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## India - Afghanistan Economic Ties: Post - Taliban

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### **Introduction**

India - Afghanistan trade relationship is as old as their political and cultural relations. It has a history going back to ancient times. The trade between the two countries has been continuous throughout the centuries. India, known for its handicraft and agricultural products has been an exporter of these goods to Afghanistan. It was only during the civil war period that the trade relationship between both the countries was disrupted. After the end of the civil war and establishment of a relatively stable regime in Afghanistan trade relations between both the countries has resumed.

### **The Afghan Economy**

The Afghan economy is in tatters after more than three decades of civil war. Afghanistan needs a lot of investment as it lacks domestic

capital. In this scenario, Afghan officials are not in a position to choose investors. Hence, they “argue [that] the choice of investor has nothing to do with geopolitics but is an attempt to lift one of the world’s poorest nations out of misery through investment”. According to Afghan mining minister Wahidullah Shahrani, “our strategic benefit is, first, to get the investment and, second, to create more jobs.”<sup>1</sup>

Afghanistan is a resource rich nation. It has huge untapped deposits of various mineral resources including oil and gas. Hence, this resource-rich country has been scouring the globe for investors. For example, China was the first country which “made the first big-ticket bet on Afghan mines.”<sup>2</sup> It won a \$3 billion concession to develop the Mes Aynak copper mine southeast of Kabul in 2007 where production would start in 2014.

However, there are several

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problems with the economic recovery of Afghanistan. One of the most important problem is security. It has been argued that it might take years before any of the projects signed and sold to foreign investors including Indians become operational. The war with Taliban has “delayed efforts to build infrastructure such as roads and rails needed to sustain a sizable mining industry.”<sup>3</sup> Security is not a problem only with the existing investments and ongoing projects. There are safety concerns expressed by companies planning to operate in Afghanistan as well. For example, in 2009, the Taliban bombed India’s embassy in Kabul, putting off some potential Indian investors, and fears are that things could deteriorate after the bulk of foreign troops pull out from Afghanistan in 2014.

Afghanistan needs investment for its economic development and it has been making efforts in attracting the investors. However, given their historical linkages and shared world view, Afghanistan and India are natural allies in the economic field. India is one of the emerging economies of the world and it is also looking for new destinations for its investment. In this context Afghanistan is an important country.

Post-Taliban Afghanistan saw a re-emergence of its economic life. The

fall of economy during the Civil War years and also during the Taliban regime had made Afghanistan one of the poorest countries in the world. According to the World Bank, it is still one of the least developed countries with a very low income. Its per capita income was just \$92 in 2001. In 2010 it went up to \$501 mainly due to the external aid. Though Afghanistan had a population of more than 25 million in 2009, it lacks basic infrastructure to provide a decent living standard to its population. For example, in 2009 more than 75 percent of its population was living in the rural areas. Life expectancy at birth was 48 years for both male and female which was lower than the most underdeveloped countries in the world. Only 15 percent of its population was able to get access to electricity. Afghanistan had one of the highest death rates in the world at 16 in 2009 whereas India had it around 8. It had less than 4 percent of its population using internet in 2009 whereas even in Pakistan the percentage is as high as 16. Its total mobile subscriber population was less than 40 percent in 2009.<sup>4</sup> According to Amiya Chandra:

“Afghanistan is one of the world’s least developed and poorest countries with 90 percent of the population living in rural areas at subsistence level. Only about 12 percent of the

country's total land is arable, 3 percent under forest cover, about 46 percent under permanent pastures, and the rest (39 percent) are mountains. Prior to the conflict in the late 1970s the Afghan economy was characterised by food self-sufficiency, pre-dominance of agricultural exports, macro-economic stability, free floating exchange rates and low debt burden. Afghanistan's economy has witnessed widespread destruction over the past two and half decades of war".<sup>5</sup>

From the above description it is very clear that Afghanistan has a huge potential for investment in infrastructure and human development. Countries such as India can play a very crucial role and draw mutual advantages.

Besides the need of infrastructure development there are other incentives for countries like India to come and invest in Afghanistan. Since there is a lack of domestic consumer production units Indian producers can draw tremendous benefits from the exploitation of the market. There is a great incentive to be economically active in Afghanistan today. It has several tapped and untapped deposits of various minerals and raw materials.<sup>6</sup> . Countries such as India are in a better position to have a preferred

access to these resources. It is because of the good political relationship between both the countries and Afghanistan's apprehensions regarding other countries in the neighbourhood such as Pakistan.

It has been argued that Afghanistan is seen as a potential provider of minerals to the world economy and therefore every major country including the US and China are in race for its resources. India will have a tough competition from these countries. For example, its Amu Darya basin and Afghan-Tajik basin have an estimated reserves of around 2b barrels of oil. Afghan government is looking to open these oil fields in order to generate employment and reduce the dependence on foreign oil.<sup>7</sup> The other countries are already investing in these products through their local partners. India can have the similar arrangements. Similarly, the Afghan government is interested in opening the exploration of its iron ore deposits in Hajigak and Indian companies can use the opportunity.

Afghanistan is looking for foreign investment as it does not have enough domestic capital to rebuild its infrastructure and economy. It had a negative current account balance in 2008 and had a deficit of 67 percent in the capital needs and its formation

in domestic markets.<sup>8</sup> Despite all these negatives Afghan economy is growing very fast. It had a growth rate of more than 20 percent in 2009. Hence, one can say that Afghanistan can be a very lucrative destination for foreign investment. Indian companies in infrastructure and construction and government agencies working in social sector have incentive to go and invest in Afghanistan. The fact that India is preferred by Afghan diplomats and also that it already enjoys a status of second largest trading partner (India is Afghanistan's third largest exporter and second largest importer according to Economist Country Report 2011) makes the task easier. In order to explore the possibilities in Afghanistan India is leaving no stone unturned. It has established four different consulates in Afghanistan in its four different regions namely: Herat, Jalalabad, Kandhar and Mazar-e-Sharif.

According to the then Indian Foreign Minister, S M Krishna, India sees the need of a *Marshall Plan* to rebuilt Afghanistan. It embarked India on this initiative because it identifies that "Afghanistan faces at least four deficits — a security deficit, a governance deficit, a development deficit, and an investment deficit". All these deficits cannot be addressed properly if world does not

adopt a comprehensive plan to rebuild not only the country's economy but also its political and military systems. According to Krishna, "Afghanistan needs time, development assistance, preferential access to world markets, foreign investment and a clear end-state and strategy to make sure that it does not once again plunge into lawlessness, civil war, and externally sponsored extremism and terrorism", hence, "conceptually there is need for something like a *Marshall Plan* for Afghanistan, involving all the major stakeholders."<sup>9</sup>

### **Need for Major Initiatives**

India took several initiatives to rebuild the economic ties with Afghanistan. One of the most important initiatives was the establishment of India-Afghanistan Business Forum immediately after the fall of Taliban regime and coming of Karzai government in 2001. Its main purpose was to establish a link between the business communities of the two countries. It is lauded as a "unique attempt by any foreign country inside Afghanistan."<sup>10</sup> This forum works as the coordination centre for business chambers of both the countries and facilitates mutual understanding. This forum organises occasional trade fairs and *melas* showing products of both the

countries in each others' major cities. It also organises special meetings of businessmen and industrialists' from both the countries. This forum has been the central arena of business activities between both the countries.

### ***Preferential Trade Agreement***

Afghanistan and India signed a Preferential Trade Agreement (PTA) on 6 March 2003. This treaty provides for harmonious development of the economic relations between both the countries and free movement of goods through reduction of tariffs between them. This agreement is a way to grant Afghan business groups preferences and concessions.<sup>11</sup> Under the PTA, it was considered that long term Afghan demand for concessions in duties on some of its essential products such as dry fruits etc. India is granting concessions to Afghan products such as dry fruits, fresh fruits, precious stones etc and getting some concessions on products like black tea and pharmaceutical products.

### ***South Asian Free Trade Agreement***

All the member countries of SAARC became members of South Asian Free Trade Agreement (SAFTA) in 2004. Afghanistan was not a member of SAARC at that time.

It joined SAARC in 2010 and ratified SAFTA in May 2011. Being identified as one of least developed country of SAARC, it has several concessions in the agreement. Unlike countries such as India and Pakistan, Afghanistan has more time and greater concessions.<sup>12</sup> This agreement was signed in order to increase regional trade among all the members of SAARC. Hence, it will help increase the trade between Afghanistan and India too. The best hope of Afghanistan is the concessions provided in the agreement which would help it to overcome the hostile balance of trade with India.

### ***Turkmenistan-Afghanistan-Pakistan-India (TAPI) Pipeline***

In December 2010, representatives of Turkmenistan, Afghanistan, Pakistan and India signed an agreement to build a gas pipeline originating in Turkmenistan and terminating in India passing through Afghanistan and Pakistan. By August 2011, the issues of pricing, transit fees and gas specification were finalised.<sup>13</sup> This pipeline will be 1,700 km long and will cost around \$ 7.6 billion.<sup>14</sup> This project is funded by the Asian Development Bank (ADB).<sup>15</sup> Afghanistan is estimated to earn \$ 1.4 billion annually from the project as transit fee.<sup>16</sup> Besides transit

fee, there are other economic benefits of this pipeline for Afghanistan. It will be major source of employment generation both during and after the completion of the program. It will create several subsidiary industries and services as permanent sources of employment. It will also provide much needed energy for the growing economy of the country. According to Akiner, "when completed, the pipeline will deliver 90 million cubic meters of gas a day; most of this will be divided equally between India and Pakistan, but Afghanistan will have a share of approximately ten percent".<sup>17</sup> Hence, Afghanistan sees it a great success of its economic ties with India.

India's state owned gas company (ONGC) is one of the leaders of a consortium trying to persuade global investors to stump up the amount necessary for this project. Despite all this enthusiasm from all the parties, it has been assessed that the problem of difficult geographical terrain and instability in the region may create hurdles in the project.

### **Financial and Technical Aid Programmes**

Since 2001, India has offered \$ 2 billion aid for Afghanistan's reconstruction, making it one of the largest regional donors to the

country.<sup>18</sup> India is investing heavily in building the social sector infrastructure in Afghanistan. It has built several schools and hospitals in the country and is involved in building several others. For example, India rebuilt the Habibia School in Kabul in 2007 and provided kits to 8646 students in different schools besides providing other essential equipments to several other schools. Indian government has gifted 20000 desks cum benches for different schools in Afghanistan. It is also providing teaching staff to different schools besides training the existing Afghan teachers. India is also providing different kinds of scholarships for the higher studies to Afghan students.<sup>19</sup> Different Indian higher educational institutions offer over 800 scholarships in different disciplines to Afghan citizens. India is also providing a grant of over \$ 5 million to Afghanistan for the construction of 38 schools and other associated uplift projects primarily in the conflict ridden areas estimated to benefit around 40000 students.<sup>20</sup>

India is also involved in several other educational and institutional development projects including training of students, technical experts and civil servants. Its private sector too is involved in such activities. Capacity Building Programmes are also underway in the fields of

diplomacy, media and information, civil aviation, agriculture research and education, health care and medical science, tourism, education, standardisation, rural development, public administration, electoral management and administration and local governance. It is also providing massive humanitarian aid to the country in the form of medicine and food.<sup>21</sup> India is involved in reconstruction of Indira Gandhi Institute of Child Health. The project was finished in 2007 with the total cost of \$ 2.7 million funded by India alone.<sup>22</sup>

India gave \$70 million grant for the construction of Zaranj-Dilram road link between the Iranian port of Chahbahar and Afghanistan in order to create an alternative land route to the land locked Afghanistan. The Border Road Organisation was assigned to complete the 250 KM road between Chahbahar and Afghanistan. India is very keen to get a bigger share in the reconstruction of Afghanistan. In order to win back the Afghan government's and people's favours it promised in 2002 to invest around \$4.5 billion in the reconstruction of the country in five years. Indian Chamber of Commerce and industry had prepared a list of 30 Indian companies which will have greater role in this process.<sup>23</sup>

India is spending more than 40

percent of its total aid in creating a viable power generation and supply base in Afghanistan. It has undertaken the task to reconstruct or build several small and medium size power generation units in the electricity deficit country. For example, by the end of year 2003 there was a survey undertaken by the Indian companies to build Bamyán micro hydro project.<sup>24</sup> India also undertook the construction of 202 kilometers long 220 kV DC transmission line from Pul-e-Khumri to Kabul and a 220/110/20 kV substation at Chimtala bringing Uzbek electricity to the power hungry Kabul city. It would facilitate the lighting of the city throughout the year. This project was completed in collaboration with the Afghan Government, ADP and the World Bank, with inputs from USAID and International Energy Firms, and was an outstanding example of regional and international cooperation in Afghanistan. The other two major infrastructure projects, the construction of the Afghan Parliament in Kabul and the construction of Salma Dam power project in Herat province were in progress and were about to be completed by 2011-12.<sup>25</sup>

India wanted to change the political economy of the landlocked country, so that it would no longer be dependent on Pakistan for resources

or access to major ports. In this regard, Indian Prime Minister during his Afghan visit in 2011 announced a new assistance of US\$ 450 million to meet the requirement of ongoing and forthcoming projects. This aid package is in addition to US\$750 million already announced by India to implement the projects in various sectors including infrastructure development, education, healthcare and social development. The Indian Prime Minister also offered to consider extending a US\$50 million Line of Credit facility to Afghanistan in order to promote bilateral trade and investment. Mr. Manmohan Singh described the crucial Zaranj-Delaram highway, being constructed by India in western Afghanistan as a *symbol of cooperation*, which has been completed and would be handed over soon to the Afghan government. India is equally involved in rebuilding industrial sector in Afghanistan.<sup>26</sup>

Besides its trade and investment, India is also involved in various other sectors. One of the most important assistance is financial support to Afghan government. For example, in 2003-04 government provided \$ 100 million to government of Afghanistan.<sup>27</sup>

India is supporting the rebuilding of Afghan banking system also. For instance, in 2002 India sent experts

from Reserve Bank of India (RBI) to Afghanistan to assist the Da Afghanistan Bank. Several Indian banks have opened their branches in Afghanistan in last several years. Indian government is also helping to recreate urban development in Afghanistan while helping it technically and financially. Afghanistan needs a great help from India in building a viable information-technology sector. Indian firms such as Infosys and TCS are helping in training in software professionals in Afghanistan who will work in the development of e-governance in the country.

### **Irrigation system**

India is also building Afghanistan's irrigation system. It is trying to revive several dams in order to rebuild Afghanistan's agriculture. It is also building mining areas of the country along with several power plants. India's Afghanistan aid programmes are a combination of business activity and humanitarian support. India is facing many problems and most of them are related to security as certain groups have targeted Indian investment and aid programmes. Apparently, according to some data, for the construction of every 1.5 kilometres of road one person was killed.<sup>28</sup> Most of those who were killed in this violence are Indians. The Indian embassy in Kabul was hit by two bomb attacks in 2008 and 2009, killing 75 people and

wounding hundreds. Indian engineers working on projects in Afghanistan have been kidnapped and hostels for Indian workers have been attacked. The Taliban have claimed many of these attacks, but India blames Pakistan's military spy agency, the ISI, claiming it is trying to undermine New Delhi's influence. Hence, making India less visible in Afghanistan, without reducing its influence, has become a priority for the government of India. While its larger infrastructure projects wind down, India has expanded its delivery of what one observer has called *Phantom aid*, thereby money is channelled through the Afghan government to local communities. These small development projects (SDPs) ensure greater local ownership and participation and, according to the Ministry of External Affairs, none have been targeted by militants.<sup>29</sup>

Despite all these initiatives, concessions and agreements, the volume of trade between India and Afghanistan remains low. Though both the countries are trying to improve the situation on this front through different programmes and mutual exchanges such as *melas* and trade fairs as mentioned above. In this context, the Confederation of Indian Industries had organised a *Made-in-India* show in September 2002 to

attract Afghan consumers to Indian products. The show was a great success as it attracted more than 8000 Afghan businessmen and 25,000 thousand common Afghans.<sup>30</sup>

### **The post Taliban phase**

The trade and economic ties between Afghanistan and India on official level were almost nil during the Taliban regime. In the aftermath of its removal, the new regime has gradually established vibrant trade and economic ties with India. As has been mentioned above, India is Afghanistan's second largest trading partner. According to Asian Development Bank (ADB), the principle market for Afghanistan's exports was India. The latter purchased an estimated 21 per cent of its total exports. It is still not the preferred destination for imports though. Pakistan is its largest import destination and India does not figure into top five also.<sup>31</sup> In this context, Indian business community and government of India have started various initiatives to increase both the volume of trade with Afghanistan and diversify goods in trade as till date only some agricultural products have been the main trade items. In 2001-02 India was exporting rubber, cotton products, tobacco, sugar, apparel and clothing accessories to Afghanistan. It was importing edible

fruits and nuts, cotton, lac, gums, resins, oil seeds and related products and miscellaneous chemical products.<sup>32</sup>

In the last ten years, the trade between both the countries has improved and grown considerably. For example, according to Ministry of Commerce and Industry of India, in 2001-02 the total Afghan export to India was \$ 17.52 million. Its total import from India was \$ 24.37 million. Hence, the total trade between both the countries stood at \$ 41.89 million in 2001. By the year, 2010, the volume of trade between both the countries reached \$ 588 million.

The main competitor of India in terms of trade with Afghanistan is Pakistan as it is the largest source of Afghan imports. In 2004-06 imports from Pakistan were \$ 511 million while from India it were just \$ 170 million.<sup>33</sup> In 2008 India had just 6.9 per cent share in Afghanistan's total imports in comparison to Pakistan's 36 per cent.<sup>34</sup>

### **Military and Internal Security**

India is concerned about the stability and peace in Afghanistan once NATO forces are withdrawn in 2014. Nevertheless, Indian military engagement in Afghanistan is

primarily focused on the safeguarding its current investments from attacks of militants and other hostile sections. According to Indian officials, there are currently about four thousand Indian workers and security personnel working on different relief and reconstruction projects in Afghanistan. Since 2006, following increased incidents of kidnappings and attacks, India has sent the country's mountain-trained paramilitary force, tasked with guarding its border with China, to guard its workers; there are about five hundred police personnel deployed in Afghanistan currently. India provided police training to 250 Afghan police officers and cadets in India in 2002.<sup>35</sup>

India is providing trucks, cars and other important vehicles to Afghan military. These vehicles are used for civilian purposes also. On cooperation in the security sector, Afghan Defence Minister General Abdul Rahim Wardak, said in June 2011 that "we will welcome any cooperation in the field of training and helping our national security forces to be able to defend their country". Military equipment supplies were also under discussion between India and Afghanistan. India is also committed to build capabilities of Afghan security forces and is providing training to them. It

is also looking to Afghanistan as potential market for its armament industry. It has already offered its light helicopters for the Afghan army in 2011.<sup>36</sup>

### **Mining**

Afghanistan has a large deposit of various minerals including oil, gas, gold, copper and coal. India is among several other countries competing for a role in extraction of some of these minerals in different parts of the country. Most of the mines are located in very remote areas where it is difficult to operate without any substantial infrastructure and security. Still, it is Afghan government's policy to increase foreign investment in the mining sector as it is the main source of government revenue. Indian companies have to compete with companies from China and Russia along with the US in procuring contracts for mining. In a latest development, a consortium led by state-run Steel Authority of India (SAIL) had to invest up to \$6 billion in the mine, railroads and a steel plant in Afghanistan in order to compete with its Chinese competitor. The bid also signals India's intention to remain engaged in Afghanistan long after 2014, when U.S.-led forces complete a pullout. The contract for the Hajigak mines in Bamiyan

province is also with Indian companies. It is considered to be the single biggest foreign investment project in war-ravaged Afghanistan. Exploration at Hajigak started in 2013 and development of the mine will take four to five years.

Afghanistan imports its energy needs from Iran and some Central Asian Republics till now. Investment in mining sector is seen a potential source of self sufficiency by Afghan officials. In 2010, it was estimated that Afghanistan had between \$ 1 trillion to \$3 trillion worth of mineral resources.<sup>37</sup> According to Afghan Minister of Mines, Wahidullah Shahriani, "Afghanistan's rich mineral resources have the potential to transform the nation's economy and provide early investors with substantial upside. The global interest shown in the current mineral tender processes confirms the widespread confidence in this potential."<sup>38</sup>

So far, mainly Chinese and Indian companies have shown interest in mining resources of Afghanistan. China's National Petroleum was chosen as a preferred bidder for an oil field in northern Afghanistan, taking the country a step closer to a second major deal after winning a \$4 billion copper project in Logar province in 2007. Global miners such

as Rio Tinto and BHP Billiton have stayed away from Afghanistan because of security concerns and also because of high production costs especially in transporting deposits from the landlocked, mountainous country with few roads and other infrastructure.

For India, a direct land route from Hajigak is not feasible because it would involve travelling through Pakistan. Other options include transporting the ore westward to the Iranian port of Chabahar which is connected by roads that Indian engineers have built. The ore can also be moved by slurry pipelines after turning it into slush, but that may involve Pakistan as well. India seems to be banking on the fact that the overall security situation will improve in coming years. A lot of things can change from now till the time Indian mining bids reach production stage which will take years. This time will be crucial for the test of India-Afghan relations.<sup>39</sup>

Besides China and other competitors in Afghanistan, India is also facing the challenge from Pakistan. It is more of a political nature than economic as Pakistan is using every trick to disrupt Indian economic investment in the country. There are fears that an Indian-run mining concession could be a

tempting target of Pakistan supported groups and its intelligence agency ISI. Nevertheless, Afghanistan is more concerned about its economic development. According to one Afghan official, "we will be guided by Afghanistan's national interests in arriving at a decision," on whom to give and not give a contract. "If it is an Indian company which wins it then so be it," the official said, dismissing concerns that deeper Indian involvement will stoke new tensions with Pakistan.<sup>40</sup>

India is Afghanistan's biggest regional aid donor. It has pledged \$2 billion in projects, from constructing a new parliament building to laying a highway to Iran, to project Indian "soft power". Pakistan publicly derides those attempts to secure influence in what it sees as its backyard, but Islamabad has been concerned by government in Kabul, that, it feels are too cosy with India.

## **Conclusion**

There are some very important hurdles in trade between India and Afghanistan, which may be summed as:

1. The greatest problem in trade with India is the accessibility as Afghanistan has to rely on third country for connecting with India. Iran provides the most important

transit route as Afghanistan is a land locked country and Pakistan does not allow India to trade through its territory.

2. Another major hurdle is the over reliance on agricultural products. Afghanistan's lack of manufacturing industry and bad economic conditions have made it over dependent on agricultural products as a source of foreign currency. Out of total exports from Afghanistan in 2007 half were made of different commodities related to agriculture. This makes it a provider of raw material.
3. Another major problem with international trade in Afghanistan is lack of intra-state transport in the form of roads and ports.
4. Law and order is another major hurdle in the International trade in Afghanistan.
5. The last but not the least, the balance of trade is in favour of India and the gap is increasing fast. Soon it will be very difficult for Afghanistan to maintain a healthy balance of trade with India. India, being the bigger economy should give more concessions to Afghan exporters. Though India had taken some steps in this direction, for example, in 2003 during Karzai's

second visit to India a trade agreement was signed between both the countries which gave up to one hundred per cent tariff concessions on 38 Afghan export goods to India.<sup>41</sup> There is a need to enlarge this concession.

There is optimism among the policy makers in both the countries about the future of the mutual trade. According to Afghan commerce minister Mustafa Kazemi, "India is the best market for exporting Afghan goods. Afghanistan has major plans to trade with India. We will be able to oust other competitors out of the Indian markets very soon."<sup>42</sup>

India's various aid projects have won it the reputation of being a friend of Afghanistan. President Hamid Karzai proclaimed that countries which had helped Afghanistan in the past must be given priority in developing its resources. While the United States is still seen as an occupying force despite pouring billions of dollars of aid into Afghanistan, India's low-profile efforts, focused on key issues like roads, electricity and education, have won it great goodwill.

In view of the foregoing it may be observed that there is a great potential for the further development of trade and economic ties between both the

countries. However, there are several hurdles in the way of a healthy and vibrant economic relationship between both the countries. One of the most important hurdles is the lack of infrastructure. This hurdle can be overcome through greater and faster investment. The next major problem in the development of greater economic ties between Afghanistan and India is related to security. This cannot be addressed until Afghan government takes certain long term

and firm steps in this direction. It has to build a strong military and police force as well as it has to address some of the basic concerns of the rebel forces in order to win them back. One thing is sure, with an economy ravaged by more than three decades of war, Afghanistan's government is under tremendous pressure to ensure that projects involving foreign investment flourish. For this it has to take some drastic measures which would bear fruits.



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