POLICY BRIEF

Perspectives on Afghanistan's Traditional Exports: The Case of Carpets[1]

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Introduction

Afghanistan produces among the finest handmade carpets in the world. Before the 1990s, Afghanistan was an established competitor in the international market. However, decades of conflict have badly disrupted the production, processing, and trade infrastructure and supply chains required to maintain high levels of export activity.

After 2001, because it remained a key sector and source of job creation for a significant portion of the Afghan population, it received special attention from the donor community. While growth and improvements in quality have since been notable, only a small portion of income from the modern carpet trade reaches Afghan producers and trading companies.

Overview of Afghanistan's Carpet Sector

Distribution takes place in three different ways: direct buying and selling by weavers, profit-sharing, and subcontracting through carpet traders. Most carpet production takes place in northern provinces including Sheberghan, Andkhoy, Maimana, Balkh, and Sar e Pu, while Herat (west) and Kabul (central) are also notable production locations. In recent years, Nangahar province in Afghanistan's eastern region has seen considerable growth in production facilities. There are three main types of carpets produced in Afghanistan: Traditional, ***Chob Rang*** and ***Kazak***. The traditional Afghan carpets are known for their indigenous designs and colors.

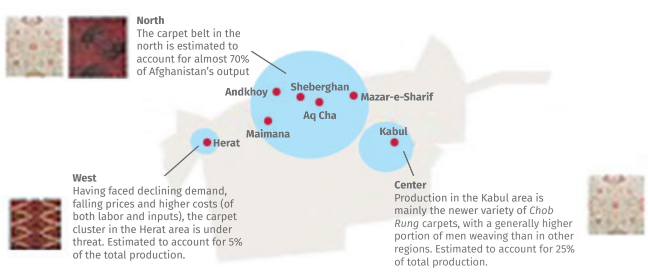

Figure 2: Source: OTF Group Afghanistan, Growth Strategy and Action Plan for the Carpet Cluster of Afghanistan, OTF Group Afghanistan, p. 12

The production process can be broadly classified into three stages: pre-weaving, weaving, and post-weaving. Pre-weaving includes processing of sheep wool into yarn, coloring/ dying of yarn, and developing designs on paper. Weaving is carried out largely by women, and to some extent by children. any weavers work at the household level, and middlemen and traders provide capital to these households in the form of dye, wool, equipment, and financial advances.

Once woven, carpets are taken off the loom and initial cutting and shaping is carried out before they are forwarded for further processing. At this stage, carpets move to processing facilities where they undergo cutting, washing, stretching, and finishing.

The most cost efficient and sophisticated local processing facilities are located across the border in Pakistan rather than in country. A lack of high-quality processing facilities in Afghanistan currently serves as a cap on the share of value creation from carpets that stays in the country. Recent trends show that when unprocessed or semi-processed carpets are exported to Pakistan, they are often exported internationally as a Pakistani branded carpet even though they include a significant portion of Afghan content.

Afghanistan also must compete with other major players in the region. India has made significant investments in capturing the international market for handmade knotted carpets. The next important competitor is neighboring Iran, which has maintained its export volumes despite international sanctions.

After opening of the National Air Corridor program in 2017, carpet producers were able to benefit from subsidized international freight that allowed them to export directly by air. A limited number of exporters have started recently to send finished carpets through the Port of Chabahar in Iran. The major markets for Afghanistan's handmade carpets are Pakistan, which accounts for approximately (70%) of its exports, as well as Germany, Turkey, the United Arab Emirates, and the United States of America.

However, the overall size of Afghanistan's carpet export market has declined significantly since 2014 from USD $98 million to USD $24 million in 2019. Discussions with local traders and producers reveal that the most significant driver of the decline may be an increase in "unofficial" (and thus unrecorded) exports of carpets to Pakistan. Moreover, traders tend to under-value their products based on the rates applied by Afghanistan Chamber of Commerce and Investment (ACCI). For example, ACCI applies export rates of USD $15 – $25 per square meter (SQM), while the regular sales price ranges from USD $100 to $150 per SQM. As a result, actual export volumes may be under-reported.

Key Challenges in Carpet Sector

Despite immense potential in the sector, the discussion above has highlighted several challenges that are impeding the growth of this industry and its contributions to Afghans' economic well-being.

- **Poor Processing Facilities**: There is severe lack of processing facilities in Afghanistan, particularly for cutting and washing. As such, a significant portion of unfinished carpets are exported to Pakistan, where the processing facilities, mostly run by Afghans, cut, wash and stretch the carpets to make them ready for export.
- **Access to Finance**: Carpets are high value products that require a significant amount of investment across the value chain. This starts with raw materials and is followed by payment for labor once the weaving work is completed. As the sales process to international consumers is time consuming and expensive, many Afghan companies prefer to sell their carpets to Pakistani companies, which ensure timely and at times immediate payment for their products. These Pakistani companies then sell the product to foreign buyers at a significant mark-up.
- **Supply of Input Materials**: The supply of input materials remains a big challenge for the sector. From yarn production to final processing, the sector is plagued by a serious lack of materials and modern infrastructure. The traditional nature of business and lack of policies to attract investment in the sector has resulted in a situation where the local production of input materials is not sufficient to meet demand. Therefore, a large portion of key inputs are imported, which raises the cost of production and associated risks.
- **Traditional Nature**: While the traditional nature of Afghan carpets gives them a unique identity, institutionalizing this knowledge and traditional processes will allow producers to thrive in a modern global economy. India and other countries have done so successfully with an array of traditional products. Linking classical techniques and visual language with contemporary tastes and requirements has been a winning combination in a variety of products.
- **Weak Sales and Marketing**: Online sales and other digital systems are at the heart of the modern global economy. As such, the weak online presence of Afghan carpet businesses prevents them from attracting new customers directly. Pakistani businesses, on the other hand, have a strong e-commerce presence and have wider reach out to customers across the world. Hence, Afghan carpets are typically sold internationally through Pakistani platforms.
- **Insecurity**: The security situation in Afghanistan's northern region, where most producers are based, is poor. Kidnapping and extortion are not uncommon. As a result, many investors and financers have fled these areas. Some are financing and monitoring the production process from a distance, while others have shifted their investment to other countries, particularly Turkey.
- **Social and Environmental Safeguard**s: The primary producers of carpets in Afghanistan are women. However, they must work in difficult environments with poor access to amenities. Moreover, salaries are very low, with most profits going to middlemen. The use of child labour in the production process also remains a significant concern and risks seriously tarnishing the image of Afghan carpets internationally.

Recommendations

ENCOURAGE INVESTMENT

It is important to encourage investment across the value chain in Afghanistan's carpet sector. One strategy is to support large carpet manufacturers and encourage them to invest in A-to-Z processing units, sale points, and distribution channels. Investors can collect unfinished rugs from local production hubs of Kabul, Mazar, Maymana, Jawzjan, Faryab, Herat, Koduz, and stock them and then process them in their warehouses and finishing centers in regional hubs of Kabul, Mazar and Herat provinces. Similarly, investment in sales centers in key locations such as Dubai and Germany could reduce dependency on Pakistan by promoting retail and wholesale sales of Afghan carpets.

E- COMMERCE

Most Afghan carpet producers lack an online presence. Efforts can be made to encourage Afghan carpet companies to move online so that they can directly market, negotiate, and deliver to a broader range of customers and thereby significantly increase their sales revenues.

ROLE OF COMMERCIAL ATTACHÉ

Afghan embassies have dedicated commercial attachés with prime responsibility to promote trade and investment. These attachés, particularly those in Europe and United States, could play a vital role in supporting Afghan carpet exports by facilitating more business-to-business linkages between buyers and sellers.

CUSTOMIZED FINANCIAL PRODUCTS

Pakistani carpet export companies are heavily supported by government subsidies, export rebates, and financial packages. However, such policies are lacking in Afghanistan. In future, it will be important to enable greater access to interest free or Islamic loans, grants and funds for Afghan producers and businesses so that they can compete on more even terms with their regional neighbours.

INDUSTRIAL PARKS

India has done a good job of establishing modernized production facilities for carpets. In Afghanistan, however, carpet producers and processors tend to be scattered in residential areas where they cannot operate at scale. While there has been some talk in the sector of establishing industrial parks for domestic carpet in recent years, these plans have yet to materialize.

WORKING CONDITIONS

Much can still be done to improve wages and working conditions and address the role of children in the production process. Addressing these issues will require a holistic and long-term approach.