

Impact of COVID-19 on the Trade in Afghanistan

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Abstract: *Today Afghanistan faces different uncertainties and difficulties. Heavy burden is imposed by COVID-19 which has brought about decline in the economy, public finances and investments. Revenues have been significantly lost because of lockdown measures which prompted closing of trade avenues within the country and the borders. The study hence attempts to understand the impact of COVID-19 on the trade in Afghanistan. The study found decline in trade caused by closure of borders along with diminished imports and exports. The crisis brought about by the pandemic prompted decline in overall Economic Growth in Afghanistan.*

Keywords: *Afghanistan, Causalty, COVID-19, Economy, GDP, International Security, Lockdown, Monetary and Trade*

Introduction

Economy of Afghanistan

The economy of Afghanistan is shaped by aid dependence and fragility. The private sector is incredibly contracted; with employment determined in agriculture with less productivity (the total labour force in agriculture - 44% and households obtaining earnings from agriculture - 60%)¹. Development and diversification of private sector is inhibited by political unsteadiness, insecurity, weak establishments, deficient infrastructure, corruption, and a complicated environment for the conduct of business (In 2020, out of 190 countries, 173 was Afghanistan's ranking in the Doing Business Survey)². Organizations with weak structure and property rights compel access to finance through financial inclusion, providing credit to the private sector corresponding to only 3% of GDP. Uncompetitiveness results in a structural import/export imbalance, corresponding to 30% of GDP, financed essentially from inflows of grant³. About 75% of public spending is financed through Grants. In 2019, expenditures related to national security and police were about 28% of GDP amounting to a total public spending of 57% of GDP. The unlawful economy characterizes a major portion of exports, employment and production, and integrates production of opium, illegal mining and smuggling⁴.

With a deluge of aid since 2002, quick economic development and enhancements against significant social pointers for more than a decade were supported by Afghanistan. Yearly development stood at 9.4% between 2003 and 2012, increasing the developments in agrarian sector and services sector.⁵ Various elements have sluggish social and economic development, with the economy developing by 2.5% annually from 2015 to 2020, and gains against improvement indicators. Aid flows diminished from 100% of GDP in 2009 to 42.9% of GDP in 2020⁶. Declining grants prompted an extended constriction of the services sector, with a related decline in business and employment. The condition of security declined, with the Taliban insurrection controlling territories and increasing attacks on military and citizens of the country, with casualties increasing to 10,000 every year from 2014 to 2019. The effects of deteriorating grants and declining security were aggravated by political unsteadiness. The formation of the National Unity Government under an extra-constitutional force provoked administrative interruptions and slowed the progress of change. Vulnerabilities in regards to the support of international security and the result of any potential peace treaty with the Taliban have additionally reduced confidence, prompting further decreases in investment⁷.

Afghanistan currently faces challenges in supporting ongoing development gains notwithstanding mounting political vulnerabilities, declining support from international grants, and less security measures. Policy options are limited by the frail execution limit of government offices, showing imperatives of governance, and

¹ UNDP (2020), Afghanistan: Coronavirus Socio-Economic Impact Assessment, Available at <https://reliefweb.int/sites/reliefweb.int/files/resources/UNDP-socio-economic%20impact%20assessment-afghanistan-Brief2.pdf>, Accessed on 1st June 2021

² Doing Business Survey (2020), Ranking of Afghanistan, <http://www.doingbusiness.org/en/rankings>, Accessed on 2nd June 2021

³ Khan, Hamayun (2020), COVID-19 adds to Afghanistan's ailing Financial condition a prospect of future misery, South Asia Journal, Available at www.southasiajournal.net/covid-19-adds-to-afghanistans-ailing-financial-condition-a-prospect-of-future-misery/

⁴ The World Bank (2021), Afghanistan Development Update, Setting Course to Recovery, World Bank Group

⁵ Supra Note 1

⁶ Supra note 3

⁷ Supra note 4

firmly constrained macroeconomic policy alternatives with regards to narrowing financial space and weak monetary transmission systems.⁸

Political Developments in Afghanistan amid COVID-19

The COVID-19 crisis persisted to stress on fragile medical services framework in 2020, intensifying existing socio-economic difficulties in Afghanistan. Weak testing capacity alongside no record of actual cases of affected individuals and fatalities present a weak health services framework during this time of pandemic. Mirroring the decrease in mass-civilian casualty assaults, citizen casualties documented in the initial months of 2020 reduced by 30% contrasted with 2019. Components that are anti-government are accountable for most of civilian casualties.⁹

In 2020, 865,793 refugees got back to Afghanistan from Pakistan and Iran. This generally reflected constrained deportation of Afghans from Iran with regards to challenging monetary conditions achieved by the international sanctions and COVID-19 pandemic prompting humanitarian factors forced because of displacement.¹⁰ With complicated conditions of the economy and the beginning of drought, humanitarian necessities are relied upon to increase in 2021. At the Geneva meeting held in November 2020, contributors renewed their obligation to provide aid to Afghanistan for 2021-2024. Notwithstanding, major donors gave just single-year pledges, with future support made restrictive upon the government speeding up development in endeavors to battle corruption, reduce destitution, and advance peace talks.¹¹

Afghanistan's economy shrunk by 1.9% in 2020, subsequent to a development rate of 2.4% from 2014-2019, reflecting unsteadiness in the midst of political volatility and the effects of the COVID-19 emergency. Investment stayed stifled with regards to pervasive insecurity. Government consumption expanded by around 5.6%, essentially because of the increment in donor financed COVID-19 related expenditures. The agrarian sector confirmed a positive development as solid growth reflected good climate conditions and the restricted effect of COVID-19 related disturbances on the produce of cereals and on livestock.¹²

The effects of lockdowns and closure of borders were extreme for the industry and services sectors. Indeed, before the advent of COVID-19, development in the industry and services sectors was weak because of exceptional political instability, frailty, and uncertainty in regards to international support in the future. Processing of agriculture and trade were vigorously affected by COVID-19 related lockdown measures and interruptions in logistics.¹³

The Survey by IFC's Business Pulse (BPS) reveals that 63% of organizations were either incompletely or totally shut during the lockdown imposed in Afghanistan.¹⁴ Effects were considerably more serious for exporting organizations, reflecting disruptions due to closure of borders and intermittent operation of logistics. 64% of laborers lost pay because of compulsory and intentional closures of organizations, across the industrial sector (78%), agriculture (47%) and services (43%). The ACCI Business Climate Survey displayed a persistence of downward business estimation during the initial six months of 2020 (ACCI Business Climate Survey, 2020)¹⁵, with business deteriorating to an index score of -19 for private businesses contrasted with -7.5 for large organizations.

Impact on Trade during COVID-19

The COVID-19 triggered development restrictions and irregular closure of borders in the II quarter of 2020 declining supply chains and local trade. The trade declined by 23.6% before June 2020. The narrowing and reduction in trade influenced all categories of merchandise. As trade limitations and closure of borders were relaxed, business recovered in the second half of 2020.¹⁶

The trade deficit was USD 5,507 million which was caused due to constriction in imports and exports. Repressed domestic demand was converted into a 4.5% y-o-y plunge (USD 278 million) in imports, while COVID-19 incited closure of borders and less demand in significant trade partners additionally decreased

⁸ IMF (2020), Regional Economic Outlook Update, April 2020

⁹ Ibid

¹⁰ Supra Note 3

¹¹ University of Oxford and the UNICEF (2020), The Socio-economic Impact of COVID-19 in Afghanistan: Microsimulation of Effects of Multidimensional Poverty

¹² Afghanistan Economic Outlook (2020), Biruni Institute, University of Central Asia, Institute of Public Policy and Administration, July 2020

¹³ Ibid

¹⁴ IFC's Business Pulse Survey (2020), Impact of the COVID-19 Crisis in Afghanistan, Available at <https://www.worldbank.org/en/data/interactive/2021/01/19/covid-19-business-pulse-survey-dashboard>

¹⁵ ACCI Business Climate Survey (2020), Afghanistan Chamber of Commerce and Investment, <https://acci.org.af/en/media/ACCI%20Business%20Climat%20Survey%20June-2020.pdf>

¹⁶ Supra Note 10

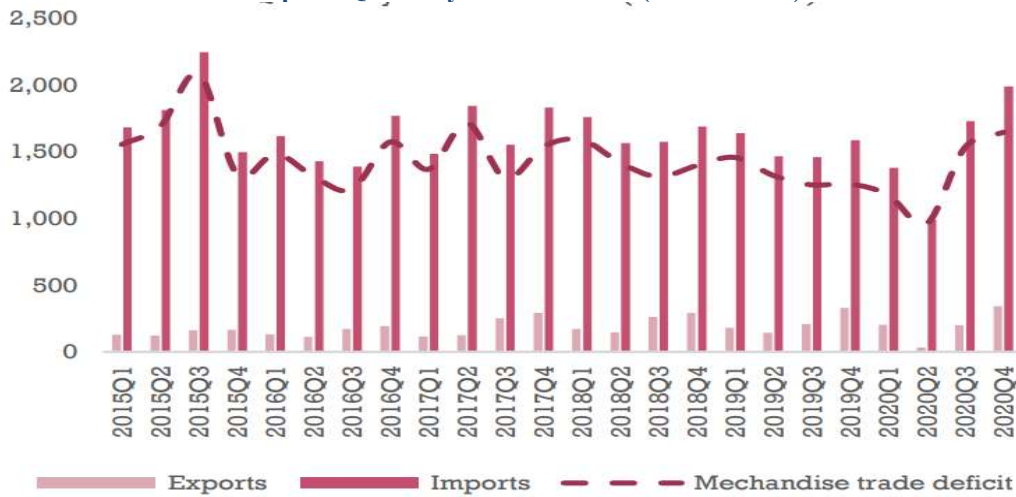
exports by 10% (a USD 87 million drop). Net remittances are assessed to have fallen by 10% in 2020, deteriorating from USD903 million from USD824 million in 2019. Decreased inflows of remittance mirrored the debilitating of work economic situations in key remittance sending nations, including the United Arab Emirates, Iran and Saudi Arabia.¹⁷

Reflecting high political vulnerability and the effects of the COVID-19 emergency, both Foreign Direct Investment (FDI) and portfolio investment documented net outflows in 2020. In 2019, USD24.3 million were net FDI outflows and USD 2.9 million were net FDI outflows. A net outflow of USD 63.2 million and a net inflow of USD 14.6 million in 2019 was recorded by Portfolio investment.¹⁸

The current account balance increased from 0.6% in 2019 to 2.9 % of GDP in 2020. This development was driven by: (I) expanded COVID-19 related inflows of aid; and (ii) the advancement in the trade balance. Notwithstanding increased political vulnerability, Afghanistan were stable against the US dollar all through 2020 (leading to an appreciation of 0.46%), predictable with the surplus of current account.¹⁹

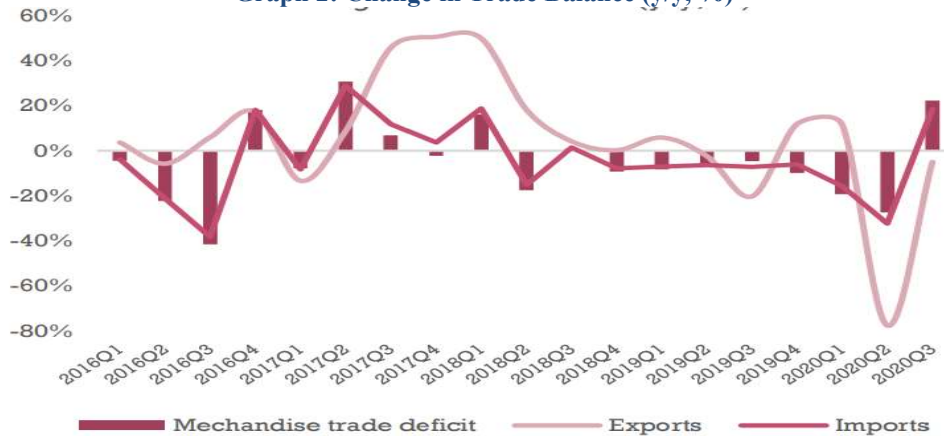
The debt of the Afghanistan government increased from Afs 90.1 billion (or 6.1% of GDP) in 2019 to Afs 114.5 billion (or 7.5 % of GDP) in 2020. IMF loans determined the increment. Afghanistan got a debt service suspension worth USD 3.9 million from qualified creditors for the period of May-December 2020 to make arrangements for expenditures related to COVID-19 uses as a component of G20 Debt Services Suspension Initiative (DSSI).²⁰

Graph 1: Quarterly Trade Balance (Million USD)



Source: National Statistic and Information Agency

Graph 2: Change in Trade Balance (y/y, %)



Source: National Statistic and Information Agency

¹⁷ Supra Note 4

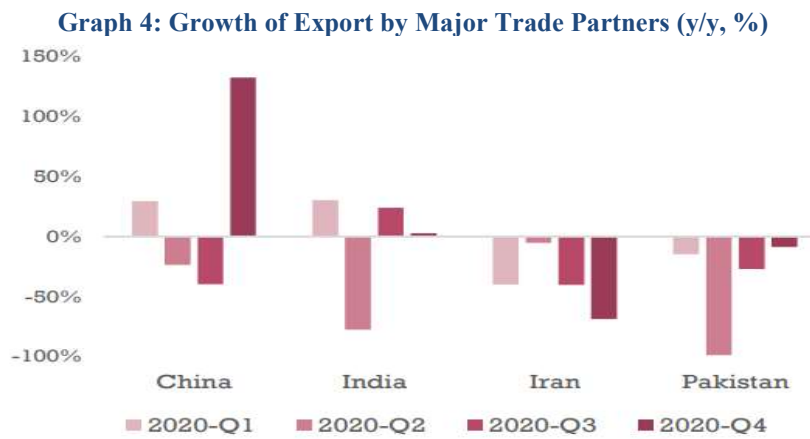
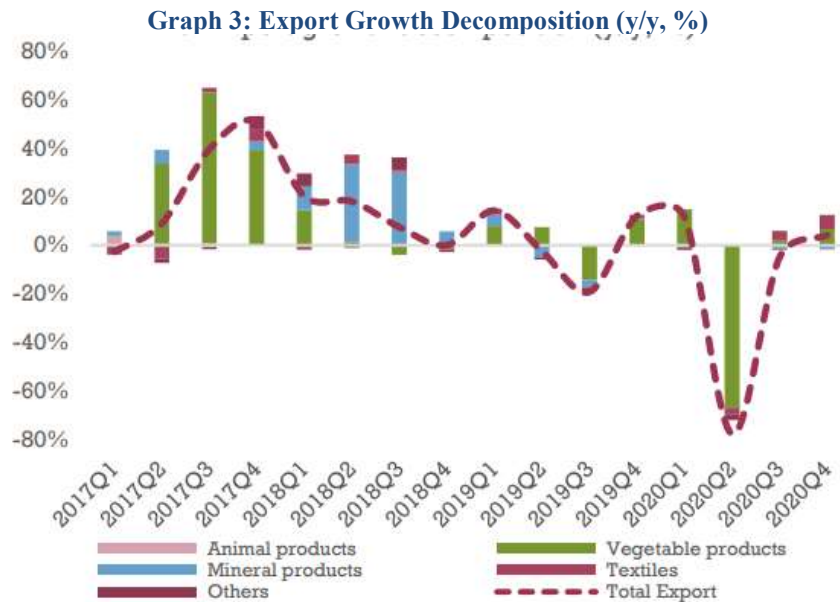
¹⁸ "Global Economic Prospects, June 2020". www.openknowledge.worldbank.org. World Bank. p. 98. Accessed 24 May 2021.

¹⁹ Supra Note 10

²⁰ Ibid

Ahead of the beginning of the COVID-19, exports increased by 11% in I quarter of 2020. Exports reduced pointedly in the subsequent quarter, due to closure of borders, disturbances in air and land transport, and less demand in exports. In spite of relaxation of closure of borders, exports kept on contracting in the III quarter falling by 6% prior to expanding by 4% in the IV quarter.²¹

In 2020, the exports of Pakistan and Iran dropped by 29% and 46.7% respectively, in comparison with 2019; the main reason being the effect of closure of borders. The exports to India, meanwhile, remained steady while the exports to China were 78.5%, because of the recently set up air corridor. Pakistan and India stayed the best two business markets for Afghan products representing 80% of total exports.²²

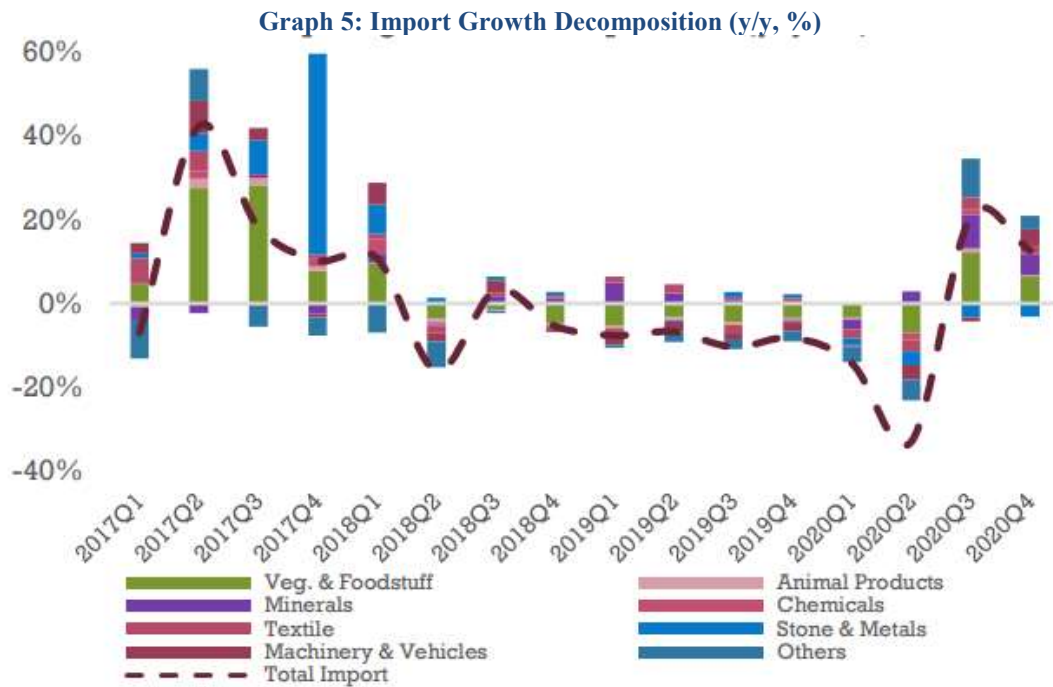


Merchandise imports declined from USD 6,158 million in 2019 to USD 5,880 million in 2020, showing lower global oil prices, quelled domestic consumption, and COVID-related trade disturbances. Driven by cross-country lockdowns, shrinking imports by 33%, lower demand for machinery, minerals, synthetic compounds, base metals and textiles. Imports were likewise affected by the inconvenience of export limitations on wheat flour in adjoining nations, which reduced by 27.2% (USD 85 million) in the principal half of 2020. Lower imports of merchandise reflected lower demand in economy with regards to political vulnerability and

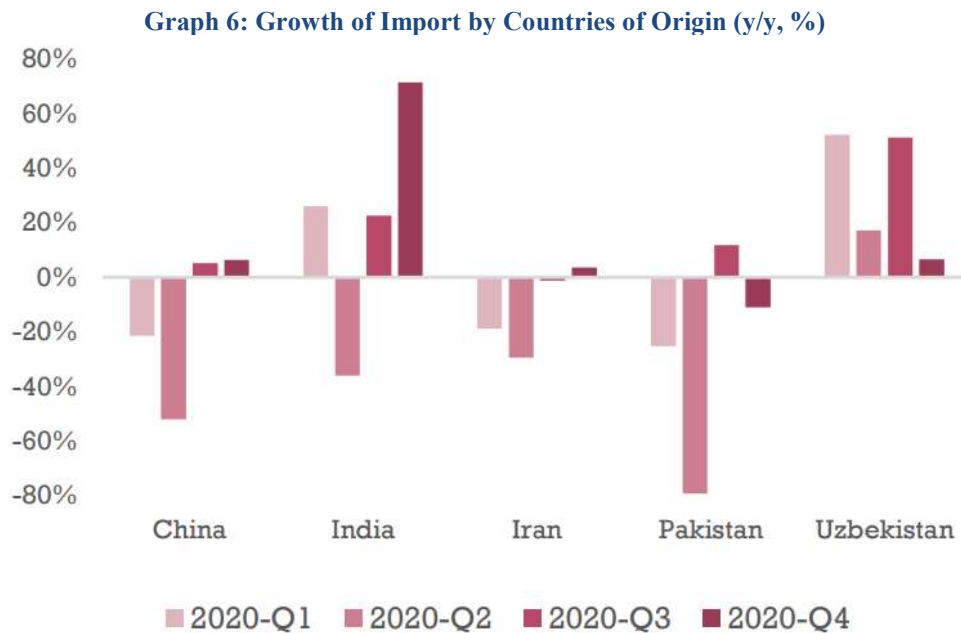
²¹ The World Bank (2020), Afghanistan Development Update, Surviving the Storm, July 2020, Available at <https://reliefweb.int/sites/reliefweb.int/files/resources/Afghanistan-Development-Update-Surviving-the-Storm.pdf>

²² Supra Note 3

the COVID-19 emergency.²³ Import of all merchandise declined except for power, which expanded by USD 16.9 million (7.2%) because of high demand with the extension of the national grid.²⁴



Source: National Statistic and Information Agency



Source: National Statistic and Information Agency

Prospects of Improvement in Economy

Afghanistan's financial and economic advancement possibilities remain profoundly uncertain. Significant basis of vulnerability comprises: I) future political turns of events, together with progress and results of continuous peace conversations with the Taliban; ii) potential changes in security circumstances; iii) future

²³ Supra Note 1
²⁴ Supra Note 10

degrees of support from aid and international security; and iv) domestic, provincial, and worldwide financial conditions with regards to the COVID-19 pandemic.²⁵

Hence, Afghanistan will confront: I) persistence of political and security conditions, including undeniable degrees of ambiguity, slow advancement with harmony talks, a continued US troop presence, and proceeded with violence; ii) proceeded with worldwide grant support at levels characteristically vowed at the 2020 Geneva Conference; and iii) no significant speed in reform development, showing the unstable political environment.²⁶

Under this situation, GDP is required to develop by 1% in 2021. GDP development is relied upon to average around 3% reflecting continuous ambiguity, decline in aid, proceeded with insecurity, and slow change progress. With regards to growth in populace by 2.3%, the per capita livelihoods cannot recuperate to pre-COVID levels until 2025.²⁷

Merchandise exports are predicted to recuperate in 2021 however not vigorously, as the conditions of drought might reduce production of agricultural goods. Merchandise imports are also predicted to grow, showing monetary recuperation. The trade deficit is expected to be stable at 28% of GDP over the medium term. Growth of exports will balance the extension of imports, which are relied upon to extend at around the speed of economic development.²⁸

The debt stock of government is assessed to grow to 8.7% of GDP in 2021 and 10% in 2024.²⁹ In spite of low degrees of debt, the threat of 'high' risk of debt is posed at Afghanistan under the WB-IMF debt sustainability framework. This evaluation reflects substantial reliance of Afghanistan on external grant support, low incomes, low exports, and lack of debt management capacity.

Emergency Provisions during COVID-19 in Afghanistan

Chapter IX of the Afghanistan Constitution, 2004 deals with the provisions of state emergency and particularly, Article 143 which states that the state of emergency will be publicly announced in the country if the situation of war, natural disaster, rebellion or any similar condition arises which threatens the independence and national life of the citizens.³⁰

Article 52 of the Afghanistan Constitution guarantees right to free healthcare and standard medical facilities to all citizens. In order to safeguard the lives of the citizens of the country, Article 52 also imposes responsibility on the Government to take all necessary measures such as providing food, nutrition, medical help, adequate testing system, establishing hospitals with scientific and sophisticated equipments.³¹ It is the duty of the State to provide free healthcare to all citizens without any discrimination as guaranteed by Article 22.³² Article 7 of the Afghanistan Constitution endeavours the provisions of international law, international organizations and fostering respect for international obligation with respect to treaties.³³

Article 23 states that right to life which encompasses right to good healthcare and high standard living. The State is under duty to provide adequate vaccination, food nutrition, emergency services and related facilities during the state of health emergency.³⁴

The quick spread of the infection and the undeniable degree of morbidity related with the COVID 19 pandemic is requiring a fast and strict execution of the control measure.³⁵ In affirmation to the abovementioned,

²⁵ Asian Development Bank Report (2020), Country Partnership Strategy: Afghanistan, 2017–2021, Afghanistan Inclusive and Sustainable Growth Assessment

²⁶ Supra Note 3

²⁷ Afghanistan Study Group: A Pathway for Peace in Afghanistan (2021), Final Report, United States Institute of Peace, www.usip.org

²⁸ Ibid

²⁹ "\$1.5b borrowed, \$300m debt repaid in past 17 years". Pajhwok Afghan News. March 8, 2021. Retrieved 2021-03-28.

³⁰ Article 143 of the Afghanistan Constitution, 2004 enshrines "If because of war, threat of war, serious rebellion, natural disasters or similar conditions, protection of independence and national life become impossible through the channels specified in this Constitution, the state of emergency shall be proclaimed by the President, throughout the country or part thereof, with endorsement of the National Assembly. If the state of emergency continues for more than two months, the consent of the National Assembly shall be required for its extension".

³¹ Article 52 of the Afghanistan Constitution, 2004 directs that the state shall provide free preventative healthcare and treatment of diseases as well as medical facilities to all citizens in accordance with the provisions the law. Establishment and expansion of private medical services as well as health centers shall be encouraged and protected by the state in accordance with the provisions of the law. The state shall adopt necessary measures to foster healthy physical education and development of the national as well as local sports.

³² Article 22 of the Afghanistan Constitution, 2004 describes that any kind of discrimination and distinction between citizens of Afghanistan shall be forbidden. The citizens of Afghanistan, man and woman, have equal rights and duties before the law.

³³ Article 7 of the Afghanistan Constitution, 2004 directs that the state shall observe the United Nations Charter, interstate agreements, as well as international treaties to which Afghanistan has joined, and the Universal Declaration of Human Rights. The state shall prevent all kinds of terrorist activities, cultivation and smuggling of narcotics, and production and use of intoxicants.

³⁴ Article 23 of the Afghanistan Constitution, 2004 states that life is the gift of God as well as the natural right of human beings. No one shall be deprived of this except by legal provision.

it has been seen that the medical care framework in Afghanistan was investing most extreme amounts of energy to give free hospitalization and treatment, more testing of COVID patients and forcing strict measures of lockdown in the country.³⁶ Afghanistan is consequently following the rules given by the WHO to identify the patients with transmission on time and trace those individuals who were in contact with the patients. Accordingly, Afghanistan has restricted mass social affairs like suspension of Friday supplications, religious occasions, sports meetings, and other mass get-togethers. Schools and business outlets have been shut and travel has also been limited.³⁷

Conclusion

Today Afghanistan faces different uncertainties and difficulties. Heavy burden is imposed by COVID-19 which has brought about decline in the economy, public finances and investments. Revenues have been significantly lost because of lockdown measures which prompted closing of trade avenues within the country and the borders. The study hence attempts to understand the impact of COVID-19 on the trade in Afghanistan. The study found decline in trade caused by closure of borders along with diminished imports and exports. The crisis brought about by the pandemic prompted decline in overall Economic Growth in Afghanistan.

Rebuilding of confidence has been hampered, notwithstanding, by testing security and political conditions, and vulnerabilities in regards to future international support. Economic recuperation will rely upon partnership between the public authority and its international accomplices. To assist with re-establishing confidence in private sector and gain international support, the government needs to show significant advancement on income, private sector reforms and anti-corruption.

Abbreviations

COVID-19: Coronavirus Disease 2019; SARS: Severe Acute Respiratory, Syndrome; WTO, World Trade Organisation, WHO; World Health Organisation

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Conflicts of interest

There are no conflicts of interest.

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³⁵ Xu, C. (2020), The 2019-nCoV epidemic control strategies and future challenges of building healthy smart cities, <https://journals.sagepub.com/doi/10.1177/1420326X20910408>

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