



INTERNATIONAL JOURNAL OF APPLIED RESEARCH AND TECHNOLOGY  
ISSN 2519-5115

# Trends and Prospects of Afghanistan Economy



*By*

**Abdullah**

*Lecturer, Salam University*

**CIIT/FA13-RBF-142**

**MS Thesis**

**In**

**Banking and Finance**

**COMSATS Institute of Information Technology**

**Islamabad-Pakistan**

Fall, 2016

**COMSATS Institute of Information Technology**

**Trends and Prospects of Afghanistan Economy**

A Thesis presented to

COMSATS Institute of Information Technology

In partial fulfillment

Of the requirement for the degree of

**MS Banking and Finance**

By

Abdullah

CIIT/FA13-RBF-142

Fall, 2016

A post graduate thesis submitted to the Department of Management Science, as partial fulfillment of requirement for the award of degree of MS Banking and Finance

Name	Registration Number
Abdullah	CIIT/FA13-RBF-142

### **Supervisor**

Dr Yasir Kamal

Professor Department of

Campus

December, 2016

## Final Approval

---

This thesis titled

# Trends and Prospects of Afghanistan Economy

By

*Abdullah*

*CIIT/FA13-RBF-142*

Has been approved

For the COMSATS Institute of Information Technology Islam Abad

External Examiner: \_\_\_\_\_

Supervisor: Dr Yasir Kamal

HOD: \_\_\_\_\_

## Declaration

I Abdullah hereby declare that I have produced the work presented in this thesis, during the scheduled period of study. I also declare that I have not taken any material from any source except referred to wherever due that amount of plagiarism is within acceptable range. If a violation of HEC rules on research has occurred in this thesis, I shall be liable to punishable action under the plagiarism rules of the HEC

Date: \_\_\_\_\_

Signature of the student:

## Certificate

It is certified that Abdullah CIIT/FA13-RBF-142 has carried out all the work related to this thesis under my supervision at the Department of <<deptt name>> COMSATS Institute of Information Technology, Islam Abad and the work fulfills the requirement for award of MS degree.

Date: \_\_\_\_\_

Supervisor

\_\_\_\_\_

Head of Department:

\_\_\_\_\_

## ACKNOWLEDGEMENT

First of all, I would like to thank Almighty "ALLAH" J.J the most merciful and the most beneficent, who enabled me in completing this mammoth task.

The writing of this dissertation has been one of the most significant challenges I have ever had to face. Without the support, patience and guidance of the following people, this study would not have been completed too.

Special Thanks to my respected supervisor **Dr Yasir Kamal** for putting efforts in my research & showed me the various ways where I can improve my research and do my best. I would also like to thank my **Parents** for their endless efforts and patience, which helped me a lot to achieve this level of knowledge and wisdom. I would also like to thank all of my friends who helped me a lot to pursue my studies and complete this project.

Finally a great big 'thank you' to Comsats Institute of Information technology for providing me with this opportunity and it was truly an experience that I will keep with me for as long as I live.

## Executive Summary

Despite many years of war and conflict, Afghanistan has still shown significant improvements in economic, social, and cultural reforms. The country has experienced such extraordinary change since 9/11. Afghanistan economy has grown from GDP \$2 billion in 2001 to GDP \$19.36 billion in 2018. Looking to the statistics the average GDP in Afghanistan shown 6.76 USD billion since 1960 to 2018, of which the highest of all time was 20.84 US\$ Billion in 2014 and the lowest were 0.54 US\$ Billion in 1960. Current literacy rate is 43% and estimated to grow 60% by 2025 and 90% by 2040. Considerable improvements took place in health system and general health status of the people of Afghanistan in recent years. Health sector data shows that there are more than 149 government and 252 Private health clinics and hospitals currently available in the country.

The Afghanistan and its donor partner are making progress on reconstructing the country's infrastructure, economy and a legal framework for development of multi-ethnic state. Therefore, currently many private mobile phone operators (AWCC, Roshan, Etisalat, and

MTN), private Internet providers, many private construction companies, major international hotels (Hyatt, Serena), leading international banks (Afghanistan International Bank, first microfinance bank, Standard chartered Bank, National bank of Pakistan, Habib bank Ltd. Etc.), many international companies (such as, DHL (transport and logistics sector), Pepsi cola, Coca cola, Alcatel trade international, Toyota motors, Marco polo Airlines.... Etc.), private electric power providers and so many domestic private companies are operating in Afghanistan. Turkey is the largest investor country in Afghanistan, followed by Germany, India and Pakistan. AISA reported that ministry of commerce has licensed approximately more than 7,000 companies.

The inflation rate in Afghanistan was recorded at 1.80 percent in September of 2019. Inflation Rate in Afghanistan averaged 3.75 percent from 2005 until 2019, reaching an all-time high of 13.97 percent in April of 2011 and a record low of -18.39 percent in May of 2009

The overall effect of declining oil prices on Afghanistan economy is positive at least in the short term. An increase in the price of a commodity leads to a large reduction in the real monthly per capita consumption. Therefore, Afghan households trade-off quality for quantity by changing the composition of their consumption.

Since the beginning of Karzai interim administration, Total foreign aid has been pledged for Afghanistan was amount US\$ 90 billion for the period starting from 2002 to 2013 by the global community in the series of number of conferences and other means. From the total Official Development Assistance (ODA) pledged, US\$ 69 billion has been committed formally to be disbursed with in the period of 2002 to 2010. Of the committed ODA, US\$ 57 billion has been actually disbursed to finance large number of programs and projects for the reconstruction and development process in the country

Given the average annual amount of foreign aid spent in the past, foreign aid is expected to drop to 28.3% of GDP in 2020 and to 23.5% in 2025 respectively. Increasing from USD 2.6 billion in 2002 to almost USD 16 billion in 2011, international aid on average has been equal to nearly 75% of GDP which was the highest in the world.

There are 5 types of taxes in Afghanistan – rental withholding, contractor withholding, wage withholding, business receipt taxes and income tax. The government of Afghanistan uses its official Afghan calendar which corresponds to March 21 to March 20 on the Gregorian calendar, so all taxes should be paid in afghan currency and according to afghan calendar.

The total projected revenues will significantly surge from 2019 onward. Thus, it has been forecasted to reach Afs 248554 Million on 2021, which will be the highest point of revenue over preceding years, followed by second highest revenue Afs 226230 Million on 2020. Total projected revenue comprises total domestic revenues and total grants. Total domestic revenues trend shows considerable increase or upward growth, whilst in contrast total grants will be almost leveled off with mere decrease over the forecasted period.

The projected GDP shows an exponential growth over the period. Therefore, the estimated nominal GDP will be USD 18.73 billion in 2019, whereas, it will reach to USD 25.19 billion in 2024. The total estimated real GDP growth will surge in 2019 onward from 3% to 5.5% in 2024.

Strategically, Afghanistan possesses an important location in the Asia. It is at the heart of the modern Silk Road and a main player in the connectivity of the region, which will be so much important in shaping the region and particularly Afghanistan's future.

## Table of Contents

1	INTRODUCTION .....	14
1.1	Problem statement .....	14
1.2	Purpose of the study .....	14
1.3	Rational of the Study.....	15
2	HISTORICAL PERSPECTIVE .....	15
3	ECONOMIC STRUCTURE .....	16
3.1	The Agricultural Sector.....	16
3.1.1	General Picture.....	16
3.1.2	Main constraints on Production.....	18
3.2	Industrial Sector .....	20
3.2.1	Natural Resources and Energy .....	21
3.2.2	Manufacturing and Handicrafts .....	23
3.3	Trade .....	23
3.3.1	Exports.....	25
3.3.2	Imports: .....	26
3.3.3	Afghanistan Trade potential with Pakistan and India .....	26
3.4	Infrastructure: .....	31
3.5	Transportation.....	32
3.6	Health .....	32
3.7	Health facilities.....	33
3.8	Education.....	33
3.9	Afghan Culture .....	34
3.10	Private Investment .....	35
3.11	Poverty and Inequality .....	36
3.12	Inflation .....	36
3.12.1	The impact of declining oil prices on the Afghan economy .....	37
3.13	Afghan Households Consumption .....	37
3.14	Foreign Assistance in Afghanistan.....	38
3.15	Gross domestic Product .....	39
3.16	Afghanistan Taxation System:.....	41

Summary of Afghanistan Tax requirements .....	42
3.16.1 Rental Tax withholding.....	42
3.16.2 Employee tax withholding.....	42
3.16.3 Contractor Tax Withholding .....	42
3.16.4 Business Receipts Tax Return.....	42
3.16.5 Annual Income tax Return .....	42
4 ECONOMIC PROSPECTS.....	43
4.1 Economic Outlook and Medium-Term Prospects .....	44
4.2 Economic prospects for future developments .....	45
4.3 Employment .....	46
4.4 Afghanistan Economy Trends.....	47
4.4.1 Total Projected Revenues .....	47
4.4.2 Total Projected Expenditures.....	49
4.4.3 Total projected Gross Domestic Product .....	52
4.4.4 The projected Inflation.....	53
4.4.5 The projected Exchange Rate.....	53
4.4.6 Afghanistan as a trade transit hub .....	54
References.....	59

**LIST OF TABLES**

Table 1: Industry Contribution as percentage of GDP .....20  
Table 2: Trade as a share of Gross Domestic Product .....24  
Table 3: Afghanistan’s Exports to Pakistan and India .....27  
Table 4: Afghanistan’s Imports from Pakistan and India. ....28  
Table 5: Textile and clothing .....29  
Table 6: Food .....29  
Table 7: Consumers goods .....30  
Table 8: Vegetables .....30  
Table 9: Raw Materials .....30  
Table 10: GDP per Capita .....40  
Table 11: GDP per Capita Cross country comparison .....41  
Table 12: Medium-term prospects .....44

**LIST OF CHARTS**

Chart 1: Agricultural Growth .....17  
Chart 2: Industry Share as percentage of GDP .....21  
Chart 3: Trade as a percentage of GDP .....25  
Chart 4: Afghanistan’s Exports .....25  
Chart 5: Afghanistan’s Imports .....26  
Chart 6: Afghanistan’s Exports to Pakistan and India. ....27  
Chart 7: Afghanistan’s Imports from Pakistan and India. ....28  
Chart 8: Afghanistan GDP .....40  
Chart 9: Sectorial Contribution as a percentage of GDP .....40  
Chart 10: GDP per capita cross country comparison. ....41  
Chart 12: Total Projected Revenue and Total Grants .....48  
Chart 13: Total Projected Grants .....49  
Chart 14: Total Projected Revenues and Expenditures .....50  
Chart 15: Total Projected Expenditures .....50  
Chart 16: Total Operating and Development Expenditures .....51  
Chart 19: Total projected Nominal GDP .....52

## 1 INTRODUCTION

It is in the knowledge of everyone that presently many people in Afghanistan experiencing a lot of difficulties. War activities affected much geographical area especially in last three decades. The overall impact of the prolonged civil war has destructed a large number of families in Afghanistan. As a result the overall concern and focus of most afghans, and as well as, the donor community is about how to secure stable peace in Afghanistan.

Peace is most important and perquisite for the reconstruction, and restoration of civil order, social and physical rehabilitation, as well as, economic development. Peace is important, but not a condition to long term improvement, and development of Afghanistan's economy.

Afghanistan's economic performance, before 1960s was not very promising, and since 1970, it has suffered internal conflict, external invasion and persistent civil conflicts; resulting in no economic growth in 1980s and 1990. So, per capita (GDP) declined. Afghanistan considered one of the poorest countries in the world, with an economy largely dependent on agriculture, and almost no industrial sector, except handicrafts, and very limited services. Despite a strong economic recovery in 2002, growth has still been uncertain because of security and political, and drug-related risks.

The study is based on the statistics and studies of different donor agencies, reports, journals and published data on the economy.

### 1.1 Problem statement

There are less available journals and papers discussing Afghanistan economy in comprehensive manners, to provide a quick knowledge and an insight about Afghanistan current and future economic prospects. This study descriptively and briefly explains Afghanistan current economic structure and its future prospects.

### 1.2 Purpose of the study

The main aim of the study is to describe the Afghanistan economy in three parts. It's historical perspective, current economic trends and future prospects. All three parts have been described in the light of available statistics, journals and reports.

### 1.3 Rational of the Study

The study will provide brief and comprehensive knowledge to the readers about Afghanistan's economic trends and will explore the areas of discussion for researcher and analyst to further studies.

## 2 HISTORICAL PERSPECTIVE

At the end of the kingdom at 1973, the economy of Afghanistan has changed dramatically in production, consumption, investments and as well as the role of government institutions. Because of lack of reliable statistical data the economic structure analysis will only cover the last decade.

The economy, during 1930, brought up with some innovations implemented by individual entrepreneurs, boosting exports to Europe through Soviet Union. Academic education started in Kabul in 1932 at the time when university was not formally established. Private banks established and could contribute to the start of industrialization in Afghanistan.

The first five years plan starting from 1956 to 1961 was giving priority to infrastructure and farming education. And it was financed mostly with the aid from US, and Soviet Union.

The second five years plan starting from 1962 to 1967 was focusing on large scale education projects as well as health and education program.

The third five years plan starting from 1967 to 1972 in which the emphasis shifted from infrastructure and energy towards industrial development, private enterprises were encouraged. The road system was expended, electricity distribution was extended. The natural gas was exploited 95% being exported to Soviet Union.

The Afghan kingdom came to an end in 1973 and a new constitution for the Republic government system was passed by Loya Jirga in 1977. At 1978 there was a political conflict and power struggle which faced the communist regime with the risk of losing their influence, Soviet force invaded Afghanistan in December 1979.

By the end of the 1970s, the modern sector had grown considerably. Educational possibilities and, to a lesser degree, health services were expanded, however female enrolment and rural

area services lagged behind. This "modernization" of the Afghan economy and society was, however, heavily dependent on foreign aid. Domestic revenues were used for administration and the army. The Soviet Union and the USA were the major contributors<sup>8</sup> to development projects.

The 1980 was characterized by the various Mujaheddin groups fighting against regime troops and Soviet forces.

### **3 ECONOMIC STRUCTURE**

#### **3.1 The Agricultural Sector**

Countries of the world divided into two classes, agricultural or industrial, most of the countries are good at industrial production, they build and run heavy industries, and they invent new machines and discover new fields, where the industrial products could bring more productivity and convenience. A number of other countries in the world are known as agricultural e.g Pakistan, India and Brazil and many more.

A country considered to be an agricultural because of the availability of a number of possibilities. Among these are the suitable climate for crops and trees availability of vast areas of land for cultivation and abundant supply of water and some others.

##### **3.1.1 General Picture**

Luckily Afghanistan has almost all of natural possibilities, that can qualify it as an agricultural country, it has a variety of climate in different angles of the country, required for the cultivation of different kind of crops and fruits. Afghanistan has a large number of rivers, which provide a cheap and convenient source of water for irrigation. It has large pieces of fertile land, and many other factors make it a country, suitable for the agricultural activities.

Unfortunately the system of kingdom and unrest of three last decades never let the country to improve in any direction, both in agriculture and industry. On another side there had never been any developed government that could make long term plans for dams constructions, water management, transportation and implementation of techniques of harvesting, and many

more, because of which our productivity of agriculture sector has yet remained the same, and there is no improvement in already present system of irrigation.

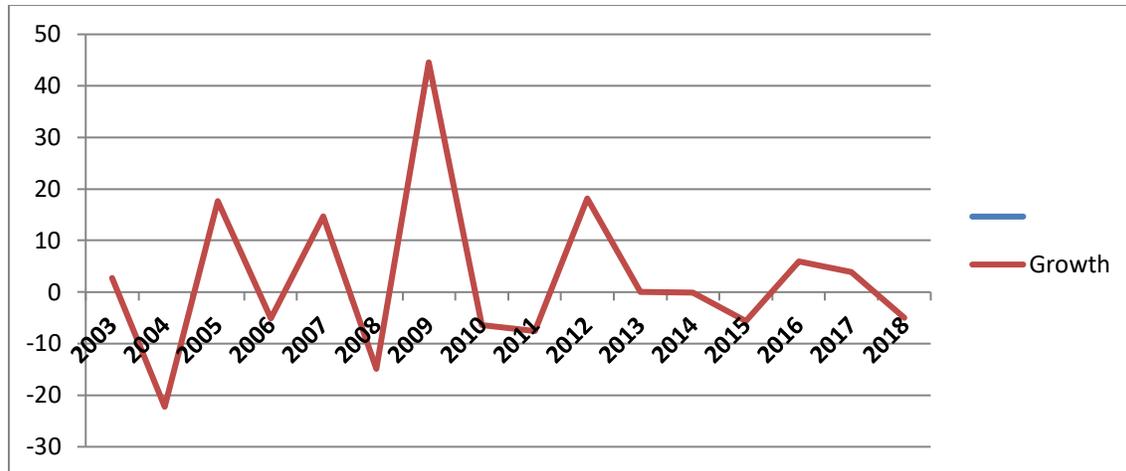
Being an agricultural country, still majority of the food products are exported from neighboring countries of Pakistan, Iran and many other countries of the world. If the millions of dollars are paid for exported goods, spent inside the country on development and improvement of agriculture, it could have not only improved the agriculture but every sector of the economy.

According to statistics agriculture is one of the most important sector of Afghanistan economy, despite occasionally declining output.

Agricultural growth declined to 0.8 percent from 3.8 percent in 2017, the main reason of this sudden decline was the drought. The snowfall was so low in December 2017 and February 2018 which heavily affected the crops & also the livestock production. The productivity of wheat decreased by 24 percent from the average in last five years. The productivity of livestock also declined by 48 percent while the production of milk decreased by 30 percent. Around 80 percent of populations are engaged in agriculture to earn the livelihoods; the significant slowdown in the agriculture productivity badly affected the household income & consumption. Agricultural production believed to have gotten better in the first half of 2019 owing to the easing of the drought (World Bank, 2019)

Chart 1: Agricultural Growth

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Growth	44.56	-6.38	-7.59	18.22	0.01	-0.10	-5.66	5.97	3.84	-5.00



### 3.1.2 Main constraints on Production

A number of problems are faced by an agricultural sector of Afghanistan, which are needed to be resolved and addressed properly, and as well as, long term and coordinated plans are required for its resolution permanently. The first is, not existence of proper system for irrigation. Almost, more than 90% of our farmers depend on the river waters and canals, but canals system has also been not upgraded since many decades and much of water is wasted due to evaporation.

Government of Afghanistan and the ministry of agriculture need to create proper plans on how to develop and improve the current system of irrigation, and how dams and reservoirs for water can be established, to provide a better and organized system of irrigation to the country.

Similarly, because of not having reservoirs for water a lot of water flows into other neighboring countries from our rivers or it is wasted in deserts, so this cheap water can be controlled and stored, and that should be properly distributed to the farmers.

Another problem is, the absence of storage facilities, which can result the losses to the farmer. So during the season, the supply of agricultural product is usually enough more, which results in declining of its prices, and it becomes harder for farmer to recover their expenses. On another hand, when the season of product is ended, then it creates a shortage of products, which results in high prices.

The solution to this issue is not an easy task, and farmers cannot manage it. In many countries of the world, government intervenes and solves the problems. Government purchases products from farmers on a fair price and then stores those products in its own stores, because of that, certain products remain available in the market throughout the year, and prices also remain stable.

Other issue farmers are faced with are, high prices or non-availability of urea, tractors, pesticides and other objects they need them. Those things are not actually produced in Afghanistan, they are imported from other countries, thus there is very less a farmer can do about in this regard. Government should establish the industries for those products and make them available for farmers on subsidized prices.

Poor transportation system in the country is also a big problem, due to which the products can't reach or reach very late, from the farms to the markets, and there is always a risk, that they might spoil and wasted. In agricultural country, government should establish a good network of roads, that the agricultural products can easily be transported to the market and thus products are available and sold on time in the local markets or exported to foreign countries.

Traditionally, the Afghan economy is agricultural based, and 80% of the Afghan population earn their livelihoods from farming. Agricultural products generate about 31% of Afghanistan's licit GDP with wheat cultivation making up the largest, and fresh and dried fruits making up the second largest share of agricultural production. Major dried fruit exports from Afghanistan include raisins, figs, almonds, and pistachios. For example, raisin exports in 2009-2010, was \$53 million while almond, pistachio and walnuts together was close to \$95 million, during the same period. The former made up 21 % and the later 32 % of total agricultural exports. Livestock products account for 14 % of agricultural GDP. Dried fruits are anticipated to be the engine for boosting the agricultural Gross Domestic Product (GDP), and exports of Afghanistan in the upcoming years to Afghanistan's major export destinations are Pakistan, India, Iran, Russia, and Central Asian republics. Despite the above potential for goods exportation, still eighteen percent of the total imports of Afghanistan are basic food commodities, such as wheat and wheat flour, rice, sugar, vegetable oils, chicken, beef, and

tea. This list of imports suggests that Afghanistan's domestic economy still has a long way to develop. With financial and technical assistance from international donors, the Afghan government has designed a number of agricultural development programs, to boost the agricultural products both quantitatively and qualitatively. These programs, funded by World Bank, Asian Development Bank (ADB), International Fund for Agriculture Development (IFAD), Department for International Development (DFID), United States Department of Agriculture (USDA), and United Nations Food & Agriculture Organization (UN-FAO), each could contribute to economic development in Afghanistan. These programs will increase the agricultural products, both in horticulture and livestock, so to generate maximum agricultural GDP that in return will contribute to the growth of Afghanistan's economy.

### 3.2 Industrial Sector

An appropriate way, to describe the Afghanistan industrial sector is by dividing it, into two major sub -sectors, namely natural resources and energy, and manufacturing and handicrafts. The first pair (natural resources and energy) are mutually complementary sectors, while the second (manufacturing and handicrafts) consist to a large extent of agro- processing activities.

Industries owns by state are cement plants, cotton mills, a fertilizer plant in Mazari Sharif , the Jangalak engineering plant and the metal workshop in Kabul. Industry's contribution in GDP is shown in (Table 01).

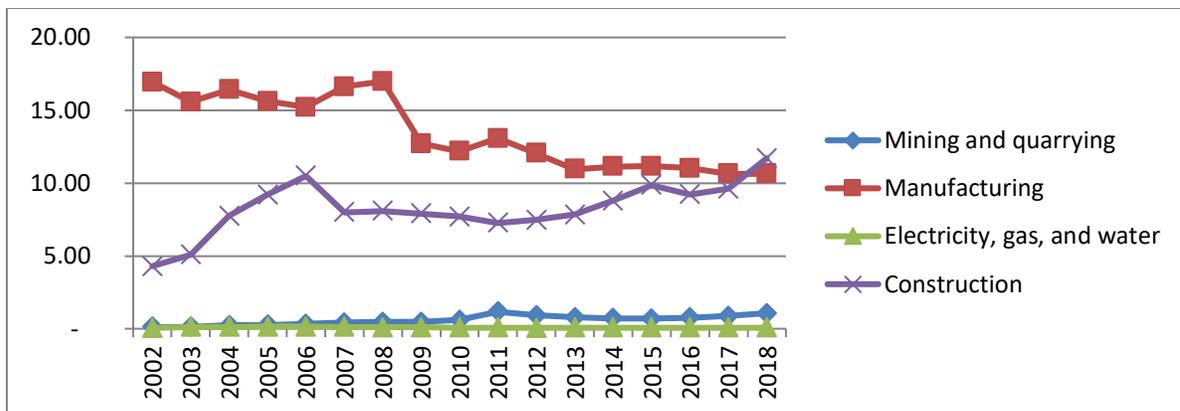
Table 1: Industry Contribution as percentage of GDP

Industry Contribution as Percentage of GDP																
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ry	21.42	20.89	24.51	25.21	26.17	25.16	25.62	21.17	20.57	21.58	20.51	19.63	20.7	21.8	21.1	21.2
and quarrying	0.13	0.12	0.24	0.27	0.33	0.43	0.46	0.46	0.60	1.16	0.93	0.78	0.7	0.7	0.7	0.9
ufacturing	16.93	15.57	16.40	15.61	15.20	16.61	16.98	12.71	12.18	13.07	12.05	10.95	11.1	11.1	11.0	10.6
, beverage, & D	16.25	14.93	15.65	14.89	14.45	16.06	16.39	12.16	11.62	12.57	11.51	10.49	10.9	10.9	10.8	10.5
le, wearing apparel &	0.14	0.17	0.18	0.17	0.17	0.08	0.08	0.08	0.10	0.08	0.06	0.05	0.0	0.0	0.0	0.0
d & wood prod. incl. e	0.08	0.07	0.06	0.05	0.05	0.03	0.03	0.02	0.02	0.02	0.01	0.01	0.0	0.0	0.0	0.0
r, paper prod.																

, publishing	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.0	0.0	0.0	0.0
icals & chem um, coal, rubber,	0.41	0.32	0.39	0.38	0.41	0.33	0.37	0.35	0.34	0.32	0.26	0.21	0.2	0.2	0.1	0.0	0.0
metallic mineral petroleum & coal	0.05	0.05	0.07	0.06	0.06	0.05	0.05	0.04	0.04	0.04	0.04	0.03	0.0	0.0	0.0	0.0	0.0
l basic	0.01	0.01	0.04	0.04	0.05	0.04	0.05	0.05	0.05	0.05	0.16	0.15	0.0	0.0	0.0	0.0	0.0
ity, gas, and water	0.06	0.12	0.12	0.14	0.15	0.12	0.10	0.10	0.09	0.07	0.06	0.06	0.1	0.1	0.1	0.1	0.1
uction	4.30	5.09	7.75	9.19	10.49	8.00	8.08	7.89	7.71	7.28	7.48	7.84	8.8	9.9	9.2	9.6	9.6

Source: <https://nsia.gov.af/services>

Chart 2: Industry Share as percentage of GDP



Source: <https://nsia.gov.af/services>

### 3.2.1 Natural Resources and Energy

“According to geological survey conducted by US Afghanistan has untapped minerals, having potential value of more than \$3 trillion. Most of these deposits are copper, gold, metals such as lithium, and cobalt (ANDS, 1389).

Geology of Afghanistan is so interesting from development point of view, and its rich natural resources, that could contribute to fast development and establishment of an export led economy. As per statistics there are currently more than 1400 minerals deposits available in the country, including energy mineral, such as gas, oil, coal and other metallic, and

nonprecious minerals such as cement-grade limestone, lead, gemstones gold, copper, iron and salt<sup>1</sup>.

Mining industry in Afghanistan has a potential to reduce poverty and boost up economic growth. It can creates employment and income to individuals and develop infrastructures.

The former minister of Mining of Afghanistan, Waheedullah Shahrani, stated in August conference, that mining sector will constitute 45% to 50% of Afghanistan's economy by 2024(ANDS,1389).

It's been reported that "Aynak and Hajigak mines are capable of creating more than 90000 jobs and almost \$500 million in annual revenues by 2020" (Ministry of Mines, 2011). In the Afghanistan economy, Hajigak iron project is considered to be the biggest project ever in the history from both an economic perspective and its scale of operations.

Afghanistan has six big lapis mines, the biggest one is located in northern Badakhshan province. Its home to the biggest gold mines in the country.

Based on the statistics there are 12 copper mines in Afghanistan including Aynak copper deposit which is located in logar province. The country has extensive deposits of chromite, barite, coal, copper, gold, iron ore, lead, gas, petroleum, precious and semiprecious stones, sulfur, salt, zinc and talc. Precious and semiprecious stones include, lapis lazuli, red garnet, emerald and ruby.

Afghanistan has almost 500 Gas Fields in its different locations, almost 8 of them having geological capacity of 180 billion cubic meter of gas. Sar-e-pul oil reserve has been discovered with 44.5 million tons of which 14.5 metric tons are extractable (Joe Banavige ,2010).

Despite having numerous challenges, the total number of electricity users increased from 279,949 in 2004 to 720,000 in 2005, which is a good impressive average annual growth rate of 17% over a period of six years ("ANDS",1389).

---

<sup>1</sup> (ASIA, Market Prospects- A country abundantly rich in natural resources, pg2).

### 3.2.2 *Manufacturing and Handicrafts*

Handicrafts have a long history in Afghanistan and created considerable employment opportunities for the work force in Afghanistan, beside it has added into economic development as well. Some craft based sectors operate in Afghanistan are as following:

1. Carpets.
2. Leather and skins
3. Rattan furniture
4. Wooden items
5. Ornaments (semi precious stones and gemstones)
6. Kilims.
7. Metal items (gold, brass, copper, silver)

Out of the above sectors, carpet weaving considered to be having the largest potential for economic recovery and development. Other sectors may also have chances and niche market, if tourism improved to an extent, that it is possible to concentrate on this market.

In 2014 Afghan carpet and rug, won an international award conducted every year in humbug of Germany (Afghanistan grabs carpet Oscar reward,2014).

### 3.3 Trade

Afghanistan is considered to be a country with a significant potential for economic prosperity. It has plenty of water, agriculture and mineral resources and its strategic position in the Asia to become a business and trade hub, linking Central Asia, Middle East, South Asia and China.

In 1991, Afghanistan gained its independence after a civil war, from former soviet republic, which was a difficult period for transition to new market economies. In 1998-99, during the global economic crisis, Afghanistan faced economic and natural shocks. Whereas, September 11th 2001 attacks led to drastic changes by creating new environment, that influenced foreign trade performance throughout the first decade of 2000s, a period of economic recovery (Roman Mogilevkii,2012).

Afghanistan's economy is highly dependent on trade. There is formal trade (legal) and informal trade (illicit trade like narcotics and weapons) flows in consumer goods. The trade

between Afghanistan and its northern neighbors is important for sustainable economic growth, as foreign trade is one of the most important factors of economic development. Afghanistan has a considerable trade deficit that is financed by income from foreign aid.

Afghanistan's top trade partners are Pakistan 27.6%, USA 17.5%, EU 9.5%, India 7.9%, Russia 7.8%, Turkmenistan 4.1%, China 4.1%, Kazakhstan 3.9%, Turkey 2.9% and Azerbaijan 2.5% (Directorate-General for Trade, 2015)<sup>2</sup>

The major trade goods flowing out of Afghanistan is dried fruits, carpets and rugs, medical plants, fresh fruits and other commodities, while energy products, machinery and equipment, foods and agricultural products, household needs and medicine, metal, light industry products, construction materials and other commodities are flowing in Afghanistan (Central statistics organization of Afghanistan, 2015).

Table 2: Trade as a share of Gross Domestic Product

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Wholesale & retail trade	8.02	7.70	7.86	8.04	7.06	7.01	6.86	7.65	7.23	6.85	7.09	6.31	6.75	6.71

<https://nsia.gov.af/services>

*Note: Trade is the sum of imports and exports of goods and services as a share of GDP.*

<sup>2</sup> Top trade partners are: Pakistan, USA, EU, Russia, India, Turkmenistan, China, Kazakhstan, Turkey and Azerbaijan. Whereas, top exports partner are: India, Pakistan, EU, Tajikistan, USA, United Arab Emirate, Jordan, Russia, Turkey and China.

Chart 3: Trade as a percentage of GDP

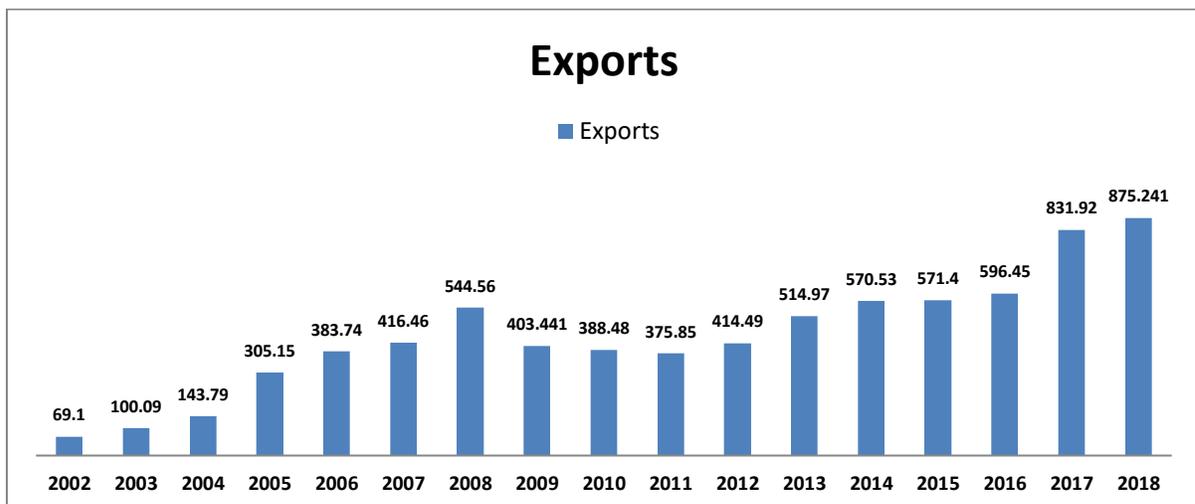


<https://nsia.gov.af/services>

### 3.3.1 Exports

Looking to the statistics, Afghanistan's exports increased to \$875.24 Million in 2018 from exports amounting \$831.93 Million in 2017. It has been averaged \$411 Million since 2000 to 2014, the highest was \$875.24 Million in 2018 and the lowest recorded was \$69.10 Million in 2002<sup>3</sup>.

Chart 4: Afghanistan's Exports (USD Million)



Source: [www.tradingeconomics.com/afghanistan/exports](http://www.tradingeconomics.com/afghanistan/exports).

Exports forms 20% of GDP, Main exports of Afghanistan are carpet and rugs account 45% of total export, Dried fruits account 31% and medicinal plants is 12%. Afghanistan export

<sup>3</sup> [www.tradingeconomics.com/afghanistan/exports](http://www.tradingeconomics.com/afghanistan/exports).

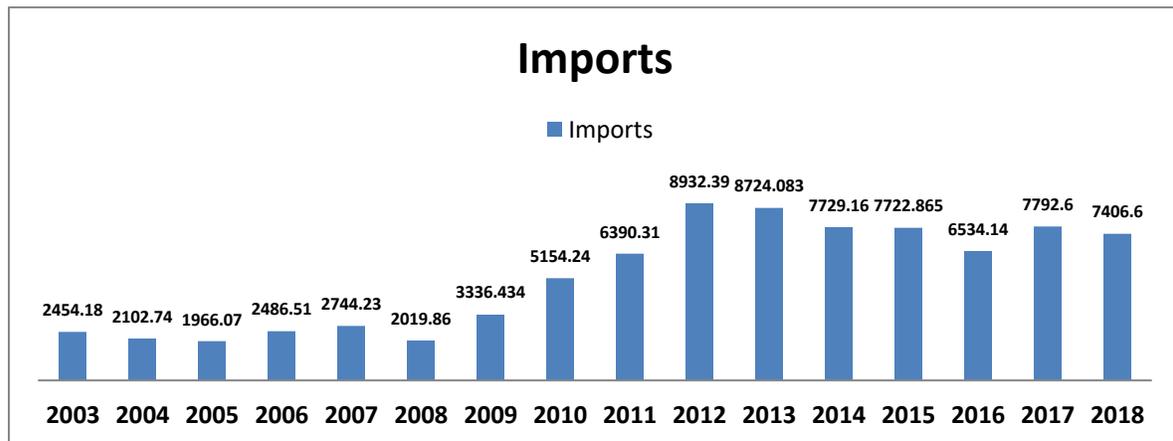
partners are: Pakistan, India, Russia, Iran, Iraq and Turkey. Exports to Pakistan is 49% of the total, India is 19% and Russia is 9%<sup>4</sup>.

### 3.3.2 Imports:

According to the official record of the central statistic of Afghanistan, imports in 2013 to 2014 were USD 8724 million, excluding smuggled goods. The main cross-border trade happened with Iran and Pakistan. Total imports in 2004 compared to 2013 dropped by 3.8 percent from USD 9069 million, in 2013 to USD 8724 in 2014. Imports of petroleum, machines, vehicles, equipment's and food items decreased by 1.4% compared to 2013. Balance of trade is in deficit since 2008 to 2014 from USD -2475 Million to USD -8209 million (Afghanistan Statistical Yearbook, 2014).

The average of imports since 2003 to 2014 was 4216.18 USD, the highest was 9069 US\$ in 2013 and the lowest was 1966.07 US\$ million in 2005<sup>5</sup>.

Chart 5: Afghanistan's Imports



Source: [www.tradingeconomics.com/afghanistan/Imports](http://www.tradingeconomics.com/afghanistan/Imports).

### 3.3.3 Afghanistan Trade potential with Pakistan and India

Looking to the current statistic, Afghanistan has been reported 16<sup>th</sup> the largest export economy in the world. The top exports of Afghanistan are raw cotton, Tropical Fruits, Spice Seeds, Grapes and coal

<sup>4</sup> [www.tradingeconomics.com/afghanistan/exports](http://www.tradingeconomics.com/afghanistan/exports).

<sup>5</sup> [www.tradingeconomics.com/afghanistan/imports](http://www.tradingeconomics.com/afghanistan/imports).

Briquettes, In reference to HS (Harmonized System). Afghanistan top imports are Peat, Refined Petroleum, Raw Sugar, Wheat Flours and Cement.<sup>6</sup>

The top trade partners of Afghanistan are Pakistan, India, Finland, Russia and United States. In this report the trade potential of Afghanistan with Pakistan and India is closely analyzed.

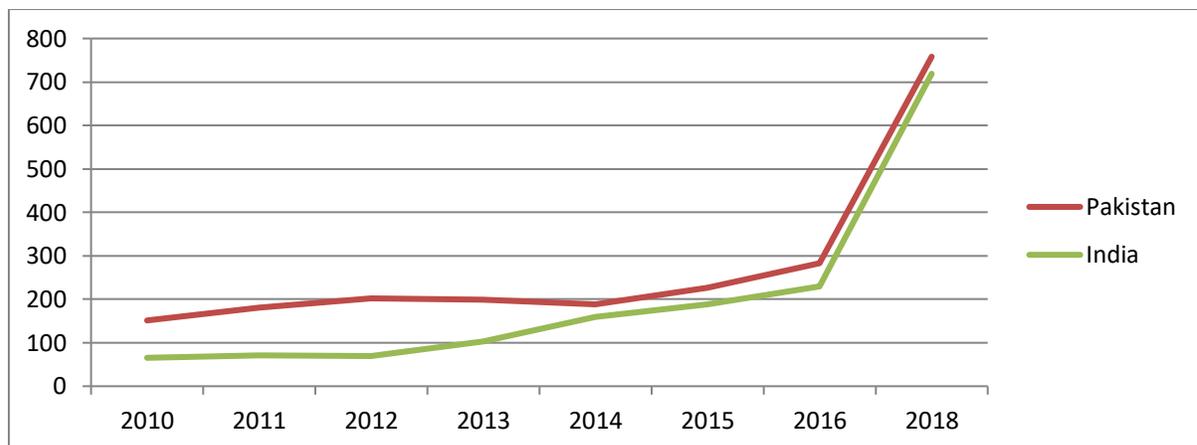
Table 3: Afghanistan's Exports to Pakistan and India (In Million \$)

Partner Name	Years							
	2010	2011	2012	2013	2014	2015	2016	2018
Pakistan	151.34	180.65	201.39	198.35	188.42	226.57	283.32	758.22
India	65.36	70.44	69.71	102.96	159.98	188.87	230.04	718.94

Source: UN comtrade, International trade statistics data base.

Comparing both partners Afghanistan exports to the Pakistan is higher each year starting from 2010 to 2018, the given statistics has shown increases in exports each year to both partner countries, but the rate of increase in exports to Pakistan is higher up to 2012, while it started decreases in 2013 and 2014, but it's started increasing to the India in 2012 and 2014 respectively, but beyond 2014 export to both countries increased up to 2018. Based on the given trend in the last 2 years, there is prediction of trade, and increased in demand for Afghan's product in India.

Chart 6: Afghanistan's Exports to Pakistan and India.



Source: UN comtrade, International trade statistics data base.

<sup>6</sup> <http://atlas.media.mit.edu/en/profile/country/afg>

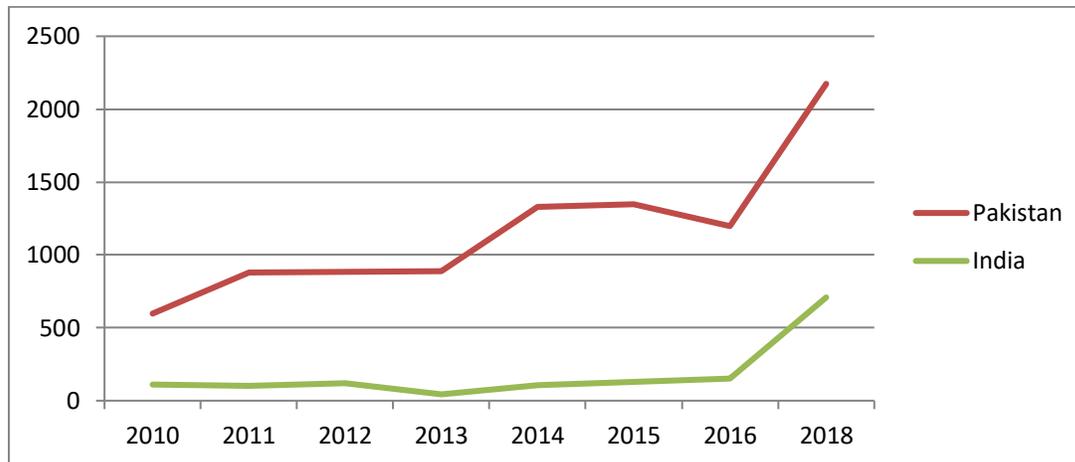
Table 4: Afghanistan's Imports from Pakistan and India (In Million \$).

Partner Name	Years							
	2010	2011	2012	2013	2014	2015	2016	2018
Pakistan	597.50	877.75	883.02	889.15	1327.93	1346.41	1198.76	2173.70
India	112.91	103.88	118.13	43.73	107.66	130.62	152.88	708.56

Source: UN comtrade, International trade statistics data base.

Afghanistan has mostly been dependent for imports on Pakistan, Statistics showing always higher imports from Pakistan, comparing both partner countries, the rate of increase for import reported always higher than india, which shows that Pakistan has trade potential and increase demands of Pakistan's product in Afghanistan.

Chart 7: Afghanistan's Imports from Pakistan and India.



Source: UN comtrade, International trade statistics data base.

As we have analyzed both partners, Pakistan has always been a major stakeholder in trade, both in exports and imports for Afghanistan.

### 3.3.3.1 Revealed comparative advantage analysis

The following estimations for years 2010-2014 provide the trend in the pattern of revealed comparative advantage (RCA) for Afghanistan, Pakistan and India. Afghanistan has generally shown revealed comparative advantage in Textile and clothing, Food, vegetable and raw materials, but has shown Revealed Comparative

Disadvantage in consumer goods. The RCA index greater than unity ( $RCA > 1$ ), is showing comparative advantage and the RCA less than unity ( $RCA < 1$ ) is showing comparative disadvantage for the product of that country.

### 3.3.3.2 Methodology

The RCA is one of the methodologies to measure the country comparative advantage and disadvantage in a particular industry in the country. It is measured by the product's share in country's export in relation to the product share in world export.

The formula to determine the RCA:

$$RCA_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt})$$

Where  $x_{ij}$  is the value of country  $I$ 's export of product  $j$  and  $X_{it}$  refers to the country's total export, and  $x_{wj}$  is the value of world export for product  $j$  and  $X_{wt}$  refers to the value of world total exports.

For the RCA analysis only the following major categories of products are selected, using comtrade data

Table 5: Textile and clothing

Reporter Name	Years								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Afghanistan	1.77	3.33	2.21	3.40	5.11	2.80	2.98	1.74	1.74
India	3.37	3.35	3.24	3.30	3.35	3.31	3.35	3.09	3.23
Pakistan	13.77	13.89	14.42	14.35	15.09	14.68	14.35	14.59	16.95

Source: <https://wits.worldbank.org>

Pakistan has always been having higher comparative advantage in exports of textile and clothing in comparison to Afghanistan and India. RCA for textile and clothing has shown higher trade potential from 2012 to 2013 but its value significantly dropped into 2.9 in 2014.

Table 6: Food

Reporter Name	Years				
	2010	2011	2012	2013	2014
Afghanistan	4.49	4.65	3.55	4.85	4.8
Pakistan	2.15	1.99	1.62	1.99	1.57

India	1.08	1.13	1.34	1.31	1.19
-------	------	------	------	------	------

Source: <https://wits.worldbank.org>

Observing the food statistics, Afghanistan RCA is reported higher each year and it's increasing in 2013 and 2014, which shows Afghanistan's potential growth in exports of foods to the countries in the region.

Table 7: Consumers goods

Reporter Name	Years							
	2010	2011	2012	2013	2014	2015	2016	2017
Afghanistan	0.23	0.13	0.17	0.14	0.14	0.16	0.15	0.15
Pakistan	1.76	1.61	1.7	1.77	1.84	1.83	1.99	2.14
India	1.29	1.32	1.47	1.47	1.44	1.36	1.37	1.37

Source: <https://wits.worldbank.org>

Afghanistan is having comparative disadvantage in consumer goods, It's because of lack of production of consumers goods, and its dependent on the consumptions of imported goods.

Table 8: Vegetables

Reporter Name	Years							
	2010	2011	2012	2013	2014	2015	2016	2017
Afghanistan	13.39	12.88	11.37	14.05	14.91	19.29	14.28	14.28
Pakistan	4.43	3.92	3.27	3.73	2.91	3.23	3.03	2.31
India	1.54	1.59	2.39	2.14	1.89	1.97	1.63	1.46

Source: <https://wits.worldbank.org>

Table 9: Raw Materials

Reporter Name	Years							
	2010	2011	2012	2013	2014	2015	2016	2017
Afghanistan	3.6	4.17	4.36	4.7	5.14	6.87	5.37	5.37
Pakistan	0.5	0.66	0.65	0.6	0.59	0.87	0.77	0.61

India	0.75	0.62	0.63	0.57	0.56	0.68	0.68	0.61
-------	------	------	------	------	------	------	------	------

Source: <https://wits.worldbank.org>

Statistics again showing high RCA for Afghanistan's exports of vegetables and Raw materials, while showing comparative disadvantage for both Pakistan and India in their exports of Raw materials.

### 3.3.3.3 Conclusion

The trend in trade with both Pakistan and India is showing high trade potential for Afghanistan, Pakistan has always been a major trade partner for Afghanistan; similarly Afghanistan is also a big stakeholder for Pakistan. Afghanistan is showing a positive trend in their exports to Pakistan. Looking to RCA Afghanistan is having comparative advantage in all discussed categories of commodities except consumer goods.

## 3.4 Infrastructure:

Decades of conflict and war left Afghanistan without infrastructure for many years, many of remote areas, almost never had any infrastructure. In 2001, majority of rural villages didn't have electricity, cleaned and running water and roads to link them to schools, hospitals and health clinics, and to government services.

Afghanistan future strategic role as trading hub in Central Asia requires developed and an appropriate transport network. Access to all education and health services for the public can only be increased with improved and developed transport infrastructure (Afghanistan National Development Strategy, 2005).

Nonexistence of infrastructure has shuffled Afghanistan development. Because of absence of electricity, businesses couldn't operate machineries. Household did not have running water for drinking, cleaning and cooking, and nonexistence of clean water for drinking, posed major health challenges to the public. Underdeveloped or no roads troubled movement of merchandise to domestic and as well as international markets and villages, which are isolated from reaching basic government services and police or military security. Scarcity of schools, proper classrooms and health clinics restricted the public access to education and quality health services.

Much has been invested especially over the last decades by USAID in rehabilitating and building basic Afghan infrastructure.

Since 2001, USAID has assessed afghan government to develop and add additional 172 megawatts to Afghanistan's national power, linked almost more than 3.3 million customers to the electricity service, rehabilitated almost 2000 kilometers of the roads including Ring Road of Afghanistan, provided cleaned water to more than 614000 Afghans and funded more than 500 schools constructions and 600 health services projects<sup>7</sup> (Infrastructure Sector Fact Sheet, 2014).

### **3.5 Transportation**

Afghanistan has both land and air transportation system. In 2013, total registered and listed vehicles increased from 1762357 to 1951428 vehicles in 2018, which shows 10.73% increase. It includes 1196031 passenger cars, 323934 Trucks, 106947 buses & 321992 other types of vehicles. (“Afghanistan Statistical Yearbook”, 2018).

There are four international and few local airports in Afghanistan. The number of flights has been increasing since 2001. Ariana Afghan Airlines did have 7 aircrafts from 2013 to 2014. Active aircrafts carried 540,000 passengers and 3949 tons of goods from different airports in the world. In private sector, only Pamir airlines was not active and another two (Kam Air and Safir Airways) are active with 12 airplanes <sup>8</sup>(“Afghanistan Statistical Yearbook”, 2018).

### **3.6 Health**

Health indicators show Afghanistan near the bottom of all countries and are worse than any other country in the region. Life expectancy is so low, infant under five and maternal mortality is very high and there is high chances and prevalence of chronic starvation and wide spread chance of occurrence of micronutrient deficiency diseases(“ANDS”,2013).

---

<sup>7</sup> <https://www.usaid.gov/afghanistan/infrastructure>

<sup>8</sup> <http://cso.gov.af/en/search?q=statistical+year+book>

Having access to health, clean water is considered globally as basic human rights, But they are not available for maximum people in Afghanistan. Good health system is important indicator of the well-being of people in a country. It is always positively correlated to the economic prosperity of a country.

The data shows that investment in health system by Afghan government amounting to USD 2.1 per capita which is the lowest in the world (Afghanistan Statistical Yearbook, 2018).

Considerable improvements took place in health system and general health status of the people of Afghanistan in recent years (Afghanistan Statistical Yearbook, 2018).

### **3.7 Health facilities**

Health sector data shows that in 2014 there were almost 149 government and 252 Private health clinics and hospitals in the country. Compared to last year the number of hospitals increased 80 percent. In 2013 to 2014 there were 2106 centers for health, out of them 398 were comprehensive health centers, and 943 were basic and 765 were sub centers, compared to the previous year, health centers increased by 1.8 ,2.5 and 9.6 percent in 2014. There were almost 657 government and 787 private laboratories, looking to the comparison government laboratories decreased by 14.8 percent while private laboratories increased by 25.1 percent. There were also 155 governmental and 11473 private pharmacies comparing to the previous year, one increased by 8.4 while another by 2.5 percent respectively<sup>9</sup>.

### **3.8 Education**

In Afghanistan, history of education explicitly states a two-way road between the government and the public, throughout the domination of the three main approaches of education; Monarchy, Communist and Taliban regimes. During the Monarchy era, Zahir Shah opened the doors of new ways toward modern education to the unaware or unprepared public, failed to get advantage of it. In Communist era, the government imposed its ideology in contrast to Afghan tradition, toward education, while in Taliban regimes female's education illegalized for restoring its dignity, and inability to provide them services due to

---

<sup>9</sup> <http://mfa.gov.af/en/page/6547/afghanistan-national-development-strategy/afghanistan-national-development-strategy-and>s.

state of economy. By analyzing these approaches based on their failure and success could reach to a best guiding policy for moving forward to a successful education system (Hanif Yazdi, 2008).

Currently, traditional, modern and Islamic educational systems co-exist. The number of universities and Institutions tremendously increased from 29 to 54 in total (governments & privates 22-24 and 07-30 respectively) within the stipulate time period of 2009-2011. Furthermore, male students or teachers always have outnumbered the females by reaching to peak in 2014<sup>10</sup> (Ministry of Higher Education, 2014)

Afghans during the history have prioritized the education system, despite all the challenges. Form future prospective, needs to expand youth education programs by getting commitment from international donors, greater support of Ministry of Higher Education for leading the industry and presence of ISAF for restoring security would be considered crucial.

### **3.9 Afghan Culture**

The five thousand years history of Afghanistan is mostly dominated by Islamic culture. In 7th century Islam has been introduced by Arabs and flourished by Turks as an Islamic center for civilization on 11th century. Afghanistan throughout its history was under invasion, war and conflicts by Russia, Great Britain and others due to its strategic position in central Asia. A dominant ethnic group, Pashtun<sup>11</sup>, in 1747, emerged and from early 1900s could have overall or partial control of Afghanistan to the present (Linda Merrill, 2006).

Afghanistan population comprises 99% of Muslim (Sunni, Shia's) and 1% include Hindu and Christian. It ethnic groups include 52% Pashtun, 25% Tajik, 12% Hazara, 6% Uzbek and 5% Turkmen and Baloch. Islamic Holidays are Eid-ul-Fitr, Eid-ul-Adha, Mawlod-un-Nabi, Ashora, Arafa and independence day and Nawroz. Friday is offered as holy day.

---

<sup>10</sup> The overall number of students is 84,184, among which male 69084 (government 51,372 and private 17,712) whilst female 15,100 (government 12,465 and private 2,635) in 2011

<sup>11</sup> Majority in eastern and southern areas of Afghanistan

Afghan culture includes Islamic beliefs, values, norms and traditions. The family, dress<sup>12</sup>, food, dining etiquette, work<sup>13</sup>, leisure and play (Buzkashi, Pahlawani, Gursai, Fighter-kites Etc.) vary based on each ethical division. Afghan old culture has relatively turned to modern shapes by experiencing mixed western & eastern cultures in scope of its Islamic legislative laws.

### 3.10 Private Investment

Afghanistan has created a favorable business environment by providing financial assurance, and new investment opportunities for domestic and international investors due to moving toward political and economic stability. Its constitution enacted for investment support in the country as: in Article 10 and 11: “The state protects and promotes private investment based on a free market economy.” “Issues related to domestic and foreign trade shall be managed and covered by law based on the country’s needs and the people’s benefit.”(AISA, 2015).

The Islamic republic of Afghanistan and its donor partner are making progress on reconstructing the country’s infrastructure, economy and a legal framework for development of multi-ethnic state. Therefore, currently many private mobile phone operators (AWCC, Roshan, Etisalat, and MTN), private Internet providers, many private construction companies, major international hotels (Hyatt, Serena), leading international banks (Afghanistan International Bank, first microfinance bank, Standard chartered Bank, National bank of Pakistan, Habib bank Ltd. Etc.), many international companies (such as, DHL (transport and logistics sector), Pepsi cola, Coca cola, Alcatel trade international, Toyota motors, Marco polo Airlines.... Etc.), private electric power providers and so many domestic private companies are operating in Afghanistan. Whereas, the largest investor country is Turkey followed by Germany, India and Pakistan. AISA reported that ministry of commerce has licensed approximately more than 7,000 companies (MIGA, 2005).

The number of new firm registration, shows that, the worsening of the security situation and political instability, has negatively affected investor confidence in businesses, so the number

---

<sup>12</sup> Islamic hijab, Afghani clothes

<sup>13</sup> Generally merchants, traders, farmers, animal breeders, skilled artisans, herders in middle and upper citizen classes

of new firm registration in the first half of 2015 remain at the same level than 2014 and has declined by almost half since 2012 (World Bank, 2015)

Generally, In Afghanistan investors face various challenges like security, customs, living conditions, qualified labors or personnel, hassle of administrative barriers and informal payments to their operations... Etc. Therefore, Afghan government must facilitate and provide more incentives to attract investors and promote investment in the country.

### **3.11 Poverty and Inequality**

Poverty has been measured 35.8% in 2011-12, compared to 36.8% in 2008, without significant change despite economic growth and social outcome. A number of factors seem responsible. First, the rate of increase in poverty incidence in northeast was high in 2007-08, without northeast poverty declined from 36.3% to 33.4% in 2011-12. Second, climatic shocks of two consecutive years (2010 and 2011), Third, Increase of inequality nationwide (World Bank, 2015).

### **3.12 Inflation**

The inflation rate in Afghanistan was recorded at 1.80 percent in September of 2019. Inflation Rate in Afghanistan averaged 3.75 percent from 2005 until 2019, reaching an all-time high of 13.97 percent in April of 2011 and a record low of -18.39 percent in May of 2009

Prices of food in Afghanistan are driven by the performance of domestic agriculture sector and global food prices. Given the strong performance of agriculture sector in 2014 and the softening of global food prices, particularly of grains, the food price inflation has closed the year at 2.9 percent in December 2014 compared to 9.8% in December 2013. Looking to the non-food price inflation, it declined from 4.8% in December, 2013 to -0.3 in December 2014. The non-food inflation drop was driven in large by falling the house prices. Rental prices dropped nearly around 10% in December 2014 compare to a year earlier. Prices of communication services have also been declined since 2013(World Bank, 2015).

### ***3.12.1 The impact of declining oil prices on the Afghan economy***

As the oil prices started to decline in mid of 2014 from \$100 a barrel to around \$60 by the end of the year, which was the lowest since 2009. It is expected to remain at 70\$ or less in 2015 and will almost be below \$100 over the next 5 years (World Bank, 2015).

Afghanistan is an oil importing economy. It pays almost \$1.5 billion bill annually which is almost a quarter of total imports. The overall effect of declining oil prices on Afghanistan economy is positive at least in the short term.

As Afghanistan is landlocked and mountainous country, transportation costs are significant. So lower transportation cost and energy prices not only favor the country's movement of goods but also help reduce the import's bill for other items and commodities too. This not only be beneficial for poor but also reduces the costs for local producers who mostly depend on import of their primary and intermediate goods by land from Iran, Pakistan and Central Asia.

The moderation in the prices domestically improves welfare for the poor, and also increases general purchasing power of consumer, which in turn increases private consumption and domestic demand.

### **3.13 Afghan Households Consumption**

Afghanistan due to a long history of conflicts, war, political & economic instability, being a landlocked mountainous terrain, considers one of the worlds' back-warded underdeveloped countries for having a gap between available and needed commodities. According to Economic Research Service (ERS) of 2007-08, approximately 28% of the Afghan population couldn't meet the minimum daily energy requirement of 2,100 calories per person. Afghan households suffer by spending over 60% of their budget on food owing to increased food prices and declined purchasing power<sup>14</sup>.

---

<sup>14</sup> Central statistic organization of Afghanistan, 2015

In addition, an increase in the price of a commodity leads to a large reduction in the real monthly per capita consumption. Therefore, Afghan households trade-off quality for quantity by changing the composition of their consumption.

The total households consumption has drastically surged from 240,678 to 1,104,311 (million Afs) between 2002 and 2014, a period of 12 years (Central statistic organization of Afghanistan, 2015)<sup>15</sup>

### 3.14 Foreign Assistance in Afghanistan

After the institution of the new interim administration in 2001, the global community committed to support the new government by providing assistance to both military and development assistance. Since that time billions of dollars for development assistance have been channeled to Afghanistan in different forms: loans, financial grants and technical assistance.

The need, to track the inflow of intensive and high volume of international aid, and to ensure its coordination, and proper management was acknowledged as priority by government of Afghanistan. Thus the Afghanistan Assistance Coordination Authority was established in April 2002 for the purpose. In August 2003 it was dissolved and foreign aid management and coordination were incorporated by General Budget directorate of Ministry of Finance (“Development Cooperation Report”, 2010).

Given the average annual amount of foreign aid spent in the past, foreign aid is expected to drop to 28.3% of GDP in 2020 and to 23.5% in 2025 respectively. Increasing from USD 2.6 billion in 2002 to almost USD 16 billion in 2011, international aid on average has been equal to nearly 75% of GDP which was the highest in the world (“Development Cooperation Report”, 2012)

Foreign aid provided up to now, has immensely contributed towards accomplishing significant results in different sectors of Afghanistan economy. Building, reconstruction and rehabilitation of physical infrastructure. For the first time in the history of Afghanistan, more

---

<sup>15</sup> The total amount comprises government consumption (15,514 - 139,494) and private consumption (225,164 - 964,817) million Afghani in 2002 – 2014

than 4000 kilometers of highways, tertiary and secondary roads have been constructed with foreign aid (“Development Cooperation Report”,2010).

Total conferences in which foreign aid committed started from 1. Bonn in 2001 to 2.Tokyo, 3.Berlin, 4.London, 5.Rome, 6.Paris, 7.Hague, 8.London, 9.Kabul and 10.lisbon (“Development Cooperation Report”, 2010).

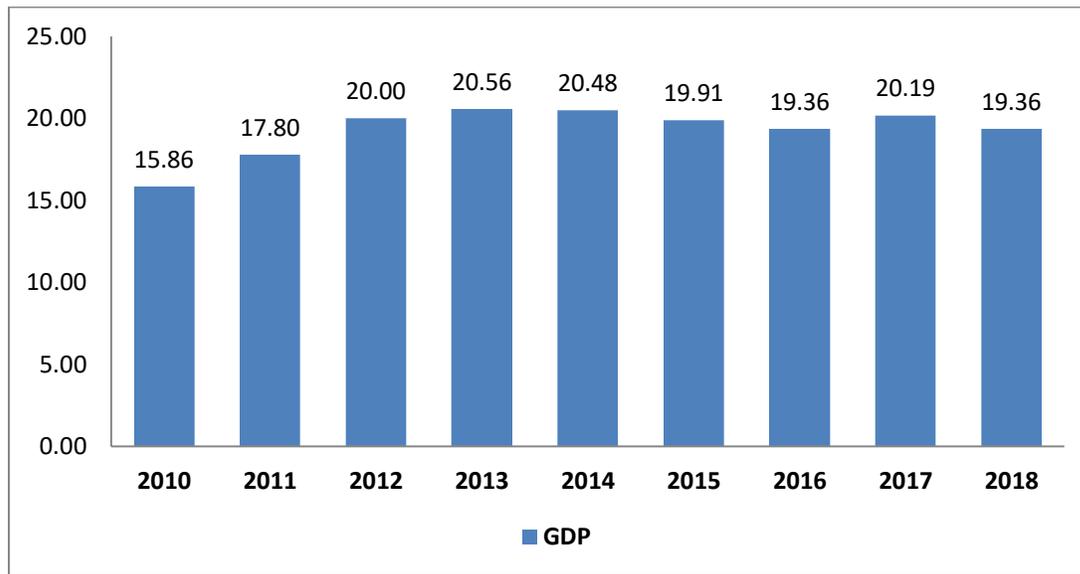
Since the beginning of Karzai interim administration, Total foreign aid has been pledged for Afghanistan was amount US\$ 90 billion for the period starting from 2002 to 2013 by the global community in the series of number of conferences and other means. From the total Official Development Assistance (ODA) pledged, US\$ 69 billion has been committed formally to be disbursed with in the period of 2002 to 2010. Of the committed ODA, US\$ 57 billion has been actually disbursed to finance large number of programs and projects for the reconstruction and development process in the country (Directorate General Budget, 2014).

### **3.15 Gross domestic Product**

The security and political move still continues to hamper the growth prospects of Afghan economy. The growth of economy has fallen to 2% in 2014 from 3.7% in 2013. The risk and uncertainty of political situation affected consumer and investor confidence negatively. Similarly the decrease in foreign aid affecting the growth in manufacturing, construction and services sectors.

Looking to the statistics the average GDP in Afghanistan shown 5.54 USD billion since 1960 to 2014, of which the highest of all time was 20.84 US\$ Billion in 2014 and the lowest were 0.54 US\$ Billion in 1960.

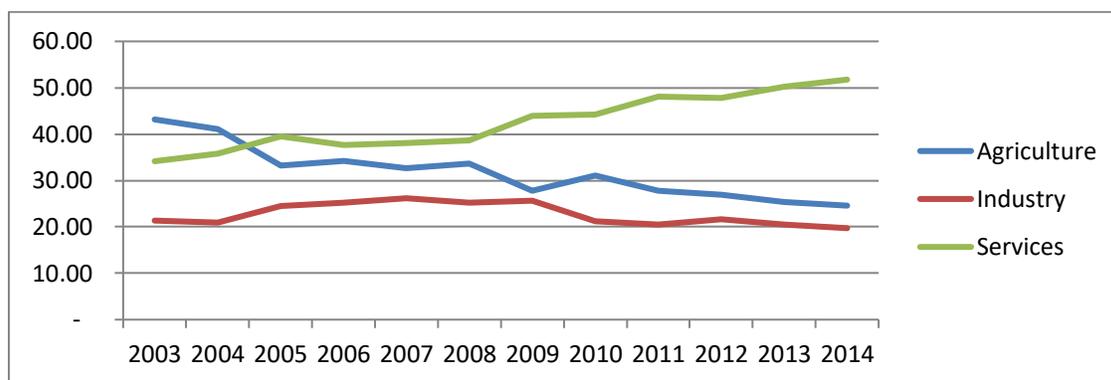
Chart 8: Afghanistan GDP



Source: Central Statistics Of Afghanistan. Retrieved from [cso.gov.af](http://cso.gov.af)

Agriculture Account 24.28% of GDP, industry 19.2% and service 51.75% in 2014 (Sectorial Contribution as percentage of GDP, 2014)

Chart 9: Sectorial Contribution as a percentage of GDP



Source: Central Statistics Of Afghanistan. Retrieved from [cso.gov.af](http://cso.gov.af)

Table 10: GDP per Capita

	2010	2011	2012	2013	2014	2015	2016	2017	2018

GDP	15.86	17.80	20.00	20.56	20.48	19.91	19.36	20.19	19.36
Population, total	29.19	30.12	31.16	32.27	33.37	34.41	35.38	36.30	37.17
GDP per capita (current US\$)	543	591	642	637	614	578	547	556	521

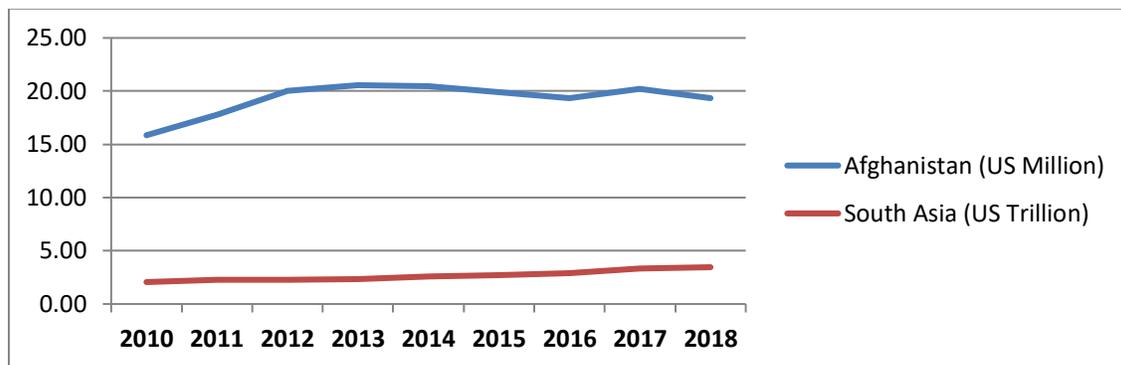
Source: [data.worldbank.org/country/afghanistan](http://data.worldbank.org/country/afghanistan)

Table 11: GDP per Capita Cross country comparison

GDP per capita-cross country comparison									
Country Name	2010	2011	2012	2013	2014	2015	2016	2017	2018
Afghanistan (US Billion)	15.86	17.80	20.00	20.56	20.48	19.91	19.36	20.19	19.36
South Asia (US Trillion)	2.06	2.27	2.30	2.36	2.58	2.70	2.92	3.35	3.46

Source: [data.worldbank.org](http://data.worldbank.org)

Chart 10: GDP per capita cross country comparison.



Source: [data.worldbank.org](http://data.worldbank.org)

### 3.16 Afghanistan Taxation System:

There are 5 types of taxes in Afghanistan – rental withholding, contractor withholding, wage withholding, business receipt taxes and income tax. The government of Afghanistan uses its official Afghan calendar which corresponds to March 21 to March 20 on the Gregorian calendar, so all taxes should be paid in Afghan currency and according to Afghan calendar (AHG, 2015)

According to the Article I of income tax law, a tax is obligatory on the income from all Afghan sources of persons, corporations (Joint stock companies), limited liability companies

and other legal entities in Afghanistan or outside the country and on the foreign income of the residents, according to the provisions of law (Income Tax Law, 2005).

### *Summary of Afghanistan Tax requirements<sup>16</sup>*

#### **3.16.1 Rental Tax withholding**

Payment of Monthly rent		Amount withhold	File within
0 Afs to	10,000 afs	0%	15 days after month end in which payment is made.
10,000 afs to	100,000	10% flat	
Above 100,000 Afs		15% flat	

#### **3.16.2 Employee tax withholding**

Payment of Monthly salary		Amount withhold	File within
0 Afs to	5,000 afs	0%	10 days after month end in which payment is made.
5,000 afs to	12,500 afs	2% over 5000	
12500 afs to	100,000 afs	150 afs + 10% over 12,500.	
Above 100,000 Afs		8900 afs + 20% above 100,000	

#### **3.16.3 Contractor Tax Withholding**

Payment to a sub-contractor		Amount withhold	File within
Under 500000 Afs per year		0%	10 days after month end in which payment is made.
Over 500000 Afs per year to a company with an AISA license		2% flat	
Over 500000 Afs per year to a company without an AISA license		7% flat	

#### **3.16.4 Business Receipts Tax Return**

When revenue is from	Payment	File within
A contract with a valid contract specific tax exemption on file with the Ministry of Finance	0%	15 days after month end in which payment is made.
All other contracts	2% flat	

#### **3.16.5 Annual Income tax Return**

When revenue is from	Amount withhold	File within
A contract with a valid contract specific tax exemption on file with the Ministry of Finance	0%	3 months after end of fiscal year

<sup>16</sup> <https://www.ahg.af/>

All other contracts	20% of profit after all allowable expenses	
---------------------	--	--

#### 4 ECONOMIC PROSPECTS

Afghanistan had to battle against severe economic headwinds in 2018 despite economic growth estimated 1.8%. The reason behind slow growth was severe drought which negatively impacted agricultural production & the lower confidence of investors & businesses which deteriorated enough in the context of uncertainty (The duration & the level of assistance in term of international security, the result of the presidential elections which held in September 28, 2019 & peace talk with Taliban).

GDP growth accelerated in the first half of 2019 due to ease in drought & improvement in agriculture production. However, the intense political worries & uncertainties have dampened the private sector confidence in investment. (World Bank, 2019)

Poverty estimated has increased & deepened. The rate of increase in economic growth considerably lagged the population growth which leading to declining per capita incomes. Severe drought caused lower returned for the household & also internal displacement. Almost 82% of the poor population who were mainly relying on poppy cultivation have been negatively affected by drought. (World Bank, 2019)

Inflation continued to have remained moderate throughout 2018 with an average reaching to 0.6 percent. In spite of drought conditions, prices of food have not risen due to decline in the grain prices & increase of food imports. However, non-food prices have risen by 1.8%. Since March 2019, the headline consumer prices inflation accelerated steadily reaching to 3.6% year on year as of April 2019 with the prices of food increasing by 5.1%. (World Bank, 2019)

Fiscal management however remained strong & robust. The fiscal surplus approximately 0.7% of total GDP were achieved in 2018. In spite of sluggish growth, domestic revenues have reached the record high Afs 189 billion almost an increase of 12% from 2017. The

reason of strong revenue growth was improved tax management with estimated debt collection of Afs 10 billion.

#### 4.1 Economic Outlook and Medium-Term Prospects

Table 12: Medium-term prospects

	2016	2017	2018e	2019f	2020f	2021f
Reald GDP growth	2.1	2.2	1.0	2.5	3.2	3.5
Agriculture	6.0	3.8	-3.0	4.0	2.7	4.5
Industry	-0.8	0.4	1.5	2.0	3.0	3
Services	2.2	2.5	1.8	2.0	3.5	3.5
Consumer Price Index	4.3	4.7	0.6	3.1	5	5
Current Account Balance (%GDP)	5.6	1.0	0.3	-1.4	-2.5	-3.8
Net Foreign Direct Investment (% GDP)	-0.1	-0.1	0.1	0.1	0.1	0.1
Fiscal Balance (% GDP)	0.1	-0.5	0.7	-7.0	-0.7	-0.5
Debt (% GDP)	6.1	5.9	6.9	7.0	7.0	7.3
Primary Balance (% of GDP)	0.2	-0.4	0.8	-0.6	-0.5	-0.3
Nominal GDP at Market Price (\$Million)	19363	20192	18511	18600	19161	19799
Source: World Bank						
Note: (e)= estimate, (f)= forecast						

Source: World bank

In the medium term, growth expected at about 2.5% annually from 2018 to 2019(Table 12). It is shown less than average growth rate 9.4% in the period of 2003 to 2012. It was because of flow of plenty of international aid and much security spending. The post transition economic growth is totally dependent upon comparatively more stable political and security situation, service and agriculture are important drivers and mining sector will play a significant role in the medium term economic prospect.

Agriculture accounts almost quarter of GDP of Afghanistan and is closely linked to other part of economy in the country. Particularly food and beverages which account almost all of manufacturing and part of transport and retail.

Afghanistan has the capability to revive its historical position as a main exporter of nuts, fruits, vegetables and other high value added products. It will require investments in irrigation and efforts to improve agro-processing activities.

Extractive industries sector account for a small share of GDP, but it have a significant potential of its deposits like copper, ore, iron and hydrocarbons. To unlock this potential, it require progress on legislative framework and as well as securing financing for important infrastructure. The medium term growth is subject to much risks which need to be carefully managed. The unstable and uncertain political and security situation is a considerable constraint to the private growth and investment. More violence, economic crime and corruption have undermined progress in Afghanistan's governance and state building agenda. So much will depend on Afghanistan's success especially in achieving peace, stability and reconciliation.

#### **4.2 Economic prospects for future developments**

Afghanistan's history depicts more than three decades of conflicts and wars, which has totally destroyed the economic and social infrastructure of the state. Later, In spite of international assistance and injection of billions of dollars, the donor-driven economy remains ineffective due to extreme exploitation conditions and unequal economic power relationships between economic and political elite groups, as well as the free market approach is not succeeding; Afghanistan still faces economic and political issues requiring sustainable long-term economic development strategies and policies.

Afghan government and international community, need to shift emphasis by changing current economic structure, to focus on complex issues of economic and politics such as; infrastructure development, human resources development, coordinated and targeted economic strategies, institutional approaches and transparent government policies and procedures rather than service and donor-driven economy. Therefore, focus must be on education, agricultural and rural development, road and transportation facilities, power supply, electricity, water, sanitation and disease control (health care), natural resources exactions, local farm and non-farm industries and so forth, which will create economic reforms, modernization and social transformation. In addition, efficient allocation of scarce

resources will sustain an economic growth that will lead to improvement of average standard of Afghans living. Development of domestic agriculture and industrial sector will lead to economic growth; therefore, Afghanistan must minimize and gradually eliminate reliance on international assistance, foreign products importing and all restriction from IMF and World Bank.

Currently, Afghanistan has overwhelmed by political conflicts, poor governance, corruption, poverty and foreign interference. Government needs to create economic and political capacities by providing basic public service and supporting day-to-day economic activities to increase Afghans trust on government and decrease violence. Thereby, money needs to be invested in productive sectors rather than unsustainable projects like; workshops on gender balance, women rights, capacity building, human rights, etc. which breaks in friendly relations between people in rural, city or urban areas that removed social harmony and has divided society. However, it was better achieved through social and cultural processes by passage of time, called an evolutionary process rather than jump started from outside. In addition, applicability of western benchmarks in a war-ravaged and poverty stricken country; a market economy, democracy and federalism are the drawbacks of unsuccessful lofty purposes in Afghanistan.<sup>17</sup>

### 4.3 Employment

From 2001 till present huge pressure on work market as a result of 5.7 million refugees return has been caused Afghan work force suffered from different problems like less works, unemployment and poverty. In 2014, according to ACCI many national companies dissolved and 40,000 workers lost their jobs<sup>18</sup>.

In 2015, National unity government tried to create new job opportunities by supporting private sector, encouraging entrepreneurs and international partners to use and purchase from local market. Therefore, employment rate seems to increase if government ensures good

---

<sup>17</sup> Abdul Qayum Mohmand. Ph.D., “ The prospects for economic developments in Afghanistan”, Reflections on a survey of Afghan People, 2012

<sup>18</sup> *Ministry of Finance, 2015, National budget document-Fiscal year 2015*

governance, economic stability, security, banking and provision of consultancy services that will even further facilitate the national and international investments.

Government development expenditures will create more employment opportunities in future. Therefore, if government raises the rate of development budget 50% in 2015 it will increase the overall expenditure to 7.5 billion that is equal to expenditure of 2014, which will create extra 54,000 job opportunities compare to the state where there is no change for development expenditures. If the development budget for 2015 raises by the rate of 60%, the overall expenditures will increase to 25.8 billion in compare to 2014 that expects employment of 183,000 individuals whereas 80% increase will result at 62.2 billion expenditure and 443,000 job opportunities which will increase GDP by 0.4, 1.3, 3.1 percent respectively that will reduce unemployment rate (Ministry of Finance, 2015)

#### **4.4 Afghanistan Economy Trends**

The Afghan economic future trends for the upcoming four years have been illustrated in-depth as bellow<sup>19</sup>:

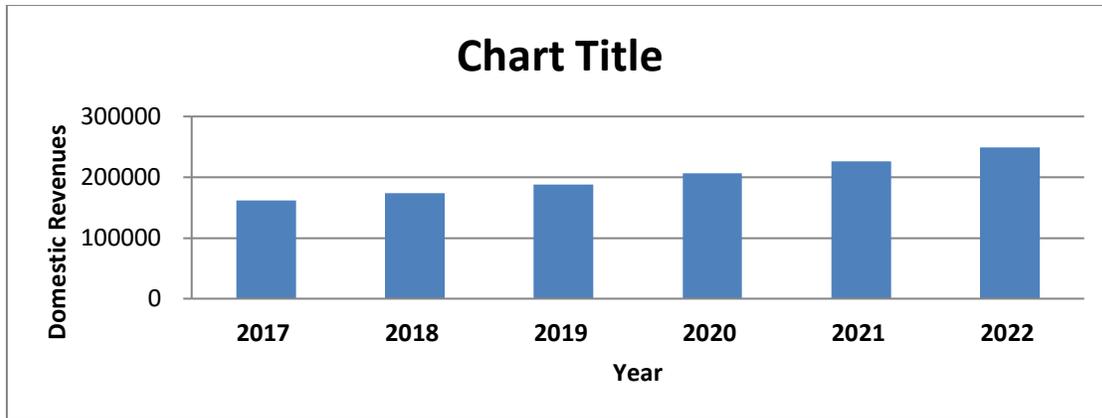
##### **4.4.1 Total Projected Domestic Revenues<sup>20</sup>**

The bar graphs show trends of the forecasted revenues over a period of six years 2017-2022. The total projected revenues will significantly surge from 2019 onward. Thus, it has been forecasted to reach Afs 248554 Million on 2021, which will be the highest point of revenue over preceding years, followed by second highest revenue Afs 226230 Million on 2020.. (Chart: 11)

---

<sup>19</sup> All the Statistics are in Table 01: AFGHANISTAN: Medium Term Fiscal Framework (MTFF) For The Central Government (For The Period 2010-2018), Main source of data- (Islamic Republic of Afghanistan) - Ministry of Finance “ National Budget Document- Fiscal Year 2015” Simi-Annual Report.

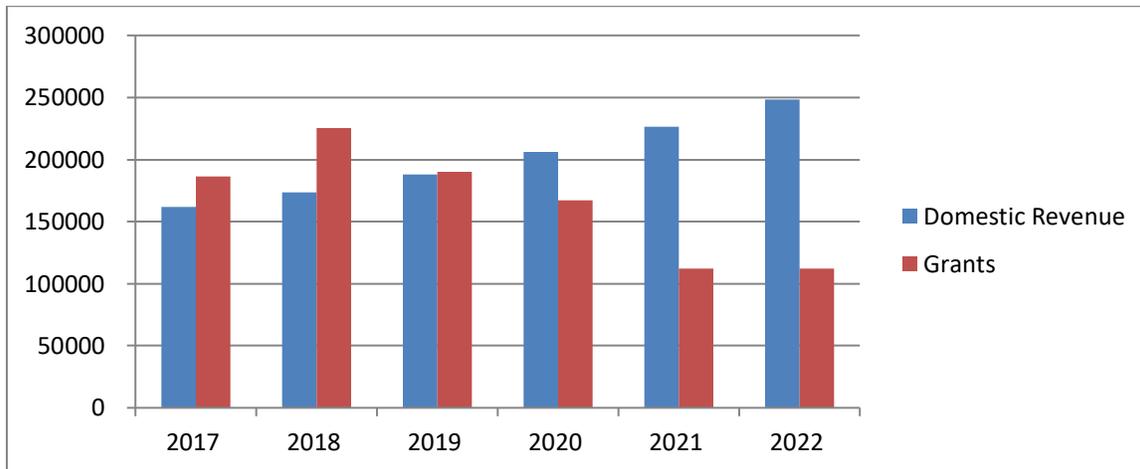
<sup>20</sup> <http://www.budgetmof.gov.af/index.php/en/2012-12-06-22-51-13/national-budget>



Source: Ministry of Finance “Fiscal Strategy Paper 2019

Total projected revenue comprises total domestic revenues and total grants. Total domestic revenues trend shows considerable increase or upward growth, whilst in contrast total grants will be almost leveled off with mere decrease over the forecasted period. The total projected grants (Afs 248554.1million) on 2022 seem to be approximately two times higher than total domestic revenue (Afs 112038.3 million).

Chart 11: Total Projected Revenue and Total Grants

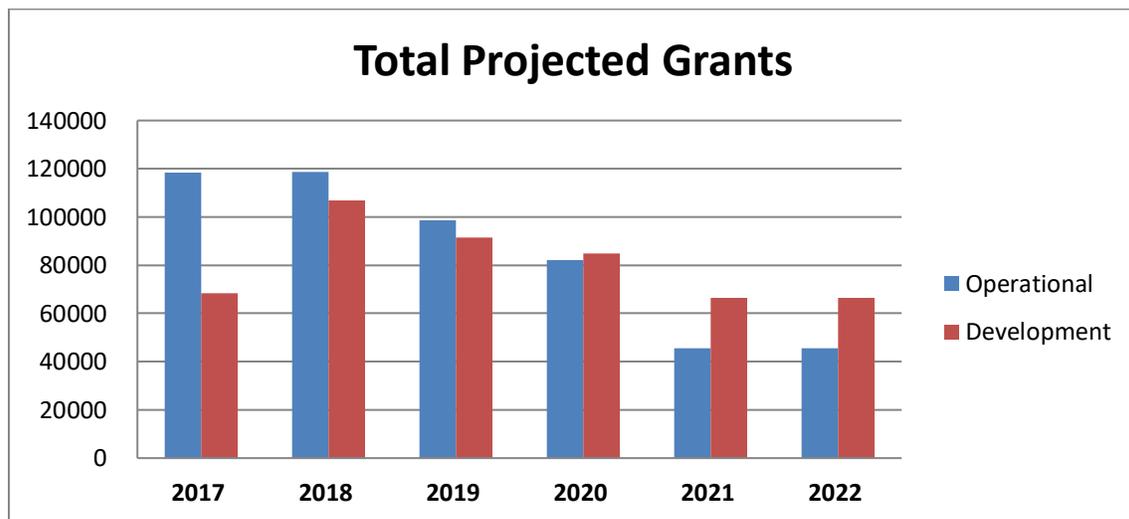


Source: Ministry of Finance “Fiscal Strategy Paper 2019

In addition, total grants will have in unequal divisions of operating and development grants in which higher portion of grants will be dedicated to operating grants 118392.9, 118714.2, 98600, 82063.5, 45590.9 and 45590.9 (Millions Afs) respectively from 2017 to 2022.

Whereas, Development grants will gradually decrease to Afs 66447.4million in 2021 & 2022.

Chart 12: Total Projected Grants



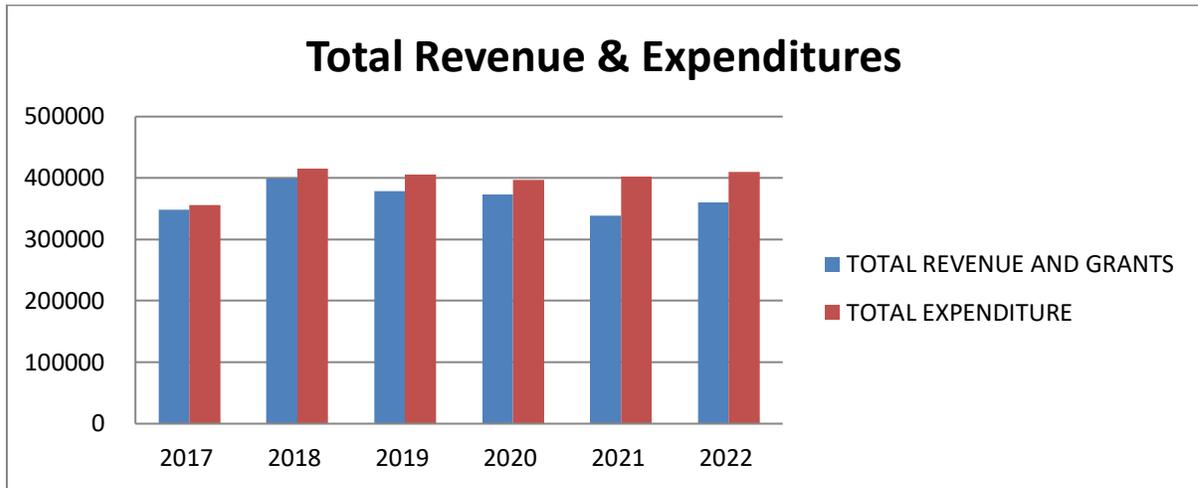
Source: Ministry of Finance “Fiscal Strategy Paper 2019

#### 4.4.2 Total Projected Expenditures<sup>21</sup>

As illustrated in graph, total projected expenditure always higher than projected revenues over the period, the surplus or deficit account will be maintained for incremental or decremented amount.

<sup>21</sup> <http://www.budgetmof.gov.af/index.php/en/2012-12-06-22-51-13/national-budget>

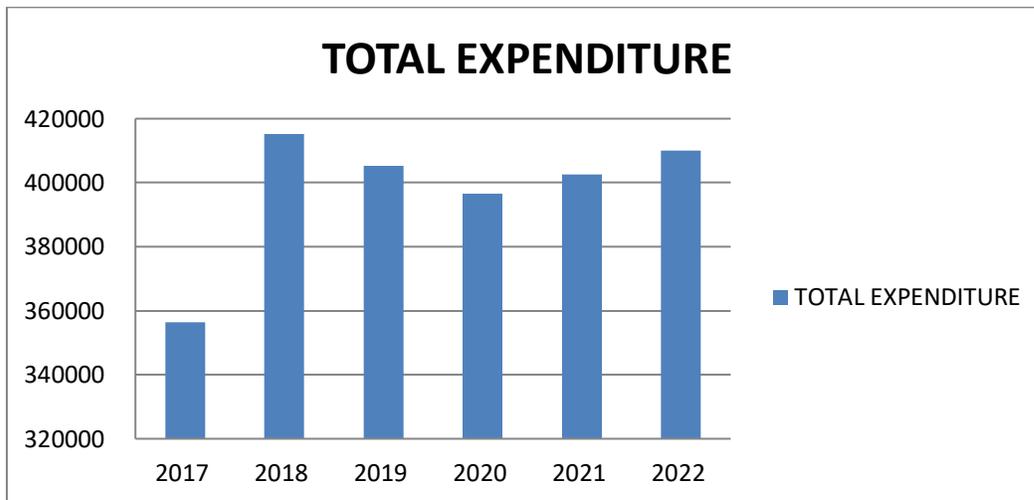
Chart 13: Total Projected Revenues and Expenditures



Source: Ministry of Finance “Fiscal Strategy Paper 2019

Total projected expenditure is divided into operating and development expenditures. Total operating expenditure is more than two times higher than development expenditures. However, both will have gradual growth in the future six years.

Chart 14: Total Projected Expenditures



Source: Fiscal Strategy Paper 2019

Chart 15: Total Operating and Development Expenditures



Source: Fiscal Strategy Paper 2019

Total projected operating expenditures will include governmental salaries, goods & services, capital expenditures and some contingencies among which high government operating expenditure will be on salaries and least portion of spending will be on capital expenditure.

The total projected development expenditures has been apportioned into few sectors such as; Education, Health, Security, Social Protections, Infrastructure & Natural resources, Governance, Rules of Law & Human Rights, Agriculture and Rural Development, Economic Governance & Private Sector Development and Contingency Funds for Development Projects.

Afghan government will spend a high amount of its development expenditures on infrastructure & natural resources in compare to other sectors. The second highest expenditure for development will be on agriculture & rural development followed by the third highest expenditure on the education sector and fourth highest spending on health sector after which relatively lower portions of expenditures will be on other sectors while the lowest expenditures will be on security and social protection.

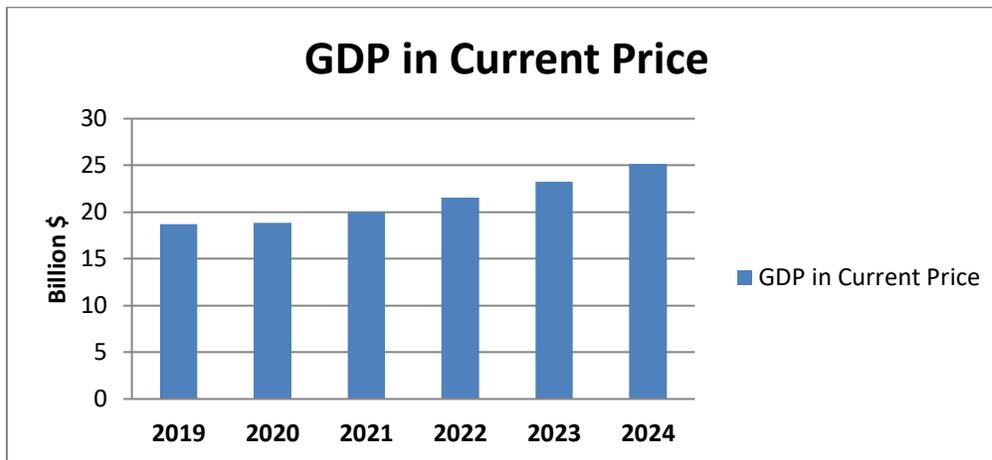
For securing peace and stability, government will have roundabout Afs one million expenditure on security sector excluding the salaries as it's highlighted under the operating expenditures (mentioned before). Therefore, government expenditures for development projects or programs will have its least spending on security sector, while its highest

operating expenditures will be on salaries while includes outnumbering of soldiers and security related employees in compare to other official workers of the government.

#### 4.4.3 Total projected Gross Domestic Product<sup>22</sup>

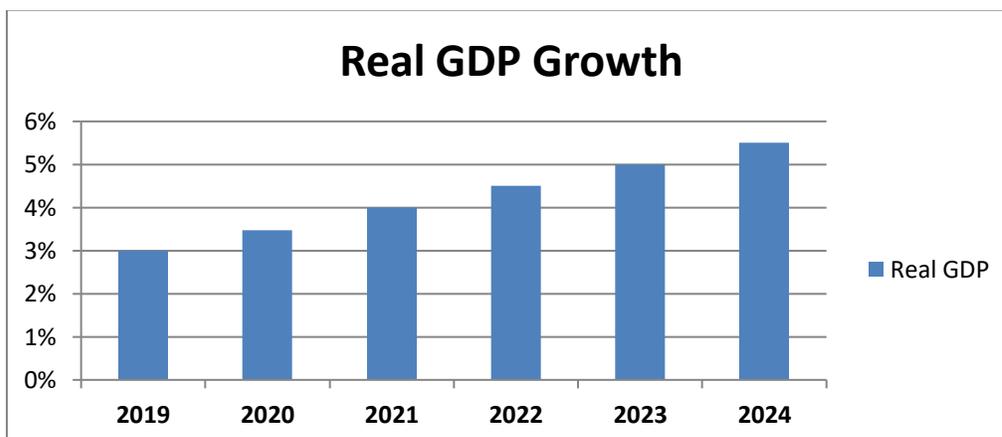
The bar graph illustrates the projected GDP growth in current price from 2019 to 2024.. The projected GDP shows an exponential growth over the period. Therefore, the estimated nominal GDP will be USD 18.73 billion in 2019, whereas, it will reach to USD 25.19 billion in 2024. The total estimated real GDP growth will surge in 2019 onward from 3% to 5.5% in 2024.

Chart 16: Total GDP in Current Price



Source: *Fiscal Strategy Paper 2019*

Chart 18: Real GDP Growth Rate

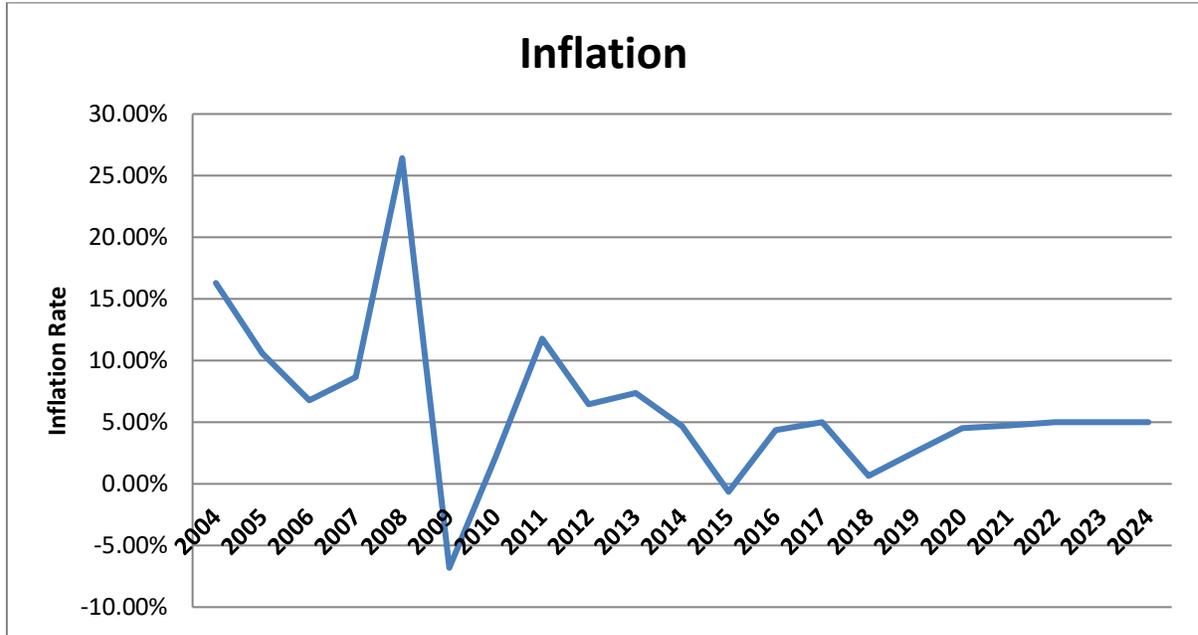


<sup>22</sup> <http://www.budgetmof.gov.af/index.php/en/2012-12-06-22-51-13/national-budget>

Source: Fiscal Strategy Paper 2019

#### 4.4.4 The projected Inflation<sup>23</sup>

This timeline below shows the inflation rate in Afghanistan from 2004 to 2018, with projections up until 2024. In 2018, Afghanistan's average inflation rate amounted to 0.63 percent compared to the previous year.



Source: Statista

Source: Ministry of Finance “National Budget Document-Fiscal Year 2015”

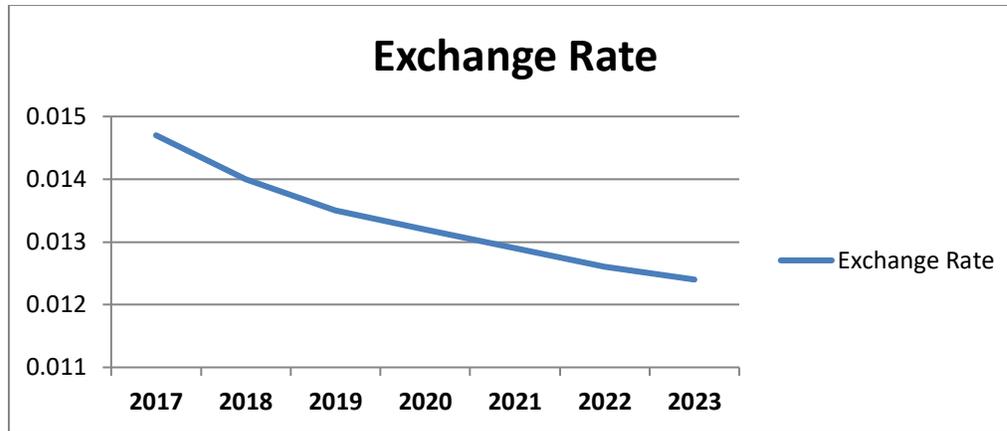
#### 4.4.5 The projected Exchange Rate<sup>24</sup>

The forecasted exchange rate seems to show that Afs currency will decline in value to USD gradually over the period 2017-2023. In 2023, one unit of local currency (LCU) in Afghanistan will approximately equivalent to US\$ 0.01.

Charte 19: Exchange Rate

<sup>23</sup> <http://www.budgetmof.gov.af/index.php/en/2012-12-06-22-51-13/national-budget>

<sup>24</sup> <http://www.budgetmof.gov.af/index.php/en/2012-12-06-22-51-13/national-budget>



Source: Statista

Source: Ministry of Finance “National Budget Document-Fiscal Year 2015”

#### 4.4.6 Afghanistan as a trade transit hub<sup>25</sup>

Although destructed by war and political conflict, Afghanistan still strategically possesses an important location in the Asia. It is at the heart of the modern Silk Road and a main player in the connectivity of the region, which will be so much important in shaping the region and particularly Afghanistan’s future. After 13 years of conflict and war the International Security Assistance Force (ISAF) concluded its combat mission finally in December 2014 and the country’s security responsibility is officially transferred to Afghan National Forces (ANSF). The peace, stability and political situation once again highlighted as main point of discussion as many of the people remain not convinced by the capabilities of ANSF to protect the country. However, economic stability is conditional to the sustainable peace in the country. A stable economy, peace and political situation is highly essential to sustain the gains of this war-torn nation which achieved over the last 13 years and to improve and keep up the partnership of the international community with Afghanistan. The focus must be shifted to the economy of Afghanistan and to establishment of sustainable measures for economic development.

To reach that goal, Afghanistan must be integrated to the economic structure of the region. And that could be possible to implement the “New Silk Road Vision”, the one which was introduced by former US secretary Hillary Clinton in 2011. But it is important to note that “New Silk Road” concept first developed by the Afghan government and was the main goal

<sup>25</sup> <http://www.budgetmof.gov.af/index.php/en/2012-12-06-22-51-13/national-budget>

in all Afghan National Development Strategies (ANDS), former President Hamid Karzai further emphasized these determinations in his speech at the Kabul conference in July 2010.

The new Silk Road concept will revive the trade between Central and South Asia and will integrate Afghanistan with the region by reconstructing the key infrastructure and resuming traditional transit routes. This vision can be achieved by the development of market for energy and the Lapis Lazuli Corridor, where Afghanistan strategic location play as the “land bridge” role between countries in the region. Afghanistan is a feasible transit location for Central Asia and South Asia 1000 transmission line.

CASA-1000, World Bank-led and U.S government backed project is a transformational project which is expected to address the needs for energy in South Asia by transmitting the resources of energy from the Central Asia, Which is gifted with world’s most plentiful clean hydropower cascades, through Afghanistan. Because of no access to sea, central Asia has the only better option is Afghanistan, the only feasible rout for the CASA-1000 transmission line. It facilitates the most direct route from Kyrgyz Republic and Tajikistan to the energy deficit Pakistan.

The project will transfer 1000 Megawatts of power to Pakistan through Afghanistan and 300 Megawatts of Power to Afghanistan. In addition to 300 Megawatts electricity, more revenues will be generated from the transit-fee charged on energy passes through Afghanistan. The fee both country agreed upon is 1.25 cents per kilowatt electricity between Kyrgys, Tajikistan and Pakistan through Afghanistan. This was the first foreign policy achievement of National Unity Government (NUG) of Afghanistan led by the President Dr Ashraf Ghani and chief Executive Dr Abdullah Abdullah. This deal will generate US\$ 45 mn in revenue to the government of Afghanistan. In addition, Afghanistan will use 300 megawatts electricity for domestic needs or to re-export and generate additional revenue.

Another important agreement in the realization of the “New Silk Road” in the ground of energy is the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project, where Afghanistan again plays an important role in connecting with energy surplus Central Asia to the energy-deficit South Asia.

The new deal about (TAPI) gas pipeline revived in 2002 and received full support from US. The Asian development Bank financed the feasibility study for the project. At the donor meeting held in New Delhi 2006, countries promised to help accelerate the planning for the project and help Afghanistan to become an energy bridge.

Afghan Government has shown several commitments about providing the security of TAPI's route. In 2011 when Afghanistan's security situation comparatively was tight, Former minister of mines WAhidullah Shahrani declared that the project is very important for Afghanistan. Five to seven thousands security forces will be deployed to keep the pipeline route safe<sup>26</sup>

TAPPI project will export almost up to 33 billion cubic meters (bcm) of natural gas a year through a proposed 1800 kilometer pipeline from Turkmenistan through Herat, Helmand and Kandahar in Afghanistan to Quetta and Multan in Pakistan, and on to Fazilka in India. This pipeline will be a recipe for long term stability in Afghanistan to generate revenues and create jobs for Afghans.

Project predicted to be completed at 2018 and will provide US\$ 400mn in revenue per year to Afghanistan. It will also provide an alternative for energy which depends currently on Iran for fuel. It has geopolitical consequences as well that will further boost Afghanistan's ties with neighbor countries, especially Pakistan. As the Pakistan and Afghanistan tension over terrorism and trade are profound, the TAPI project will create positive economic and political interaction between two nations by providing an environment for mutually benefiting from economic cooperation.

Another major project in revival of the ancient Silk Road is the Lapis Lazuli Corridor which will connect South Asia to Central Asia and then to Europe, where Afghanistan serves as the connecting bridge again. Its name comes from the fact that Afghanistan's lapis lazuli and other semiprecious stones were exported through this route to Caucasus, Russia, Europe, the Balkans and Northern Africa over 2,000 years ago. Lapis Lazuli Corridor runs from Aqina in northern Faryab province and Turqundi in western Herat province of Afghanistan to Turkmenbashi of Turkmenistan which arrives in Baku, capital city of Azerbaijan, after

---

<sup>26</sup> <http://www.bloomberg.com/news/2011-01-29/u-s-afghan-study-finds-mineral-deposits-worth-3-trillion.html>.

passing the Caspian Sea. It connects Baku to Tbilisi, Georgia's capital, and also the ports of Polti and Batumi of Georgia. The Corridor then connects cities of Kors and Istanbul of Turkey and finally ends in Europe.

Another important project is the Lapis Lazulli Corridor, which will also play an important central role in connecting South Asia to Central Asia and then to Europe. The reason behind its name is the fact that Lapis lazuli and other precious and semiprecious stones were exported to Caucasus, Russia and Europe using this route over 2000 years ago. Lapis Lazulli Corridor start from Agina, in Faryab province and Turqundi in Herat province of Afghanistan to Turkmenbashi of Turkmenistan and arrives in Baku, capital of Azerbaijan, after passing of the Caspian Sea. The route connects Baku to Tbilisi, Georgia's capital and also the ports of polti and Batumi of Georgia. It connects cities of Kors and Istanbul of Turkey and ends in Europe<sup>27</sup>.

USD 130mn for the implementation of the project has been allocated by the Asian Development Bank which will further integrate Afghanistan to the region through road and rail. According to the Afghan Ministry of Commerce and Industry (MoCI), transit through Turkmenistan, Azerbaijan, Georgia and Turkey through road and rail is a feasible transit route for trade with EU, Balkans and Eastern Europe. The proposal for this corridor received approval from regional countries in March 2014.

The importance of the Lapis Lazuli Corridor was pointed out by the representatives of all concerned countries in first technical working group meeting about Lapis Lazuli Corridor which was held in Turkmenistan on November 15, 2014. The corridor was considered as a "shortest, secure and less expensive passage" which will connect Caucasus and Central Asia. It will improve and modernize transport infrastructure and the customs procedures. It will increase trade, creates employment opportunities and boost economic ties among the concerned nations who are benefitting from this route. President Dr Ashraf Ghani also reflected the importance of the Corridor in connecting of Afghanistan with the regional countries in the speech he delivered to the American congress in March 2015.

---

<sup>27</sup> Source: <http://wadsam.com/afghan-business-news/afghanistan-still-at-the-heart-of-the-silk-road-3737/>



## References

- Afghan Ministry of foreign affair (2013), “*Afghanistan National Development Strategy 2013*”.
- Afghan Ministry of Foreign Affair (2013), “*ANDS annual report*”, p17.
- AHG (2015), “*Afghanistan Holding Group*”, <http://mof.gov.af/Content/files/IncomeTaxLaw.pdf>
- AISA (2015), “*In charged to attract, promote and register all new investments*”, <http://www.aisa.org.af>
- Central Statistic Organization (2014), “*Central statistics organization of Afghanistan,2014/trade*”
- Central Statistic Organization (2014),”*Afghanistan Statistical Yearbook 2013-2014*”,Health development.
- Central Statistic Organization (2014),”*Sectorial contribution as percentage of GDP*”, Retrieved from <https://cso.gov.af>.
- Central Statistic Organization (2014),”*Afghanistan Statistical Yearbook 2013-2014*”, Available at: <https://CSO.gov.af>.
- Directorate-General for Trade (2015), “*Eurostat IMF, European Commission, Directorate-General for Trade*”, Units A4-G2, 2015.
- Hanif Yazdi (2008),”*Education and Literacy in Afghanistan: Lessons of history and Prospects for Change*”
- Linda Merrill, Donald Paxson, Thomas Tobey (2006) , “*An Introduction to Afghanistan Culture*”
- MIGA (2005), Multilateral Investment Guarantee Agency, World bank group, “*Investment Horizons Afghanistan*”
- Ministry of Mines and Petroleum (2011),”*FAQ’s and Briefing Note on Mining and Hydrocarbon Sector, April 2011*”. Available at: <http://mom.gov.af/en/page/6393>)
- Pajhwok reporter (2014), “*Afghanistan grabs carpet Oscar reward*”, <http://www.pajhwok.com/en/2014/01/16/afghanistan-grabs-carpet-oscar-award>.
- Roman Mogilevkii (2012), “*Trends and patterns in foreign trade of central Asian countries*”.
- Joe Banavige (2010), ”*Afghan Mining Opportunity*”; Feb 2010. Available at: <https://ronnaafghan.harmonieweb.org/Documents/Mining>
- USAID (2014), “*Infrastructure Sector Fact Sheet Aug 2014*”.
- Ministry of Finance (2015),”*National Budget Document- Fiscal Year 2015*”.

World Bank (2015), “*Asian Development report, 2015*”