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# **Dynamic of Trade Specialization and Performance of SAFTA: A Case Study of Afghanistan**

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# **Dynamic of Trade Specialization and Performance of SAFTA: A Case Study of Afghanistan**

A thesis submitted in partial fulfilment of the requirements for the Degree of  
Masters in Business Administration



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KARDAN UNIVERSITY

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**November, 2022**

## **Dedication**

This dissertation is dedicated to my dear parents specially my father and many of my friends who supported me in more ways than I could count.

## **Declaration of Authorship**

I declare that this thesis has been composed solely by me with proper guide from my supervisor and it has not been submitted to any other higher institution or University.

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## Approval Sheet

This is to certify that we evaluated the thesis entitled “*Dynamic of trade specialization and performance of SAFTA: A case study of Afghanistan*” submitted by Mr. Mohammad Mirwais Rasa, Reg. no. 912-1909032, in partial fulfilment of the award of the degree of Masters in Business Administration, at Kardan university. The thesis fulfils the requirements in its core and quality for the award of the degree.

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This is to certify that the thesis entitled “Dynamic of trade specialization and performance: A case study of Afghanistan” is the record of the work done by Mohammad Mirwais Rasa holding registration No. 912-1909032, under my supervision the results of research presented in the thesis has not previously formed the basis of the award of any degree, diploma or certificate of the this or any other university/institute.

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Regards,

Mohammad Mirwais Rasa

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## Abstract

**Background:** SAFTA aims to encourage and create a joint agreement among the countries, which includes medium and long term agreements. SAFTA increased the local economic incorporation by advertising the favoured trade between SAARC countries. The association of Afghan with SAARC member countries is based on the trade, which is considered the most important for improving the economic stability and regional connectivity. The regional integration in South Asia has become prevalent since the WTO's negotiations, and is significant in generating intraregional trade and dynamic gains for the South Asian countries.

**Aim:** The main aim of this study and examine was based on the understanding of dynamics and effectiveness of SAFTA for Afghanistan Free Trade Agreement.

**Method:** Secondary research was adopted with quantitative research design to execute content analysis. Content analysis allowed to evaluate existing data, evidence, trends and patterns in current studies, publications, and financial institutions sites.

**Findings:** From 2011 to 2019, after SAFTA was implemented, Afghanistan showed predominant growth in export and import. Regarding trade specialization it has been categorized in six groups within High skill and technology intensive manufactures Afghanistan displays a mixed trend in its trade specialization that shows decrease in negative values in last years. In Low skill and technology intensive manufactures Afghanistan demonstrates an improvement in its trade specialization index values with fall in negative LFi value. Regarding Medium skill and technology intensive manufactures Afghanistan shows a mixed but clear increase in negative value of LFi index. Mineral fuel manufactures Afghanistan reveals an increase in its trade specialization with a decrease in the negative average LFi value. Non-fuel primary commodity Afghanistan shows a positive indication of trade specialization. Lastly Resource intensive manufacture Afghanistan highlighted the continuous decline in its trade specialization from positive to negative.

**Conclusion:** SAFTA has helped Afghanistan majorly in trade operations and enhanced its trade openness by increasing demand and supply, export and import assurance, and trade specialisation with improving trade relationships in the region and with neighbouring countries.



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## **List of Abbreviations**

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ATP	Afghanistan Trade Policy
FTA	Free Trade Agreement
MoCI	Ministry of Commerce and Industry
PTA	Preferential Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SAPTA	SAARC Preferential Trade Agreement
NLDCs	Non-Least developed countries
TA	Trade Agreement
TIR	Transports Internationaux Routiers
LDCs	Least Developed countries

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# CHAPTER ONE

## INTRODUCTION

Major things that are discussed in this chapter include background of the study, problem statement, purpose of the study, aim & objectives, research questions and significance of the study. In addition to this, this chapter has also provided a detailed structure of the research and provided definition of all the key terms. Lastly a brief chapter summary is also provided.

### 1.1 Background of the study

South Asia has around 34% of the world's population but South Asia is falling under integrated area of the world (Rasul, 2016). It has been further stated by the author that South Asia region integrates with a volatile economic structure. It is important to note that many different trade agreements were assigned to them in the past times but there was no regional integration assigned to them in any agreements (Chapman, 2016). One of the studies conducted by Im et al. (2017) stated that in 1990s, the liberalisation of the economy of India has created an agreement between the Indian and Asian countries which was known as AIFTA (ASEAN-India Free Trade Agreement). In addition to this, there was a hope after the agreements that all the different industries will take advantages from the arrangements. It has been identified by Mainali et al. (2018) that after the agreement the volume of trade was increased to \$3.05bn in the years 1992-1993 to \$66.04bn in 2016. From the aforementioned statement, it is evident that the making agreements among different countries provide many benefits along with improved economy. Therefore, it is significant for the countries like India to further expand their regional and domestic capabilities to cope up with the agreements.

Furthermore, all the SAARC members had an aim of boosting the trade of intraregional created SAFTA which was created in action in July 2006. In the words of Madadeniya and Sivarajasingham (2018), the static gain increases which also known as existing trade which will be improved by SAFTA. In addition to this, the dynamic gain will increase as compared to static gain because of all the expansion of scale of operation. SAFTA aimed to encourage and create a joint agreement among the countries, which includes medium and long term agreements. It is imperative to note that SAFTA increased the database of local economic incorporation by advertising the favoured trade

through which the formation of SAPTA was stated. As indicated by Chapman (2016) the association of Afghan with SAARC members countries are based on the trade which is considered as the utmost important for improving the economic stability and regional connectivity. The study further stated that the regional integration in South Asia is prevalent since the WTO's negotiations and is found to be significant in generating intraregional trade and dynamic gains for the South Asian countries, reflecting a positive impact on SAFTA.

Madadeniya and Sivarajasingham (2018) stated the major concern for Afghanistan is security. It is imperative to note that Afghanistan acted as a breeding ground for terrorism which has produced a drastic impact not only on the neighbouring nations but also disrupted peace, prosperity and safety in the international community. Additionally, SAARC has introduced nineteen summits, from which no summits were hosted by Afghanistan due to the issues of finances and security (Madadeniya and Sivarajasingham, 2018).

## **1.2. Historical overview, Objective and Importance of SAFTA**

In order to ensure that past economic activities and integrations can be used effectively to boost the development of the Asian countries, a summit took place in Islamabad, Pakistan in January 2004. As per this summit, the SAARC created a free trade area in the South Asia under “Islamabad Declaration”. This gave rise to the formation of the SAFTA – South Asian Free Trade region on January 1, 2006. Nevertheless, SAFTA was created by the SAARC members in order to increase the trade of intraregional. The primary concern of the treaty was to improve the South Asian economic activities and create a rich economic potential through integration. A key element was that SAPTA – SAARC Preferential Trading Agreement was modified to SAFTA so that regional economic initiatives could be justified (Hossain, 2018). Under this free trade area, countries including Afghanistan, India, Bangladesh, Bhutan, Sri Lanka, Pakistan, Nepal, and the Maldivess can minimise custom duties on all traded goods to zero by the year 2016 (Bhatti and Taga, 2014). Therefore, SAFTA’s formation was a great achievement for regional prosperity in both economic and political terms as it included countries that had tense relations in the past.



In this regard, SAFTA had some key objectives and goals to increase and promote trade and economic activities in the region. The objectives included increasing cooperation among the Contracting States primarily through inter-alia. On the other hand, it also focused on creating agreement calls between the states so that economic barriers and trade customs can be minimised through cross-border mobility of goods. For this purpose, SAFTA ensured that contracting states play their part on the fairground (Iqbal and Nawaz, 2017). Likewise, it also worked on promoting fair market competition among the states and establishing a smooth economic framework for regional cooperation.

It is important to note that SAFTA worked on the principles of the World Trade Organization (WTO), ensured reciprocity and even created a need and awareness for the economic development and prosperity of the least-developed countries that are member states of SAFTA. At that time, these countries included Bangladesh, Nepal, Bhutan and Maldives. Moreover, it focused on encouraging smooth economic and trade practices in the region, minimising any biased perks and benefits availed by the contracting states and also taking into consideration any framework for the long-term economic development of the countries. Finally, SAFTA worked on creating a smooth and effective mechanism for the uninterrupted regulation and execution of the Agreement, resolution of disputes and joint administration in which all members states have their equal role in developing the regional economy (Shaikh, et al. 2015). Thus, SAFTA was formed to increase regional cooperation and expand the mutual benefits among member states.

The SAFTA has various benefits for the region as it brings a lot of prosperity to the South Asian region. It includes the liberal trade policies and promotions that regional trade requires for economic integration. Likewise, the SAFTA agreement brings political as well as economic benefits for the countries. It is because in a common RTA (Regional Trade Agreements) more than two partners may bring major desirable outcomes than in an FTA – Free Trade Agreement. Moreover, the SAFTA also promotes the political coherence between the member states and brings economic interdependence which enables countries to promote healthy trade practices.

SAFTA's importance was highlighted when European Commission clearly offered its political goals more status in comparison to the economic inspirations. By integrating the German and French economies, Europe would be no more reported to be

in a conflict with its own states (Saraswat et al. 2018). The same ought to be true for the countries that are member states of SAFTA, seeking more alliance and political stability than merely working to improve the economic status of the region. Therefore, even in South Asia, India and Pakistan could develop better economic integrity and minimise political conflicts when meeting the goals of SAFTA (Iqbal and Nawaz, 2017). Thus, SAFTA is quite important to realign the member states and their goals when trading under the free economic region.

### **1.3. Problem Statement**

Different trade agreements were signed in the past times. However, the practical implementation and the expected results need to be ascertained. It is imperative to note that there are different barriers which need to be considered while considering the results such as the list of SAFTA needs to be maintained by all the member countries of SAARC. The main purpose of the list was to protect all the domestic industries by not providing them any concessional tariffs to some specific industrial players. On the contrary, it has been analysed by (Sun et al, 2019) that different countries that are involved in the SAFTA has created bilateral agreements. In addition to this, 8 members of SAARC have created around 12 bilateral trade agreements. It was stated by (Mainali et al.2018) that different studies from the previous literature as considered trade liberalisation to be beneficial for small countries. Thereby, the current study is inclined to identify the performance and specialised indicators of the South Asia countries by focusing on the economy of Afghanistan using the theories including Heckscher–Ohlin theory of factor proportion and Ricardian theory of comparative advantage.

### **1.4. Research question**

The below research question is formulated on the basis of concerned aims and objectives mentioned above:

Q1. What is the role of trends in exports, imports, and trade at different industry levels in trade specialisation of Afghanistan in the context of SAFTA?

### **1.5. Aims and objectives**

Aims and objectives play a determinant role in guiding the research study. The main objective of this study is based on the understanding of dynamics and effectiveness of SAFTA for Afghanistan Free Trade Agreement. While keeping the objective in a prism, the following aims of the study have been delineated.

- Analyse the role of trends in exports, imports, and trade at different industry levels on trade specialisation of Afghanistan in the context of SAFTA.

### **1.6. Significance of the study**

This study will provide benefits in multiple ways. This study will highlight the trading potential of the region in the real time manner. It has been witnessed by South Asian that there were many ups and downs in Way and foreign policies. It was considered by Wigell and Landivar (2018) that intra-regional exports of the South Asian economies were at \$29 bn in 2018. On the contrary, the real potential was around \$70 bn. These figures can easily uplift the region and make it one of the most prosperous country blocs in the world. Furthermore, this study will also be significant in creating an understanding related to the trading barriers. However, non-tariff barriers also play a major in diminishing the trading prospects of the country.

This research will be essential in highlighting the spots of infrastructure development in Afghanistan. The USAID considers trade costs in the region to be high. They are aggrandised due to the cumbersome customs, payments and standardised procedures (Chaisse and Pomfret, 2019). Moreover, this study has fulfilled a huge gap in the literature. There were very limited studies conducted by the researchers that highlighted the relationship between trade and the growth of Afghanistan in terms of the international arena. Therefore, the study will delineate the ways through which Afghanistan can secure growth through FTAs.

### **1.7. Structure of the study**

The overall research study comprises of five significant chapters which include introduction, literature review, methodology, results and discussion, and conclusion and recommendations. The details of each chapter are illustrated further.

Chapter 1: Chapter one is the introduction part. In this chapter, all the major things are analysed which includes background of the study, problem statement, purpose of the study, aim, objectives, research questions and significance of the study. In addition to this, this chapter has also provided a detailed structure of the research and provided definition of all the key terms. Lastly a brief chapter summary is also provided.

Chapter 2: Chapter two of the study is based on the literature review. A detailed literature review is presented from the previous existing studies. The sources of secondary data include newspapers, articles and journals. Additionally, this chapter has also provided a theoretical framework for better understanding the research area.

Chapter 3: Chapter three is based on the methodology part in which all selected methods are provided along with prior justification. This chapter focuses on research design, research approach, research philosophy, and data collection methods and data analysis. Apart from that, it has also provided ethical considerations along with the limitation of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

The present literature depicts the overview of the SAFTA agreement considering the history of the agreement, objectives and importance of SAFTA while also highlighting the needs for improvement in the agreement. It also highlights the impact of SAFTA loopholes upon agreement for Afghanistan considering the security loopholes and socio-economic aspects. Moreover, it highlights the relationships of SAFTA intricacies with Afghanistan Economy and Afghan Trade Development under SAFTA. For this purpose, it highlights the Afghan Trade Policy (ATP), trade barriers and ways to the future improvements. Based on these literature insights, it highlights the theories including Heckscher–Ohlin theory of factor proportion and Ricardian theory of comparative advantage to fulfil the research aims.

#### **2.1. Trade specialization**

According to Timmer et al. (2019) trade specialisation is referred to the ability of the countries for being specialised in some specific products which they trade for some other goods. It has been further stated by the author that this specialisation is considered as the basis of global trade because some countries are having enough capacity of production which needs to be completed in sustained way. Trade specialization increases their economic productivity and performance. Nations that are able to take advantage of trade specialization will share more of global and domestic market (Woerner, 2022). According to Oberoi, 2019 diversification and heterogeneity of a product line that is exported is directly affected by knowledge dissemination and technical knowledge. For the progression of trade specialization developing economies are relying upon research and development, knowledge creation, knowledge management and lastly skill development (Krugman and Helpman, 1989).

Advantage of trade specialization is that it leads to economies of scale and efficiency by increasing the output and reducing the costs. Increasing the output leads to increase in investment that results in creating more jobs. Goods and services that are produced under these conditions will likely be traded in other counties that allow more international trade and countries benefits from it. Trade specialization can create more revenue to the government since it increase the income and as a result more trade take place and

government can benefit in the form of tax. Under trade specialization firms can find international market for their product and finally customers will have access to high quality good with cheaper prices. Disadvantages of trade specialization covers Structural unemployment that employees from declining industries will be jobless, over exploitation of resources as the output increases the non- renewable resources will decrease, non-specialised industry will face competition from other countries that are specialized, risk of overspecialization as it increases the dependence in to other countries in trade like petroleum- exporting countries revenue depends on the price of the petroleum and finally as there is more specialization the dependency for vital goods and services will lead to strategic vulnerability as supply of goods and services will depend of economic and political change.

There are different types of specialisation which includes labour, departmental, business, regional and country specialisation. Taj, Z., & Wani, N. U. H. 2019 found that Afghanistan had some flexibility and was efficient in changing its trade specialization pattern in accordance with world demand, its exports remained focused in Medium and low sectors.

## **2.2. Trade performance**

Trade performance of a country directly relates to good or bad economic performance because countries that have good trade performance tend to have higher rates of GDP growth. Most countries take initiative to open their economies by joining World Trade Organization (WTO) like Afghanistan in 2016. Although the result of joining WTO is not always positive in regards to export performance with regards to some countries because it's difficult to establish a definition of successful trade performance within all dimension. Zaka, Z., & Naseri, M. E. (2021) suggested that product with highest symmetric comparative advantage should be exported more and also it should take advantage of its geographical location to diversify its export with other countries Some developing countries specialize in a certain category of product by attaining niche market but others focused of more moderate approach by attaining growth by diversified array of product with its partner countries that is why trade champion contrast with specialized exporters that suffer deterioration in trade. There are many approaches for successful trade performance it can be bitter product and maker

penetration, it can be adaptability of export profile to the constant change in world pattern demand, and last approach is trade policy that is dynamic demand driven. Trade performance is generally characterised by its indicator like trade openness or growth on export with in certain time period. Recent research shows trade openness alone is not a sufficient criteria to determine high growth factors like market and economic diversification, type of product, quality of product also important indicator of growth (Mimouni et al. 2007).

### **2.3. Dynamic of trade specialization and performance**

As examined in the study by Oberoi (2019), trade is always considered essential catalyst for development and growth of nations. Consequently, the degree of trade specialisation and trade performance is pertinent to bringing a major shift for a low specialised economy to a more specialised and competitive one. Nevertheless, this is significant for the ASEAN members by the use of LFi (Lafay Index) approach to meet the distinctive industry levels (Akram, 2016). Therefore, it is suggested that trade specialisation affect trade performance by confronting issues such as diversification of merchandise manufactured, dissemination of technological, quality sophistication, and reliability at multiple industry which limits trade specialisation. Moreover, in the study by Bontadini (2021), it has explained that, dynamics of trade specialisation and its performance are linked with decline in the growth related to different measures of technology endowment and country's human capital including the level of formal education, the cost of labour, and the number of patents. Given the present complementarity in factor endowments, technological know, and continuing to expand manufacturing capacity, it was envisioned that SAPTA would enable stronger specialisation of trade, cost reduction, generate considerable trade creation in the region in significant subjects tariff reductions and withdrawal of other non-tariff barriers (Algieri, Aquino and Succurro, 2022). The contract's high degree of protection for grains did not promote trade expertise, productivity, or investment. Due to insufficient supply in response to rising demand, grain prices have increased. Food production in the area has suffered as a result. The development strategies must not be overlooked. However, there is also acknowledgment of the problems brought on by trade liberalisation, which should not be minimised (Bhatti and Taga, 2014). It's important for SAARC nations to improve

governance and strengthen the institutions to build and foster economic growth with in the country and the region Sadiqi, M. K., & Wani, N. U. H. (2018). Nevertheless, it has also studied that trade performance dynamics are influenced by domestic adoption of new technologies financial services, communication, transportation and competitiveness of exports of the country. Thus, with this positive association of the exports of the country will increase the effect on the entire economy as the values of import and export are taken into consideration influenced by trade, transportation costs and distance (Awais, 2016).

#### **2.4. Impact of SAFTA loopholes upon agreement for Afghanistan**

According to Kumar and Ahmed (2014), a major concern has been for Afghanistan security as the land has been used for terrorist activities and neighbouring nations are also not happy with the unrest, civil and political instability in the region. Moreover, SAARC has also provided almost 19 summits in which Afghanistan could not host even a single event. The main reason is the country's lack of resources and financial stability and even security measures that resulted in such a problem. Despite having numerous security policies and counter-terrorism that could help in establishing peace in the region, Afghanistan has struggled to minimise the detrimental impact of terrorism on its trade and economic activities. Regarding the complexities of SAFTA inside Afghanistan's economy, Gaurav and Bharti (2019), stated that the Afghan economy gained the most benefit in an event when the concepts of both trade and foreign direct investment are seen to be substitutes as a result of trade liberalisation. Furthermore, it is dictated by Baena-Rojas and Herrero-Olarte (2020), who stated that trade liberalisation, is found to facilitate the production development of the region in consideration for Afghanistan.

According to Rana and Chia (2017), the biggest benefit supplied by SAFTA, particularly to the Afghan economy, is the relationship that exists between the notion of foreign direct investments and the manufacturing capacity of the enterprises operating in the nation. Following on from the preceding remark, it can be further said that the restrictions such as trade costs and diffusing the strength of the business environment are successfully neutralised by the partnership of both trade liberalisation and foreign direct investment. According to Regmi et al. (2017), one of the significant attributes of the SAFTA agreement is its readiness to offer the mechanism to the country in question the



leverage to fulfil the requirement of making an investment in their industrial base, which by outgrowth causes a rise of their manufacturing infrastructure and, inside the Afghan economy setting, is deemed to influence the Afghan economy's competitive edge tremendously. Different approaches that also considered a criterion for poverty reduction in Afghanistan, Raihan and Ashraf (2017) acknowledge that it is observed to be interrelated with Afghanistan's vulnerable security environment, referring to the evidence shows that an increasing trend in aggression serves the critical objective of discontinuing business possibilities in the region, which by outgrowth contributes to decreased employment possibilities in the region in the discussion. Furthermore, it is deemed necessary to reiterate the views of Ali and Mufti (2020), who asserted that in aspects of promoting a secure culture to companies operating and the electorate in specific, economic implementation to the individuals in the shape of providing loans that really can perform the function of facilitating its inhabitants to demonstrate their entrepreneurship and innovation objectives.

## 2.5. Plethora of Bilateral Trade Agreement and SAFTA.

SAFTA limitation has paved the way for counties to deal with insufficiencies by bilateral or multilateral trade agreements. These agreement possesses Scope of preference and depth that is significantly greater then SAFTA which risk the relevance of SAFTA members. Bilateral trade agreements are considered to be hinder for trade proliferation under SAFTA. Within 8 members of SAARC countries there are 12 bilateral trade agreements with has been shown in table 1 (Ali, I. and Mufti, A., 2020).

Table 1: Bilateral Trade Agreements between the SAARC Member Nations

	<b>Afghanistan</b>	<b>Bangladesh</b>	<b>Bhutan</b>	<b>India</b>	<b>Maldives</b>	<b>Nepal</b>	<b>Pakistan</b>	<b>Sri Lanka</b>
<b>Afghanistan</b>				PTA(2003)			PTA(2010)	
<b>Bangladesh</b>			FTA(2009)	TA (2006) FTA(UD)			FTA(UD)	FTA(UD)
<b>Bhutan</b>		FTA(2009)		FTA(2006)				
<b>India</b>	PTA(2003)	TA (2006) FTA(UD)	FTA(2006)		TA (1981)	Treaty (1991)		FTA(1998)
<b>Maldives</b>				TA (1981)				
<b>Nepal</b>				Treaty (1991)				
<b>Pakistan</b>	FTA(2010)	FTA(UD)				FTA(UD)		FTA(2005)
<b>Sri Lanka</b>		FTA(UD)		FTA(1998)			FTA(2005)	

(Mimouni et al. 2007).

## 2.6. Security loopholes

According to Ahmad et al. (2017), the concepts of security and poverty are intertwined, and it can be confidently asserted that addressing one issue will result in the reduction of another social evil. Furthermore, studies show that, aside from economic and commercial cooperation, security is a major issue for Afghanistan, which is comparable to SAARC states. According to the research, Afghanistan served as a breeding ground for terrorism, which had a significant influence not only on neighbouring countries but ultimately disrupted peace, prosperity, and health in the global community (Fateminejad, 2015). Furthermore, SAARC has had nineteen summits, none of which were conducted by Afghanistan due to imminent budgetary and security difficulties. According to Ahmed and Zahoor (2015), counterterrorism measures were implemented to reduce the influence of terrorist attacks, however, they had a negative impact and amplified the impact of terrorism on trading expenses. It is also stated that the high costs of inspection and surveillance at seaports and airports increased the costs of exports, transporting goods, and transportation (Robotka, 2017). Furthermore, it has been demonstrated that the rising influence of transnational terrorism has called into consideration globalisation in recent decades. Terrorism and conflict have also had significant impact on trade agreements across countries, not only because of the sites of the occurrences but also because of the originating and target countries.

In comparison, Sahu and Heng (2017) asserted that terrorism imposes direct transaction costs on trade, whereas counter-terrorism strategies established in response to threats have an indirect influence on trade. This, in turn, has an influence on financial stability and contributes to the country's economic insecurity. Furthermore, it is said in the literature that various obstacles confront South Asian nations, which are represented in dimensions of lack of connection, poverty, poor institutions, and serious security threats, which continue to hamper economic activity. Afghan trade links with SAARC member countries are regarded as critical to improving economic stability and regional connectivity. Afghanistan's strategically placement is critical for economic growth, and it serves as a bridge for every SAARC state in terms of financial and energy stability advancement (Rana and Chia, 2017). The possibility of extending intra-trade reflects the obstacles connected with inter-country disparities in production and consuming

tendencies, which undermine economic progress and have an impact on future trade expansion. It is discovered that economic integration has the most transforming effect in SAARC's lagging and backward areas. According to Shaikh et al. (2015), organizational, physical, and softer components of regional integration and collaboration generate considerable benefits in terms of establishing a greater level of economic growth. The findings underscored the importance of developing functional organisations and enabling organizations for improved advancement in the South Asia region.

## **2.7. Socio-economic aspects**

Additionally, since the WHO discussions, regional connectivity in South Asia has been shown to be substantial in producing intraregional trade and mobility benefits for South Asian nations, demonstrating a beneficial impact on SAFTA (Ali and Mufti, 2020). Despite some of SAFTA's benefits and objectives, the economic case for SAFTA has been deemed to be somewhat weak in the literature. The studies revealed three explanations and characteristics of South Asian economies that represent economic unattractiveness. This comprises weaker countries in respect of trade flows, substantial trade diversion, and a poor choice of political economy (Robotka, 2017). Furthermore, the terrorism scenario in most South Asian nations, including Afghanistan, hinders economic advancement.

According to the research, terrorism directly causes anxiety in people, and similarly, uncertainty about economic rewards and interactions influences shifts in demand patterns, leading to an impediment to socio-economic development (Ahmed et al., 2010). Continuing on from the preceding statement, it is regarded necessary to reaffirm Sadat (2017)'s views that SAFTA integrates numerous regional activities that are determined to serve the objective of decreasing the number of barriers posed to the less developed countries, in this case, Afghanistan. In terms of making advice to Afghanistan regarding its trade growth, the primary issue that is causing an increase in poverty rates should be prioritised. In line with the above remark, it can be additionally said that through the opinions of Sharma and Kumar (2021), who asserted that in order to leverage the economic situation in the country, it is thought necessary for the country in question to enhance their security apparatus. After that, it can be argued that the expansion of

Afghanistan's security establishment will aid in guaranteeing a better investment environment in the region because the security danger presented to the state will be successfully negated (Fateminejad, 2015).

## **2.8. Theoretical Framework**

In this thesis we will examine and investigate the influence of trade specialization in Afghanistan within the context of SAFTA. The literature mainly focuses on the Heckscher–Ohlin theory of factor proportion and Ricardian theory of comparative advantage. Heckscher–Ohlin theory discusses factor endowment and productivity as essential factors of comparative advantage and trade specialization (Lederman et al., Davis, 1995; 2004; Worz, 2005). Ricardian theory of comparative advantage suggests that countries should produce goods with the lowest opportunity cost as per other nations to gain competitive advantage.

According to Yama, M., & Wani, N. U. H. (2021) and many other researchers there is a positive link between economic growth and export diversification but this growth is limited to LDC countries because of inadequate infrastructure, lack of finance, lack of skilled labor, entry barriers to markets and in terms of being a land-locked country.

Successful trade influential factors are inborn and inbuilt advantages of specialization (According to Krugman., 1994). According to Alessandrini et al 2007 trade leads to dissemination of technical knowledge and specialization. Trade is considered to be a main factor of openness of economy and has a huge effect in economic growth. Studies done by Hausmann et al., 2007; Lederman et al., 2004; Santos-Paulino and Guariglia, 2008; Santos-Paulino, 2011 agree that diversity and heterogeneity in trade can result in knowledge escalation, skill and trade specialization which result in good trade performance and economic growth.

Specialized technology progressive nations will get higher productive growth and trade performance (Fagerberg 2000). Studies done by (Mahmood, 2000 and Lederman et al., 2004) found that countries with high technological understanding and capability will result in specialization that has influence on comparative advantage and competitiveness by studying their trade pattern and revealed that rise in trade specialization from low skill sector to high skilled sector.

## **2.9. Literature Gap**

SAARC has elaborated and discussed the broader prospect in the historical academic data. In addition, SAPTA and SAFTA are elaborated to an extent, according to the needs and requirements of the current investigation and elaboration. The changing trends from PTA to FTA came up with the high influx of data in the context of other countries in the arena. But as Afghanistan entered the TA in 2011 so there is meagre data regarding the country concerning the modern concern. The literature needs to connect the chain of SAFTA and the current situation of Afghanistan to envelop the major players for developing interest for FTA in the developing country. There is more inquiry needed in the context of high support for the formulation of literature and comprehensive discussion in the current context. In addition, ideal tools of research and support plan of modification are an emphasis in this accord to add better literature support in an academic context for SAFTA and Afghanistan perspective.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

The current chapter discusses the method with which the researcher identified the factors that cause hindrances in the performance of SAFTA and also the factors that can increase the productivity of Afghanistan in FTA's (Free Trade Agreements). This is the fundamental part of the thesis which provides a clear understanding regarding what method has been used by research along with the clarification and why the researchers used it and how the researcher used it. The chapter includes various sections that contribute their part in the development of a complete method which helped the researcher to efficiently proceed with the research structure and identify the answers to research questions.

The study used the theory and quantitative data to evaluate the results provided methodology has been used. The information is developed with the. The researcher needs some design of research for collection of data from different channels and sources and also to interpret the results thus considering this problem the suited design for the identification analysing of different factors such as import and export. The research design has also been provided to provide the comprehensive understanding of trade dynamics and specialisation on which researcher depend on while performing the research. Nothing is perfect and, in this way, certain issues cause the limitation and those are also discussed.

#### **3.1. Research Philosophy**

Research philosophy is part of research structure within which the research identifies the different patterns of beliefs and assumptions with which the researcher is aimed to develop the knowledge. It might sound astonishing but with the research project the researcher develops a new piece of information and the whole process of research is performed to develop the knowledge (Cazeux, 2017). In easiest and profound meaning the research philosophy tells about the nature of information developed and in this section the nature of information developed regarding the effectiveness of SAFTA concerning the Afghanistan trade sector is identified. Three different kinds of philosophies can be used to identify and develop the research (Saunders, et al., 2015).

The realism philosophy is the idea of using reality from the human mind. It depends on the ideas of the human brain that has the consideration with reality (Kendler, 2015). For the current research, the researcher has used the Positivism philosophy for the development of research material as it supports the use of theoretical or existing methods and these methods are very much prospective for testing the concepts and theories for novel knowledge formulation. In this research i have used Positivism which deals with quantitative and statistical nature of data, methods and studies. Realism is also involved in the structure as the dependency was not possible to test the hypothesis.

### **3.2. Research Approach**

Research approach is part of research methodology in which broad perspective assumptions are developed regarding the different factors and different aspects of the research methodology (Alase, 2017). The research approach includes the general identification and factorisation for the collection and analysing the data that helped in understanding the factors which are causing the problems regarding the trade economy of Afghanistan. The research approaches are mostly of two types the one is deductive approach and the other is the inductive approach (Nassaji, 2015). The inductive approach is a kind of approach that is used in the development of structure within the new theory is developed. It provides the reasoning for the development of information with which the new theory explaining about the answers to research questions (Liu, 2016). The deductive approach is opposite to the inductive system and in this approach, there are different kinds of considerations regarding the use of structure and in this approach, the testing of theory is performed. The theory which is tested is generally the existing theory and its validation is identified with the help of testing (Grinchenko, 2020).

Now in the current study deductive approach is used to support quantitative approach as it include any kind of testing and it simply uses the factual and information knowledge to test hypotheses for rejection or approval. With the adoption of different methods and tools that can provide the use of qualitative methods. The included aspects on which the research question, research problem and theory is based are competitive advantage and the performance of SAFTA. Thus, the deductive approach has been operational for the current approach and this has been selected fundamentally.

### **3.3. Research Design**

The research design is a part of the methodology that provides structure with which the general framework for the data collection, analysis, and other factors are decided. It is generally the blueprint for different factors of the research methodology. The research design is divided into two sections the quantitative and the qualitative (Tobi and Kampen, 2018). The quantitative structure is more oriented to finding the answer to questions and performing the data analysis using the research numerical data and more importantly the statistical data in all. The qualitative approach is the reverse of quantitative and in this section, the data collection is more importantly developed using the non-statistical methods with which different kinds of approaches can be developed for the evaluation of results (Almalki, 2016).

For the current thesis, the researcher has moved towards the use of quantitative research design for identifying the basic factors which have been acting as a barrier in the development of the Afghanistan trade economy and also to the operational productivity of SAFTA. The researcher has selected this design due to certain reasons;

- The very first reason is that the researcher wanted to perform the research using the quantitative data the testing of hypothesis was possible with the quantitative data generation and analysis. This operation is not possible with the usage of the qualitative approach as the qualitative method does not support the numerical evidence provided.
- The current research followed the deductive research approach which supports the testing of hypothesis and the deductive approach is only possible with the quantitative design as the quantitative design include the use of structure depending on number while in the qualitative design the deductive does not work it specifically work on the testing of hypothesis instead of testing the existing theory.

Thus, based on these sections, the quantitative research design has been used for the identification of different factors which provides comprehensive knowledge about the understanding of competitive advantage.



### **3.4. Data Collection Procedure**

Data collection is the process of collecting data and in the research paper; typically there are two methods of data collection. Data collection is the collection of information using which the hypothesis and theories are tested and the answers to research questions are identified (Pradis, et al., 2016). The data collection consists of two methods one is the primary and the other is the secondary method. The primary methods of data collection are more like the methods with which the data is collected using the interaction methods. It includes experimentation, survey, and many other interactions making methods (Thomas, 2015). The secondary sources are different from the primary sources as it includes the use of existing data and the data that is more oriented towards the non-interaction sections. It includes the literature, research publications, reports, and books (Jhonston, 2017).

For the current dissertation, the researcher has adopted the secondary sources of data collection and in that approach, the research publications, journal articles, website articles, annual survey reports, governmental reports, and documents have been included and it also includes the reports from different financial institutions. Financial institute website of UN Comtrade in the region of Afghanistan, India, Pakistan, and Bangladesh was also considered. Some of the data was easy to use and few included the copywriter issues. The population of the dissertation of data gained for 9 years ranging from 2011-2019 years in calculating LFi Index but form trend in export and import the data is ranging from 2008 till 2019.

This research examines shifting trend of trade specialisation of Afghanistan via explaining trade specialisation at different industry level. The analysis allowed determining whether the country depends more on import and its earning from exports is weak, or there is higher comparative advantage for provided goods. In this research, data span was kept from 2008 to 2019 for assessing trends in exports, imports, and trade at different industry levels. Average value of years for 2008-2019 was taken from UN COMTRADE. For calculating trade specialization 9 years was considered from 2011 till 2019 after the SAFTA came into action.

### 3.5. Data Analysis Procedure

The study analyses and measures Afghanistan's changing pattern of trade specialisation through the application of LFi (Lafay, 1992). This helps in order to define the trade specialisation of the country with regards to the particular goods as difference between country's overall trade balance and trade balance of that good, which is weighted by the share of good for total trade. In addition to this, intra-industry trade flows are also captured by the LFi which have now become feature for most of the industries. Lastly, LFi weighs the contribution of each product as per the respective importance in trade.

$$LFI_j = 100 \left( \frac{x_j - m_j}{x_j + m_j} - \frac{\sum_{j=1}^N (x_j - m_j)}{\sum_{j=1}^N (x_j + m_j)} \right) \frac{x_j + m_j}{\sum_{j=1}^N (x_j + m_j)}$$

In this equation,  $M_j$  refers to the import of product from entire world while  $X_j$  refers to the export of products from rest of the world. However,  $N$  is considered as the number of traded product. On the other hand, the bitter value of LFI denotes comparative advantage for a considered item while the large value depicts the high degree of specialisation. In addition to this, the negative value of the index denotes reliance over imports.

### 3.6. Research Ethics

Ethical considerations are an important part of every research structure and ethics provide critical support to research that has not surpassed and boundaries or used any sources that have been considered unethical or non-appropriate for the research (Dooly, et al., 2017). The main ethical consideration of research revolves around the usage of data from the financial institute websites like UN Comtrade in the region of Afghanistan, India, Pakistan, and Bangladesh. Some of the data was easy to use and few included the copywriter issues. Before using their data, a proper communication was made to gather their consent for the use of data under their legal authority.

The complete collection of consent was the main idea behind performing the central communication with the authors of the studies so that the ultimate understanding and clear observations can be developed for the use of data for the research material. The provision of a clear concept regarding the use of data for several purposes has been

provided to the management of these institutes so that they must understand how and why the data will be used for research. The ethical considerations also include the understanding of the general rights of people working in the group for several tasks. The proper communication has been made compulsory and no violation of rules regarding any use of data and giving credit has been done in the research.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND FINDINGS**

The following chapter is based on the findings and analysis of data collected through the secondary data that has been collected through financial institution. The findings are based on the existing loopholes preventing the effectiveness of the agreement that can be used for assessing the research problem. Similarly, it was also aimed to assess about the way forward for Afghanistan's trade development in the context of SAFTA. The following chapter has highlighted the opportunities and the loopholes in the Afghani economy that can affect the operations of the company as a whole. Madadeniya and Sivarajasingham (2018) has highlighted that the success of SAFTA is directly related with the regional countries. Therefore, this study has determined different factors by considering Afghanistan region. The core aim of the research was to highlight the strategies that can be seen for addressing the issues within the Afghanistan region. It has been observed that the relationship between trade and growth of Afghanistan in terms of the international arena has not been assessed in quite a while that can be used as a strategy for improvement within the countries (Mainali et al., 2018). The variables that are used in the research are provided to have a regional integration in South Asia is prevalent since the WTO's negotiations and is found to be significant in generating intraregional trade and dynamic gains for the South Asian countries, reflecting a positive impact on SAFTA that can be used for making improvements in the future.

#### **4.1. Relationship of SAFTA Intricacies with Afghanistan Economy**

##### **4.1.1. Economy of Afghanistan**

Afghanistan Trade Policy (ATP) aims to run the financial affairs of the country with the potential role of the trade unions and organisations at International, national and local levels. The country has gone through thick and thin times, it is a turbulent economy continuously due to regional and international conflicts (Gaurav and Bharti, 2019). The outcome of the conflicts and the disturbance in the region has already influenced the country economy adversely. According to World Bank (2021), a substantial population is below the poverty line due to lack of resources and growth in the country, the situation was worse during the time of pandemic as well. The situation seems un-ideal even in the

post-pandemic era due to the invasion and rise of the Taliban government in Afghanistan for another time. The economy of a developing country needs improvement and progress with time.

On the contrary, World Bank (2021) reports a critical reduction in international grant support for the country. This is accountable for the less access to offshore assets, and disruption to financial linkages. The alarming factors are not good as they have to lead to major drop in the economy which may be adversely impacting the population of the country. Already ten million Afghans are below the poverty line and there are high chances of increasing poverty, which will surely lead to macroeconomic instability in the poor country (Ali and Mufti, 2020). Worse security concerns in the country in addition to the scarcity issues due to lack of rainfall are leading to the loss of economy. The country is failing to fulfil the needs of the population. Regional support on accord of SAFTA is a desiring factor in this accord to promote the country. The security and other concerns are hurdles to the growth of the country economy, this is why its demand for growth on the regional level with the aid of SAFTA as a priority.

#### **4.1.2. SAFTA Intricacies**

SAARC gave an extension as SAFTA to offer promising support to the South Asian countries for the growth of economy in long run. Afghanistan also joined the group in 2011 with the high hope to make sure that things will be positive and supportive for the poor economy of the country. The SAFTA Agreement has been implemented in the support of some intricacies, these are also known as the instruments of policy and procedure (Gaurav and Bharti, 2019). According to SAARC (2021), the main instruments are Institutional Arrangements, Rules of Origin, Trade Liberalisation Programme, and Safeguard Measures, Consultations and Dispute Settlement. These are the main supportive that allow the countries Afghanistan, India, Bhutan, Nepal, Pakistan, Bangladesh, and the Maldives to be in trade support with high efficiency and comfort in the long run.

SAFTA aims to fortify intra-SAFTA economic cooperation which is dominating for the SAARC member countries as main entities. It is also aiming to maximise the realisation of region potential. It is not only for the local support but the national bonding

to coordinate on an international level after regional support trends. It is for trade and the development of populations of the member states (Sun et al., 2019). The support tool is potential and professional in stabilising growth trends and formulating support for the marketing tools in the member countries. It is aligning the member countries on the single platform to promise their growth and stable their running in generating local support for all the regional members.

According to World Bank (2021), SAFTA can do more in the region, the working area of the organisation is vast this is why it may do more for the countries which need critical attention, for instance, Afghanistan. The country situation of Afghanistan is critical this is why it needs extra attention and support. In the present context, a better approach may allow the country to be a part of a prominent system and support it in the long run. In the post-pandemic era, SAFTA is active for another time, the retrieval is good and helpful but it needs more attention to recapitulate the needs of the modern-day (Ali and Mufti, 2020).

#### **4.1.3. SAFTA Intricacies Impact on Afghanistan**

The intricacies are supportive and helpful as the countries are trading in alignment with it. Improving trade policies is supported in this regard which has supported Afghanistan in all contexts of growth and promotion.

The impacts of SAFTA intricacies seem highly positive upon the economy of Afghanistan. It has added to the support for the country which is landlocked and is also a novice at the economic level as compared to the neighbourhood. The role of SAFTA is positive when it has facilitated the country from the general PTA when the trade was preferential, so the country was able to be a priority for the trade and tariff (Rasul, 2016). Later, it has added the name of the country to the list of preferences. In this regard, neighbourhoods like Pakistan have compensated the country for the sake of transit route. This offer was ideal in the broader context which enabled the economic growth of the country with supporting tools.

The implementation of TIR (Transports Internationaux Routiers) has further reduced the cost and time of transit goods for the country. This is supportive as the country is unable to manage the direct transport plan. It is ideal in enabling trade and

transit through investing more in connectivity and infrastructure. For this purpose, neighbouring countries are in alignment with Afghanistan to follow the TA (Trade Agreement). There is high coordination between customs departments of the neighbours like Pakistan (Islam and Kieu 2020). It is through a Technical Working Group which was established in 2013 for transit. It is operational since November 2013 on the junction of Karachi-Torkham and is pronounced as a transit trade route.

Although SAFTA is playing an animated role to compensate Afghanistan in the region some loopholes need to be addressed. The impact of the working of SAFTA is direct upon the ATP, it has the major instruments that need further attention on behalf of the organisational action plan in the region. SAFTA is intending to strengthen the economic coordination with the aid of relevant principles under the flag of SAARC (Gaurav and Bharti, 2019). The support items are professionally adding support in this regard. The growth of the participation of the neighbouring countries is high for Afghanistan but the critical situation of the country is letting them lag from trade.

## **4.2. Afghan Trade Development under SAFTA**

### **4.2.1. Afghan Trade Policy (ATP)**

ATP is aiming to support the country for economic growth. For this purpose, the neighbours are dominated to prefer for trading. The trade is possible at ease with the neighbours. In addition, the support of the SAFTA is an animated instrument in formulating the enhancing role of the surrounding countries in the region. SAARC focussed on regional growth, this is why SAPTA and SAFTA came up as the modern trends in formulating the plan for the working countries (Kumar and Bharti, 2021). The openness to the trade unions and the high support for the least developing countries is an appreciating trend on account of SAFTA. The ATP has a high vision for managing the trade by keeping the focus on market-driven planning, it is the sustainable plan for the motivation of the expanded economic growth (Ali and Mufti, 2020). Although it is with the high vision it needs review and proper implementation that is traced to be missing in the accord of the current troublesome time when the security is peaking concern and country is also below the poverty line. The support of SAFTA can flourish the aid plan when implementing the visual instrument of the country. There is a high need of

improving the standard of Afghani people and SAFTA can do it with the aid of regional support.

#### **4.2.2. Trade Barriers**

In the context of ATP (2021), there are some barriers traced that is not allowing the country to grow better. The accord of these barriers is mostly in the context of tariff barriers to export diversification and current trade. These seem to influence the diversification of the planned growth of the country. Although there are some non-tariff barriers, especially SPS that is troublesome. In addition, there are lacking full implementation of regional trade agreements that are on the account of SAFTA. The regional corporation intends to play its role but still, the tariff trouble is menacing in this context. In addition, SAFTA's effectiveness is the import policy barriers (Sun et al., 2019). They are critical and alarming at times. They are considered to impose restrictions on their licensing requirements (Rasul, 2016). The tariff barriers imposed by advanced economies are critical for citing Balance of Payments' issues concerning all of these less advanced economies which is in the present context deal, for example, Afghanistan.

SAFTA is with high hopes to tackle the barriers, for the purpose, smart tools under the category Heckscher–Ohlin theory of factor proportion and Ricardian theory of comparative advantage. India has a keen interest in the country for promotion of the local support. This is why Afghan trade has support to meet the trade challenges and grow better. India has high support to invest in the country so the support of finances is additive to grow the developing countries like Afghanistan in the region. There is a demand for modern tools that allow support of professional support, which is available in accord with SAFTA to meet current challenges. Delays in the clearance of consignment is an additional concern that is compelling the downfall of the Afghani trade in the locality. There is a severe lack of harmonisation and adequate communication due to a lack of resources for the country which is leading to depriving in the growth of trade in the areas. The support missing factor is declining access to the Business visa that is an alarm to trade growth (Islam and Kieu 2020). These trade barriers are alarming. According to Ranjan (2020), in the international trade theory, there is a high need of implementing support for the trade of all the countries equally. There is more need for support for the developing and underdeveloped countries, so SAFTA needs to



compensate for the support in this regard. The facilitation may be better if SAFTA will implement the principles of support for Afghanistan on a special node (Gaurav and Bharti, 2019).

Table 2: Number of Tariff Line in Sensitive Lists under SAFTA

<b>SAARC Members</b>	<b>Original list</b>	<b>revised list (Phase 2)</b>
<b>Afghanistan</b>	1072	850
<b>Bangladesh</b>	1241(NLDCs); 1233(LDCs)	993(NLDCs); 987 (LDCs)
<b>Bhutan</b>	150	156
<b>India</b>	868 (NLDCs); 480 (LDCs)	614 (NLDCs); 25 (LDCs)
<b>Maldives</b>	681	154
<b>Nepal</b>	1295(NLDCs); 1257(LDCs)	1036 (NLDCs); 998 (LDCs)
<b>Pakistan</b>	1169	936
<b>Sri Lanka</b>	1042	963 (NLDCs); 837 (LDCs)

*(Ali, I. and Mufti, A., 2020)*

Under trade liberalization program of SAFTA there is separate tariff reduction for least developed countries like Afghanistan, Bangladesh, Maldives, Bhutan and Nepal alongside it covers non-least developed countries like Pakistan, Sri Lanka and India. This process is done in two phases by LDC's in first phase above 30% tariff lines were to be reduced to maximum of 30% which was from 2006 till 2008, In the second phase tariff reduced to 0-5% in 8 years. NLDC's phase one was from 2006-2008 maintains a maximum tariff of 20% and reduced it to 0-5% from 2008 till 2013 (Ali, I. and Mufti, A., 2020).

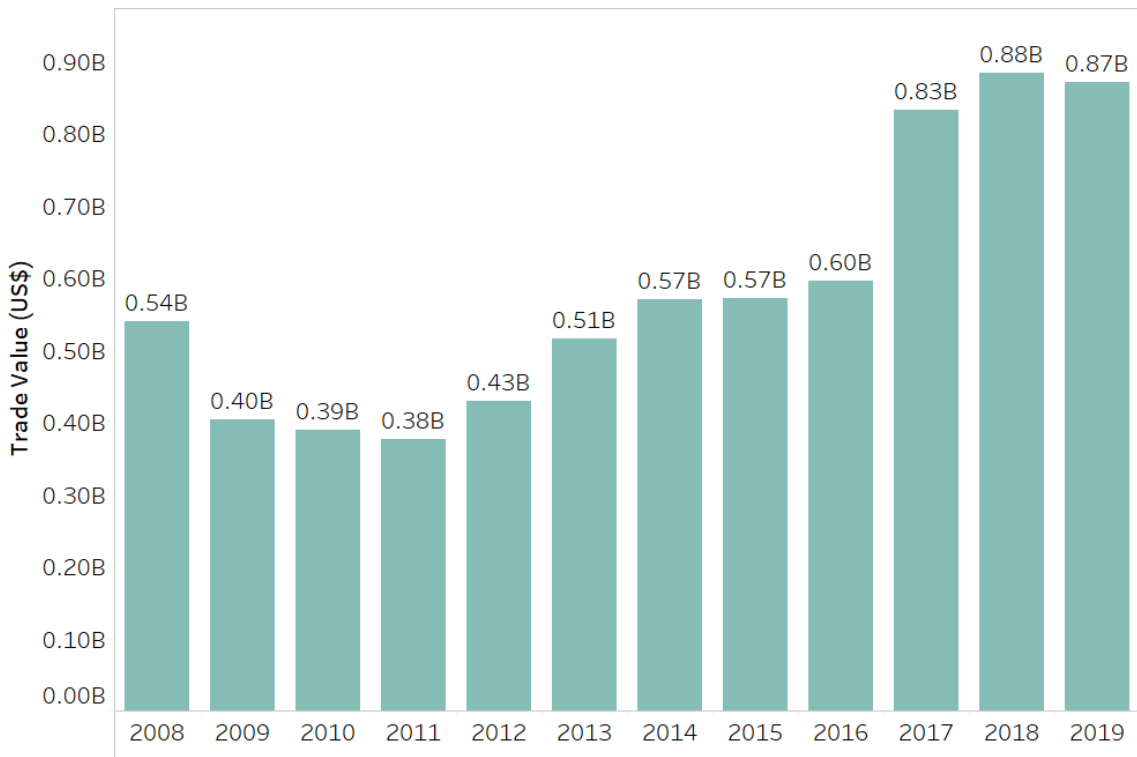
### **4.3. Trends in Export and Import of Afghanistan in SAFTA Context**

#### **4.3.1. Trends in export of Afghanistan (2008–2019)**

Under in trend in of export of figure 2 clearly illustrates that export have decrease from 2008 till 2011 but after ratified the SAFTA protocol in 2011 it has steadily increased from 0.38 billion in 2011 to 0.60 billion in 2016 but form that point the export jump to 0.83 billion in 2017 and it reached 0.87 billion in 2019. as shown in the bellow graph we can see a huge impact in export that since Afghanistan joined SAFTA

Afghanistan's export have increased after ratified of SAFTA protocol, however, it has not exceeded its imports as the quantity exported lacks behind the quantity imported (Jain and Singh, 2009). The implications for exports have been, nonetheless, positive as improvements in exports have been recorded that made potential contributions towards production and designing of products and services. D'Souza (2009) agreed and added that SAFTA has improved trade openness for Afghanistan that has influenced its goods' exchange in cross border trade and regions exchanges. Developing countries should consider replacing agricultural product exports to industrial exports it helps to reduce dependence on imports by import substitution process Naseri, E., Wani, N. U. H., & Sidana, N. (2018). Wani, N. U. H. (2019) suggested that Afghanistan should focus on capital goods to improve its domestic production and have less reliance on non- capital goods. Afghanistan export only 11 products to India which shows that Afghanistan is export health is not good I should use its geographical advantage to diversify its export Burhani, G., & Wani, N. U. H. (2019). Sobhan (2016) alluded that after implementation of SAFTA, Afghanistan has attained the most advantages of foreign direct investments and free trade as an outcome of liberalisation of trade. Taneja, Kalita and Prakash (2013) propounded that the employment of SAFTA has contributed to better relationships of Afghanistan with other countries, opening up export routes with India and UAE. It is illustrated observed in the data attained from UN COMTRADE below:

Figure 2: (Afghanistan export to SAFTA, 2008-2019)



Source: UN COMTRADE.

#### 4.3.2. Trends in import of Afghanistan (2008–2019)

After application of SAFTA, Afghanistan’s imports have only increased. This demonstrates that there is more trade specialisation and openness that has improved the country’s trade plan. Similarly, the purpose of SAFTA is to assist undeveloped and developing nations to increase their supply and demand and exports assurance (Jain and Singh, 2009). As per Bukhari (2012), SAFTA has showed efficiency and dynamism in increasing the imports of commodities and products in Afghanistan, particularly, with its SAFTA nations such as Pakistan and India. The country has also reported the most number of trade conducts with these countries both before and after the implementation of SAFTA (Abdin, 2009). The below chart shows the import of goods from SAFTA since 2008.

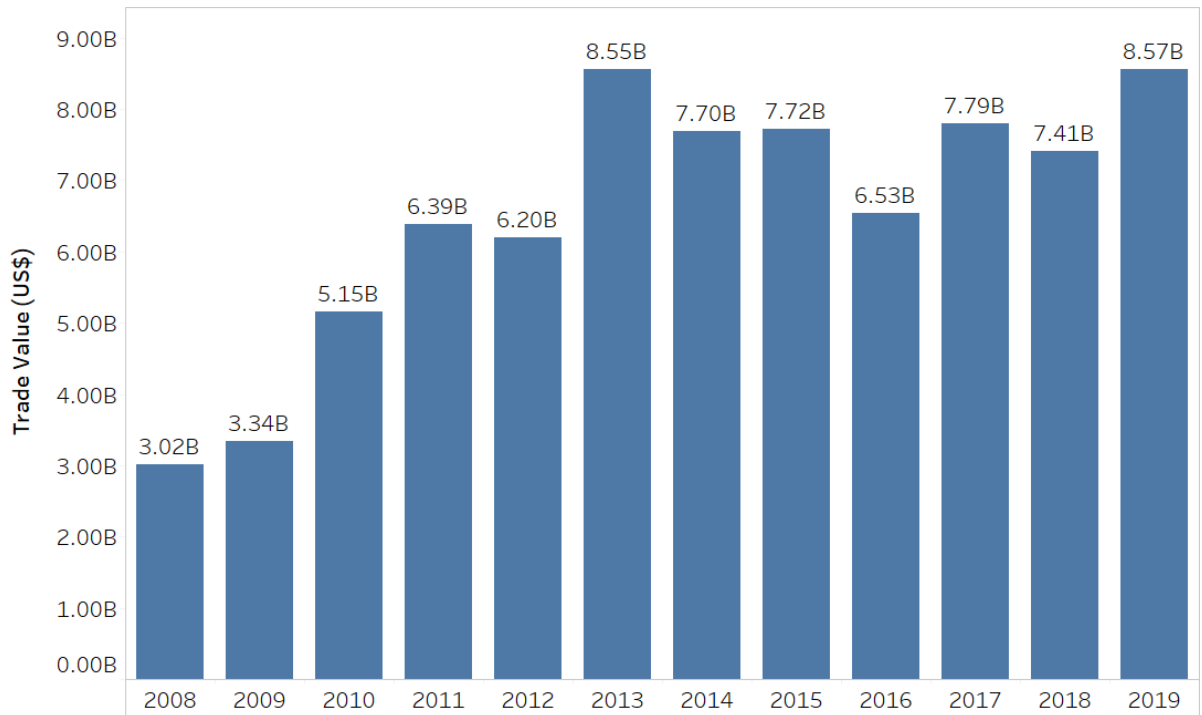
It is evident that imports or the trade value of imports from SAFTA has been increasing for Afghanistan over the years. It is due to the reason that the imports of Afghanistan from SAFTA were around US\$ 3.02 billion in 2008 which then increased to

US\$ 6.39 billion in 2011 and 8.57 billion in 2019. This shows that the company has been over reliant over the imports from SAFTA and this reliance increased after 2010. As per the study conducted it has been determined that the imports from Afghanistan are heavily reliant on SAFTA.

In support of the data attained from UN COMTRADE, Trade Economy (2021) also reported an increasing trend in imports of Afghanistan from the year 2010, however, decreased in 2016 as depicted in the bellow figure. Other than this, Taneja, Prakash and Kalita (2013) stated that India has shown strong support and interest in conducting import with Afghanistan. On the other hand, increasing imports depict that Afghanistan is majorly reliant on other countries that manufacture and develop products. This has led to downfall of Afghanistan as there has been lack of resources, harmonisation and communication, contributing to declining growth of trade areas (Chandran, 2013). Competitive strengths in global market and demand for export is what determines the export performance of a product Taj, Z., & Wani, N. U. H. (2019). According to Naseri, M. E., & Wani, N. U. H. (2020) Afghanistan was unable to fully explore its export potential by not utilizing natural resources, water resources and agricultural products. This also presents the lacking of SAFTA in supporting developing nations and offering proper support, competitiveness to reduce poverty in Afghanistan. Nonetheless, Ahmed and Kumar (2014) asserted that Afghanistan Trade Policy (ATP) intends to run the financial affairs of the country with the potential role of the trade unions and organisations at local, national, and international levels. However, Afghanistan has gone and is going through an unstable and uncertain economy due to global and regional conflicts.

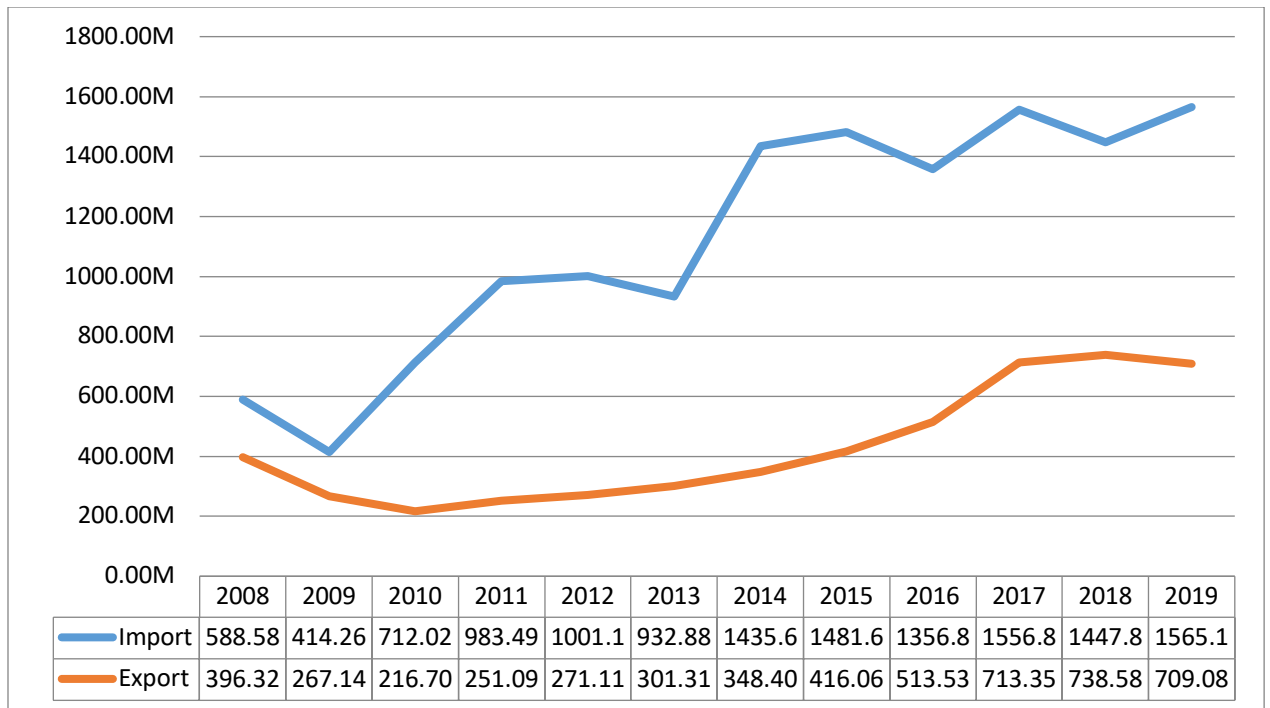
Figure 4 and Table 3 illustrate that even though Afghanistan export increase but the shift in import specially form 2009 onward shows huge trade deficit and dependency of Afghanistan on import from SAFTA.

Figure 3: (Afghanistan Import to SAFTA, 2008-2019)



Source: UN COMTRADE.

Figure 4: (Afghanistan trend of Export and Import SAARC)



Source: UN COMTRADE.

Table 3: Afghanistan Import and Export profile to SAARC and world (2005–2019) (\$M).

Year	Trade Flow	Pakistan	India	Bangladesh	Sri Lanka	Nepal	Maldives	World
2005	M							
	X							
2006	M							
	X							
2007	M							
	X							
2008	M	482.43M	105.44M	0.30M	0.41M			6040M
	X	264.32M	132.00M					1080M
2009	M	307.47M	106.16M	0.36M	0.27M	0.01M		6673M
	X	191.13M	76.01M					807M
2010	M	597.50M	112.91M	1.24M	0.38M			10308M
	X	151.34M	65.36M					777M
2011	M	877.75M	103.88M	1.23M	0.61M	0.03M		12781M
	X	180.65M	70.44M					752M
2012	M	883.02M	118.13M					12410M
	X	201.39M	69.71M					858M
2013	M	889.15M	43.73M					17109M
	X	198.35M	102.96M					1030M
2014	M	1327.93M	107.66M					15394M
	X	188.42M	159.98M					1141M
2015	M	1346.41M	130.62M	3.24M	1.04M	0.32M	0.05M	15446M
	X	226.57M	188.87M	0.62M	0.00M			1143M
2016	M	1198.76M	152.88M	2.93M	2.18M		0.11M	13068M
	X	283.32M	230.04M	0.18M				1193M
2017	M	1293.22M	258.84M	4.25M	0.55M	0.002M		15585M
	X	357.20M	356.14M	0.01M				1664M
2018	M	1086.85M	354.28M	6.28M	0.46M	0.0019M		14813M
	X	379.11M	359.47M					1769M
2019	M	1102.99M	453.70M	7.62M	0.77M	0.03M		17136M
	X	298.64M	410.14M	0.31M		0.00M		1741M

Source: UN COMTRADE.

## 4.2. Trade Specialization at Different Industry Levels

In this section, an investigation of the trade specialization of Afghanistan within the framework of SAFTA members at the selected industry level is presented. Afghanistan as the eighth member state of the SAARC ratified the SAFTA protocol on May 4, 2011 (Kar, M. 2018), thus LF is examined for a selected period of nine years from 2011 to 2019.

### 4.2.1. High-skill and technology-intensive manufactures

Table 2 explains that among SAFTA members India has more tendency towards high skill technology intensive manufacturers with having more positive value except in 2018 and 2019 alongside India Nepal also shows more positive value during 9 years of calculation. Bangladesh and Bhutan also show positive values but due to the non-availability of data, we cannot conclude whether it shows high relation or not. Pakistan, Sri Lanka and Maldives all show negative value. Afghanistan has 61 items of Export and 430 Items of Import from 2011 to 2019. Afghanistan does not have an export from 2011 to 2014 and 2016 and overall it shows that Afghanistan does not hold any specialization towards High skill and technology-intensive manufacturing.

**Table 2: Average LF for High Skill and Technology Commodity (2011–2019).**

Source: *Authors compilation based on data from UN COMTRADE*

Year	Afghanistan	Maldives	India	Sri Lanka	Bangladesh	Bhutan	Nepal	Pakistan
2011	N/A	4E-18	1E-18	-2E-18	1E-18	9E-18	-5E-18	-4E-19
2012	N/A	5E-19	1E-17	3E-18	2E-18	5E-18	2E-18	-6E-19
2013	N/A	-2E-18	3E-18	-5E-18	2E-18	N/A	2E-18	-2E-18
2014	N/A	-5E-18	1E-18	3E-18	N/A	N/A	3E-18	-3E-18
2015	-8E-17	-8E-19	4E-18	-5E-19	1E-18	N/A	-2E-18	2E-18
2016	N/A	-1E-18	4E-18	-3E-18	N/A	N/A	2E-18	-2E-19
2017	3E-17	-9E-19	1E-17	-2E-18	N/A	N/A	4E-18	3E-18
2018	-6E-17	-2E-18	-2E-17	N/A	N/A	N/A	-2E-18	-9E-19
2019	-2E-17	2E-18	-1E-17	3E-18	N/A	N/A	-3E-04	3E-18

Tables 3 and 4 give an account of Afghanistan's top and bottom 15 product line product categories reflecting average of trade specialization of 2018&2019 under high-skill and technology-intensive manufacturers. product vis. and products vis. “Medical, surgical or dental

instruments and appliances; n.e.c. in heading no. 9018” (0.07), “ Glues; based on starches, or on dextrins or other modified starches ” (0.05),“ Heating apparatus; electric soil heating apparatus and space heating apparatus (excluding storage heating radiators)” (0.01), etc. are among Bottom 15 and “Meters; electricity supply or production meters, including calibrating meters thereof” (-0.08),“ Meters; electricity supply or production meters, including calibrating meters thereof” (-0.02),“ Electrical apparatus; photosensitive, including photovoltaic cells, whether or not assembled in modules or made up into panels, light emitting diodes” (-0.01), etc. are among bottom 15

**Table 3: Afghanistan’s 15 topmost High Skill and Technology, 2018–2019**

NO	Chapter Code	Commodity Code	Commodity	2018 & 2019
1	90	901890	Medical, surgical or dental instruments and appliances; n.e.c. in heading no. 9018	0.0735
2	35	350520	Glues; based on starches, or on dextrins or other modified starches	0.0519
3	85	851629	Heating apparatus; electric soil heating apparatus and space heating apparatus (excluding storage heating radiators)	0.0156
4	88	880330	Aircraft and spacecraft; parts of aeroplanes or helicopters n.e.c. in heading no. 8803	0.0147
5	38	381111	Anti-knock preparations; based on lead compounds	0.0143
6	84	847480	Machines; for agglomerating, shaping or moulding solid mineral fuels, ceramic paste, unhardened cements, plastering materials in powder or paste form, machines for forming foundry moulds of sand	0.0092
7	84	846210	Machine-tools; forging or die-stamping machines (including presses) and hammers, for working metal	0.0065
8	85	851712	Telephones for cellular networks or for other wireless networks	0.0062
9	39	390190	Ethylene polymers; in primary forms, n.e.c. in heading no. 3901	0.0059
10	39	392410	Plastics; tableware and kitchenware	0.0055



11	84	842710	Fork-lift and other works trucks; fitted with lifting or handling equipment, self-propelled by electric motor	0.0042
12	33	330499	Cosmetic and toilet preparations; n.e.c. in heading no. 3304, for the care of the skin (excluding medicaments, including sunscreen or sun tan preparations)	0.0036
13	84	845720	Machines; unit construction machines (single station), for working metal	0.0036
14	84	840219	Boilers; vapour generating boilers, including hybrid boilers n.e.c. in heading no. 8402	0.0024
15	38	382200	Reagents; diagnostic or laboratory reagents on a backing and prepared diagnostic or laboratory reagents whether or not on a backing, other than those of heading no. 3002 or 3006; certified reference material	0.0021

Source: *Authors compilation based on data from UNCOMTRADE.*

**Table 4: Afghanistan's 15 Bottom Average High Skill and Technology on the LF, (2018–2019)**

NO	Chapter Code	Commodity Code	Commodity	2018 & 2019
1	90	902830	Meters; electricity supply or production meters, including calibrating meters thereof	- 0.0799
2	30	300670	Pharmaceutical goods; Gel preparations designed to be used in human or veterinary medicine as a lubricant for parts of the body for surgical operations or physical examinations or as a coupling agent between the body and medical instruments	- 0.0255
3	85	854140	Electrical apparatus; photosensitive, including photovoltaic cells, whether or not assembled in modules or made up into panels, light emitting diodes	- 0.0128
4	85	851711	Line telephone sets with cordless handsets	- 0.0097
5	84	847490	Machines, for sorting, screening, separating, washing, crushing etc mineral substances, for agglomerating, shaping or moulding solid fuels, ceramic pastes etc, for forming foundry moulds of sand; parts	- 0.0086

6	90	901819	Medical, surgical instruments and appliances; electro-diagnostic apparatus (including apparatus for functional exploratory examination or for checking physiological parameters), n.e.c. in item no. 9018.1	- 0.0078
7	39	390410	Vinyl chloride, other halogenated olefin polymers; poly(vinyl chloride), not mixed with any other substances, in primary forms	- 0.0072
8	39	390319	Styrene polymers; (other than expansible polystyrene), in primary forms	- 0.0072
9	85	851610	Heaters; electric, instantaneous or storage water and immersion heaters	- 0.0039
10	85	851150	Ignition or starting equipment; generators n.e.c. in heading no. 8511, of a kind used for spark or compression-ignition internal combustion engines	- 0.0037
11	34	340120	Soap; in forms n.e.c. in item no. 3401.11	- 0.0031
12	30	300220	Vaccines; for human medicine	- 0.0031
13	39	390120	Ethylene polymers; in primary forms, polyethylene having a specific gravity of 0.94 or more	- 0.0029
14	28	280110	Chlorine	- 0.0027
15	39	392321	Ethylene polymers; sacks and bags (including cones), for the conveyance or packing of goods	- 0.0025

Source: *Authors compilation based on data from UNCOMTRADE.*

#### **4.2.2 Low-skill and technology-intensive manufactures**

Table 5 states that Nepal with 6 years of Positive value, India, Sri Lanka and Maldives with 5 years of positive value that shows the degree of Specialization with Nepal in highest. Bangladesh and Bhutan despite not having enough data we see that it does not have any sort of specialization. Afghanistan with 34 items of export and 176 items of import only shows positive value in 2018 and the rest of years we either have no import and export data or no export data or negative value that shows it does not have trade specialization.

**Table 5: LF for Low Skill and Technology-Intensive Commodity (2011–2019)**

Year	Afghanistan	Maldives	India	Sri Lanka	Bangladesh	Bhutan	Nepal	Pakistan
2011	N/A	5E-18	2E-17	-6E-19	-5E-18	7E-02	-7E-18	2E-18
2012	N/A	2E-18	-4E-18	2E-17	-1E-18	-6E-18	2E-17	1E-17
2013	N/A	-5E-18	4E-18	7E-18	2E-17	N/A	1E-17	-4E-18
2014	N/A	-1E-17	-1E-18	1E-17	N/A	N/A	-1E-17	-1E-17
2015	N/A	-5E-18	-7E-18	3E-18	-1E-17	N/A	5E-18	-2E-18
2016	N/A	1E-18	-5E-18	1E-17	N/A	N/A	7E-18	6E-19
2017	-1E-16	5E-18	7E-18	-2E-17	N/A	N/A	-7E-18	-9E-18
2018	9E-17	7E-19	3E-18	N/A	N/A	N/A	2E-19	-5E-18
2019	-2E-17	-5E-18	7E-18	-3E-19	N/A	N/A	4E-18	1E-03

Source: *Authors compilation based on data from UNCOMTRADE.*

Table 6 and 7 presents average LF of Afghanistan's top 15 and bottom 15 low-skilled and technology. product vis. "Lead; articles n.e.c. in chapter 78" (780600), "Vehicles; mobile drilling derricks" (870520)," Copper; wire, of refined copper, of which the maximum cross-sectional dimension exceeds 6mm " (740811), etc. are among top 15 and . "Vehicle parts; radiators and parts thereof" (870891), "Locks; (other than those for motor vehicles or furniture), (key, combination or electrically operated), of base metal" (830140), " Tanks and other armoured fighting vehicles; motorised, whether or not fitted with weapons, and parts of such vehicles " (871000), etc. are among bottom 15.

**Table 6: Afghanistan's 15 topmost Average LF of Low Skill and Technology commodity, 2018–2019**

No	Chapter Code	Commodity Code	Commodity	2018 & 2019
1	78	780600	Lead; articles n.e.c. in chapter 78	2.223
2	87	870520	Vehicles; mobile drilling derricks	0.105
3	74	740811	Copper; wire, of refined copper, of which the maximum cross-sectional dimension exceeds 6mm	0.102
4	94	940330	Furniture; wooden, for office use	0.004
5	72	721631	Angles, shapes & sections of iron/non-alloy steel, U sections, not further ...	0

6	75	750110	Nickel mattes	0
7	76	760900	Aluminium tube/pipe fittings (e.g., couplings, elbows, sleeves)	0
8	83	830140	Locks (key/combination/electrically operated), of base metal (excl. of 8301 ...	0
9	87	870520	Mobile drilling derricks	0
10	87	870891	Radiators for the motor vehicles of 87.01-87.05	0
11	87	871200	Bicycles & oth. cycles (incl. delivery tricycles), not motorised	0
12	72	721631	Angles, shapes & sections of iron/non-alloy steel, U sections, not further ...	0
13	75	750110	Nickel mattes	0
14	76	760900	Aluminium tube/pipe fittings (e.g., couplings, elbows, sleeves)	0
15	83	830140	Locks (key/combination/electrically operated), of base metal (excl. of 8301 ...	0

Source: *Authors compilation based on data from UNCOMTRADE.*

**Table 7: Afghanistan's 15 bottoms Average Low Skill and Technology (2018-2019)**

No	Chapter Code	Commodity Code	Commodity	2018 & 2019
1	87	870891	Vehicle parts; radiators and parts thereof	-0.738
2	83	830140	Locks; (other than those for motor vehicles or furniture), (key, combination or electrically operated), of base metal	-0.474
3	87	871000	Tanks and other armoured fighting vehicles; motorised, whether or not fitted with weapons, and parts of such vehicles	-0.271
4	73	730890	Iron or steel; structures and parts thereof, n.e.c. in heading 7308	-0.148
5	86	860900	Containers; (including containers for transport of fluids) specially designed and equipped for carriage by one or more modes of transport	-0.093

6	72	721631	Iron or non-alloy steel; U sections, hot-rolled, hot-drawn or extruded, of a height of 80mm or more	-0.066
7	87	870710	Vehicles; bodies (including cabs) for the motor vehicles of heading no. 8703	-0.056
8	76	760511	Aluminium; (not alloyed), wire, maximum cross-sectional dimension exceeds 7mm	-0.051
9	87	871200	Bicycles and other cycles; including delivery tricycles, not motorised	-0.044
10	72	721790	Iron or non-alloy steel; wire, n.e.c. in heading no. 7217	-0.044
11	73	731100	Containers for compressed or liquefied gas, of iron or steel	-0.043
12	73	732111	Cooking appliances and plate warmers; for gas fuel or for both gas and other fuels, of iron or steel	-0.04
13	76	761210	Aluminium; collapsible tubular containers, for any material, (not compressed or liquefied gas), 300l capacity or less, whether or not lined, not fitted with mechanical/thermal equipment	-0.037
14	76	761510	Aluminium; table, kitchen or other household articles and parts thereof; pot scourers and scouring or polishing pads, gloves and the like	-0.037
15	83	831110	Electrodes; coated, of base metal, for electric arc-welding	-0.032

Source: *Authors compilation based on data from UNCOMTRADE.*

#### **4.2.3. Medium skill and technology-intensive manufactures**

Under medium skill and technology-intensive manufacturers, Table 8 illustrates the trade specialization index values of SAARC countries. Maldives with 6 years of positive value hold high degree of trade specialization compared to rest. Pakistan with 5 years of positive value holds the second position. Sri Lanka India and rest of the SAFTA members do not have any sort of trade specialization noticeable to mention. Afghanistan with 57 Items of export and 352 Items of Import does not have any sort of trade specialization with either having no export (2011-2016) as shown in the table or have negative value

**Table 8: LF for Medium Skill and Technology-Intensive Manufactures (2011–2019)**

Year	Afghanistan	Maldives	India	Sri Lanka	Bangladesh	Bhutan	Nepal	Pakistan
2011	N/A	7E-19	-5E-18	-7E-18	-4E-18	-2E-17	-3E-18	9E-21
2012	N/A	3E-18	-2E-18	1E-17	4E-18	1E-18	-1E-18	2E-18
2013	N/A	6E-18	6E-18	-1E-17	-7E-18	N/A	-1E-18	3E-18
2014	N/A	4E-18	-1E-18	1E-17	N/A	N/A	-4E-18	-4E-18
2015	N/A	5E-19	3E-18	-8E-18	-2E-19	N/A	2E-18	-2E-18
2016	N/A	-2E-18	-8E-18	-1E-01	N/A	N/A	3E-19	-3E-18
2017	6E-17	-2E-18	-1E-17	2E-17	N/A	N/A	-2E-18	7E-18
2018	-5E-17	-3E-18	-3E-18	N/A	N/A	N/A	-2E-18	-4E-18
2019	-5E-18	3E-19	5E-18	9E-18	N/A	N/A	3E-19	7E-18

Source: *Authors compilation based on data from UNCOMTRADE.*

Tables 9 and 10 present Afghanistan’s fifteen top and bottom medium skill and technology-intensive manufacturers based upon the LF value. Products viz. “Medical, surgical or dental instruments and appliances; n.e.c. in heading no. 9018” (901890), “Vehicles; mobile drilling derricks” (870520), “Heating apparatus; electric soil heating apparatus and space heating apparatus (excluding storage heating radiators)” (851629), etc. are among top 15 and “Meters; electricity supply or production meters, including calibrating meters thereof” (902830), “Retreaded tyres ; of a kind used on motor cars (including station wagons and racing cars)” (401211), “Tanks and other armoured fighting vehicles; motorised, whether or not fitted with weapons, and parts of such vehicles” (871000), etc. are among bottom 15.

**Table 9: Afghanistan’s 15 topmost Average Medium Skills and Technology, 2018–2019**

N0	Chapter Code	Commodity Code	Commodity	2018 & 2019
1	90	901890	Medical, surgical or dental instruments and appliances; n.e.c. in heading no. 9018	0.0657
2	87	870520	Vehicles; mobile drilling derricks	0.0505
3	85	851629	Heating apparatus; electric soil heating apparatus and space heating apparatus (excluding storage heating radiators)	0.013

4	87	870891	Vehicle parts; radiators and parts thereof	0.01
5	84	847480	Machines; for agglomerating, shaping or moulding solid mineral fuels, ceramic paste, unhardened cements, plastering materials in powder or paste form, machines for forming foundry moulds of sand	0.0077
6	85	851712	Telephones for cellular networks or for other wireless networks	0.0057
7	84	846210	Machine-tools; forging or die-stamping machines (including presses) and hammers, for working metal	0.0054
8	39	390190	Ethylene polymers; in primary forms, n.e.c. in heading no. 3901	0.0054
9	39	392410	Plastics; tableware and kitchenware	0.0048
10	84	842710	Fork-lift and other works trucks; fitted with lifting or handling equipment, self-propelled by electric motor	0.0038
11	84	845720	Machines; unit construction machines (single station), for working metal	0.0033
12	84	840219	Boilers; vapour generating boilers, including hybrid boilers n.e.c. in heading no. 8402	0.0021
13	87	870710	Vehicles; bodies (including cabs) for the motor vehicles of heading no. 8703	0.0016
14	39	391890	Floor, wall or ceiling coverings; of plastics (excluding polymers of vinyl chloride), whether or not self-adhesive, in rolls or in the form of tiles	0.0005
15	84	841430	Compressors; of a kind used in refrigerating equipment	0.0004

Source: *Authors compilation based on data from UNCOMTRADE.*

**Table 10: Afghanistan's 15 bottom Average Medium Skill and Technology, 2018–2019.**

<b>N0</b>	<b>Chapter Code</b>	<b>Commodity Code</b>	<b>Commodity</b>	<b>2018 &amp; 2019</b>
1	90	902830	Meters; electricity supply or production meters, including calibrating meters thereof	-0.066
2	40	401211	Retreaded tyres ; of a kind used on motor cars (including station wagons and racing cars)	-0.023
3	87	871000	Tanks and other armoured fighting vehicles; motorised, whether or not fitted with weapons, and parts of such vehicles	-0.011
4	85	854140	Electrical apparatus; photosensitive, including photovoltaic cells, whether or not assembled in modules or made up into panels, light emitting diodes	-0.011
5	85	851711	Line telephone sets with cordless handsets	-0.008
6	84	847490	Machines, for sorting, screening, separating, washing, crushing etc mineral substances, for agglomerating, shaping or moulding solid fuels, ceramic pastes etc, for forming foundry moulds of sand; parts	-0.007
7	90	901819	Medical, surgical instruments and appliances; electro-diagnostic apparatus (including apparatus for functional exploratory examination or for checking physiological parameters), n.e.c. in item no. 9018.1	-0.006
8	39	390410	Vinyl chloride, other halogenated olefin polymers; poly(vinyl chloride), not mixed with any other substances, in primary forms	-0.006
9	39	390319	Styrene polymers; (other than expansible polystyrene), in primary forms	-0.006
10	85	851610	Heaters; electric, instantaneous or storage water and immersion heaters	-0.003
11	85	851150	Ignition or starting equipment; generators n.e.c. in heading no. 8511, of a kind used for spark or compression-ignition internal combustion engines	-0.003



12	39	390120	Ethylene polymers; in primary forms, polyethylene having a specific gravity of 0.94 or more	-0.002
13	39	392321	Ethylene polymers; sacks and bags (including cones), for the conveyance or packing of goods	-0.002
14	87	871200	Bicycles and other cycles; including delivery tricycles, not motorised	-0.002
15	39	392390	Plastics; articles for the conveyance or packing of goods n.e.c. in heading no. 3923	-0.002

*Source: Authors compilation based on data from UNCOMTRADE.*

#### **4.2.4: Mineral fuel manufactures**

Under Mineral Fuel Manufactures Maldives and Sri Lanka with 4 years of positive value and Nepal with 5 years of Positive value exhibits medium level of trade specialization. India and Pakistan with having 6 years of positive value shows high degree of trade specialization. Bhutan and Bangladesh also shows some degree of trade specialization. Afghanistan with having 2 years of positive value shows deterioration of trade specialization with ether having no export which is shows as “0” or negative value, Afghanistan have a total of 34 items of export and 158 Items of import.

**Table 11: LF for Mineral Fuel Manufacturers (2011–2019)**

Year	Afghanistan	Maldives	India	Sri Lanka	Bangladesh	Bhutan	Nepal	Pakistan
2011	N/A	5E-18	6E-18	2E-08	1E-17	4E-17	-1E-17	-4E-17
2012	N/A	N/A	-6E-18	5E-18	-5E-18	2E-17	9E-18	1E-17
2013	N/A	N/A	2E-17	3E-17	7E-18	N/A	2E-18	2E-17
2014	N/A	2E-18	-9E-18	-1E-17	N/A	N/A	7E-18	-5E-19
2015	-4E-16	-4E-18	4E-18	-2E-17	6E-18	N/A	-8E-18	-8E-18
2016	N/A	-5E-18	8E-18	2E-18	N/A	N/A	2E-17	6E-18
2017	3E-17	-6E-18	-7E-18	-2E-17	N/A	N/A	7E-18	6E-19
2018	4E-17	3E-05	7E-18	N/A	N/A	N/A	-9E-18	3E-18
2019	-3E-17	7E-18	1E-17	-3E-18	N/A	N/A	-3E-18	6E-18

*Source: Authors compilation based on data from UNCOMTRADE.*

Table 12 and 13 shows average LF of (2018&2019), Table 12 highlighted the product line viz. “Heating apparatus; electric soil heating apparatus and space heating apparatus

(excluding storage heating radiators)” (851629), “Stones; precious or semi-precious, synthetic or reconstructed, (not piezo-electric quartz), worked or graded or not, (but not strung, mounted or set), temporarily strung for transport convenience, n.e.c. in item no. 7104.20 ” (710490), “Jewelry; imitation, (excluding cuff links and studs), of base metal, whether or not plated with precious metal ” (711719), etc. are featured among top 15 Mineral Fuel products. Table 13 illustrate Products viz. “Heaters; electric, instantaneous or storage water and immersion heaters” (851610), “Sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar articles, of any material” (961900), “Telephones for cellular networks or for other wireless networks” (851712), etc. are amongst the bottom 15 Mineral fuel products which showcased Afghanistan’s deterioration in trade specialization..

**Table 12: Afghanistan’s 15 topmost Average Mineral Fuel Products (2018–2019)**

No	Chapter Code	Commodity Code	Commodity	2018 & 2019
1	85	851629	Heating apparatus; electric soil heating apparatus and space heating apparatus (excluding storage heating radiators)	0.18
2	71	710490	Stones; precious or semi-precious, synthetic or reconstructed, (not piezo-electric quartz), worked or graded or not, (but not strung, mounted or set), temporarily strung for transport convenience, n.e.c. in item no. 7104.20	0.168
3	71	711719	Jewellery; imitation, (excluding cuff links and studs), of base metal, whether or not plated with precious metal	0.069
4	85	850450	Electrical inductors; n.e.c. in heading no. 8504	0.067
5	85	851671	Electro-thermic appliances; coffee or tea makers, of a kind used for domestic purposes	0.067
6	85	852210	Sound recording or reproducing apparatus; parts and accessories thereof, pick-up cartridges	0.067
7	85	853110	Signalling apparatus; electric, sound or visual, burglar or fire alarms and similar, other than those of heading no. 8512 or 8530	0.067

8	85	854140	Electrical apparatus; photosensitive, including photovoltaic cells, whether or not assembled in modules or made up into panels, light emitting diodes	0.067
9	93	930700	Arms; swords, cutlasses, bayonets, lances and the like, parts thereof and scabbards and sheaths therefor	0.067
10	96	960899	Pens and pencils; duplicating stylos, pen-holders, pencil-holders, and similar holders, parts of the articles of heading 9608, including caps and clips	0.067
11	49	490700	Unused postage, revenue or similar stamps of current or new issue in the country in which they have, or will have, a recognised face value; stamp-impressed paper; cheque forms; banknotes, stock, share or bond certificates and the like of similar title	0.063
12	85	851150	Ignition or starting equipment; generators n.e.c. in heading no. 8511, of a kind used for spark or compression-ignition internal combustion engines	0.005
13	49	490300	Printed matter; children's picture, drawing or colouring books	0.001
14	71	711719	Imitation jewellery, of base metal, whether or not plated with precious met ...	0
15	85	851150	Generators other than starter motors & dual purp. starter generators (e.g., ...	0

Source: *Authors compilation based on data from UNCOMTRADE.*

**Table 13: Afghanistan's 15 bottom Average Mineral Fuel Products, (2018–2019)**

No	Chapter Code	Commodity Code	Commodity	2018 & 2019
1	85	851610	Heaters; electric, instantaneous or storage water and immersion heaters	-0.0957
2	96	961900	Sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar articles, of any material	-0.0706
3	85	851712	Telephones for cellular networks or for other wireless networks	-0.0596

4	96	961700	Vacuum flasks and other vacuum vessels, complete with cases; parts thereof other than glass inners	-0.0453
5	93	930200	Revolvers and pistols; other than those of heading no. 9303 or 9304	-0.0425
6	85	851679	Electro-thermic appliances; n.e.c. in heading no. 8516, used for domestic purposes	-0.0253
7	96	960321	Brushes; toothbrushes	-0.025
8	85	851640	Smoothing irons; electric	-0.024
9	85	851711	Line telephone sets with cordless handsets	-0.019
10	85	850134	Electric motors and generators; DC, of an output exceeding 375kW	-0.019
11	85	850680	Cells and batteries; primary, (other than manganese dioxide, mercuric oxide, silver oxide, lithium or air-zinc)	-0.019
12	85	852349	Optical media; recorded, excluding products of Chapter 37	-0.019
13	85	853620	Electrical apparatus; automatic circuit breakers, for a voltage not exceeding 1000 volts	-0.019
14	85	854411	Insulated electric conductors; winding wire, of copper	-0.019
15	96	961000	Slates and boards; with writing or drawing surfaces, whether or not framed	-0.019

Source: *Authors compilation based on data from UNCOMTRADE.*

#### **4.2.5. Non-fuel primary commodity**

A noteworthy change in trade specialization has been observed for the non-fuel primary industry level from 2011 to 2019. As presented in table 14, countries like Pakistan, India, Sri Lanka with having positive value in 3 years and Nepal with having 2 years of positive value shows deterioration in its trade specialization. Bangladesh despite having 3 years of positive value we because of missing data we can assume that it's doing bitter in trade specialization but for Bhutan with having one positive and one negative we can say noting. Afghanistan with having 5 years of positive value shows comparatively higher degree of trade specialization with

having 739 items of export and 578 items of import which is the only product category that export products are higher than the import count wise.

**Table 14: LF for a Non-fuel Primary Commodity (2011–2019).**

year	Afghanistan	Maldives	India	Sri Lanka	Bangladesh	Bhutan	Nepal	Pakistan
2011	-7E-18	4E-17	-3E-18	2E-17	4E-18	7E-18	-9E-18	-1E-17
2012	-4E-16	2E-17	-1E-17	6E-18	8E-18	-3E-18	-1E-18	-2E-17
2013	0E+00	1E-17	-3E-18	-7E-18	-2E-18	N/A	2E-18	8E-18
2014	0E+00	6E-18	-9E-18	2E-18	N/A	N/A	-9E-18	1E-17
2015	-6E-17	-3E-18	-3E-18	-6E-18	3E-18	N/A	-2E-18	-2E-18
2016	2E-16	-4E-17	3E-18	-3E-18	N/A	N/A	-7E-18	-2E-18
2017	1E-18	6E-18	7E-18	-1E-02	N/A	N/A	-6E-18	-6E-18
2018	-4E-17	-4E-03	9E-18	N/A	N/A	N/A	-7E-19	4E-18
2019	8E-17	-2E-17	-4E-03	-1E-02	N/A	N/A	-2E-03	-2E-03

Source: *Authors compilation based on data from UN COMTRADE.*

Afghanistan’s top and bottom 15 non-fuel primary products are based on the LF values for 2018–2019. Products viz. “Fruit, edible; grapes, dried” (080620), “Fruit, edible; figs, fresh or dried” (080420), “Vegetable saps and extracts; n.e.c. in item no. 1302.1” (130219), etc. are amongst the top 15 products, which display trade specialization of Afghanistan with increasing LF values and presented in Table 15. Similarly, products viz. “Wheat or meslin flour ” (110100), “Animal or vegetable fats and oils and their fractions; oxidised, boiled or otherwise chemically modified, (excluding those of heading no. 1516), inedible mixtures or preparations of fats or oils ” (151800), “Fabrics, woven; of flax, containing 85% or more flax, other than bleached or unbleached” (530919), etc. are in the bottom 15 products category, which displayed diminishing trade specialization of Afghanistan has been exhibited in Table 16.

**Table 15: Afghanistan's 15 topmost Average Non-fuel Primary Products (2018–2019)**

No	Chapter Code	Commodity Code	Commodity	2018 & 2019
1	8	80620	Fruit, edible; grapes, dried	4.84
2	8	80420	Fruit, edible; figs, fresh or dried	4.04
3	13	1E+05	Vegetable saps and extracts; n.e.c. in item no. 1302.1	2.91
4	8	80610	Fruit, edible; grapes, fresh	2.85
5	13	1E+05	Vegetable saps and extracts; of liquorice	2.83
6	7	70200	Vegetables; tomatoes, fresh or chilled	1.75
7	8	80212	Nuts, edible; almonds, fresh or dried, shelled	1.49
8	9	91020	Spices; saffron	1.25
9	7	70310	Vegetables, alliaceous; onions and shallots, fresh or chilled	0.84
10	12	1E+05	Oil seeds; sesamum seeds, whether or not broken	0.76
11	8	80252	Nuts, edible; pistachios, fresh or dried, shelled	0.72
12	9	90931	Spices; cumin seeds, neither crushed nor ground	0.71
13	52	5E+05	Cotton; carded or combed	0.55
14	8	80211	Nuts, edible; almonds, fresh or dried, in shell	0.51
15	8	80280	Nuts, edible; areca nuts, fresh or dried, whether or not shelled or peeled	0.45

Source: *Authors compilation based on data from UN COMTRADE.*

**Table 16: Afghanistan's 15 bottoms Average Non-fuel Primary Products (2018–2019)**

No	Chapter Code	Commodity Code	Commodity	2018 & 2019
1	11	110100	Wheat or meslin flour	-9.4
2	15	151800	Animal or vegetable fats and oils and their fractions; oxidised, boiled or otherwise chemically modified, (excluding those of heading no. 1516), inedible mixtures or preparations of fats or oils	-5.56

3	53	530919	Fabrics, woven; of flax, containing 85% or more flax, other than bleached or unbleached	-4.82
4	17	170191	Sugars; sucrose, chemically pure, in solid form, containing added flavouring or colouring matter	-2.99
5	9	90210	Tea, green; (not fermented), in immediate packings of a content not exceeding 3kg	-1.21
6	18	180690	Chocolate and other food preparations containing cocoa; n.e.c. in chapter 18	-0.72
7	9	90230	Tea, black; (fermented) and partly fermented tea, in immediate packings of a content not exceeding 3kg	-0.7
8	4	40210	Dairy produce; milk and cream, concentrated or containing added sugar or other sweetening matter, in powder, granules or other solid forms, of a fat content not exceeding 1.5% (by weight)	-0.55
9	7	71332	Vegetables, leguminous; small red (adzuki) beans ( <i>phaseolus</i> or <i>vigna angularis</i> ), shelled, whether or not skinned or split, dried	-0.48
10	12	120799	Oil seeds and oleaginous fruits; n.e.c. in heading no. 1207, whether or not broken	-0.44
11	12	120241	Ground-nuts; other than seed, not roasted or otherwise cooked, in shell	-0.41
12	15	151219	Vegetable oils; sunflower seed or safflower oil and their fractions, other than crude, whether or not refined, but not chemically modified	-0.27
13	11	110220	Cereal flour; of maize (corn)	-0.23
14	4	40291	Dairy produce; milk and cream, concentrated, not containing added sugar or other sweetening matter, other than in powder, granules or other solid forms	-0.22
15	22	220290	Non-alcoholic beverages; n.e.c. in item no. 2202.10, not including fruit or vegetable juices of heading no. 2009	-0.21

Source: *Authors compilation based on data from UN COMTRADE.*

#### **4.2.6. Resource-intensive manufacture**

Table 17 illustrate that Nepal with 2 years of positive value and Pakistan 3 years show a diminishing trend in trade specialization. Maldives with 6 years of positive value and India with 5 years of Positive value show a high degree of trade specialization. Afghanistan highlighted the 7-year positive value that is high compared to other SAFTA members count-wise. Afghanistan shows 82 items of export and 309 items of Import from 2011 to 2019.

**Table 17: LF for Resource Intensive Manufacturers (2011–2019)**

year	Afghanistan	Maldives	India	Sri Lanka	Bangladesh	Bhutan	Nepal	Pakistan
2011	3E-17	-5E-18	-6E-18	2E-17	2E-17	2E-18	-2E-17	-3E-18
2012	0E+00	8E-18	-1E-17	-1E-17	3E-17	8E-18	-4E-17	-4E-18
2013	0E+00	6E-18	-1E-18	1E-17	-3E-17	N/A	-1E-17	7E-18
2014	0E+00	6E-18	1E-17	-3E-18	N/A	N/A	-1E-17	1E-18
2015	-5E-16	3E-18	-2E-18	5E-18	4E-18	N/A	8E-19	-5E-18
2016	4E-16	4E-18	3E-18	-9E-18	N/A	N/A	-5E-18	-2E-18
2017	1E-16	-3E-18	3E-18	2E-03	N/A	N/A	-2E-18	-1E-17
2018	-6E-17	-9E-07	9E-18	N/A	N/A	N/A	1E-17	-6E-18
2019	3E-17	7E-19	3E-18	-1E-03	N/A	N/A	-8E-18	2E-03

Source: *Authors compilation based on data from UN COMTRADE.*

Table 18 highlighted the product line viz. “Carpets and other textile floor coverings; knotted, of wool or fine animal hair, whether or not made up” (570110), “Cotton; carded or combed” (520300), “Wool and hair; waste of wool or fine animal hair, including yarn waste, but excluding garnetted stock and noils of wool or of fine animal hair” (510320), etc. are featured among top 15 resource intensive manufactures. Table 19 illustrate Products viz. “Stone; setts, curbstones and flagstones, of natural stone (except slate)” (680100), “Fabrics, woven; of flax, containing 85% or more flax, other than bleached or unbleached” (530919), “Retreaded tyres; of a kind used on motor cars (including station wagons and racing cars) ” (401211), etc. are amongst the bottom 15 resource intensive manufactures.

**Table 18: Afghanistan’s 15 Topmost Average Resource Intensive Products (2018–2019)**



<b>NO</b>	<b>Chapter Code</b>	<b>Commodity Code</b>	<b>Commodity</b>	<b>2018 &amp; 2019</b>
1	57	570110	Carpets and other textile floor coverings; knotted, of wool or fine animal hair, whether or not made up	3.5707
2	52	520300	Cotton; carded or combed	1.6027
3	51	510320	Wool and hair; waste of wool or of fine animal hair, including yarn waste, but excluding garnetted stock and noils of wool or of fine animal hair	0.356
4	52	520420	Cotton; sewing thread, put up for retail sale	0.2458
5	41	410622	Tanned or crust hides and skins; of goats or kids, without hair on, whether or not split, but not further prepared, in the dry state (crust)	0.2391
6	58	581010	Embroidery; without visible ground, in the piece, in strips or in motifs	0.0928
7	51	510610	Yarn; of carded wool, containing 85% or more by weight of wool, not put up for retail sale	0.0322
8	48	481039	Kraft paper and paperboard; coated with kaolin or other inorganic substances only, for non-graphic purposes, n.e.c. in item no. 4810.31 and 4810.32, in rolls or sheets	0.0277
9	67	670420	Wigs, false beards, eyebrows and eyelashes, switches and the like and other articles n.e.c.; of human hair	0.0192
10	71	710490	Stones; precious or semi-precious, synthetic or reconstructed, (not piezo-electric quartz), worked or graded or not, (but not strung, mounted or set), temporarily strung for transport convenience, n.e.c. in item no. 7104.20	0.0087
11	43	430130	Furskins; raw, of Astrakhan, Broadtail, Caracul, Persian and similar lamb, Indian, Chinese, Mongolian or Tibetan lamb, whole, with or without head, tail or paws	0.0059
12	63	630900	Clothing; worn, and other worn articles	0.0019
13	71	711620	Stones; precious or semi-precious stones (natural, synthetic or reconstructed) articles of	0.0005
14	44	440110	Wood; for fuel, in logs, billets, twigs, faggots or similar forms, whether or not agglomerated	0.0002

15	40	401140	New pneumatic tyres, of rubber, of a kind used on motorcycles	0
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Source: Authors compilation based on data from UN COMTRADE.

**Table 19: Afghanistan's 15 bottoms Average Resource-Intensive Products (2018–2019)**

NO	Chapter Code	Commodity Code	Commodity	2018 & 2019
1	68	680100	Stone; setts, curbstones and flagstones, of natural stone (except slate)	-1.71
2	53	530919	Fabrics, woven; of flax, containing 85% or more flax, other than bleached or unbleached	-1.68
3	40	401211	Retreaded tyres ; of a kind used on motor cars (including station wagons and racing cars)	-0.63
4	58	580810	Braids; in the piece	-0.49
5	48	482390	Paper pulp, paper, paperboard, cellulose wadding or webs of cellulose fibres; articles n.e.c. in heading no. 4823	-0.22
6	48	481910	Paper and paperboard; cartons, boxes and cases, of corrugated paper or paperboard	-0.2
7	69	690810	Ceramic tiles, cubes and similar articles; glazed, whether or not rectangular or on a backing, with the largest surface area less than a 7cm square	-0.15
8	64	640320	Footwear; with outer soles of leather, uppers consisting of leather straps across instep and around the big toe	-0.14
9	40	401220	Rubber; used pneumatic tyres	-0.11
10	48	480512	Paper and paperboard; uncoated, straw fluting paper, rolls or sheets	-0.07
11	62	620640	Blouses, shirts and shirt-blouses; women's or girls', of man-made fibres (not knitted or crocheted)	-0.06
12	59	590700	Textile fabrics; otherwise impregnated, coated or covered, painted canvas being theatrical scenery, studio back-cloths or the like	-0.06
13	40	401120	Rubber; new pneumatic tyres, of a kind used on buses or lorries	-0.04

14	70	700910	Glass; rear-view mirrors for vehicles	-0.04
15	40	401140	Rubber; new pneumatic tyres, of a kind used on motorcycles	-0.03

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Source: *Authors compilation based on data from UN COMTRADE.*

#### **4.5. Discussion**

The research findings aimed to evaluate the future prospects for trade development in Afghanistan in comparison to other member countries in SAFTA. The findings of this research helped identify multiple opportunities and limitations in Afghan economic conditions that can influence the trade operations of the entire country. Moreover, through secondary references, the findings of this study established that the progress of SAFTA is directly proportional to the success of its member countries.

It can be determined from the analysis of results that Sri Lanka, Pakistan and Bhutan experienced incessant failure in trade specialisation with a comparatively persistent increase in negative LFi rates in relation to their high skill and technology-concentrated productions. In comparison, the study findings have stated that Nepal experienced an improvement in its trade specialisation with a decrease in negative LFi values from 2015 onwards. Moreover, the study results from India stated that the trade specialisation improved from 2011 to 2019. Thus, the findings suggested that India is determined to expand its trade specialisation. Furthermore, the study findings from the Maldives stated that the country experienced a slight but positive improvement in its trade specialisation from 2011 to 2019. Therefore, it can be determined from the analysis of research findings that India has shown the highest level of development in trade specialisation. However, the findings also analysed trends from Afghanistan, which can be summarised as follows; Afghanistan experienced an escalation in positive LFi index from 2016 onwards, which shows an improvement in its trade specialisation after becoming a SAFTA member.

The study found that Nepal, Sri Lanka and Bhutan, unfortunately, showed continuous low-trade specialisation in low-skill and technology-concentrated products, which leaves a negative impact on their trade economy. Before moving on to Afghanistan, the study also analysed the rate of trade specialisation within India. The accurately evaluated results from the study also proved that India had experienced a positive and stable upsurge in its trading from 2011 to 2019. However, the results of trade specialisation in Pakistan during the recent years (2016-2019) are not quite impressive. However, in comparison to all the SAFTA member countries, Afghanistan has progressively experienced development in its trade from 2012 to 2019. The progress in

Afghanistan's trade specialisation is even better than India's, given the economically disadvantaged past the country had.

When it comes to medium skill and technology-concentrated production, it can be determined from the research findings that trade specialisation, both in Pakistan and Bhutan, has declined throughout the timetable decided for this study. This fairly explains the current economic trade condition of both countries. However, Bangladesh has unexpectedly displayed a positive development in its trade specialisation area, leaving behind the two SAFTA members. It has been determined from the results of this study that Bangladesh currently has a strong determination toward trade specialisation. However, Nepal, Maldives, and Sri Lanka all show mixed rates of LFi values demonstrating inconsistency in their medium skill and technology concentrated productions. It has also been determined from this research that the rate of medium skill and technology-concentrated production in India somehow displayed the same mixed results. It can be supported by the results, which suggest that India's trade specialisation index showed a decrease in its negative value from 2011 to 2012; however, its LFi value increased among all SAFTA members beyond expectations in 2017. To India's disappointment, the negative LFi value again decreased in 2019, leaving the country behind in medium skill and technology productions.

Most importantly, it can be determined from the analysis of study results that Afghanistan experienced development in its trade specialisation during 2018 and 2019. As it has been identified from various past studies that Afghanistan's previous (2012-2017) record in trade specialisation was extremely poor and uncertain, this appeared to be an improvement for the country in its trading sector. It can be concluded from the result analysis that Afghanistan specialised in trading 15 industry productions in both years of 2018 and 2019. These products roughly belong to multiple diverse industries and include heating apparatuses, industrial machines used for giving shape to solid mineral fuels, liquid cement, and powder or liquid mortars. Moreover, the other productions include auto-parts and car accessories from the vehicle industry. These production sectors displayed positive LFi values in Afghanistan. However, on the other hand, the analysis of results demonstrated that productions like plastics, racing car tyres, inflated rubber tyres,

solid or cushion tyres, treads, and radiators are declining within the Afghan trade specialisation market since 2018 and 2019.

When the study analysed the data related to Mineral Fuel Productions in SAFTA member countries, it found that India, Maldives and Nepal all showed a mixed but positive development in trade specialisation from 2017 to 2019. Nonetheless, other smaller countries in the SAFTA members like Bhutan experienced a positive index in trade specialisation in 2011, which soon turned negative in 2019, thereby revealing economic failure in the trade specialisation of Bhutan. According to the findings of the study, Bangladesh has been quite steady in the trade sector, showing positive trends in trade specialisation throughout the years 2011 to 2015. Pakistan displays a sturdy decline in the trade specialisation, with negative LFi value increasing from 2011 to 2019. Moreover, the analysis of results has also revealed the trade situation in Sri Lanka throughout the years. The findings suggested that Sri Lanka experienced positive trends of trade specialisation from 2012 till 2014 with decreases in its LFi value; however, it too started to experience deterioration in its trade sector due to constant increases in its negative LFI value from 2015 to 2019. However, the comparative analysis of research findings has led the research to determine that Afghanistan experienced a positive improvement in its trade specialisation. The study also supported the results by showing a decrease in the negative LFi value from 2011 to 2019 in Afghanistan.

The analysis of results from this study also shows that the highest Mineral Fuel supplies were made from Afghanistan according to the LFi values from the 2018–2019 data. These productions encompass a wide range of different industries, and the products are as follows; heating apparatus, electric soil heating apparatus, space heating apparatus, articles of natural or cultured pearls, precious or semi-precious stones, and calendars. According to the results, these products are included in the top 15 mineral fuel supplies in Afghanistan. Correspondingly, the study listed 15 other products, including generators, compression-ignition engines, cutouts used with engines, and cellular/wireless telephones. According to the research findings, these products were categorised as bottom-line mineral fuel productions since Afghanistan does not specialise in their trade.

This research also focused on the non-fuel primary industry of SAFTA member countries in order to analyse each country's performance in this industry and compare it

with Afghanistan's. It can be determined from the analysis of the results that countries like Pakistan and Bhutan both experienced a substantial transformation in their trade specialisation with reference to the non-fuel primary industry productions throughout the years 2011 till 2019. The results have evidently clarified the determination and ambition of both countries towards trade specialisation in this industry. It has been analysed in the study findings that in the beginning years (2011-2014), both Pakistan and Bhutan observed an increase in their negative LFi values. However, this changed after 2014 when both member countries experienced a reduction in their negative LFi, which continued reducing till 2019, such that Bhutan now has a positive LFi index of 0.0037. Similarly, the study findings also stated that both Nepal and India experienced an improvement in their trade specialisation with respect to the non-fuel primary industry. This is also because their negative LFi value continued decreasing from 2011 to 2019. Luckily, Nepal even reached a positive LFi index of 0.0002 in 2019. The research findings also showed some interesting results from Bangladesh, demonstrating that the LFi value of trade specialisation in the non-fuel industry of Bangladesh remained the same throughout the study years with a minute to zero change in the rate. However, the same could not be said about Sri Lanka, which experienced an uncertain trade specialisation index from 2011 to 2017, presenting a mixed trend. Additionally, the study findings also mentioned that the negative LFi value of trade in this industry even went as low as -0.0003 in Sri Lanka during 2019.

In comparison to the previously mentioned countries, the study findings can conclude to state that Afghanistan has displayed a positive development in its trade specialisation within the non-fuel primary sector. The only disappointing results from the country were last experienced in 2012 and 2013, when the negative LFi values kept increasing. The study also went to the depth of analysing and discussing the top and bottom non-fuel primary productions in Afghanistan depending upon their LFi values during 2018 and 2019. It was revealed that Afghanistan specialises in the trade of fruit and nuts, citrus fruit peelings, grapes, vegetable extracts, pectin materials, agar-agar, and raw/refined vegetable mucilage. Similarly, petroleum gases, natural gas, and vegetable textile fibres like paper yarn are listed among the 15 trade productions Afghanistan has failed to specialise in.

To conclude, it can be determined from the analysis of study findings that Bangladesh, Pakistan, Maldives, and Bhutan did not observe any major transformations in their trade specialisation with reference to resource-centred productions. Sri Lanka, however, experienced a constant decrease in its negative LFi value from 2015 to 2019, demonstrating an improvement in resource-centred productions. Furthermore, the study showed that Nepal faced failure in trade specialisation in the same industry as its positive LFi has been decreasing. In the resource-centred productions, India is said to experience improvement in trade specialisation since the positive LFi kept increasing from 0.00189 in 2011 to 0.00276 in 2019, according to the findings. Finally, in comparison to other countries, the study found resource-centred production to be quite low in Afghanistan, which has led to the deterioration of its trade specialisation from 2011 to 2019. I also found that Afghanistan shows huge trade deficit and dependency of Afghanistan on import.



## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

This chapter is intended to offer the conclusion of the study along with the recommendations. The chapter has therefore been divided into key sections. The first section has covered summary of findings whereas the second section has covered the recommendations for practice. Considering the key limitations of the current study, the third section has provided the recommendations and prospects for future researchers.

#### 5.1. Conclusion

The study aimed at understanding the trends in exports and imports and the dynamics and effectiveness of trade specialization in Afghanistan in the context of SAFTA. Afghanistan has experienced a positive development in its trade specialisation, reflecting the positive impact on the trade sector since joining as a SAFTA member. From 2011 to 2019, after the SAFTA implementation, Afghanistan enjoyed rigorous trade relations with Pakistan, followed by India. Concerning trade specialization, Afghanistan showed predominant growth in Non-fuel primary commodities and resource-intensive products. While in high-skilled and technology-intensive manufacturing, low-skill and technology-intensive manufacturing sector, Mineral fuel manufacturers and Medium Skill and technology-intensive manufacturing Afghanistan experienced a continuous decline in its trade specialization. Afghanistan is suffering from a trade deficit, and as such, policymakers can use this research to determine the loopholes in Afghanistan's trade sector. It is recommended for policymakers devise strategic plans for trade between Afghanistan and other SAFTA countries since their progress seems to be linked with one another. The evidence from contemporary studies on Afghanistan-SAARC trade suggests that developing economies are strategically relying upon skill development, research and development (R&D), knowledge management, and knowledge creation for the progression of trade specialization (Krugman and Helpman, 1989). From the present study, it could be concluded that the heterogeneity and diversification of the product lines that a country manufactures and exports are directly affected by its technical know-how and knowledge dissemination.

Though Afghanistan is shifting from a less specialized economy towards a more competitive and skill-driven economy, still, to achieve a greater degree of trade specialization and comparative advantage, Afghanistan should confront issues such as technological dissemination, diversification of merchandise manufactured, quality sophistication, and reliability at different industry levels, which constrain a higher degree of trade specialization. The

findings suggest that the LDC countries' economies have a strong performance regarding the specialization of high-end products as they are heavily dependent on capital-intensive commodities. As the findings illustrate, Afghanistan has more affinity toward resource-intensive manufacturing products, which are mostly labour-intensive and tend to be simple in nature, like wood products, tidal products, skin, etc. Non-fuel primary commodities are considered to be part of the output of the primary division of the economy including agricultural goods and raw materials. The intensity of exports decreased from 2008 to 2011, but after ratifying the SAFTA protocol in 2011, it steadily increased from 0.38 billion in 2011 to 0.60 billion in 2016, but from that point, exports jumped to 0.83 billion in 2017 and it reached 0.87 billion in 2019. On the other hand, imports from SAFTA have been increasing for Afghanistan over the years. It is due to the reason that Afghanistan's imports from SAFTA were around \$3.02 billion in 2008, which then increased to \$6.39 billion in 2011 and 8.57 billion in 2019. By applying the Lafay method to SAARC countries, in high technology-intensive manufacturers, medium technology-intensive manufacturers, and mineral fuel manufacturers, which is a combination of both high and medium skill and technology, all members of SAFTA have a negative LF value, but in low skill and technology-intensive manufactures, India and Bhutan show positive LF index values. In resource-intensive manufacturing, all SAFTA members except Bhutan and Maldives have a relatively positive value in trade specialization. In regards to non-fuel primary commodities, among the 8 members of SAFTA, only Afghanistan, Maldives, Bhutan, and Pakistan are doing well in trade specialization. As stated by Plümper & Graff, (2001), trade specialization increases economic productivity and performance. Thus, nations that can take advantage of trade specialization will share more of the global and domestic markets.

## **5.2. Implications and Recommendation.**

### **5.2.1. Theoretical implication**

based on the study that has been done the findings suggest that the LDCs countries are not doing well regarding specialization of high end products that is heavily dependent of capital intensive commodity but on other hand India as developing country with is part of NLDCs is doing better in capital intensive commodity. As finding illustrate Afghanistan have more affinity towards resource intensive manufacturing product which are mostly related to labour intensive and are inclined to be simple in nature like woods products, tides, skin, etc. with positive value till 2016 and Non-Fuel primary commodity which is result of primary division of the economy such as agricultural goods and raw materials. Another way of looking at non-fuel primary commodities are the material in

the natural or semi-finished state, like fresh fruits which have minimum processing before being used. We can see that Afghanistan have more comparative advantage in two category of product that I have mention above. And lastly it clearly illustrate that the research is based on Heckscher–Ohlin theory of factor proportion and Ricardian theory of comparative advantage.

### **5.2.2. Practical implication**

As illustrated in Figure 2 export have decrease from 2008 till 2011 but after ratified the SAFTA protocol in 2011 it has steadily increased from 0.38 billion in 2011 to 0.60 billion in 2016 but form that point the export jump to 0.83 billion in 2017 and it reached 0.87 billion in 2019. On the other hand Figure 3 shows that the trade value of imports from SAFTA has been increasing for Afghanistan over the years. It is due to the reason that the imports of Afghanistan from SAFTA were around US\$ 3.02 billion in 2008 which then increased to US\$ 6.39 billion in 2011 and 8.57 billion in 2019. By comparing the two in figure 4 we can see that the shows huge trade deficit and dependency of Afghanistan on import from SAFTA.

As stated by Plümer & Graff, (2001) Trade specialization increases economic productivity and performance. Nations that are able to take advantage of trade specialization will share more of global and domestic market. By applying Lafay method on SAARC countries I found that in High technology intensive manufactures, medium technology intensive manufactures and Mineral fuel manufactures which is combination of both High and medium skill and technology all member of SAFTA have negative LFi value But in low skill and technology intensive manufactures India and Bhutan shows positive LFi index value. In Recourse intensive manufactures all SAFTA members except Bhutan and Maldives have relatively positive value in trade specialization. In regards to Non- Fuel primary commodity among 8 members of SAFTA only Afghanistan, Maldives, Bhutan and Pakistan is doing bitter in trade specialization. This research can be used to reform tariff policies to encourage more diversification and encouragement of that product classification that Afghanistan is bitter at to increase the specialization father and to reduce trade deficit by improving export.

### **5.2.3. Scope and Limitation**

As illustrated in the research there are lack primary data and secondary data that I have gathered shows deficiency as illustrated in table 3 that shows missing data. The analysis only focuses on Merchandise trade; it does not cover services business.

This research only focused on a limited number of South Asian countries apart from Afghanistan, such as Nepal, India, Sri Lanka, Bhutan, Pakistan, and the Maldives. Future studies can avoid this practice and expand the research spectrum by gathering wide-ranging data from different regions and continents in order to obtain generalised results. Beside it's also advised to include more of developed nations because most SAARC members are part of least developing countries (LDCs) except India, Pakistan and Sri-Lanka that are developing economies.

Apart from analysing the trade trends in SAFTA countries, the researchers could actually expand this research to reflect a positive impact on the entire Asian Region, which could then be practically implemented within future studies to make improvements in the Asian trade economy.

### **5.3.4. Recommendations**

Afghan policymakers and the government can use this research as a resource to develop effective policies for facilitating smooth trade between SAFTA member countries within the region. Other stakeholders, including investors, buyers, sellers, and trading companies, can use the results of this study to formulate effective strategic plans which can help the country excel in trade specialisation regardless of its developing economy and combative history. The policymakers can also consider this research to design tariff reforms which will help the entire economy achieve positive welfare gains. Introducing free trade reforms will also help achieve the main purpose of initiating SAFTA. Therefore, new policies and tariff reforms can improve economic collaboration between the SAARC nations by decreasing the tariffs and non-tariff barriers too by practising transparency and equity between those countries. As a result, the Afghanistan trade sector will also improve.

Despite SAFTA's clear goals and aims, a lot of improvements are needed to align economic and regional prosperity with the institutions of the member state. SAFTA lacks

to broaden coverage for the sensitive ties between the states such as India, Pakistan and Afghanistan and Bangladesh that experienced hostility and terrorism in the past (Shaikh et al. 2015). Numerous such activities impacted the economic activities between these states and constraint the region's economic and political growth. According to Ullah and Inaba (2014), SAFTA needs a regional framework and encouragement the strengthening ties with each member state. Moreover, there is a need for geographic expansion and parameters that can sustain the efforts of SAFTA for the economic growth and prosperity of the member state. Likewise, SAFTA does not have any strategy to minimise or compensate the revenue loss that trading partners may have in case of any harm to the trading activities. In this regard, member states also do not have any assistance in promoting their agenda (both economic and political) to promote the effectiveness of economic integration (Sharma and Kumar, 2021). Thus, SAFTA requires regional integration to overcome the above-mentioned challenges and improve the free trade agreement among member states.

According to ATP (2021), the objectives of the ATP rules need to be in affiliation with the SAFTA, this may allow the better trade growth in the country. It seems that the Afghan government is in high concern to accommodate the perspective of domestic production and making sure that the exports should be boosted. The enhancement of tariff policy is the need of the day. It may elaborate for the betterment of the country. The trade across the border is already boosted in accord with the major trends with the help of SAFTA. Both India and Afghanistan are in the same TA under SAFTA, so it is helpful in the present context but some security support is desired on behalf of SAFTA for the future. Concerning specific products, SAFTA helps developing countries, agreements related to trade operated by various states for the sake of supply, and import assurance.



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## Appendix A

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### Low skill and technology commodity description 2 digit harmonized system code

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Code	Product label	Code	Product label
72	Iron and steel	80	Tin and articles thereof
73	Articles of iron or steel	81	Outer base metals, cermet's, articles thereof
74	Copper and articles thereof	82	Tools, implements, cutlery, etc. of base metal
75	Nickel and articles thereof	83	Miscellaneous articles of base metal
76	Aluminium and articles thereof	86	Railway, tramway locomotives, rolling stock, equipment

77	Reserved for possible future use	87	Vehicles other than railway, tramway
78	Lead and articles thereof	89	Ships, boats and other floating structures
79	Zinc and articles thereof	94	Furniture, lighting, signs, prefabricated buildings

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#### High skill and technology commodity description 2 digit harmonized system code

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Code	Product label	Code	Product label
28	Inorganic chemicals, precious metal compound, isotopes metal compound, isotopes	36	Explosives, pyrotechnics, matches, pyrophorics, etc.
29	Organic chemicals	37	Photographic or cinematographic goods
30	Pharmaceutical products	38	Miscellaneous chemical products
31	Fertilizers	39	Plastics and articles thereof
32	tanning, dyeing extracts, tanninse, derivs, pigments etc.	84	Machinery, nuclear reactors, boilers, etc.
33	Essential oils, perfumes, cosmetics, toiletries	85	Electrical, electronic equipment
34	Snaps, lubricants, waxes, candles, modelling pastes	88	Aircraft, spacecraft, and parts thereof
35	Albuminoids, modified starches glues, enzymes	90	Optical, photo, technical, medical etc. Apparatus

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#### Mineral fuel commodity description 2 digit harmonized system code

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Code	Product label	Code	Product label
46	Manufactures of plaiting material, basketwork, etc.	92	Musical instruments, parts and accessories
49	Printed books, newspapers, pictures, etc.	93	Arms and ammunition, parts and accessories thereof
71	Pearls, precious stones, metals, coins, etc.	96	Arms and ammunition, parts and accessories thereof
85	Electrical, electronic equipment	97	Works of art, collectors pieces and antiques

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#### Non-fuel primary commodity description 2 digit harmonized system code

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Code	Product label	Code	Product label
1	Live animals	24	Tobacco and manufactured tobacco substitutes
2	Meat and edible meat offal	25	Salt, sulphur, earth, stone, plaster, lime and cement
3	Fish, crustaceans, molluses, aquatic invertabrates nes	26	Ores, slag and ash
4	Dairy products, eggs, honey, edible animal product nes	27	Mineral fuels, oils, distillation products, etc.
5	Products of animal origin, nes	40	Rubber and articles thereof
6	Live trees, plants, bulbs, roots, cut flowers, etc	41	Raw hides and skins (other than fur- skins) and leather
7	Edible vegetables and certain roots and turbers	43	Furskins and artificial fur, manufactures thereof
8	Edible fruit, nuts, peel of citrus fruit, melons	44	Wood and articles of wood, wood charcoal
9	Coffee, tea, mate and spices	45	Cork and articles of cork
10	Cereals	47	Pulp of wood, fibrous cellulosic material, waste etc.
11	Milling products, malt, starches, inulin, wheat gluten	51	Wool, animal hair, horsehair yarn and fabric thereof
12	Oil seed, oleagic fruits, grain, seed, fruit, etc., nest	52	Cotton

13	Lac, gums, resins, vegetable saps and extracts nes	53	Vegetable textile fibres nes, paper yarn, woven fabric
14	Vegetable plaiting materials, vegetable products nes	55	Manmade staple fibres
15	Animal, vegetable fats and oils, cleavage products, etc.	71	Pearls, precious stones, metals, coins, etc.
16	Meat, fish and seafood food preparations nes tions nes	74	Copper and articles thereof
17	Sugars and sugar confectionery	75	Nickel and articles thereof
18	Cocoa and cocoa preparations	76	Aluminium and articles thereof
19	Cereal, flour, starch, milk preparations and products	78	Lead and articles thereof
20	Vegetable, fruit, nut, etc. food preparations	79	Zinc and articles thereof
21	Miscellaneous edible preparations	81	Other base metals, cermet's, articles thereof
22	Beverages, spirits and vinegar	82	Tools, implements, cutlery, etc. of base metal

---

**Resource intensive commodity description 2 digit harmonized system code**

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Code	Product label	Code	Product label
40	Rubber and articles thereof	60	Knitted or crocheted fabric
41	Raw hides and skins (other than furskins) and leather	61	Articles of apparel, accessories, knit or crochet
43	Furskins and artificial fur, manufactures thereof	62	Articles of apparel, accessories, not knit or crochet
44	Wood and articles of wood, wood charcoal	63	Other made textile articles, sets, worn clothing etc.
45	Cork and articles of cork	64	Footwear, gaiters and the like, parts thereof
48	Paper & paperboard, articles of pulp, paper and board	65	Headgear and parts thereof
51	Wool, animal hair, horsehair yarn and fabric thereof	66	Umbrellas, walking-sticks, seat-sticks, whips, etc.
52	Cotton	67	Bird skin, feathers, artificial flowers, human hair
53	Vegetable textile fibres nes, paper yarn, woven fabric	68	Stone, plaster, cement, asbestos, mica etc. Articles
54	Manmade filaments	69	Ceramic products
55	Manmade staple fibres	70	Glass and glassware
56	Wadding, felt, nonwovens, yarn, twine, cordage, etc.	71	Pearls, precious stones, metals, coins, etc.
57	Carpets and other textile floor coverings	94	Furniture, lighting, signs, prefabricated buildings
58	Special woven or tufted fabric, lace, tapestry, etc.	95	Toys, games, sports requisites
59	Impregnated, coated or laminated textile fabric		

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## **A.1. Operational definition of industry level**

### **A.1.1. Non-fuel primary commodities**

Output of the primary division of economy such as agricultural goods and raw materials. Non-fuel primary commodities are considered to be primary division of the economy output that includes agricultural goods and raw materials. Another way of looking at non-fuel primary commodities are the material that are natural or on the semi-finished state, like vegetables which have minimum processing.

### **A.1.2. Resource intensive manufactures**

This category mostly related to labour intensive and are inclined to be simple in nature like skin, tides, woods products etc. but still there is a part of it that is used in skill-



intensive technologies, scale and capital like footwear, textile articles, headgears, plaster, article of stones, cement and mica.

#### A.1.3. Low skill and technology intensive manufactures

This section relates to well-diffused and well-balanced technologies. low end of the manufacturing range and capital equipment is incorporated with high-end technology products that holds relatively low skill requirement. In this category like metal and transportation equipment are same in relation to price so labour cost determine the competitiveness.

#### A.1.4. Medium skill and technology intensive manufactures

most part of skill intensive technology in the intermediate and capital products relates to the Medium skill and technology intensive manufactures that is central to industrial activity of the economy that is fully developed. This category needs advanced and lengthy learning outcome and high level research and development.

#### A.1.5. High skill and technology intensive manufactures

This category contains advanced technologies and required high investment in research and development and mostly used on product design. Apart from chemicals and electronics that have its particular category other examples are musical instruments and aircraft belongs to highly developed nations with high skill and technology.

#### A.1.6. Mineral fuel commodity

In order to process mineral fuel commodity combination both high and medium skill technology is needed. Mineral fuel commodities are not considered to be output of the primary division of the economy. Example of mineral fuel commodities would be work of Art, Musical Instruments, Collector's Piece, Pearls, Precious Stones, etc.



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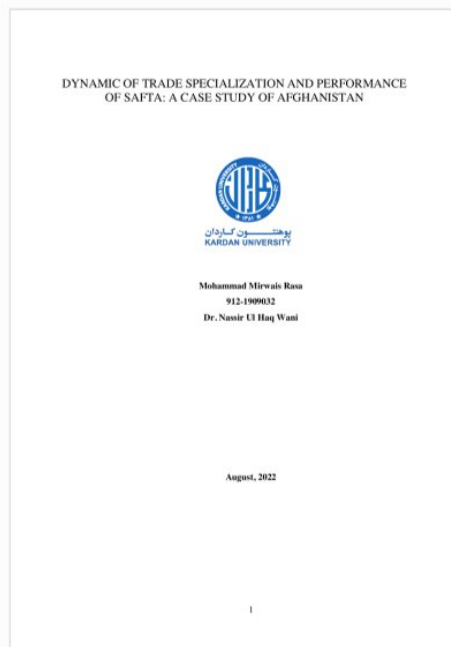


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