

From the Office of the Special Inspector General for Afghanistan Reconstruction Transcript for:
Operation Oversight – Episode 8: Trade in Afghanistan

Description: Hear about recent developments in Afghan trade including the impact of American economic sanctions on Iran, construction at the Chabahar port, and the growth of Afghan air exports.

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[Philip LaVelle] Hi, welcome to Operation Oversight, the official podcast of the Special Inspector General for Afghanistan Reconstruction. I'm Phil LaVelle of SIGAR's Office of Public Affairs and today were joined by Dan Fisher, a subject matter expert who writes the economic development section of our Quarterly Reports to Congress. Dan's a return guest. Thanks for coming back, Dan.

[Daniel Fisher] Thanks for having me, Phil.

[Philip LaVelle] You were here a couple of months ago. Since then, some things have changed. For example, last May, President Trump announced that the United States would withdraw from the Iran nuclear deal and in the last quarter, the United States re-imposed sanctions on the government of Iran. This could have hurt Afghanistan, which is a major trading partner with Iran, but the State Department granted Afghanistan a waiver on two fronts: fuel and development of the Chabahar port, which is Iran's only oceanic port. Tell us a little bit about those two developments.

[Daniel Fisher] So, I think the last time that you and I got together, we were talking about how there was a lot of uncertainty around the Iran sanctions and specifically whether Afghanistan was going to receive waivers. As you pointed out, there are two waivers. The first is for petroleum imports from Iran. Afghanistan is heavily reliant on Iran for their fuel imports. According to the State Department, they import more than 50% of their fuel from Iran. So, that's the big one for Afghanistan.

And then the other one is for the development of the Chabahar port in southeastern Iran. The port is designed to be a conduit for Afghan exports to India and simultaneously a conduit in the reverse direction for Indian exports to Afghanistan and then on to central Asia. So, that is also, I think, a fairly significant waiver that Afghanistan received here.

[Philip LaVelle] So, India has shipped 1.1 million tons of wheat into Afghanistan?

[Daniel Fisher] Correct. I think that the primary purpose of the port thus far has been for the delivery of humanitarian aid and so that the 1.1 million tons of wheat falls pretty definitively into that bucket.

[Philip LaVelle] Just this past weekend, we saw reporting out of press in India that Afghanistan started its first exports to India through Chabahar and is really opening up a lot of opportunities for trade corridors for Afghanistan. Tell us a little bit about that.

[Daniel Fisher] That's right. So, essentially Chabahar is designed to be kind of a two-way deal and based on the reporting that I've seen some of the numbers are sliding around. So I've seen 57 tons' worth of goods being shipped from Afghanistan to India through Chabahar and I've also seen 570 tons. But whatever the figure is, it's 23 trucks' worth of shipment at this point, which is not a huge amount. So at this particular stage, given where Chabahar is at, it's probably not going to have a hugely material impact on Afghan trade. But at the end of the day, it's at least a small win for Afghanistan and potentially signals increased trade through the port in the future.

[Philip LaVelle] It was important enough that President Ghani announced it at a news event over the weekend. So, as you say, a small win, but it is a win and an important development for them. Have the sanctions hurt Afghanistan's economy so far?

[Daniel Fisher] I think that the general assumption is that the sanctions have not been so good for the Afghan economy, despite the waivers. The sanctions will probably shave some points off of gross domestic product. And so, in other words, they will have some effect on GDP growth. That effect we probably saw a little in 2018. We might see some effect here in 2019 with, I think, one of the primary drivers of that being the fairly drastic decrease in Afghan remittances from Iran to their families in Afghanistan.

And so, you have this situation where 720,000 – actually in excess of 720,000 – Afghans have returned to Afghanistan from Iran and all of those folks were working in Iran. They had jobs and they were sending money back to their families. When the sanctions took effect, you had a depreciation of the Iranian rial. You had inflation in Iran. You had higher costs for businesses that relied on imports because they became more expensive and so you had Afghans losing their jobs and facing higher costs of living. And so, a whole bunch of folks returned. And so, I think the remittances is probably where you're going to see the sort of direct impact to growth, but of course, there's also governance challenges associated with the fact that you've got to deal with all of these returnees, particularly in western Afghanistan.

[Philip LaVelle] There's another area, a new development in trade, specifically air exports that has been a bright spot for Afghanistan. They've been growing at a rapid rate, as you note in our latest Quarterly Report to Congress. But you also peeled that onion a little bit and you found out some interesting new facts about that.

[Daniel Fisher] It's probably first worth noting that air exports have, in fact, risen rapidly. So, according to United States Agency for International Development figures, they've grown from approximately \$230 million in 2015 to \$390 million in 2017. That's an increase of over 70%, so that looks pretty good. But I think what we're seeing, as you hinted at, is that the air exports to some extent are being subsidized, which of course raises questions about their sustainability.

[Philip LaVelle] How big are those subsidies and how does that work?

[Daniel Fisher] So, according to the State Department, the subsidies are fairly substantial, so we're talking about up to 90% subsidies for flights to India, 75% for flights to Europe, and up to 80% for flights to other destinations.

Now, in terms of who is funding the subsidies, USAID previously had a trade program called ATAR and it did fund some subsidies through that program, for instance, through the bulk purchase of air freight rates. Now, what USAID has told us, and we had a discussion with them in Kabul not too long ago, is that these subsidies are being provided by the Afghan government. However, Phil, as you and I know, Afghan domestic revenues probably cover between 40 to 50% of total expenditures. And so, I think, money is fungible and it's safe to assume that perhaps there is some donor monies that through the Afghan government are maybe covering some of these subsidies as well.

[Philip LaVelle] There's more to that story. It might not be the happy news story that they purport it to be, but you'll be tracking that going forward.

[Daniel Fisher] We'll definitely see more of that in future Quarterly Reports.

[Philip LaVelle] Another major story, with respect to Afghanistan's economic standing, and this has changed a little bit since we last talked, that's the World Bank's *Doing Business* report. Tell us a little about that.

[Daniel Fisher] The World Bank's *Doing Business* report, I think, is probably one of its most popular publications, it's widely reported in the media. A lot of folks read it. Essentially, what the *Doing Business* report does is it ranks 190 economies against one another. The way that it does that is that it focuses specifically on the legal and regulatory environment for businesses.

The development that I think you're referring to is Afghanistan's 16-point jump in the rankings from 183rd out of again, about 190 economies, to 167th.

[Philip LaVelle] That's all good, but as you reported, that's just part of the story and it's not really clear how much of a material improvement this is, because, as you wrote in the Quarterly Report, the World Bank report doesn't measure actual economic activity. Explain that a little bit.

[Daniel Fisher] So absolutely right, the improvement here is only part of the story and I think that this is something that often gets confused with the *Doing Business* rankings - that they reflect actual economic activity when, in reality, they're really just a loose proxy for it.

So, what the rankings really show is the extent to which a given legal and regulatory environment is friendly to businesses in a given economy. But of course, that's just going to be one input into whether businesses in general are thriving. For example, the rankings don't account for a wide range of activities that can have a fairly extraordinary effects on businesses,

such as the strength of an economy's financial system, the underlying quality of infrastructure or institutions, security, corruption, all of these things that we know, to some extent, are present in Afghanistan and so that, I think, is probably something that's important to keep in mind.

[Philip LaVelle] Great, thanks Dan. This is really interesting stuff. If you'd like to read more of Dan's work on Afghanistan's economic development in our Quarterly Reports to Congress, please check out the SIGAR website: www.sigar.mil. Please follow us on Twitter [@SIGARHQ](https://twitter.com/SIGARHQ) and check us out on [Facebook](https://www.facebook.com/SIGARHQ). Thanks for listening and we'll catch you next time on Operation Oversight.

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