP (US\$ Billions)	GDP Growth	Agri% of GDP	Inflation (%)
2010	15.33	8.40	26.21	2.18
2011	17.89	6.50	23.74	11.8
2012	20.29	14.00	24.39	6.44
2013	20.17	5.70	22.81	7.39
2014	20.62	2.70	22.14	4.67
2015	20.06	1.00	20.63	-0.66
2016	19.43	2.20	21.08	4.38
2017	20.24	2.70	20.47	4.98
2018	19.36	1.00	19.88	3.00

Sources: (Rahimi M. S., 2019)

Annex Table No. 2

Afghanistan's International Trade Scenario
(In Billion US\$)

Year	Afghanistan's Export to the World	Afghanistan's Import form the World	Trade Balance
2011	0.341	6.13	-5.8
2012	0.401	7.79	-7.4
2013	0.464	7.55	-7.1
2014	0.57	7.72	-7.2
2015	0.571	7.72	-7.1
2016	0.596	6.53	-5.9
2017	0.831	7.79	-7.0
2018	0.875	7.4	-6.5
2019	0.863	6.77	-5.9
2020	1.24	5.31	-4.1

Source:(TDAP, 2021)

Direction of External Trade of Afghanistan,2021

(In US\$ Million)

Country Name	Exports	% Share	Import	% Share	Trade Balance
Pakistan	214.69	28%	736.73	11%	-522.03
India	394.29	51%	490.96	8%	-96.68
Iran	7.47	1%	1110.95	17%	-1103.48
Germany	5.35	0.7%	88.23	1%	-82.88
China	55.34	7%	984.47	15%	-929.13
Malaysia	-	0%	114.48	1.8%	-114.48
Vietnam	6.66	0.86%	27.46	0.42%	-20.80
UAE	-	0%	155.03	2%	-115.03
Turkey	-	0%	61.23	0.94%	-61.23
USA	-	0%	48.66	1%	-48.66
Common wealth	8.81	1%	1923.31	30%	-1923.50
Japan	-	0%	184.09	3%	-184.09
Other Countries	84.11	11%	603.04	9%	-518.92
Total	776.73	100%	6537.64	100%	

Source:(Hashimy & and Magoge, 2022)

Annex Table No. 4
FDI Flow in Afghanistan
(In US\$ million)

Foreign Investment	2018	2019	2020	2021	2022
FDI Inward Flow	12*	2*	13	21	-
FDI Stock	-	-	1,592	1,613	1,613

Source: (i) (LB, 2023) (ii) (Macro Trends, 2023)