

# *Country Report on Afghanistan*

*Mohsan Mazhar*

*Research Associate*

*SPR Division, Trade Development Authority of Pakistan (TDAP)*

*Ministry of Commerce, Govt. of Pakistan*

*Karachi*

## Table of Contents

Introduction .....	1
Potential Trade Scenario .....	4
Pakistan's Top Exports: .....	4
Identification of Potential Items.....	5
Value Chain Mapping .....	6
Non-Tariff Barriers .....	15
Demand and Supply Side Issues .....	17
International Brands in Afghanistan .....	19
Top Pakistani Exporters .....	19
SWOT Analysis .....	20
Conclusion and Recommendations.....	22

## **Executive Summary**

Pakistan is the largest importer of Afghani products with imports of \$369 million while Afghanistan is the 4<sup>th</sup> largest destination for Pakistani exports. During the last five years, the trade volume between Pakistan and Afghanistan has declined from \$2.3 billion to \$1.4 billion. Pakistan is losing its market share in Afghanistan due to the entrance of Iran and India. Pakistan was the top origin for Afghanistan's imports, but since 2014 Iran has taken away the first position from Pakistan. Primary reasons for declining exports include dispute on Afghan-Pakistan Transit Trade Agreement, trade controls at borders, deterrence of Indian imports in Afghanistan via Pakistan, and closure of borders.

Most of the exports to Afghanistan include agricultural products. The reason is that Afghanistan prefers to import agricultural products from neighboring countries like Pakistan, Iran, and Tajikistan due to low cost. Wheat, cement, sugar and, rice are the top products which Pakistan exported to Afghanistan in 2016. For some of the products, the market share of Pakistan is more than 90%.

The potential export items identified are based on the criteria of supply, demand and market share. Items are preferred to be included as a potential product if Pakistan has enough supply, Afghanistan has high demand, and existing market share of Pakistan is low for the specific item. The filtered products are the surgical instruments, soap, rubber tires, milk and cream, and footwear. Pakistan already has a high market share for a number of products, but it can be further improved because Afghanistan is a developing country and has a high dependency on Pakistan. For each potential item ranking of Pakistan and other suppliers has been calculated based on Export Competitive Index and compared with preceding years. Pakistan's Competitiveness is weakened for medical instruments and soap while other products either improved or maintained their competitiveness.

Lack of transparency and ambiguous custom procedures make it difficult to trade in Afghanistan. Moreover, World Bank (2014) placed Afghanistan at 184<sup>th</sup> place out of 189 regarding trading across the borders. There are several demand and supply issues like the undeveloped banking system, poor infrastructure, weak legal system, deteriorating security situation, trade controls and closure of borders which further hinder trade.

Exports to Afghanistan can be improved by arranging more exhibitions, facilitating exporters, renegotiating improved terms for the APTTA and narrowing trade deficit.

## Introduction

Limited private investment and diminishing consumer demand resulted in the slow economic recovery of Afghanistan. Poverty continues to increase due to sluggish growth, security disturbance, and poor agricultural performance. The population growth rate is almost constant for last five years, i.e., 3%, but GDP growth rate is declining continuously. After 2013 the GDP growth rate is less than 3%. Here we can compare population growth rate with the GDP growth rate. GDP growth rate is lower than the growth rate of population, which indicates that Afghanistan' economy is not growing enough to accommodate rising population and this is one of the reason that per capita income of Afghanistan is decreasing and unemployment is swelling.

### Afghanistan's Economy at Glance:

	2013	2014	2015	2016	2017
<b>Population (Millions)</b>	31.73	32.75	33.73	34.66	36.02
<b>Population Growth Rate</b>	3%	3%	3%	3%	3%
<b>GDP Growth Rate</b>	3.90%	2.69%	1.31%	2.36%	2.5%
<b>Per Capita Income</b>	\$638	\$629	\$569	\$561	\$587
<b>Unemployment Rate</b>	8.4%	8.6%	8.6%	8.6%	8.5%
<b>Inflation Rate</b>	7.39%	4.67%	-0.66%	4.4%	5%
<b>Avg Exchange Rate (1 USD) =</b>	51.88AFN	55.78AFN	57.60AFN	59.57AFN	69.30 AFN (2018)
<b>FDI (USD Millions)</b>	37.63	43.51	163.10	98.99	N/A
<b>Import to Export Ratio</b>	16.64	13.50	13.52	10.95	N/A

*Tabl1.Afghanistan's Economy at Glance| Source: World Bank & IMF*

Import to Export Ratio of Afghanistan is very high, in the year 2016 imports are almost eleven times larger than exports. The key exports of Afghanistan include vegetable saps, fresh and dried grapes, carpets and other textile floor covering, fresh fruits and dried fruits. The top imports of Afghanistan are wheat and meslin flour, braids of textile material, animal or vegetable fats and oil, petroleum gas, machinery and surgical instruments. Major importers of Afghani products are Pakistan, India, Iran Turkey and Iraq while top origins for Afghani imports are Iran, Pakistan, China, Kazakhstan, and Uzbekistan.

In 2017 Pakistan exported goods worth \$1.3 billion to Afghanistan. Pakistan is the largest importer of Afghani Products with imports of \$369 million while Afghanistan is the 4<sup>th</sup> largest destination for Pakistan Exports. Due to the consistent decline in trade volume since 2012, the bilateral trade between Pakistan and Afghanistan is diminishing.

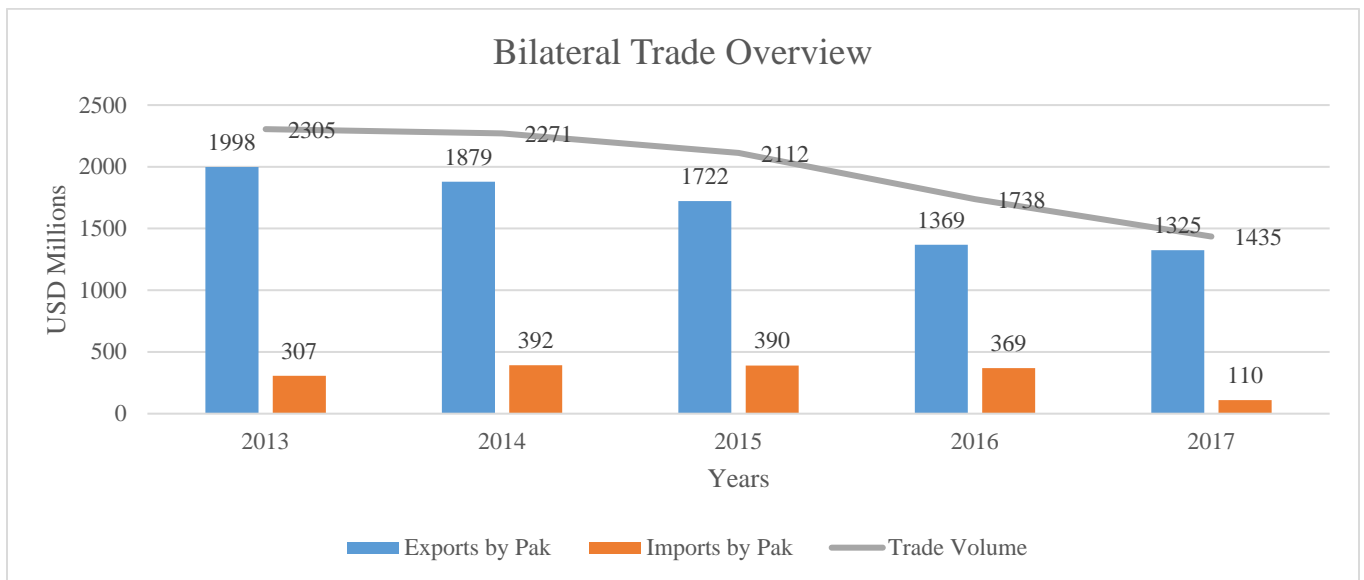


Figure 1. Bilateral Trade Overview | Source: Trade Map & SBP

Pakistan is losing its market share in Afghanistan on a yearly basis. The market share was 33% in 2012, but now it has declined to 21% due to the entrance of Iran and India in the Afghani market. Pakistan was the top source for Afghanistan's imports, but since 2014 it has lost its position to Iran. Now Pakistan is at the second position on the list of top supplying markets for Afghanistan.

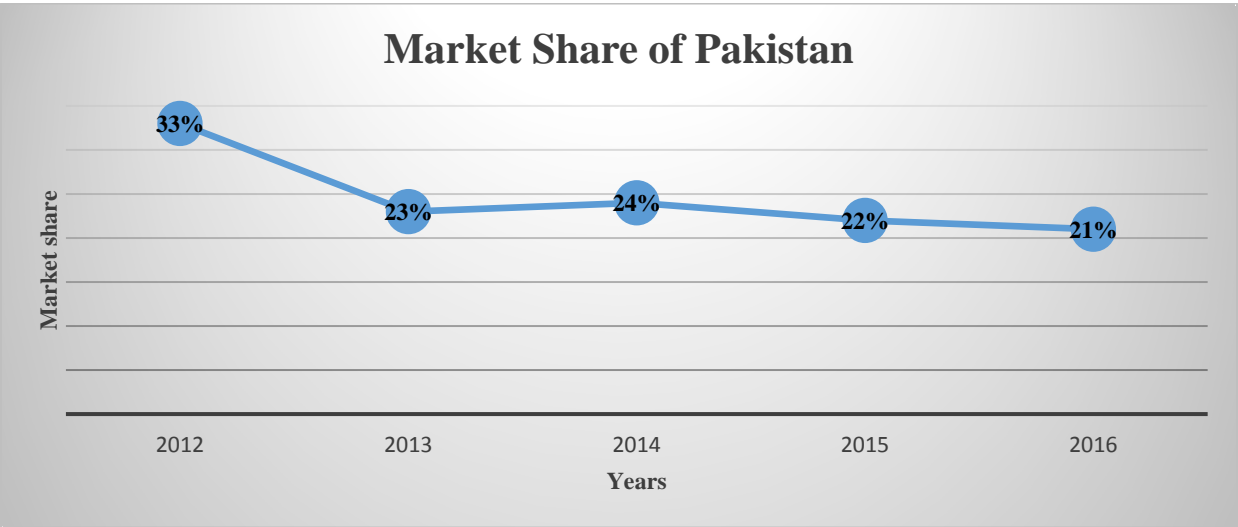


Figure 2 Market Share | Source: Trade Map

There are several issues which are affecting bilateral trade between the two countries. The prime issue is the disputes on Afghan-Pakistan Transit Trade Agreement. Both of the states are blaming each other for not honoring the terms of the agreement. Some trade controls are also generating difficulties, for example, every truck is required to get checked at the border which creates delays for movement of goods. There is also a requirement of installing trackers on trucks which results in additional cost.

Additionally, Afghan trucks are not allowed to carry Indian products to import while using Pakistani route which makes Afghanistan unhappy. The occurrence of any undesirable incident results in closure of borders between Pakistan and Afghanistan for an unforeseeable time which further downturn the bilateral trade. Pakistan and Afghanistan are sharing the longest border of 2400 Km which makes it very difficult to control smuggling.

## Potential Trade Scenario

The following table depicts the top 15 items exported to Afghanistan in 2016 with the percentage change in value as compared to 2015, the share of that product in Pakistan's exports and tariff faced by Pakistan for a particular product. It can be observed that in top 15, most of the products are agricultural commodities. Furthermore, for some of the products like wheat or meslin flour, cane or beet sugar, vegetable fats and oils, household articles, fiberboard, milk and cream and fresh or dried bananas Afghanistan is the leading destination, as more than 90% exports of these items are to Afghanistan only. It is because Afghanistan prefers to import agricultural products from neighboring countries like Pakistan, Iran, and Tajikistan due to low cost.

### Pakistan's Top Exports:

Sr #	HS Code	Name of the Product	Value USD Million (2016)	% age Change 2015-2016	Share in Pakistan's Exports	Tariff faced by Pakistan
1	110100	Wheat or Meslin Flour	171.53	-47%	99%	5%
2	252329	Portland Cement	121.94	-19%	42%	5%
3	170199	Cane or Beat Sugar	111.28	-47%	90%	5%
4	100640	Broken Rice	66.86	-33%	27%	2.5%
5	271019	Medium oil and Preparations of Petroleum	60.80	13%	79%	12%
6	100630	Semi or Wholly milled Rice	52.62	35%	4%	2.5%
7	080520	Fresh or dried Mandarins	52.53	-13%	33%	9%
8	151620	Vegetable fats and oils	50.90	-14%	96%	2.5%
9	392490	Household Articles and Toilet Articles of Plastic	32.66	22%	95%	9%
10	441193	Fiberboard of wood/other material	30.68	2%	100%	5%
11	070999	Fresh or chilled Vegetables	30.18	0%	80%	16%
12	300339	Medicaments containing hormones or steroids	29.24	-14%	84%	2.5%
13	040120	Milk and Cream	27.59	-17%	99%	10%
14	070190	Fresh or Chilled Potatoes	26.97	-62%	35%	10%
15	080390	Fresh or Dried Bananas	22.56	9%	100%	14%

Table 2 Top Exports to Afghanistan | Data Source: Trade Map

By comparing the value of the major products with the year 2015, it can be seen that most of the products, export value has declined in 2016. Fresh or chilled potatoes, cane or beet sugar, and wheat or meslin flour, faced a substantial decline of 62%, 47%, and 47% respectively. Pakistan suffered the highest tariff of 16% on fresh and chilled vegetables. Pakistan being a member of SAFTA, pays 2% less tax on fresh or dried bananas and 1% less tariff on fresh or dried mandarins and household articles as compared to non-member countries of SAFTA.

### **Identification of Potential Items**

According to the criteria which have been formulated for this research three conditions are to be met simultaneously for a product to be selected as a potential export item. The first condition is that Pakistan export to the world for that product should be higher than \$1million which seems to be small but the main reason to choose this amount is that Afghanistan is not a very big market and does not import goods at with very high value. The second condition is that the import value of the product by Afghanistan from the world should be higher than \$5 million. The rationale to use higher amount is that there should be enough demand for the product in the market. The third condition is that Pakistan should have a low market share for the product in Afghanistan because low market share indicates that there is enough potential for Pakistan which can be captured.

<b>Sr #</b>	<b>HS code</b>	<b>Name of the Product</b>	<b>Market Share</b>	<b>Tariff Rate</b>
1	901890	Instruments and Appliances used in medical, surgical or veterinary sciences	8%	2.5%
2	340120	Soap in the form of flakes, granules etc.	17%	5%
3	401140	New pneumatic tyres, of rubber, of a kind used for motorcycles	12%	5%
4	040210	Milk and cream in solid forms	48%	2.5%
5	640320	Footwear with outer soles of leather	55%	2.5%

*Table 3 Potential Products | Data Source: Trade Map*



The source of data for the potential products is Trade Map that shows the data which is reported by countries; therefore sometimes there is the difference between the data reported by partner countries for their exports and imports. Because of limitation of data availability, data reported by Afghanistan as its imports from Pakistan has been used to calculate Potential items. After detailed analysis five products (Table-3) has been identified as potential products.

## **Value Chain Mapping**

Competitive analysis of the five potential products has been carried out by unit value, market share, the share of total export of exporting country of a specific product to Afghanistan, tariff, and export competitive Index. The Export Competitiveness Index has been calculated by the two variables, i.e., Trade indicator and capacity indicator. Trade indicator is the ratio of Country export of specific commodity to world export of specific commodity while the capacity indicator is the ratio of Country export of particular product to the population of the country. The capacity indicator tells us per capita export value of the particular product. Average of trade indicator and the capacity indicator makes the export competitive index. Export Competitive Index ranks countries with the highest value listed at the top. The ranking of the nations for a specific product is compared with the previous years to monitor if there is any improvement or deterioration in country's position<sup>1</sup>.

### **Instruments and appliances used in medical, surgical or veterinary science (901890):**

According to the criteria above, instruments, and appliances used in medical, surgical or veterinary sciences have a high potential. The existing market share of Pakistan is only 7.5%. Pakistan's Export to the world for the product is more than USD 326 Million. Afghanistan is importing value of merely \$10 million from Pakistan. There is high demand of \$137 million in Afghanistan for this product. Japan and China are the top suppliers of the medical instruments to Afghanistan as they are technology efficient countries. Pakistan is at number three. Pakistan is exporting less than one percent of its total export of medical instruments to Afghanistan. There is a vast unutilized capacity to ship medical instruments to Afghanistan.

---

<sup>1</sup> It can be more meaningful to compare ranking on the basis of ECI with the gap of couple years but in case of Afghanistan data of the products show value of zero for past years which does not make it meaningful to calculate ECI.

Pakistan has improved its position on the Export Competitive Index from 4<sup>th</sup> to 3<sup>rd</sup> in 2016 as compared to 2015. Japan and China are among highly competitive countries for this product. However, a most important indicator of competitiveness which is not captured by the ECI is the distance. The small distance from Pakistan considerably reduces the cost for Afghanistan to import. No country has a competitive edge on the basis of tariff as all the countries face the same tariff of 2.5%. Data for the unit value is not available for this product.

Sr #	Countries	Unit Value	Market Share in Afghanistan	Export's Share in Afghanistan	Tariff	ECI Ranking 2015	ECI Ranking 2016
1	Japan	N/A	38.3%	2.4%	2.5%	2	1
2	China	N/A	35.5%	3.3%	2.5%	1	2
3	Pakistan	N/A	7.5%	0.7%	2.5%	4	3
4	Iran, Islamic Republic of	N/A	3.3%	0.06%	2.5%	5	4
5	India	N/A	2.2%	0.4%	2.5%	6	5
6	Turkey	N/A	1.7%	0.2%	2.5%	7	6
7	Germany	N/A	1.6%	11.9%	2.5%	9	7
8	Korea, Republic of	N/A	1.5%	1.1%	2.5%	10	8
9	United States of America	N/A	1.3%	25.7%	2.5%	3	9
10	United Kingdom	N/A	0.8%	0.09%	2.5%	8	10

Table 4 Medical Instruments| Data source: Trade Map

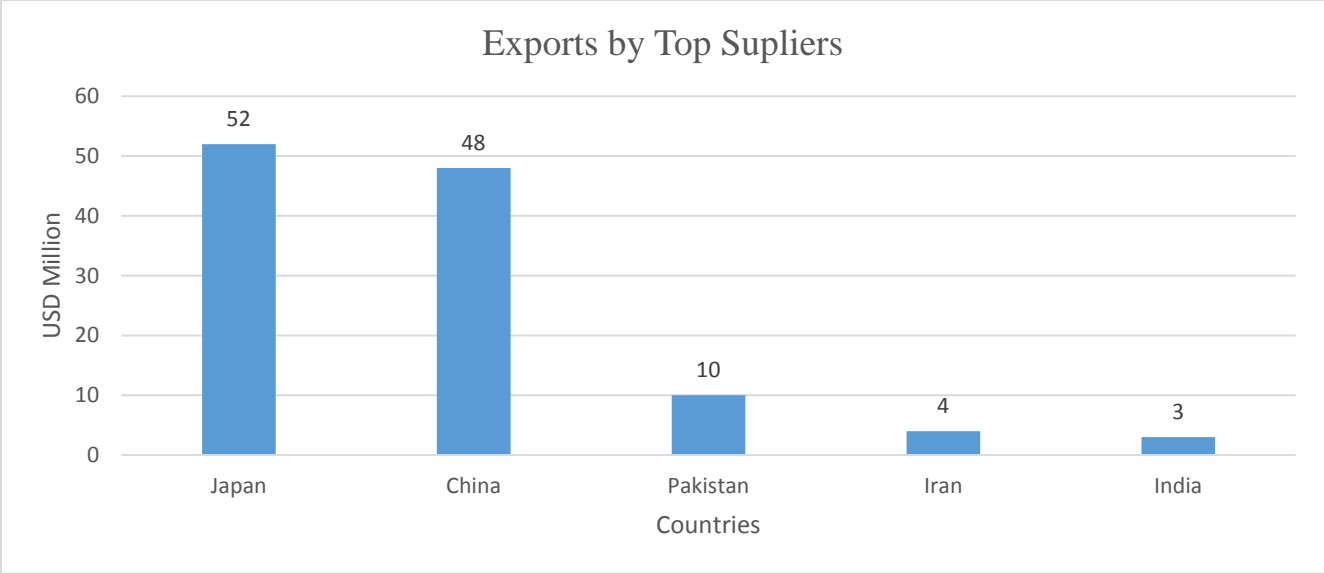


Figure 3 Exports by top suppliers Source: Trade Map

**Soap in the form of flakes (340120):**

Pakistan is the third largest exporter of soap to Afghanistan with the market share of 16.6% and exports only the value of \$3 million. The current market share shows that Pakistan has potential to export more to Afghanistan. Currently, most of the market demand is fulfilled by Iran, as it is the leading competitor of Pakistan for this product. China’s market share is nearly 15% which is close to Pakistan. On the supply side, Pakistan is trading just 0.1% of its total exports of soap and flakes to Afghanistan. Hence, there is a significant potential on the supply side as well. Malaysia and Indonesia are utilizing higher share of their exports in Afghanistan i.e.18% and 12% respectively.

Interestingly China is exporting at the lowest price compared to all suppliers and have the edge regarding price over other countries. Price of Pakistani soap related product is lower than Iran but still higher than other top five suppliers. All the major suppliers have to face the same tariff of 5%, and no country has a competitive edge by tariff. The Export Competitive Index has been compared for the years 2015 and 2016. Still, we can witness significant shifts between the rankings of different countries. The ranking of Pakistan is depreciated from 1<sup>st</sup> to 3<sup>rd</sup> position in one year. Iran replaced Pakistan at 1<sup>st</sup> position. China’s ranking improved a lot from 7<sup>th</sup> to 4<sup>th</sup> place. Indonesia’s ranking remained unchanged. China and Iran seem to be the major competitors of Pakistan for soap-related products.

Sr #	Countries	Unit Value	Market Share in Afghanistan	Export's Share in Afghanistan	Tariff	ECI Ranking 2015	ECI Ranking 2016
1	Iran, Islamic Republic of	801	23.7%	0.09	5%	3	1
2	Indonesia	867	17.4%	11.9	5%	2	2
3	Pakistan	819	16.6%	0.10	5%	1	3
4	China	650	14.7%	2.1	5%	7	4
5	United Arab Emirates	752	9.9%	0.2	5%	4	5
6	Malaysia	1066	6.3%	18.2	5%	8	6
7	Turkey	714	4%	3.5	5%	10	7
8	Uzbekistan	1013	1.7%	0.02	5%	6	8
9	United Kingdom	777	1.3%	3.2	5%	9	9
10	Viet Nam	779	1%	0.2	5%	11	10
11	Russia	662	0.9%	0.3	5%	5	11
12	India	1000	0.7%	0.32	5%	12	12
13	Ukraine	717	0.5%	0.2	5%	13	13

Table 5 soap in the form of Flakes | Data Source: Trade Map



Figure 4 Top supplies of soap | Data Source: Trade Map

### New pneumatic tires of rubber used in motorcycles (401140):

China is the dominant exporter of rubber tires in Afghanistan capturing a market share of 59%. Pakistan's share is merely 11.4%, exporting less than \$1 million which indicates that substantial chunk in the market is to be captured. Pakistan is supplying to Afghanistan only a small fraction of total quantity of its world exports for rubber tires. On the other hand, China is selling about 22% of its total export capacity of rubber tires in Afghanistan. Iran and Japan both have market shares close to Pakistan. Data of the unit price is available only for four countries. All of these countries have a tiny market share in Afghanistan.

No country has a special advantage in terms of the tariff as all the countries are facing the same rate. For ECI ranking all the countries are compared from the data for the year 2015 and 2016. China is consistently maintaining top position while Pakistan has improved its position from 3<sup>rd</sup> to 2<sup>nd</sup> and Iran lost its position from 2<sup>nd</sup> to 3<sup>rd</sup>. China, Iran, and Japan are the key competitor of Pakistan for rubber tires.

Sr #	Countries	Unit Value	Market Share in Afghanistan	Export's Share in Afghanistan	Tariff	ECI Ranking 2015	ECI Ranking 2016
1	China	N/A	59.2%	21.8%	5%	1	1
2	Pakistan	N/A	11.4%	0.3%	5%	3	2
3	Iran	N/A	9.6%	0.6%	5%	2	3
4	Japan	N/A	7.7%	6.3%	5%	4	4
5	Thailand	N/A	4.2%	11.3%	5%	7	5
6	Russian Federation	6727	1.7%	0.03%	5%	8	6
7	Germany	6667	0.5%	12.3%	5%	8	7
8	India	N/A	2.2%	1.8%	5%	5	7
9	Korea	7250	0.3%	0.1%	5%	8	9
10	Malaysia	6500	0.3%	1.6%	5%	8	10
11	Indonesia	N/A	1.2%	0.2%	5%	6	11
12	Italy	N/A	0.6%	2.8%	5%	8	12

Table 6 Rubber Tires | Data Source: Trade Map

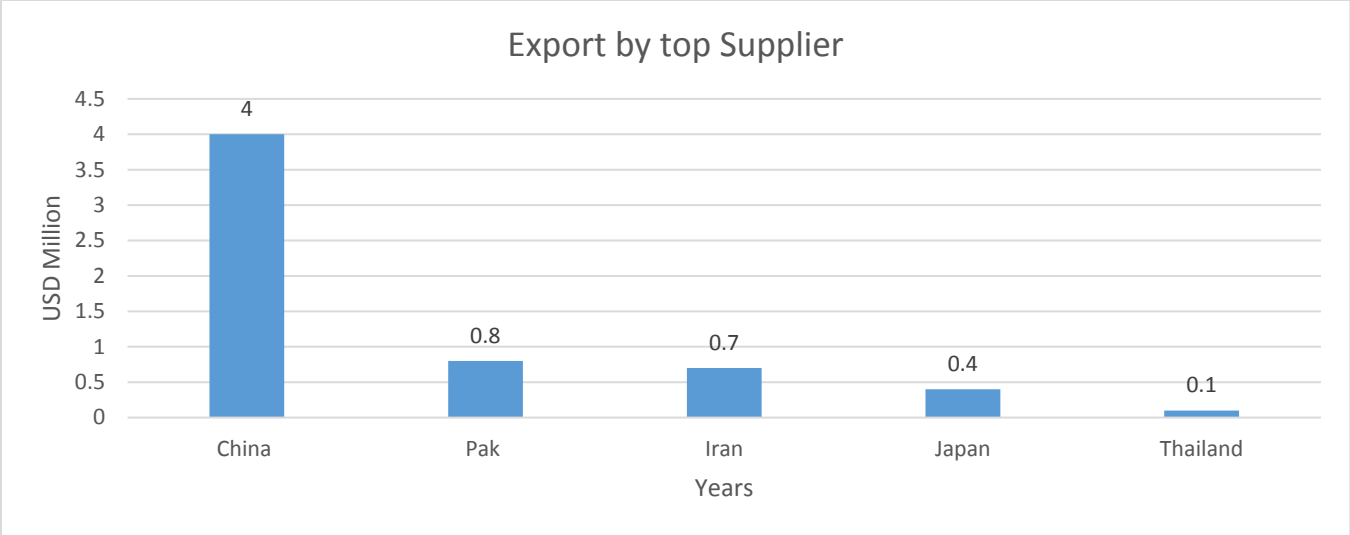


Figure 5 Exports of Tires by Top Suppliers | Data Source: Trade Map

**Milk and cream in solid form (040210):**

Pakistan has a considerable market share of 47% of milk and cream in Afghanistan. As Afghanistan is the 4<sup>th</sup> largest export destination of Pakistani products and is not a developed market, there are not so many suppliers there, and Pakistan is supplying merely less than one percent of its total export of milk and cream to Afghanistan. Moreover, Afghanistan fulfills more than 65% of its need for milk by importing it from the world.

Pakistan, being a neighboring country and having transit trade agreement can still improve its market share in Afghanistan for milk and cream. Pakistan has the strong competitive edge on the basis of price as it is offering lowest rate among all other countries; only India’s price is close to Pakistan. Tariff is same for all the countries who want to export milk and cream in Afghanistan. ECI is calculated for the years 2015 and 2016 where Pakistan is consistently maintaining its top ranking. Ireland improved its ranking from 4<sup>th</sup> to 2<sup>nd</sup>. Uzbekistan has experienced a remarkable improvement in its ranking from 9<sup>th</sup> to 4<sup>th</sup> position. Netherland declined its position from 5<sup>th</sup> to 8<sup>th</sup> place.

Sr #	Countries	Unit Value \$/ton	Market Share in Afghanistan	Export's Share in Afghanistan	Tariff	ECI Ranking 2015	ECI Ranking 2016
1	Pakistan	1658	47.9%	0.07%	2.5%	1	1
2	Ireland	2503	19.2%	2.3%	2.5%	4	2
3	India	1847	7.4%	0.9%	2.5%	2	3
4	Uzbekistan	2099	6.1%	0.02%	2.5%	9	4
5	France	2542	4.9%	8%	2.5%	3	5
6	Poland	2366	3.9%	2.6%	2.5%	6	6
7	Iran, Islamic Republic of	2369	2%	1.4%	2.5%	7	7
8	Netherlands	2016	1.7%	3.6%	2.5%	5	8
9	Turkey	2012	1.4%	0.4%	2.5%	8	9
10	Viet Nam	2353	1.1%	1.4%	2.5%	9	10

Table 7. Milk and Cream | Data source: Trade Map

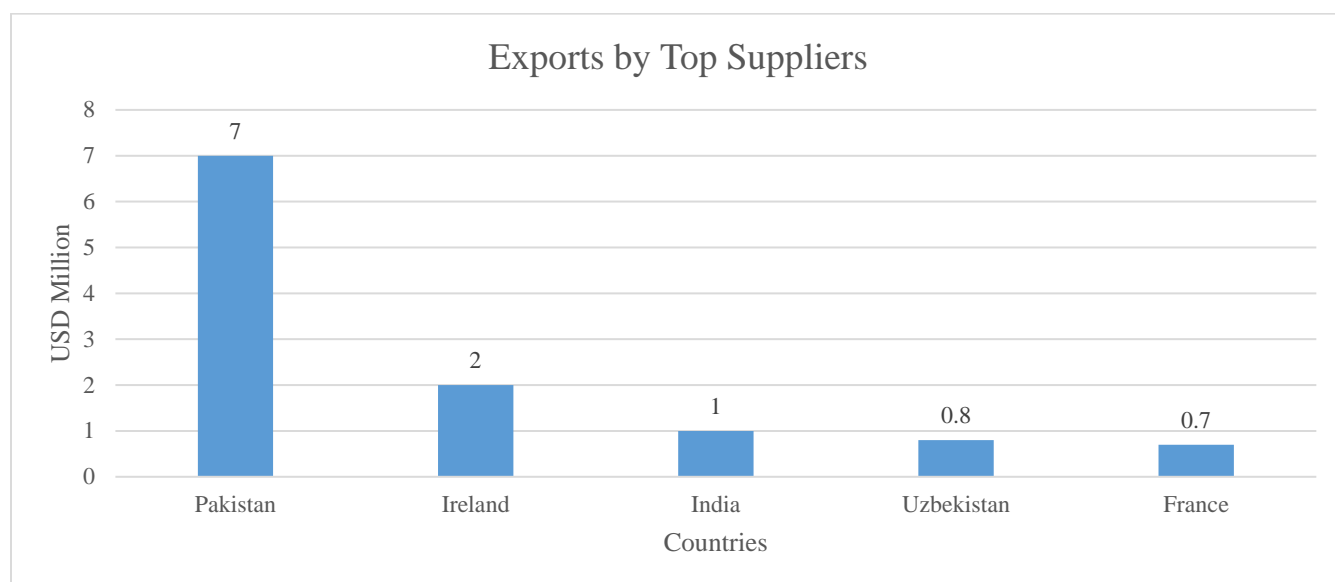


Table 8. Milk and Cream Data Source: Trade Map

### Footwear with an outer sole of leather (640320):

Pakistan has already captured more than half market share in Afghanistan for footwear, but still, this share can be enhanced because Afghanistan is among underdeveloped countries and there are not many competitors existing in the market. For many of the products, Pakistan has a market share of over 90% in Afghanistan. Moreover, Pakistan has some special privileges due to its geographical location to export to Afghanistan. Afghanistan is absorbing 2% of Pakistani exports of Footwear. After Pakistan, China is the main supplier of footwear. There is a slight difference in the price offered by the Pakistan and China. Turkey offered the lowest rate, but its market share is meager as Afghanistan does not seem to be preferred market for Turkey. Every country is facing the same tariff of 2.5% to export footwear in Afghanistan. ECI Ranking has been calculated for the years 2015 and 2016. Due to high market share, Pakistan and China are maintaining top positions of 1<sup>st</sup> and 2<sup>nd</sup> respectively. Uzbekistan has improved its position by three step but still have little presence in the market.

Sr #	Countries	Unit Value \$/ton	Market Share in Afghanistan	Export's Share in Afghanistan	Tariff	ECI Ranking 2015	ECI Ranking 2016
1	Pakistan	41469	55%	2.1%	2.5%	1	1
2	China	41468	29.1%	0.7%	2.5%	2	2
3	Uzbekistan	41783	7.2%	0.3%	2.5%	6	3
4	Ukraine	41417	3.7%	0.2%	2.5%	5	4
5	India	41250	2.5%	2.4%	2.5%	4	5
6	Iran, Islamic Republic of	42455	1.8%	0.06%	2.5%	3	6
7	Turkey	33500	0.3%	0.4%	2.5%	7	7
8	Thailand	44000	0.2%	0.4%	2.5%	8	8
9	Germany	35000	0.1%	0.3%	2.5%	8	9
10	Viet Nam	N/A	0%	0.3%	2.5%	8	10
11	Indonesia	N/A	0%	0.2%	2.5%	8	11

Table 9 Footwear | Data Source Trade Map



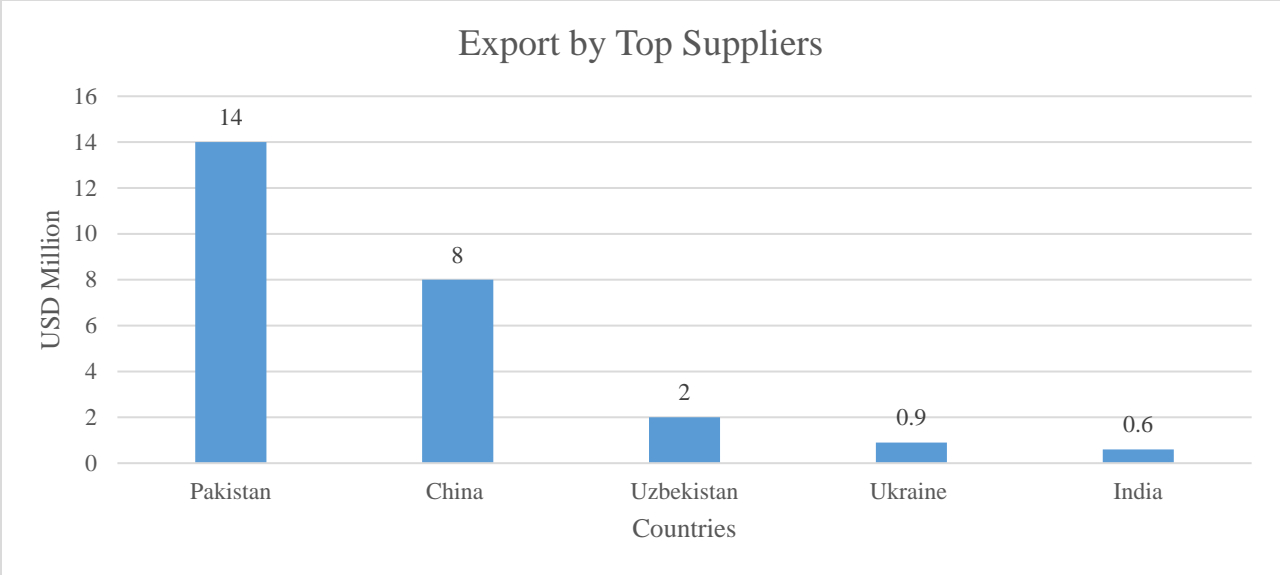


Figure 6 Export by Top Suppliers | Source: Trade Map

## **Non-Tariff Barriers**

Trade with Afghanistan is complicated and inconvenient as customs regulations and procedures are neither transparent nor reliable. According to the World Bank report (2014) Afghanistan was placed at 184<sup>th</sup> place out of 189 regarding trading across the borders.

Public procurement law of Afghanistan(October 2005) covers the government procurements which states that procuring entities will establish domestic procurement requirement and provide a bid price incentive to entities that have a resident representative and paid Afghan taxes. According to hydrocarbons law (2009) and the Mineral law (2009), if quality, quantity, and price of imported foreign goods and services are similar to Afghan products and services, then contractors are bound to purchase and acquire Afghan products.

Currently, there is no law in Afghanistan which governs labeling and marketing requirements for products.

As per Afghanistan's Customs Law(2005) import of some type of goods is prohibited or restricted to protect public morality; preserve public security; protect the environment, health and life of human, animals, or plants; protect national treasures of artistic, historic, or archaeological value; or protect industrial and commercial property or other state interests. Under this law, Afghanistan currently prohibits the import of alcoholic drinks, live pork and pork products, cotton seeds, narcotics, and illegal drugs.

There is requirement of permits, licenses and approvals for the import of cosmetics, biological materials, telecommunications equipment, medicines, veterinary medical instruments, veterinary drugs, medical equipment, pharmacy tools, pesticides, ozone-depleting substances, brochures, printed books, leaflets and other printed matter, military equipment, ammunition, armored vehicles, arms, narcotics and precursor chemicals, endangered species and films. Some products like Iron, steel, and petroleum are subject to testing at borders. For most of the goods, non-tariff requirements are not available.

For the import of instruments and appliances used in medical, surgical, dental or veterinary sciences specific requirements are to be fulfilled.

**Requirement 1-Registration requirement for importers for TBT<sup>2</sup> reasons (NTM<sup>3</sup> code - B15)**

The requirement that importers should be registered to import certain products: To register, importers need to comply with certain requirements, documentation and registration fees. It also includes the registration of establishments producing certain products. Example: Importers of "sensitive product" such as medicines, drugs, explosives, firearms, alcohol, cigarettes, game machines, etc. may be required to be registered in the importing country." All the exporting countries are required to fulfill this requirement.

**Requirement - 2- Labelling requirements (NTM code - B31)**

Measures regulating the kind, color and size of printing on packages and labels and defining the information that should be provided to the consumer: Labelling is any written, electronic, or graphic communication on the packaging or on a separate but associated label, or on the product itself. It may include requirements on the official language to be used as well as technical information on the product, such as voltage, components, instruction on use, safety and security advises, etc. Example: Refrigerators need to carry a label indicating its size, weight as well as electricity consumption level. All the exporting countries are required to fulfill this requirement.

**Requirement - 3-TBT regulations on transport and storage (NTM code - B42)**

Requirements on certain conditions under which products should be stored and/or transported: Example: Medicines should be stored below a certain temperature. All the exporting countries are required to fulfill this requirement

**Requirement - 4-Testing requirement (NTM code - B82)**

A requirement for products to be tested against a given regulation, such as performance level: It includes sampling requirement. Example: A testing on a sample of motor vehicle imports is required against the required safety compliance and its equipment, etc. All the exporting countries are required to fulfill this requirement.

---

<sup>2</sup> Technical Barriers to Trade

<sup>3</sup> Non-Tariff Measures

## **Demand and Supply Side Issues**

There are several challenges faced by Pakistan and Afghanistan in their political, economic and security Concerns. Since the commencement of redemption of NATO forces, Afghanistan is dealing with Economic troubles.

### **Demand Side Issues:**

- There is no proper implementation of Transit Trade Agreement by Afghanistan and Pakistan, and both of the countries blame each other for not honoring the terms of the agreement.
- Being in a state of war for an extended period Afghanistan face the problem of inadequate infrastructure, especially the transportation facilities are inferior which creates difficulties for the exporters.
- A sound banking system is the much needed for the bilateral trade between the countries. Unfortunately, in Afghanistan, there is no appropriate banking system which can facilitate trade.
- Customs procedures in Afghanistan are ambiguous and inconsistent. Record keeping is conducted using an automatic system of customs data (ASYCUDA) which should have covered all entry and exit points. However, necessary communication and support for automated processes are hindered by lack of electricity at major crossing points and the long and porous border. Due to unclear procedures at the border, extra-legal duties and bureaucratic obstacles trader faces a lot of challenges.
- As most of Afghanistan operates in a critical security situation, so it is tough for the exporters to participate in the trade fairs, meet the importers at the individual level and enhance mutual interaction to promote their products.
- It is very challenging to resolve business disagreements in Afghanistan due to weak legal framework, regulatory enforcement, and dispute resolution mechanism.

### **Supply Side Issues:**

- In reaction to any incident, borders between both countries get close for an unforeseeable period which results in the additional cost for the exporters.

- Trade controls at border create many delays in trade. For example, due to security risk, all the trucks are inspected on the border, and they are also required to have trackers which carry an additional cost.
- Medical Instrument has a high potential for export in Afghanistan. The major issue which industry faced is that they have to obtain Class 2B certification for electrosurgical instruments which is very expensive. The government can make the agreement with the certification providing companies to provide certification at low rates, or exporters can be given subsidy on certification.
- To enhance exports and to support the local industry of soap, prices of its raw material such as tallow, coconut palm, cottonseed and rice bran can be reduced.

## **International Brands in Afghanistan**

- Mido Dairy
- Pharmevo
- Genixfarma
- Shabnam Marka (Rice)
- Alokozay Group of Companies
- DynCorp International
- Fluor Global Engineering And Manufacturing Company
- Aecom
- Mantech

## **Top Pakistani Exporters**

- Bestway Cement Limited - Bwcl
- Q & Q Food Industries (Pvt.) Limited - Q & Q Food
- Frontier Sugar Mills & Distillery Ltd
- Agro-Hub International Private Limited
- Omv (Pakistan) Exploration Gesellschaft M.B.H. - Omv
- Abdul Malik And Company
- Hussnain Daud Oil & Ghee Mills (Pvt.) Limited
- Al-Abid Silk Mills Limited
- Bata Pakistan Limited
- Bulleh Shah Packaging (Pvt.) Limited

## SWOT Analysis

### Strengths:

- Afghanistan is a landlocked country and shares a border of about 2400km with Pakistan. Being neighboring country access to Afghani market is very easy for Pakistani exporters especially the carriage cost is meager which makes the Pakistani products more competitive.
- Pakistan and Afghanistan have signed Transit Trade Agreement. Therefore, for more than 55% of trade Afghanistan has to depend on Pakistan as they have to be through Pakistan.
- Due to shared culture and values, demand patterns are almost similar in both of the countries, which can complement bilateral trade.
- Being a member of SAFTA, Pakistan faces less tariff on some of the products like fresh or dried bananas, dry mandarins and household articles as compared to non-member countries.

### Weaknesses:

- Poor infrastructure of Afghanistan and limited access to power and transportation makes it difficult to move goods.
- Because of the lengthy border, it is challenging to control smuggling. Most of the trade between both of the countries is undocumented. Trade data does not reflect the real picture.
- Customs regulations and procedures are not transparent in Afghanistan. Officials are involved in corruption and ill practices.
- Banking systems are not well developed which create hurdles for a smooth transaction between the traders.
- Most of the part of Afghanistan is under critical security threat which limits the access of exporters in the market.

### Opportunities:

- The Afghanistan-Pakistan barrier is under construction. Fencing across borders will help reduce grey trade.
- A joint chamber of commerce of Pakistan and Afghanistan can be effectively utilized to boost the trade.
- Afghanistan is in the phase of rebuilding its infrastructure. There are a lot of opportunities for Pakistan to enhance the export of construction material and machinery in Afghanistan.

- Due to foreign aid and investment in the standards of living and income of the people is improving which creates an opportunity for Pakistani exporters to export value-added goods and earn more profit in Afghanistan.

**Threats:**

- India, Iran, and Afghanistan signed trilateral transit trade agreement. Under this agreement, India will invest in Chabahar port. This port will be used as an alternative to Pakistan. This agreement might have a severe impact on the exports of Pakistan and reduce Afghanistan's dependence on Pakistan.
- Political environment between Pakistan and Afghanistan is getting unfriendly, and there is a lack of trust between both of the countries which may negatively affect future trade with Afghanistan.



## Conclusion and Recommendations

Five products are identified as potential products which include instruments and appliances used in medical, surgical or veterinary sciences, soap in the form of flakes, rubber tires, milk and cream and footwear with outer soles of leather. For most of the products, Pakistan has little market share even products with high market share still have potential as Afghanistan is underdeveloped country and Pakistani geographical location complement Pakistan to capture more market share. The tariff rate is also low for the selected products, and there are no special barriers which Pakistan has to face to export these products. Following measures can be helpful to increase the exports to Afghanistan.

- Pakistan and Afghanistan need to renegotiate the terms of APTTA and remove their reservations.
- Infrastructure at borders needs to be improved. The pace of work should be increased at Chaman and Torkham borders.
- Both nations need to improve trade facilitation through streamlined payments settlement and improved insurance mechanisms, use of bonded carriers, visa issuance, trade financing, tax collection, and documentation.
- It should be taken as a priority to strengthen the relationship with Afghanistan and both the countries should avoid closing their border over every incident.
- Recently Pakistan has devised a plan for Africa named as “Look Africa Plan”. Such Kind of plan can also be designed for Afghanistan to enhance the exports.
- Currently, there is no exhibition in Afghanistan. It is suggested that Pakistan should organize exhibitions and seminars to promote its products.