

India and Afghanistan: An Overview of their Economic Relations

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Abstract

International relations include exchange transactions, contracts, flow of information and resulting behavioral responses between and among separate organized societies. After disintegration USSR in December 1991, lot of changes has happened in the international relations. The concept of regional cooperation in the field of economic in the third world countries has assumed greater importance. After the end of cold war India and Afghanistan have established a strong relationship and is significant landmark event for their implications for Indo - Afghan relations as well as it is a new dimension in economic relations to enable both nations to integrate more effectively with the Indian economy and other economics in South Asian countries. Such alliance not only helps securing Afghanistan that can also boosts economic and trade cooperation among countries in the region. This paper highlights some of the important aspects related to international relation between Afghanistan and India such as economic and developmental relations.

Keywords: Relations, afghan-indo relations, cooperation, development, alliance etc.

Afghanistan has remained the focus of Indian regional policy because of its geo - strategic location among. India has enjoyed cordial relations with Afghanistan since 1947. The relationship was further strengthened by the signing of the "Friendship Treaty" in 1950 and the Strategic Partnership Agreement signed between the two countries in 2011 (Raiphea, 2013). India increased its investments in developmental activities in Afghanistan by co-operating industrial, irrigation and hydro - electric projects. It is the notational interests of both Afghanistan and India to unify their capabilities and respond against potential aggressors. Both Afghanistan and India have democratic governments committed to following international norms and cooperation. Afghanistan can serve as a bridge to Central Asia's

energy resources and alter India's continental trade (Nazami, 2015). The principal objective of India's development partnership, covering the entire and all sectors of development, is to build indigenous Afghan capacity and institutions. India has played an active role in the development of Afghanistan based on the understanding that social and economic development is to key to Afghanistan becoming a source of regional stability. India's pledged assistance to Afghanistan stands at U.S \$ 1.3 billion and is the sixth largest bilateral donor in Afghanistan. All the projects are undertaken partnership with the Afghan government, in complete alignment with the Afghanistan National development Strategy (Yatnoor and Tegnoor 2015). The present study was undertaken to know how international trade

is helpful in developing India’s relationship with Afghanistan and to suggest policy proposals to further strengthen the economic relation between two countries.

Methodology

The present study was based on pre-framed policies and programmes conducted for building relationship between India and Afghanistan. Therefore, the study was exclusively dependent upon secondary data. The secondary data regarding economic relations of two countries has been collected from various published books, Reports, Journals, Newspapers and Internet. The data was arranged and analyzed for deriving meaningful conclusion regarding impact of social and economic relationships on the growth of people in India and Afghanistan.

Results and Discussion

Status of Afghanistan’s economy

Afghanistan’s economy has been heavily agricultural. Due to the devastating wars of the 1980s and the 1990s, the agriculture, industry, infrastructures and overall economy was severely damaged. By the end of the conflict and initiation of reconstruction, along with sound, conservative Government macroeconomic policies, a highly successful currency reform, and structural reforms most notably in trade and the financial sector, Afghanistan has experienced a strong economic recovery. However, still there are some major problems and it is one of the poorest countries. The economic recovery since 2001 has been based on large-scale international aid, recovery of the agriculture sector, and substantial growth in the services sector. Recently, Afghanistan has started the negotiation on gaining the membership of the World Trade Organization and it got its member in 2015. Further to that, Afghanistan is also a member of the Economic Cooperation Organization (ECO), the Central Asia Regional Economic Cooperation (CAREC), and the South Asian Association for Regional Cooperation (SAARC). Regarding to the economic agreements and treaties, Afghanistan has signed bilateral Trade and Economic Cooperation Agreements with Russia and Turkey, bilateral Reciprocal Promotion and Protection of Investments Agreement with Turkey, a bilateral Preferential

Trade Agreement with India and finally Afghanistan Transit Trade Agreement (ATTA) with Pakistan and Afghanistan has been allowed to use Iran’s Arabian Sea port at Chabahar under favorable conditions (Azizi, 2010). Afghanistan also had an increase in the level of exporting goods, despite the all difficulties which remains against exporting. According to 2009 released commercial guide for doing business in Afghanistan, the country’s top export market is Pakistan, which the Afghan government estimates at US\$ 300.8 million for 2007. Following are India (US\$ 61.2 million), Iran (US\$ 9 million) Germany (US\$ 7 million), and Saudi Arabia (US\$ 4.6 million). Imports primarily come from China (US\$ 611.3 million), Japan (US\$ 494 million), Pakistan (US\$ 440.9), and Iran (138.3 million). These exported goods are fruits and nuts, carpets, wool, cotton, hides and pelts, and precious and semi-precious gems. Pakistan is the biggest main exporter partner of Afghanistan whereas, India stood in the second rank among the exporter partner of Afghanistan and it is seen that in 2008 the export total value was 132 \$US million but it shows decreasing up to 2012 and in 2013 the export total value has become 308 \$UD million. The top exporter countries of Afghanistan’s goods are presented in Table 1.

Table 1: Top exporter partner of Afghanistan: (US\$ Million)

Country	Year					
	2008	2009	2010	2011	2012	2013
Pakistan	264	191	151	181	201	308
India	132	76	65	70	70	213
USA	2	17	4	4	34	41
Finland	6	5	3	6	13	17
Germany	0.7	0.8	1.9	1.5	1.6	17
Russia	37	26	30	33	11	14
Turkey	18	6	35	11	7	11
China	2	4	12	6	5	10
France	0.13	0.15	0.26	0.17	4	8
Spain	2	0.5	0.13	0.04	4	8

Afghanistan imports lot of varied products and necessities from other countries like Pakistan, the United States, Germany and India. These goods are mainly capital goods, food, textiles, and petroleum products. Due to many problems exist in the country, Afghanistan has an unfavorable trade balance

(importing much more than exporting). This balance was about US\$3.5 billion in March 2007 with total exported goods in the amount of US\$274 million and

US\$3.8 billion imported goods (Anonymous, 2015). The top countries which constitutes major share of Afghanistan' imports are listed in Table 2.

Table 2: Top importer partners of Afghanistan: (US\$ Million)

Country	Years					
	2008	2009	2010	2011	2012	2013
Pakistan	482	307	597	878	883	1,998
USA	18	45	78	91	1,493	1,410
India	105	106	113	104	118	514
Russia	97	198	181	804	938	484
China	429	360	704	577	714	329
Kazakhstan	159	291	208	333	321	249
Turkey	51	71	109	138	290	228
Germany	65	144	422	244	258	221
Thailand	17	17	40	36	144	184
United Kingdom	10	16	32	24	31	108

Infrastructural arrangements between India and Afghanistan

India seeks to expand its economic presence in Afghanistan. Specially, it wants to improve transport connectivity and economic collaboration with countries in Central and South Asia. India has already invested US \$ 10.8 billion in Afghanistan as of 2012 (Yatnoor and Tegnoor 2015). Strategic location of Afghanistan is very important for India Afghanistan is situated at crossroads between south Asia and Central Asia and South Asia and the Middle East and is a major partner in the TAPI (Turkmenistan-Afghanistan-Pakistan- India) pipeline project which will fulfill India's energy need(Anonymous, 2015).

Economic arrangements between India and Afghanistan

The Economy of India is the ninth largest in the world by nominal GDP and the fourth largest by purchasing power parity (PPP). The country is one of the G-20 major economies and a member of BRICS. The country's per capita GDP (PPP) was \$3,408 (IMF, 129th in the world) in 2010, making it a lower-middle income economy. India adopted free market principles and liberalized its economy to international trade under the guidance of Manmohan Singh, who then was the Finance Minister of

India under the leadership of P.V.Narasimha Rao. Following these strong economic reforms, the country's economic growth progressed at a rapid pace with very high rates of growth and large increases in the incomes of people. India recorded the highest growth rates in the mid-2000s, and is one of the fastest-growing economies in the world. The growth was led primarily due to a huge increase in the size of the middle class consumer population, a large workforce comprising skilled and non-skilled workers, good education standards and considerable foreign investments. India is the seventeenth largest exporter and eleventh largest importer in the world (Anonymous, 2011). India would be playing an important role in an evolving Asian economic architecture. However, it is also realized that India's role will be less effective if its economic relations within South Asia and with the Central Asian region remain marginal. In this case, India needs to work for an economic policy framework, in which Pakistan, Afghanistan and the Central Asian republics view the partnership as a framework will also improve India's energy security as it may finally get more substantive access to some of the energy resources in the Eurasian region. It can also fundamentally change India's sea-based continental trade. India can also find tremendous investment opportunities in Central Asia, which in turn can transform their small and medium industries as well as agriculture.

The growing realization of these opportunities has influenced policy-makers not just in India, but also in Pakistan and Afghanistan, as witnessed in Afghanistan's membership of the South Asian Association for Regional Cooperation (SAARC), the signing of the South Asian Free Trade Area (SAFTA), the Regional Economic Co-operation Conferences on Afghanistan, the emerging India-Kazakhstan partnership, the continuous interest in Turkmenistan-Afghanistan-Pakistan-India (TAPI) and Iran-Pakistan-India (IPI) gas pipelines (Anonymous, 2012-13).

Afghanistan and India have mutual interests that make the function of an alliance between the countries ideal. The economy of India grow rapidly and the Afghan-Indo alliance will ensure Afghanistan's stability and prospective for its economic improvement in the future. India recognizes the preeminence of Afghanistan as a junction of trade routes between central, south and west Asia. The bilateral trade at US\$ 588.3 million for 2012 -13(US\$ 472.5 million export and US\$ 115.8 million import from India; 19 % of Afghanistan's exports) is a modest figure going by actual potential trade. India's shear in Afghanistan total global agriculture import is 3.7 % (2013) whereas, Afghanistan's shear in India total global agriculture import 1.2 % in (2013 - 14) Average agriculture tariff rate of India is 33.5 % whereas; average agriculture tariff of Afghanistan is a round 5.6 %.(Anonymous,2012 -13). To achieve

possibilities of trade, India and Afghanistan signed a Preferential Trade Agreement in March 2003 to promote trade and economic relations between India and Afghanistan, to provide fair condition of competition for trade and the removal of barriers to trade, to the harmonious development of world trade; under which India allowed substantial duty concessions, ranging from 50% to 100% to certain category (38 items) of Afghan dry fruits. In November 2011, India removed basic customs duties for all products of Afghanistan and giving them duty free access to the Indian market. India is one of the major export destinations of Afghanistan's goods. The operation of the Chabahar port in Iran could substantially increase Afghanistan's exports by providing a new transit for Afghan to trade with India and rest of the world (Anonymous, 2010). The total value of exported goods and commodities of Afghanistan to India in the year 2014 -15 was estimated to be \$US 16,28,19,202. The smallest commodity exported to India in respect of quantity and its value was apple with 10 quintals of quantity and value of \$US 800 respectively. Dried Fig was the major commodity exported with quantity of 69609.15 quintals and value of \$ US 2,42,42,037. All the items exported by Afghanistan to India in the year 2014-15 are listed in Table 3. The value and growth of Indian exports to Afghanistan has also been depicted in Figure 1.

Table 3: Export Commodities of Afghanistan to India 2014-15

Name of commodities/Unit	Quantity	Values in \$ US
Dried whey (Qtls)	111.57	42397
Onion (Qtls)	499.2	14976
Fried pea (Qtls)	13.58	2852
Ashtaq (dried pricot) (Qtls)	414.4	87024
Shakarpara (Qtls)	23106.41	7983790
Apple (Qtls)	10	800
Pomegranate (Qtls)	12898.98	1547878
Soft almond (Qtls)	3209.54	1609111
Hard almond (Qtls)	3563.3	498862
Pip of almond (Qtls)	13352.74	14536366
Walnut (Qtls)	3199.26	1128729
Pip of walnut (Qtls)	387.21	290405

India and Afghanistan: An Overview of their Economic Relations

Pip of pistachio (Qtls)	16245.87	19286368
Pip of apricot (Qtls)	1253.95	405538
Pine cone (Qtls)	246.15	3273380
Dried fig (Qtls)	69609.15	24242037
Grape (Qtls)	400	3600
Green raisin (Qtls)	6484.57	2261841
Red raisin (Qtls)	8653.4	1287447
Black raisin (Qtls)	37441.88	9504634
Big raisin (Qtls)	18227.64	6322844
Abjosh raisin (Qtls)	48877.61	19764008
Melons (Qtls)	552.49	38674
Dried damson plum (Qtls)	71.66	12763
Dried cherry (Qtls)	11.92	3814
Black dried cherry (Qtls)	57.54	16687
Oleaster (Qtls)	1673.19	585617
Basil (Qtls)	244	19520
Cumin (Qtls)	3897.88	1657048
Black caraway (Qtls)	4340.28	1600213
Kajak caraway (Qtls)	89327	151856
Green caraway (Qtls)	11002.63	3487913
Saffron (Qtls)	17.87	2349059
White bean (Qtls)	5986.5	119730
Green vetch (Qtls)	1320	105600
Black vetch (Qtls)	5694	596600
Red asafetida (Qtls)	3122.81	21940223
White asafetida (Qtls)	2183.41	12259302
Licorice root (Qtls)	11499.24	1842516
Yarleng (Qtls)	3883.79	811600
Stion (Qtls)	5595.3	7554
Marble (Qtls)	1191.3	59565
Sheep skins (No)	27687	115198
Goat skins (No)	11500	25300
Handicraft		110048
Sheep wool (Qtls)	1564.38	615587
Woolen yarn (Qtls)	356.4	71280
Rug	1204	8064
Other things		112984
Total Value in \$ US\$		16,28,19,202

Source: Afghanistan Statistical Yearbook 2014-15

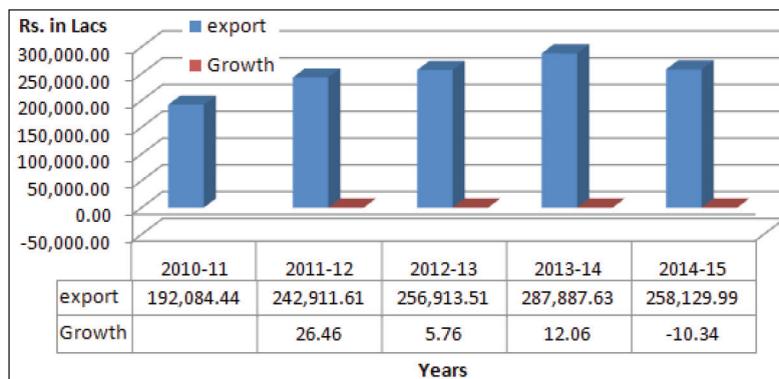


Fig. 2: India’s exports to Afghanistan

The total value of imported goods and commodities to Afghanistan from India during 2014-15 was estimated to be \$US 10,76,64,176. The smallest commodity imported in respect of quantity and value was rice (Parmal) and the biggest commodity

imported in respect of quantity and its value was polyester fabric (Table 4). The value and growth of Indian imports from Afghanistan has also been depicted in Figure 2.

Table 4: Afghanistan’s imports from India 2014-15

Name of commodity/Unit	Quantity	Value in \$ US
Chickens (No)	21450	32451
Beef (Qtls)	1896.6	373271
Chicken (meat) (Qtls)	10735.07	1652189
Milk powder (Qtls)	10177.33	2866374
Liquid milk (Qtls)	2772	168914
Eggs (No)	29020654	1156693
Green tea (Qtls)	437.87	72117
Black tea (Qtls)	12200.08	2245335
Split pea (Qtls)	600.7	58845
Rice (Sela) (Qtls)	28664.86	2424222
Rice (parmal) (Qtls)	75	270
Vegetable oil (Qtls)	3944.56	357383
Sugar (Qtls)	2947.05	152962
Other food items	-	845957
Non alcoholic beverage	-	227104
Cigarettes (Thousand No.)	34627	388671
Spices	-	27258
Salt (Qtls)	220	1600
Grease (Qtls)	1949.06	133189
Other lubricants (Qtls)	24.35	2682
Liquid tar (Qtls)	32.26	2104
Chemicals (Qtls)	1362.24	45742
Medicines	-	6949050
Agricultural medicines	-	78505
Soaps	308607	368458
Washing soaps	9648	5824

India and Afghanistan: An Overview of their Economic Relations

Matches (Dozens)	307200	18360
Plastic carpets (No)	15198	71691
Bicycles tyers & tubes (No.)	71691	74655
Stationary	-	2622841
Cotton yarn (Qtls)	904.48	150672
Woolen yarn (Qtls)	45	8154
Other yarns (Qtls)	147.36	32576
Polyester fabric (m)	14791349	21843272
Men new clothes (Pair)	23011	187986
Children clothes (Pair)	4864	13504
Women clothes (pair)	6397	63735
Blankets (No)	600	8175
Second hand clothes (Pair)	1960	5320
Plastic foot wear (Pair)	73684	82290
Men foot wear (Pair)	47018	256524
Second hand wear (Pair)	322	635
Manufacture articles	-	37364
Metal sheet	-	53100
Iron rod	-	14400
Nickel dishes	-	40406
Metal pipes	-	40406
Rozar blade	-	342662
Tools and tools tips nec	-	196493
Air condition (No)	5	400
Refrigerators (No)	414	59750
Other spare parts	-	457968
Agricultural machines	-	207428
Washing machine (No)	690	36296
Construction material	-	644020
C. D player (No)	350	10671
Other electronic	-	1110022
Sewing machines (No)	33827	697812
Generator (No)	10	166350
Water pumps (No)	330	14570
Credit card	-	867989
Storage batteries (No)	4652	110470
Dry batteries (Dozen)	31294	35791
Cars (No)	17	98654
Motor and vehicles spare parts	-	148079
Motorcycles (No)	173	82471
Bicycles (No)	214	5563
Medical equipments	-	591620
Machineries	-	6017487
Clocks (No)	2542	9180
Tricycles (No)	135	82542
Other things	-	44757357
Total value in US\$		107664176

Source: Afghanistan Statistical Yearbook 2014 -15

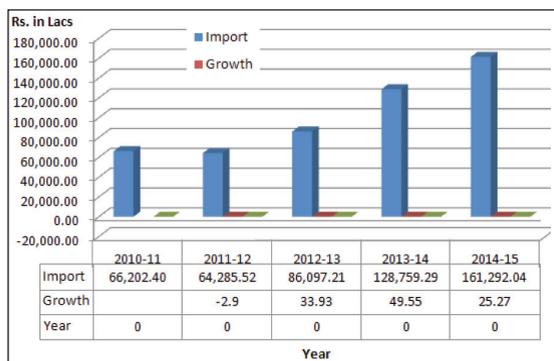


Fig. 2: India’s imports from Afghanistan

Table 5: India-Afghanistan export and import data bank (Values in ₹ Lacs)

S. No	Export/Import	2010 - 11	2011 - 12	2012 - 13	2013 -14	2014- 15
1	Export	1,92,084	2,42,911	2,56,913	2,87,887	2,58,129
	% Growth	-	26.46	5.76	12.06	- 10.34
	India’s total export	11,36,96,426	14,65,95,939	16,34,31,828	19,05,01,108	18,96,34,841
	% Growth	-	28.94	11.48	16.56	- 0.45
	% Share	0.17	0.17	0.16	0.15	0.14
2	Import	66,202	64,285	86,097	128,759	161,292
	% Growth	-	- 2.90	33.93	49.55	25.27
	India’s total import	16,83,46,695	23,45,46,324	26,69,16,195	27,15,43,390	27,37,08,659
	% Growth	-	39.32	13.80	1.73	0.80
	% Share	0.04	0.03	0.03	0.05	0.06

Source: Government of India, Ministry of Commerce and Industry, Department of Commerce

Conclusion

India and Afghanistan hold very good economic and social relationship with each other. Being an emerging economy in South Asia, India needs to show its economic presence in regional economic interests. This will be in the interest of both India and Afghanistan to further strengthen economic relations. Afghanistan plays a pivotal role a trade, transport and energy hub as well as a bridge linking central, west and south Asia to the Gulf. On the other hand, initiative of a “New Silk Road” to re – establish commercial links between central and south Asia would bear no fruits without the active engagement of India. The alliance which is strong and friendly between two countries can boom regional economic and trade cooperation. India would get access to

The export and import data bank in terms of trade between India and Afghanistan has been presented in Table 5. The per cent share of exports to Afghanistan from India showed a marginal decrease whereas the per cent share of imports to India from Afghanistan shown an increasing trend, although marginal.

central Asia’s energy resources and Afghanistan will benefit functioning as route for the transit.

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