

## POLICY BRIEF

# The Role of India in Boosting Afghanistan's Exports<sup>1</sup>

Shoaib A. Rahim and Eric Miller<sup>2</sup>

March 2021

- <sup>1</sup> This brief is based in part on a baseline assessment study completed in September 2020 with the generous support of the Canadian Trade and Investment Facility (CTIF). Funded by Global Affairs Canada, CTIF supports more inclusive, sustainable, and poverty-reducing trade and investment in the Asia-Pacific. CTIF provides technical assistance to improve policy-making practices among regional and national institutions, and to increase access to markets and finance by Asia-Pacific-based SMEs, particularly those led by women. CTIF is managed by a joint venture led by Cowater International in partnership with the Institute of Public Administration of Canada (IPAC). The \$11.63 million facility opened in August 2018 and is scheduled to close in March 2025.
- <sup>2</sup> Shoaib Rahim is a development practitioner, a university lecturer and President of Alternative Spectrum Consulting. He specializes in issues pertaining to Afghanistan's economy, regional cooperation, and economic integration. Eric Miller is President of Rideau Potomac Strategy Group, a consultancy that advises public and private sector clients around the world on trade, economic development, supply chains and technology issues.

# Introduction

Two truisms of international trade are: (1) most countries tend to trade more with their neighbours than with distant countries; and (2) landlocked countries face particular challenges in accessing world markets. Despite significant interventions by its government with the support of international community, Afghanistan’s annual exports remain well below \$1 billion. Its imports are well over \$7 billion, leading to a large trade deficit. Ongoing domestic uncertainty coupled with uneven access to sea via Pakistan – its main channel to the outside world – have made it challenging for Afghan traders to become long-term reliable suppliers to international buyers. An important opportunity to change this dynamic over the short to medium term is to focus on growing Afghanistan’s exports to India.

In recent years, exports to India have showed gradual and significant growth. In 2019, India became Afghanistan’s top export destination, followed by Pakistan. Major exports include fresh fruits, dried fruits, medicinal herbs, and other high value spices. This policy brief provides an overview of Afghanistan-India trade and how to grow it in the years ahead.

## Distribution of Afghanistan’s Exports by Product (2019)

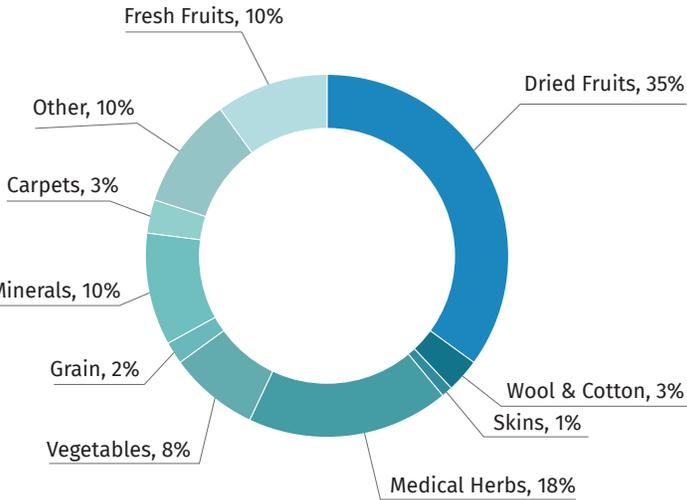


Figure 1: Source: National Statistic and Information Authority (NSIA)

# The Place of India in Afghanistan’s Export Mix

The export profile of any country stems from its domestic production base. Afghanistan’s economy is strongly dependent on the agriculture sector, which contributes approximately one third of GDP. The same sector is a major source of job creation and income for the rural population and is a significant contributor to exports. Data reveals that fresh fruits, dried fruits, vegetables and medical herbs accounted for 71% of exports in 2019.

Afghanistan’s exports are concentrated in neighboring or regional countries. India and Pakistan take approximately 80% of Afghanistan’s exports, while the next five countries account for a further 20%.

Pakistan was long Afghanistan’s top export destination given its location next door and strong transport connections from major Afghan population centres. In recent years, however, Afghanistan and Pakistan have undergone trade frictions that have introduced unpredictably in bilateral market access.

Despite not sharing a land border, India became Afghanistan’s top trading partner in 2018. In 2019, India received 47% of Afghanistan’s total exports. India’s top imports from Afghanistan include fresh fruits, dried fruits,

vegetables, and high value spices. In 2019, Afghanistan exported \$302 million worth of dried fruits, of which India’s share was \$222 million. Major dried fruit export items included dried fig, different varieties of raisin (black, red, green, abjosh), almond, and pistachio. It is important to mention that almost all pistachio and dried fig and more than three fourths of raisin was exported to India.

## Dried Fruits Exports to India 2019 (Million)

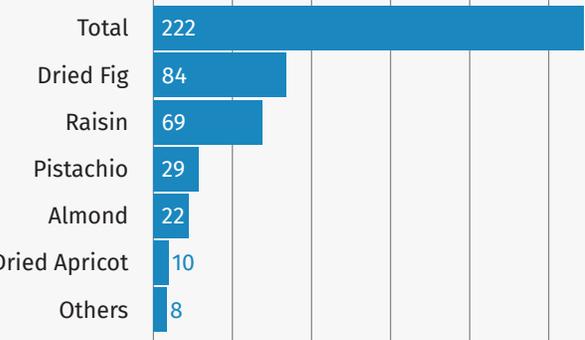


Figure 2: Source: NSIA

## Annual Export Destinations (M\$)

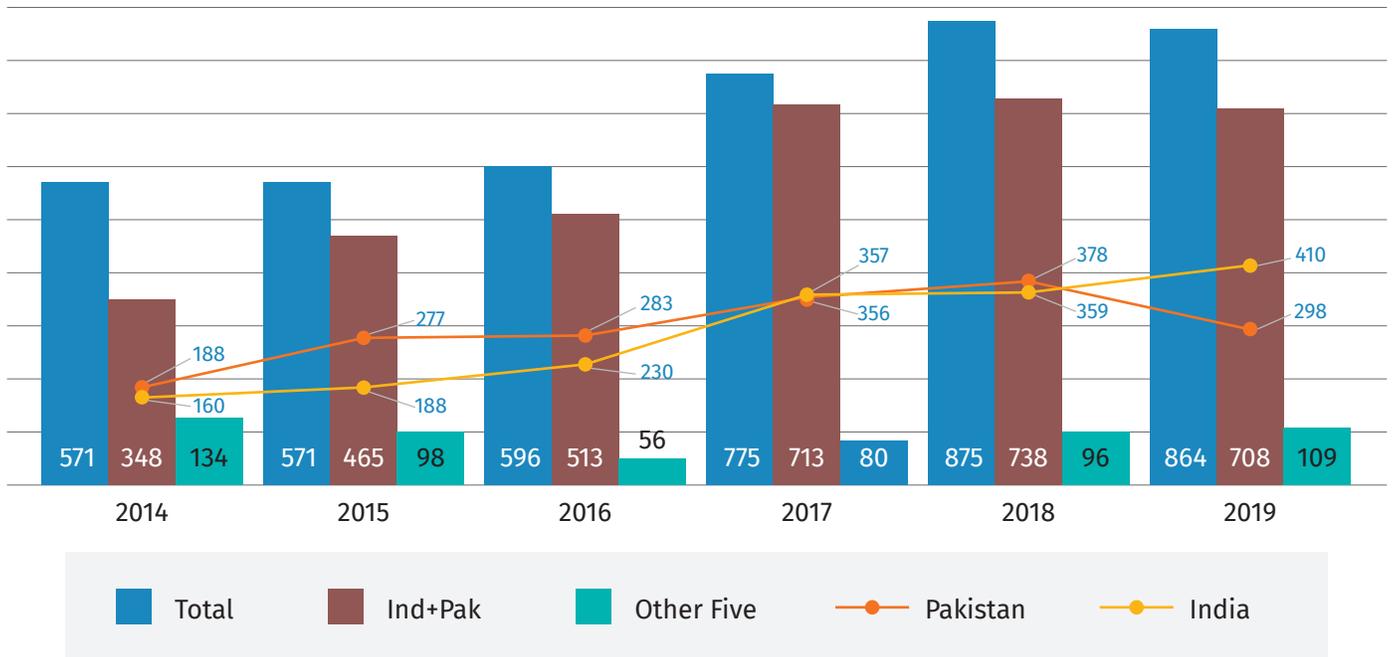


Figure 3

The weather and habitat of different regions in Afghanistan are ideal for production of medicinal herbs and spices including licorice root, saffron, caraway, and asafetida. Exports of such products has shown consistent growth in recent years, reaching \$171 million in 2019. India's share of these exports was approximately 80%, mainly including asafetida, caraway and saffron.

Fresh fruits and vegetables are other important components of Afghanistan's exports. Due to perishable nature of commodities, Afghan exporters face additional complexities. This includes the absence of appropriate cold chain infrastructure in transit and at border crossing points, simple and efficient clearance procedures and reliable trade routes to reach longer distances. As a consequence, approximately 70% of these products end up in Pakistan. Despite this, Afghanistan exported grapes and onions worth \$9 million and \$17 million respectively to India in 2019.

### Medicinal Plants and Spices Exports to India 2019 (Million)

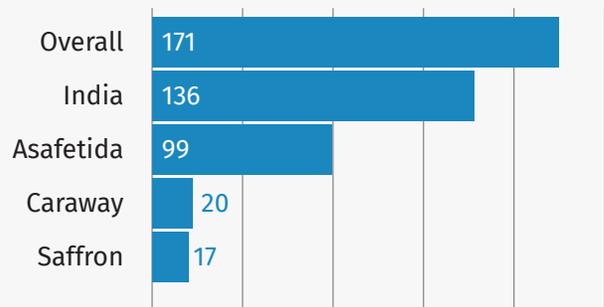


Figure 4: Source: NSIA

## Transportation Routes to India

### Overland Route

The nearest and most economical route for Afghanistan to export to India is via Pakistan through Wagah-Attari border crossing. Under the Afghanistan Pakistan Transit Trade

Agreement (APTTA), which is under renegotiation, Afghanistan can only export to India via Wagah border under APTTA. Annex 1, Article 3 of the agreement states that Pakistan will facilitate Afghan exports to India through Wagah. Afghan trucks will be allowed access on designated routes up to

Wagah. Afghan cargo will be off-loaded on to Indian trucks back-to-back at Wagah and the trucks on return will not carry Indian exports.

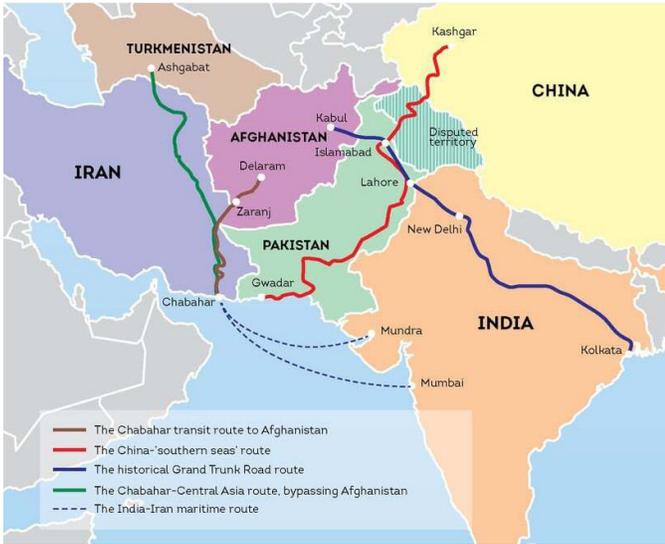


Figure 5: Afghanistan's Access to India. Source: Hindustan, the Faraway Island. <https://bricsmagazine.com/en/articles/hindustan-the-faraway-island>.

The Attari-Wagah border crossing is the only port of entry for trade between India and Pakistan. During the APTTA's application period, Afghan trucks have formally been allowed to transport goods to the Wagah border. However, in practice, many can only travel up to Peshawar because beyond this point the police personnel frequently stop Afghan trucks and collect excessive fines in different forms. Therefore, the goods must be re-loaded onto Pakistani trucks that would carry it onwards to Wagah. There are some Afghans transporters who own Pakistani trucks. In that case, the truck can carry the goods to Wagah, but a Pakistani driver has to replace the Afghan driver in Lahore to drive the truck to Wagah where the **goods are offloaded to be carried on the carts** to Attari on Indian side, a distance of five kilometers. They are then reloaded on trucks for onwards transport to Delhi.

The arrangement via Wagah border increases the cost and time. In addition, frequent loading and offloading makes it almost impossible for transport of perishable commodities particularly fresh fruits to be transported through this route. Similarly, it constrains export of major mining products particularly coal, talc and marble to India.

Re-loading Afghan goods onto Pakistani vehicles also creates trade problems. Indian Customs may well view Afghan exports carried on a Pakistani truck as Pakistani for trade purposes. In 2019, India withdrew "most-favoured nation" benefits from Pakistan and imposed a 200% import duty on Pakistani goods entering the Indian market.

Even if Afghan exports are properly classified as being from Afghanistan, the lack of trade facilitation at Wagah-Attari creates significant problems. The Afghanistan Chamber of Commerce has alleged that 70% of onions bound for India were rotting at the border with India due to processing **delays**.



Figure 6: Afghanistan's Wagah-Attari Route. Source: [https://pdf.usaid.gov/pdf\\_docs/PA00TD8B.pdf](https://pdf.usaid.gov/pdf_docs/PA00TD8B.pdf)

## Sea Routes

The alternative to overland route is via Iran's port or Pakistan's Karachi Port. Both are longer routes as the goods must be transported to a seaport first and then via sea to different ports of India from where they would reach different cities. The problems are further complicated due to limitations caused by international sanctions on Iran.

The Iranian Port of Chabahar is closer to India than Bandar e Abbas. Importantly, it received exemptions from the United States sanctions. India Ports Global Limited, a state-owned company and India's Ministry of Shipping, is developing and managing the Chabahar Port. While some trade is flowing to and from Afghanistan through the Chabahar corridor, the potential for growth is immense. That said, the broader sanctions on Iran "outside of the port gates" have created complexities and spillover challenges.

## Air Transport

Air transport has played an important role in boosting Afghanistan's exports to India in recent years. In order to address the problems with overland and sea transportation via Iran and Pakistan, the Afghan government launched its **National Air Corridor Program** in June 2017. The facility enables the traders to export the goods to India and other destinations by subsidizing air freight.

However, typically air freight is very expensive and is reserved for light weight, high-value products. The National Air Corridor program changes the economics enough to make exporting fresh fruits, dried fruits, medicinal herbs and other high value spices to India viable. While this air corridor serves as an important option for exports, its sustainability in the medium to long term remains in question.

## Way Forward

Predictable access to India via Attari-Wagah border could enable Afghanistan to expand its exports on a sustainable basis. India has provided generous trade concessions to Afghanistan, first in 2003 and later in 2011, when it removed all duties for Least Developed South Asian Association for Regional Cooperation (SAARC) countries. The production of major export items is growing in Afghanistan given developments in agriculture sector and incentives provided by higher prices in the international market. More exports via Wagah would not only increase export figures but also better ensure their sustainability.

India is self-sufficient in major agriculture crops and fruits and vegetables. Despite this, Afghanistan exported \$27 million worth of grapes and onions to India in 2019, 17% of its total fresh fruit and vegetable exports. There is great potential for Afghanistan to exploit India's fresh table fruit market as well as join the value addition chain in juicing industry by providing fruits and fruit pulps.

Afghanistan's mining sector also has significant potential in the Indian market, particularly for talc, coal and marble. For example, India is among top five coal importing countries in the world while high quality talc is in demand in the relevant industries of the country. A smooth and economically viable access via Wagah-Attari, Karachi port of Pakistan and/or ports of Iran would enable Afghanistan to reap the gains from the mining sector to improve its trade deficit.

A smooth and reliable transit facility for exports to India and investment on the transport infrastructure would not only improve export figures but also contribute towards improvement of major economic indicators.

## Recommendations

The following recommendations are made in the light of underlying challenges and the potential offered by the Indian market to Afghan exporters.

### OPERATIONALIZATION OF CHABAHAR

The Chabahar Port Agreement was signed in May 2016 between India, Iran, and Afghanistan under which India had committed to invest in and develop the port. However, after four years it is still not fully operational. A fully operational Chabahar port would serve as a reliable, and convenient option for Afghan exports to India and other countries.

### ACCESS TO ATTARI-WAGAH

The Afghanistan Pakistan Transit Trade Agreement was set to expire in February 2021. It has been extended on a temporary basis as negotiations on a new agreement are underway. A successful conclusion of the talks on a renewed agreement that allows Afghanistan access to Attari is crucial for expanding exports from Afghanistan.

### SUBSIDIES TO TRANSPORTERS

The National Air Corridor Program is operating on the back of significant subsidies that the Afghan government offers to the air cargo companies. While exporters have benefited and volumes have increased, the largest economic returns from the air freight are going to a limited number of companies, mainly foreign airlines. The Afghan government and international partners should develop options to encourage an economically sustainable air transport sector going forward.

### SUSTAINABLE BORDER CROSSING POINTS

The political ties of Pakistan with India and Afghanistan usually overshadow the economic ties. The recent history is full of incidents where the crossing points between Afghanistan and Pakistan, or India and Pakistan, have been closed for trade due to political tensions, causing heavy losses to Afghan traders. It is important ensure that crossing points remain open for trade regardless of political ties so that traders in all three countries could reap the gains from trade. The Government of Afghanistan should work on strategies to facilitate trade regionally to the greatest extent possible.

### INVESTMENT IN TRANSPORT SECTOR

The transport sector in Afghanistan has remained traditional. To meet the growing demand in regional trade and transit, it is important to modernize the country's transport sector as per requirements of the day. Therefore, it is important to encourage and facilitate investment in this sector so that not only the requirements of Afghanistan, but also that of regional trade and transit could be effectively met. It is similarly important to explore how to work with the international private sector to explore whether low-cost traceability technologies can be introduced.

### FURTHER RESEARCH

Research should be conducted on potential market for mineral exports of Afghanistan to India and arrangements should be put in place to transport them economically and efficiently.