

Pak-Afghanistan Trade Relationship



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Introduction to Afghanistan:

Afghanistan (Land of the Afghan) is a mountainous country in Central Asia with a history and culture that goes back 5000 years. Throughout its long and sometimes chaotic history, this area of the world has been known by various names. In the ancient times, the land was called Aryana by its inhabitants. In the medieval era, it was called Khorasan, and in modern times, its people have decided to call it Afghanistan. The exact population of Afghanistan is unknown, however, it is estimated to be around 21-26 million. Afghanistan is being recognized as Islamic state.

Economy of Afghanistan

Afghanistan's economic growth has slowed but remains at satisfactory levels to generate rising average standards of living. Real GDP growth is expected to close the fiscal year 2011-12 at 5.7 percent, down from 8.4 percent in 2010-11. The slowdown in growth was mainly due to weather-related conditions which lowered agriculture output to below-average levels.

Economy: This year (2012-13) GDP growth is expected to pick up again and is projected to reach 7.1 percent. A sizeable financing gap will continue to exist through 2021 despite projections of healthy growth in domestic revenue collection.

At present, Afghanistan's economy is growing strongly as a result of an exceptionally good harvest this year. Real gross domestic product (GDP) growth will most likely close the calendar year at 10 percent, a significant increase from last year's 5.8 percent. The services and construction sectors continue to grow strongly, driven mostly by continued high military spending and external aid. The good harvest has also brought Afghanistan to near food self-sufficiency and slowed inflation to 4.6 percent in July 2012 (y-o-y). Progress in the mining sector is clouded by uncertainty about a new mineral law. While investor interest in the sector is encouraging, gaps in the legal and regulatory framework of the sector do not provide sufficient confidence to investors to start operations or make firm commitments. Afghanistan's economic growth prospects for 2012 give cause for optimism. Although real GDP growth slowed, to around 7 percent in 2011 (from 8 percent the year before), due mainly to unfavorable weather and a poor harvest, the agriculture sector rebounded strongly in 2012 and is expected to boost economic growth to over 10 percent. Agriculture is an important component of economic growth.

Afghanistan Economic Figure: GDP data and GDP forecasts; economic, financial and trade information; the best banks in Afghanistan; country and population overview are as follows.

DATA ON GDP AND ECONOMIC INFORMATION

Country	Afghanistan
Capital	Kabul
Government	Islamic republic
Independence	April 1709, October 1747, and August 19, 1919
Language	Dari, Pashto
Area	647,500 km ² (251,772 sq mi)
Population density	43.5/km ² (111.8/sq mi)
Population	35,320,445 (2011)
Central bank	Bank of Afghanistan
International Reserves	US\$ 48.590 billion (Source: IMF; Data updated: November 2011)
Ranking	160
Gross Domestic Product - GDP	\$20,343,461,030
GDP (Purchasing Power Parity)	\$29.99 billion (2011 est.)
GDP per capita - PPP	\$900 (2010)
GDP per capita - current prices	US\$ 614 (2007 estimate)
GDP (PPP) - share of world total	2010 0.04%

Inflation	2009	2010	2011	
	-12.2%	7.7%	11.2%	
Real GDP growth	2010	2011	2012	
	8.4%	5.7%	7.2%	
Public deficit (General government net lending/borrowing as a % of GDP)	2010	2011		2011*
	0.9%	0.1%		0.1%

Afghanistan Natural Resources

Despite the infusion of international assistance much of the population continues to suffer from shortages of housing, clean water, electricity, medical care, and jobs. Afghanistan is remarkably rich in natural resources. There are currently more than 1,400 identified mineral deposits like natural gas, petroleum, and coal, marble, precious and semiprecious stones, gold, copper, chromite, talc, barites, sulfur, lead, zinc, iron ore and salt. Some of these resources are extensive deposits of natural gas, petroleum, coal, copper, chromite, talc, barites, sulfur, lead, zinc, iron ore, salt, and precious and semiprecious stones.

Afghanistan's main industries

Afghanistan's main industries are small-scale production of textiles, soap, furniture, shoes, fertilizer, and cement; hand woven rugs; natural gas, apparel, food-products, petroleum, coal and copper. Agriculture accounts only for 30% of the GDP, but it is a source of income for 80% of the population.



President Zardari made his first trip to Afghanistan in January 2009, pledging to combat terrorism. The two countries have worked together to bring security in the region. In September 2010, Afghan President Hamid Karzai traveled to Pakistan addressing new tactics to fight militancy. The two presidents discussed ways to tackle sanctuaries, training grounds, ideologies and financial resources of terrorists. President Zardari believes in a prosperous, stable and peaceful Afghanistan. In order to enhance cooperation amongst the two countries, in October 2010, the President has signed a Pakistan-Afghanistan Transit Trade Agreement. This Agreement will boost bilateral relations, economic development and also contribute to the peace and security stability of the region. President Zardari has also signed a much needed Inter Governmental Agreement (IGA) between Afghanistan, Turkmenistan and India. Under this agreement a gas-pipeline (TAPI) will be constructed, supplying billions of cubic feet of gas per day to Pakistan. The IGA will also provide regional harmony and prosperity amongst the four nations.

Afghanistan Trade

Although Afghanistan is rich in natural resources, very little has been done to explore them. However, the country's rugged terrain and lack of transportation network restrict trade activities. In the 1980s, export of natural gas was at its peak, with \$300 million in export revenues annually. However, 90% of this revenue was utilized for the payment of imports and debts to the Soviet Union.

Afghanistan Trade, Exports and Imports Commodities

The following are the major commodities that form the basis of Afghanistan's economy:

- Export commodities include fruits and nuts, hand-woven carpets, wool, cotton, hides and pelts, precious and semi-precious gems.
- Imports include machinery and other capital goods, food, textiles, petroleum products.

Exports Partners

The major export partners of Afghanistan include (figures as of 2010):

- India 25.5%
- Pakistan 25.9%
- US 14.9%
- Tajikistan 9.6%
- Germany 5%

Imports Partners

The major import partners of Afghanistan include (figures as of 2010):

- Pakistan 23.3%
- US 29.1%
- Germany 4.2%
- India 7.6%
- Russia 4.5%

Smuggling Products

The Afghan economy also rode on goods smuggled into Pakistan. Smuggling became a major business after the establishment of the Durand Line in 1893, which is now controlled by a large network of mafia groups on both sides of the border. Some of the main items smuggled from Afghanistan into Pakistan are drugs such as opium, hashish, and heroin, as well as lumber, precious stones, copper, automobiles and electronics. Recent reports explain that 90% of heroin from Afghanistan is smuggled into Central Asia. Another form of smuggling is human trafficking. According to one particular report, asylum seeking Afghans, Iranians, and others wanting to reach Malaysia pay up to \$10,000 to Pakistani human smugglers in the city of Karachi.

News Bulletin

Meat Smuggled

In Peshawar, Pakistan, local police and the food department recovered the meat which was smuggled to Afghanistan from the city Peshawar on September 13, 2012. Smuggler used the Pak Afghan Friendship Bus Service for smuggling. Police arrested three employees of the Pak Afghan Friendship Bus Service.

Minerals smuggled

Minister of Mines Wahidullah Shahrani informed the Meshrano Jirga, or upper house of parliament, about the smuggling of precious and semi-precious stones from Afghanistan to Pakistan. Pakistan generates about USD 350mn revenue on smuggling of these stones annually, while Afghanistan only earns USD 300,000. The industry offered jobs to 5,000 Afghans and 6,000 Pakistanis, he added. He alleged the neighboring country processed the smuggled minerals and exported them as made-in-Pakistan products

Pakistan, Afghanistan to increase trade

Pak-Afghan trade relations

Pakistan and Afghanistan are two neighboring countries and have a number of commonalities. Both are predominantly Muslim countries and Islamic republic's and has brotherly relations. They share similar values, culture and civilization. Both states are also a part of the South Asian Association for Regional Cooperation and valued their relations. Pakistan – Afghanistan have a long history of being trade partners. In present days, the development of Afghanistan has been a good market for the Pakistani products ranging from food items to light, machinery and engineering goods.



News Bulletin



In July 2012, Afghanistan and Pakistan agreed to extend APTTA to Tajikistan in what will be the first step for the establishment of a North-South trade corridor. The proposed agreement will provide facilities to Tajikistan to use Pakistan's Gwadar and Karachi ports for its imports and exports while Pakistan will enjoy trade with Tajikistan under terms similar to the transit arrangement with Afghanistan. The agreement was intended to improve trade between the two countries

Bilateral trade between Pakistan and Afghanistan

Pakistan and Afghanistan have agreed to strengthen trade ties and double annual bilateral trade by 2015, after a two-day Joint Economic Commission (JEC) meeting January 16-17 in Islamabad. "In fiscal year 2010-2011, Pakistani exports to Afghanistan were \$2.3 billion (Rs. 207 billion or 114 billion AFN) and imports were US \$172m (Rs. 15.5 billion or 8.5 billion AFN). The JEC agreement seeks to raise bilateral trade to US \$5 billion (Rs. 451 billion, 248 billion AFN) by 2015.

Annual bilateral trade had risen during the past four years from \$850m to \$2.5 billion (Rs. 77 billion to Rs. 225 billion or 42 billion AFN to 124 billion AFN).

Pakistan- Afghan bilateral trade

Year	Import	Export	Total	Balance
2005-2006	47.5	1063.4	1110.9	1015.9
2006-2007	76.2	753.9	830.2	677.6
2007-2008	91.3	1143.6	1235.0	1052.3
2008-2009	93	1398	1491	1305
2009-2010	139	1572	1711	1433
2010-2011	172	2336.7	2508.7	2164.7

The balance of trade has always been in favor of Pakistan. Over the years, the bilateral trade has raised up \$2508.7 with the balance of trade US \$ 2164.7 million in favor of Pakistan.

Pakistan Offerings to Afghanistan

The Afghan side is also seeking assistance in oil and gas exploration, power generation, construction and mining, to develop untapped mineral deposits worth some US \$1 trillion (50 trillion AFN or Rs. 90 trillion) which some say could transform the country into one of the world's leading mining centers. Pakistan has offered machinery and equipment to Afghanistan. The state-owned Water and Power Development Authority also promised to help Afghanistan develop hydroelectric power generation on the Kabul River to export energy in the region.

Similarly, the national flagship Oil and Gas Development Company Limited will also help Afghanistan in oil and gas exploration while Pakistan's two state-owned gas utilities, Sui Northern Gas Pipelines and Sui Southern Gas Company, will help develop the Afghan transmission network.

Pakistan support for projects

The US \$300m one-time Pakistani grant includes support for a variety of projects, such as the expansion of the Torkham-Jalalabad highway, and delivery of 200 trucks, 100 buses, more than 50 ambulances and mobile medical units, 10m schoolbooks and other items.

Country agreement for the establishment of joint chamber of commerce and industry

The countries also agreed to establish a joint chamber of commerce and industry. Pakistan has offered to host the inaugural session of the proposed chamber, and display centers for industrial exhibitions will be set up in Karachi and Kabul.

Investment in Afghanistan

Good Reasons

- Afghanistan is a fast growing emerging market of strategic importance close to some of the largest and fastest-growing markets in the world.
- Afghanistan is strategically located between the energy-rich republics of Central Asia and the major seaports in South Asia providing a key transit route for central Asian oil and gas to markets in South Asia as well as overseas.
- Afghanistan has natural access to markets of neighboring countries including important fast-growing markets such as China, India and Pakistan.
- Afghanistan offers a pro-business minded environment with legislation favorable to private investments

Why Invest in Afghanistan?

- Afghanistan is moving towards economic and political stability, this has created a favorable business environment for foreign and domestic investors
- Afghanistan is once again on the path to take its place in the global market. The emerging vibrant investment opportunities in Afghanistan promises significant progress and development in the economic sector

The New Investment Law

A new investment law is ready and will be enacted in the next few Weeks. It will be the most liberal investment law in the region allowing full foreign and domestic investment in virtually all sectors of the economy.

The newly revised investment Law of Afghanistan offers incentives in terms of tax breaks, special custom

duty, and legal protections to the investors.

Reforms: Achievements in the Institutional Framework

AISA

- To bring these reforms to life for investors the Afghan government has set up, with the assistance of German Government, a “One Stop Shop for Investors”, called the Afghan Investment Support Agency.

Industrial Estates for Foreign and Domestic Investors

Construction of industrial parks in Kabul, Mazar-i-Sharif and Kandahar.

Physical Environment for Investment

- Licensing of two private mobile phone operators
- Internet providers are also operating in Afghanistan

Building Physical Infrastructure

- Completion of the road between Kabul and Kandahar
- The road connection to Herat close to completion
- Other roads to north and east are now under construction

Providing Favorable Environment and Financial Assurance to Private Investors

- Investment Insurance has been made available through MIGA, the Multilateral Investment Guarantee Agency
- Everything but Arms-EBA, Initiative of the EU. All exports from Afghanistan (excluding arms) can enter European Market without any Tariff or Quota restrictions.
- Less Developed Countries (LDC) Agreement between Afghanistan and Canada
- GSP treatment of Certified Hand-Knotted, Hand-Woven Carpets, and Rugs under Bilateral Agreement between the United States and Afghanistan
- Memorandum of Understanding between the United States and Afghanistan to encourage and protect investment activities in Afghanistan through the provision of insurance and investment guarantees.

Investment Opportunities and Examples

- **Reconstruction:**

Over the next 3 years, more than US\$ 8.4 billion in reconstruction and humanitarian aid is expected to generate significant opportunities in construction, construction materials, and related manufacturing industries.

- **Domestic Consumption Growth**

Afghanistan's 27 million people constitute a US\$ 5 billion GDP economy growing at an annual compound rate of 15-20 %. This rapid economic growth is driving increased local demand for goods and services – from detergent and cellular phones to home construction and banking services.

- **Export Revitalization**

There are opportunities to export high-value Afghan –branded products to the European and US markets, including saffron, dried fruit, and basic agribusiness products to neighboring countries.

- Afghanistan today is an ideal place for those who want to invest.
- Afghanistan is in need of almost everything, be it consumer goods or industrial development

Examples

- Two major international hotels have invested in Afghanistan (Hyatt and Serena)
- Leading international banks have opened offices (Afghanistan International Bank (AIB), Standard Chartered Bank, National Bank of Pakistan, Habib Bank Ltd, The First Microfinance Bank and etc.

Domestic Investments:

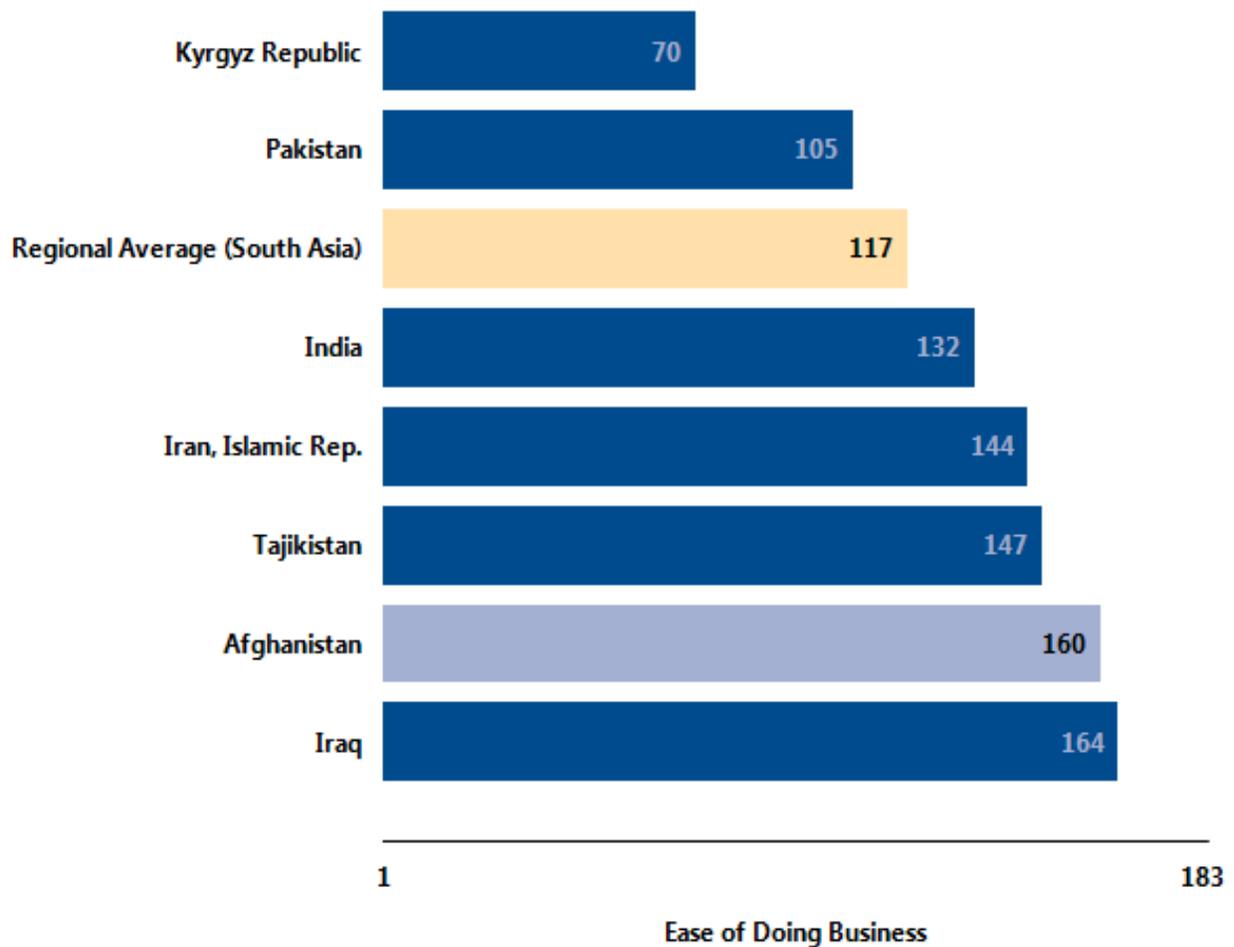
- Mainly contributed by Afghan Diaspora
- Two private phone companies (AWCC and Roshan), backed by leading international operators are servicing the country.
- Pamir Airlines and Kam Air
- Production of consumer goods, construction business, transportation and establishment of trading companies
- Shahram Raisin Processing Co.
- Economic and political stability has created a favorable business environment for small and medium enterprises such as: Production of construction materials, dairy products, vegetable oil,

Mineral water, Agro-business and etc.

Investment Projects:

Sector	Total investment	Direct Employment
Construction	\$ 210,151,622	21000
Services	\$ 153,813,066	4686
Industry	\$ 43,702,990	11,380
Agro-Business	\$ 1,880,000	121

Afghanistan Ranking in the Corporate Economies



Afghanistan ranking in business topic

Sr. n	Business Topics	Rank
1	Starting a business	30
2	Getting Electricity	104
3	Resolved Insolvency	105
4	Enforcing contracts	161
5	Trading across Borders	179
6	Paying Taxes	63
7	Protecting Investors	183
8	Getting Credit	150
9	Registering Property	172
10	Dealing with Construction Permits	162

For detail information of doing business in Afghanistan please visit
<http://www.doingbusiness.org>
 Source:
 Doing Business data base

Procedures for starting a business in Afghanistan

No	Procedure	Time to complete	Cost to complete
1	Register at the Afghanistan Central Business Registry (ACBR) and obtain Tax Identification Number (TIN)	1 day	included in procedure 2
2	Pay registration and publication fees at Afghanistan Bank (DAB) branch	1 day	AFN 500 (registration) + AFN 1,000 (publication)
3	Obtain business license from AISA	5 days	USD 100
4	Receive inspection (AISA)	1 day (simultaneous with previous procedure)	no charge
5	Total days to complete the procedure	8	

Afghanistan relationship with banks

Afghanistan became a member of the World Bank in 1955. Shortly after the Soviet invasion in 1979, World Bank operations were suspended, although the Bank continued to provide assistance to Afghans through the Bank office in Pakistan.

List of banks in Afghanistan

Banks which are working in Afghanistan are as follows:

Foreign banks with permitted branches in Afghanistan:

- Habib bank Ltd.
- National Bank of Pakistan (NBP)
- National Bank of Pakistan (Jalalabad Branch)
- Punjab National Bank of India (PNB)
- Standard Chartered Bank (SCB)

Licensed Full-Fledged Banks:

- Afghanistan International Bank (AIB)
- Arian Bank (AB)
- Bank Millie Afghan (BMA)
- Export Promotion Bank (EPB)
- First Micro Finance Bank (FMFB)
- Kabul Bank (kB)
- Pashtany Tejaraty Bank (PTB)



Representative Office:

- Ziraat Bank Turkey
- OJSC "OrienBank Tajikistan"

Conclusion:

This report is recommended to all investors. It contains detail information about Afghanistan trade, natural resources .investment opportunities and about the banking sector from which investors get the detail idea for investment. Afghanistan is a trading hub for all investors. Pakistan and Afghanistan are the neighboring countries and have brotherly relations. The trade system between Pak- afghan should be enhanced because the transport system is not very costly as compared to the other countries.

Note:

More data can be search on these listed sites.

<http://www.worldbank.org/en/country/afghanistan/overview>

<http://www.gfmag.com/gdp-data-country-reports/334-afghanistan-gdp-country-report.html#ixzz2B3n8FBpC>

<http://documents.worldbank.org/curated/en/2012/10/16928998/afghanistan-economic-update>

<http://www.indexmundi.com/afghanistan/>

<http://www.spainexchange.com/guide/AF-history.htm>

http://www.indexmundi.com/afghanistan/economy_profile.html

http://www.indexmundi.com/afghanistan/economy_profile.html

[http://www.nytimes.com/2012/07/21/opinion/afghanistans-economic-challenges.html\(the opinin page\)](http://www.nytimes.com/2012/07/21/opinion/afghanistans-economic-challenges.html(the opinin page))

http://www.theodora.com/wfbcurent/afghanistan/afghanistan_economy.html

http://geography.about.com/od/afghanistanmaps/Afghanistan_Maps.htm

<http://www.wadsam.com/afghanistan-minerals-smuggled-to-pakistan-3414/>