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Evidence over opinion.

POLICY BRIEF

Enhancing Afghanistan-China Trade Relation

Kamran Noori - December 2024

- 1 This policy brief analyzes Afghanistan-China trade dynamics, highlighting Afghanistan's trade deficit and reliance on raw material exports. It identifies challenges in exports and imports, supported by data trends, and proposes actionable solutions like infrastructure development, industrial collaboration, and policy reforms to foster a balanced trade relationship.
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Introduction

Afghanistan's trade with China represents one of its most significant economic partnerships. In addition to being a rising market for Afghan exports including pine nuts, dried fruits, and medicinal herbs, China is a major supplier of imports necessary for Afghanistan's economic and development demands. But Afghanistan's trading climate presents special difficulties, especially because of regional transit restrictions put in place by other nations.

To overcome these barriers, strengthening ties with China and using initiatives like the China-Hairatan cargo train service is vital for sustainable economic development. This policy brief explores the challenges, opportunities, and recent developments in Afghanistan-China trade, including the strategic importance of alternative transit routes and the direct cargo train service.

Trade Overview

The following attributes define Afghanistan's trade with China:

Exports: China is one of Afghanistan's top trading partners for high-value products such as pine nuts, saffron, and medicinal herbs.

Imports: In order to support its own industries and infrastructure initiatives, Afghanistan depends on Chinese products such as solar panels, iron and steel, textiles, and chemicals.

Transit Barriers with Neighbors: Geopolitical tensions frequently cause delays and uncertainty along Afghanistan's trade routes through its neighbors. These barriers emphasize the necessity of promoting direct and reliable trade connections with China to bypass regional challenges.

Trade Patterns

Exports To China

Afghanistan's primary exports to China are raw agricultural and mineral items, and their amount and variety are still restricted.

1. Annual Export of Pine Cones (\$M)

- **Trend:** Exports peaked at \$36.1M in 2021 but declined to \$23.5M in 2023-24.
- **Analysis:** The decrease reflects market volatility. Improved marketing and value addition could stabilize and grow exports.

Annual Export of Pine cone (\$M)

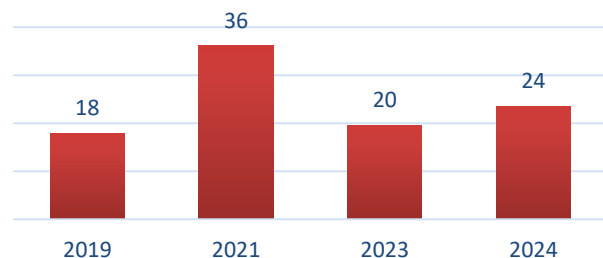


Figure 1: Source: National Statistics and Information Authority (NSIA)

2. Annual Export of Licorice Root (\$K)

- **Trend:** In 2023-2024, exports surged from insignificant levels in 2019 to \$268,931.
- **Analysis:** Despite their extremely unstable market, pine cones are nevertheless a vital product for Afghanistan. Improving export logistics, branding, and packaging might boost and stabilize earnings.

Annual Export of Licorice Root (\$M)

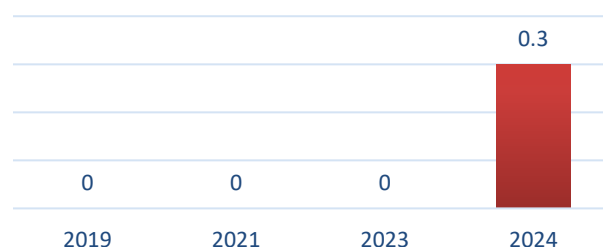


Figure 2: Source: National Statistics and Information Authority (NSIA)

3. Annual Export of Dried Apricots (\$M)

- **Trend:** Exports of dried apricots increased gradually, from \$1.7 million in 2019 to \$4.4 million in 2023-2024.
- **Analysis:** Afghanistan's potential in the dried fruit market is shown by the recovery in dried apricot exports. Building processing facilities and cold chains might increase competitiveness even further.

Annual Export of Dried apricot (\$M)

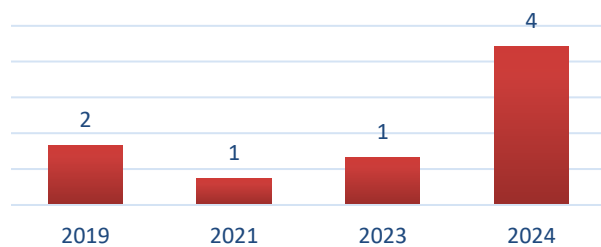


Figure 3: Source: National Statistics and Information Authority (NSIA)

4. Annual Export of Kurk Wool (\$M)

- **Trend:** From \$6.7 million in 2021 to \$2.3 million in 2023-2024, exports decreased.
- **Analysis:** Local processing inefficiencies and difficulties in the global wool market are highlighted by this drop. This industry may be revived by modernizing wool manufacturing through collaborations with Chinese businesses.

Annual Export of Kurk wool (\$M)

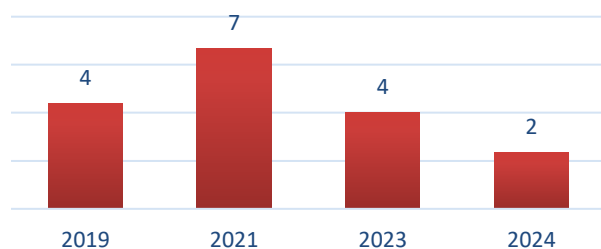


Figure 4: Source: National Statistics and Information Authority (NSIA)

5. Annual Export of Precious & Semi-Precious Stones (\$M)

- **Trend:** Exports fluctuated, peaking at \$1.6M in 2021 and declining to \$1.1M in 2023-24.
- **Analysis:** Unreliable exports point to certification and mining obstacles. The potential of this industry may be realized by addressing these problems with transparent trading procedures and sustainable mining methods.

Annual Export of Precious and semi-precious stones (\$M)

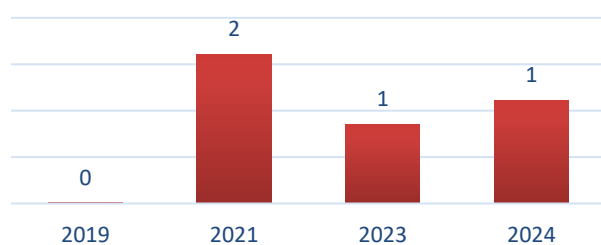


Figure 5: Source: National Statistics and Information Authority (NSIA)

6. Annual Export of Cotton (\$M)

- **Trend:** Exports fell sharply from \$3.7 million in 2019 to \$0.7 million in 2023-2024.
- **Analysis:** The impact of production difficulties and market access is highlighted by this notable decline. Establishing cotton processing enterprises in collaboration with China may aid in export stabilization.

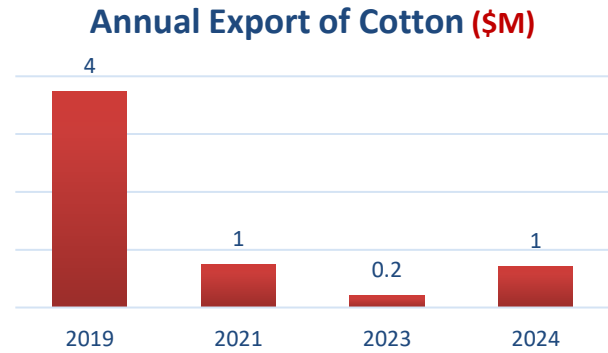


Figure 6: Source: National Statistics and Information Authority (NSIA)

7. Total Exports from Afghanistan to China (2019-24) (\$M)

- **Trend:** Exports dropped from \$46.7M in 2021 to \$35.1M in 2023-24, despite initial growth.
- **Analysis:** The decline points to the need for export diversification and improved trade facilitation.

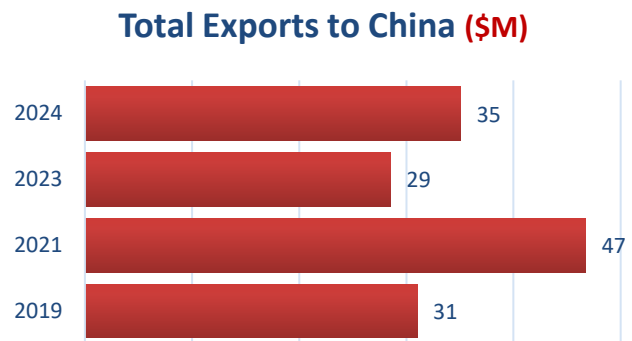


Figure 6: Source: National Statistics and Information Authority (NSIA)

Imports From China

1. Annual Import of Solar Panels (\$M)

- **Trend:** Afghanistan's imports of solar panels increased sharply from \$50M in 2019 to \$236M in 2023-24.
- **Analysis:** This trend reflects the rising demand for renewable energy solutions in Afghanistan. The nation is mostly dependent on imports to satisfy its energy needs as it moves toward renewable energy. Working with China to expand local solar panel production might result in considerable cost savings and job creation.

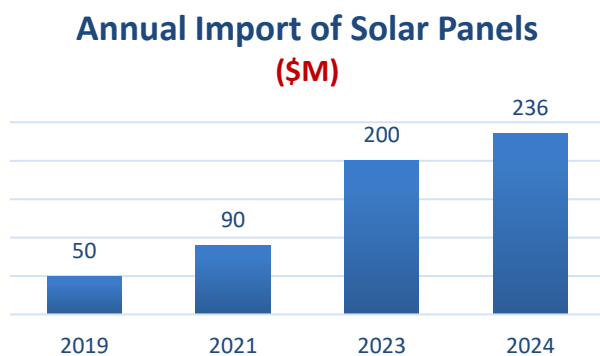


Figure 7: Source: National Statistics and Information Authority (NSIA)

2. Annual Import of Iron & Steel (\$M)

- **Trend:** From \$512 million in 2019 to \$721 million in 2023-2024, imports of iron and steel increased gradually.
- **Analysis:** Afghanistan's continuous infrastructure and building initiatives depend on these supplies. The necessity of local manufacturing capabilities to meet long-term infrastructure demands is highlighted by the dependence on imports.

Annual Import of Iron and Steel (\$M)

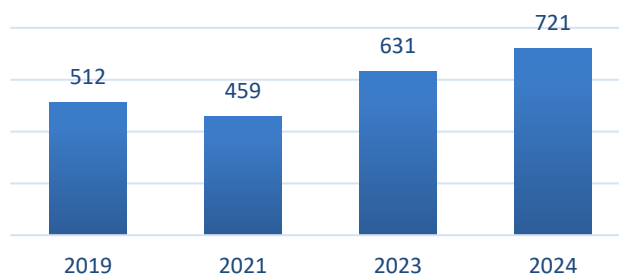


Figure 8: Source: National Statistics and Information Authority (NSIA)

3. Annual Import of Plastic Raw Materials (\$M)

- **Trend:** Imports of plastic raw materials decreased from \$25 million in 2019 to \$18 million in 2023-2024.
- **Analysis:** The drop may indicate changes in the market or the use of alternative materials. Building regional plastics manufacturing sectors can improve industrial sustainability and lessen reliance on imports.

Annual Import of Plastic Raw Materials (\$M)

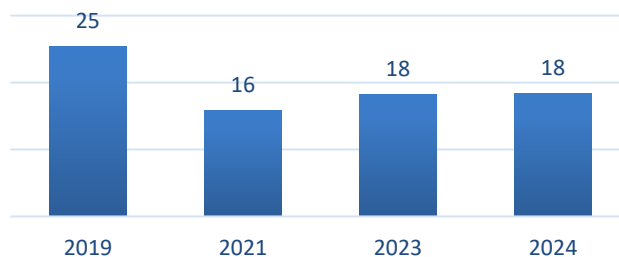


Figure 9: Source: National Statistics and Information Authority (NSIA)

4. Annual Import of Textiles (\$M)

- **Trend:** Imports of textiles varied, reaching a high of \$20 million in 2021 before falling to \$8 million in 2023-2024.
- **Analysis:** Uneven demand or competition from domestic textile industries is indicated by the volatility. Encouraging textile production in Afghanistan can help the country become economically independent and create jobs.

Annual Import of Textiles (Fabric) (\$M)

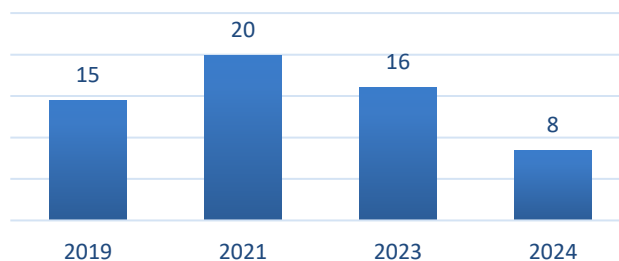


Figure 10: Source: National Statistics and Information Authority

5. Annual Import of Chemicals (\$M)

- **Trend:** Imports remained stable around \$25M from 2021 to 2023-24, increasing from \$15M in 2019.
- **Analysis:** Chemicals are essential to Afghanistan's industrial operations, as seen by the consistent need for them. Investing in chemical processing plants might increase domestic production and lessen need on imports.

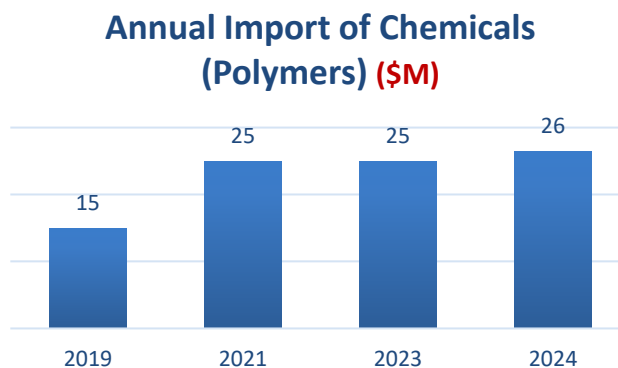


Figure 11: Source: National Statistics and Information Authority

6. Total Imports from China to Afghanistan from 2019-24 (\$M)

- **Trend:** Overall trade volume increased, with total imports rising from \$1.157 billion in 2019 to \$1.536 billion in 2023-24
- **Analysis:** This increasing trend emphasizes the two countries' close trade ties while also highlighting the necessity of implementing export-enhancement measures to address Afghanistan's widening trade deficit.

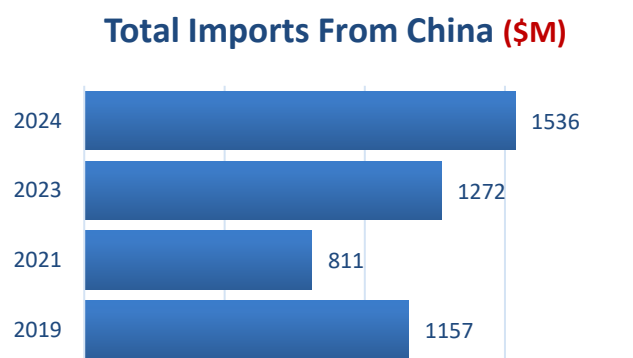


Figure 12: Source: National Statistics and Information Authority

Key Challenges in Afghanistan-China Trade

Export Challenges

Afghanistan must overcome a number of significant obstacles in order to increase its exports to China. One of the primary challenges is the limited value addition in its export portfolio. The majority of Afghanistan's exports, including minerals and raw agricultural products, are not extensively processed, which lowers their market value and competitiveness.

Market access is further restricted by the absence of standard certification procedures and compliance to global trade standards. The poor cold chain and transportation infrastructure is another significant issue. Fresh fruits and medicinal herbs are examples of perishable items that frequently lose value during transit as a result of delays and insufficient storage facilities, which reduces their potential for export.

Import Challenges

Afghanistan is highly dependent on Chinese imports, particularly regarding construction and industrial requirements including steel, chemicals, and machinery. Due to this reliance, the Afghan economy is vulnerable to fluctuations in the pricing of international markets and interruptions in the supply chain, which raises costs for businesses.

Afghanistan's potential to provide alternatives to imported commodities is further limited by the country's poor local manufacturing base. This lack of diversification makes the trade deficit worse and increases economic dependence on imports from China.

Recommendations

Enhancing Exports

To improve export performance, Afghanistan must prioritize value addition. Establishing processing facilities for agricultural and mineral products would significantly increase their market value and make them more competitive in Chinese markets. For instance, exporting processed dried fruits or gemstones could generate higher revenues compared to raw exports. Another critical step is improving certification mechanisms to align with Chinese import requirements.

This involves adopting international standards for product quality and safety, which would facilitate smoother market access.

Efforts to promote exports, such as setting up trade shows in Chinese cities and using e-commerce sites, may help increase demand for Afghan goods in China and increase trade volumes.

Reducing Import Dependency

The development of domestic manufacturing sectors is necessary for reducing Afghanistan's dependency on imports. While generating jobs locally, investments in industries like textiles, agricultural processing, and renewable energy can reduce reliance on Chinese goods.

Afghan industry might be modernized and made more productive and competitive by collaborating with Chinese companies on industrial projects and technology transfer. These partnerships could focus on knowledge sharing, introducing advanced production techniques, and training local workforces.

Infrastructure Development

Developing strong infrastructure is essential to promoting trade between China and Afghanistan. Afghan exports may become more competitive in the Chinese market by enhancing transportation networks, such as roads and railroads, which can drastically cut down on transit times and costs.

Establishing cold storage facilities along key trade routes would help preserve perishable goods, enhancing their quality upon arrival. Additionally, modernizing border facilities to streamline customs procedures can reduce delays and associated costs, ensuring that goods move efficiently between the two nations.

Way Forward

Strengthening Afghanistan-China trade relations requires a holistic and strategic approach. Building long-term relationships with China, encouraging industrial growth, and investing in vital infrastructure are all necessary to address the trade deficit. A robust and sustainable trade ecosystem may be established in Afghanistan by increasing trade logistics, diversifying exports, and decreasing reliance on imports.

In addition to lowering the trade imbalance, this shift would support regional stability, employment growth, and economic development. Afghanistan may realize its full potential in its commercial relationship with China with a forward-thinking trade strategy backed by focused investments and international cooperation.