

Services snapshot

Afghanistan



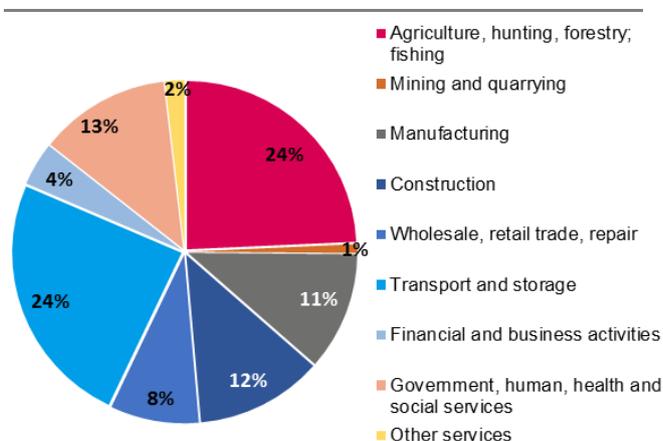
KEY SERVICES DATA¹, 2012

Services² share of industry value added: **64%**
 Trade in services³ contribution to GDP: **15%**
 Services share of total exports: **85%**
 Services export composition: **travel (2%), transport (10%), other commercial services (88%)**
 Services import composition: **travel (3%), transport (48%), other commercial services (49%)**
 Services exports: **US\$ 3 billion**
 Services imports: **US\$ 2.2 billion**
 Services trade surplus: **US\$ 813 million**

SERVICES AT A GLANCE

Afghanistan is a “land bridge” between Central and South Asia, and the Middle East. Neighboring countries, such as Pakistan, Iran and countries from Central Asia are the main trading partners. The development of trade in services has been constrained by decades of conflict and the country is dependent on foreign aid and international assistance. In 2008 a 5 year National Development Strategy was implemented, which acknowledged that increasing trade is critical for the Afghan development process⁴. In 2004 Afghanistan established a working relationship with the WTO, seeking to attain member status.

Figure 1. Value added by industry, 2012



The services share of GDP has grown over 2009 to 2012, especially relative to agriculture, which experienced a commensurate decline. **In value added terms, the services sector contributed 64% of GDP in 2012**, up 10 percentage points since 2009, agriculture and manufacturing contributed 25% and 11% respectively (see figure 1), compared with 34% and 12% respectively.

Services exports have fallen in absolute terms since 2011, while imports have continued to increase causing a marked decline in the services trade

balance (see figure 2), which nevertheless remains in net surplus. Over 2009 to 2012, Afghanistan had a net surplus on services trade account, reaching a peak in 2011- US\$ 2 billion. In 2012 the surplus fell to US\$ 813 million, reflecting a sharp increase of imports (from US\$ 1.2 billion in 2011 to US\$ 2.2 billion in 2012) and a simultaneous decline in exports (from US\$ 3.4 billion in 2011 to just under US\$ 3 billion in 2012).

The share of services in total exports rose from 82% in 2009 to 85% in 2012⁵. In 2012 the two biggest export subsectors were “other business services” and construction, followed by transportation and financial services (see figure 3). Other business services and transport services continued to grow over the period 2011-2012 when other services exports declined, perhaps in response to a renewed wave of political instability.

The Export Promotion Agency of Afghanistan was established in 2006 to increase Afghan exports in foreign markets, but it has languished since the institutional arrangements were changed. Regional cooperation increased when the Afghanistan-Pakistan Transit Trade Agreement (APTTA) became operational in June 2014.

Figure 2. Services trade account

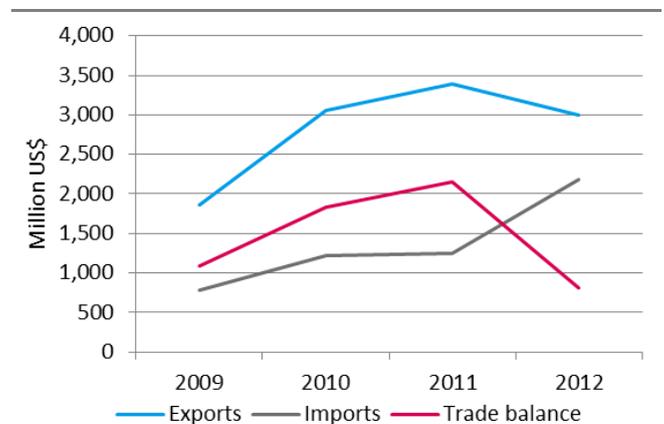


Figure 3. Composition of services exports

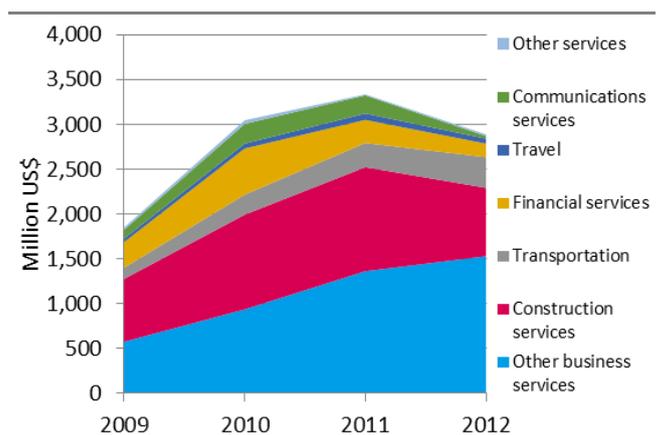
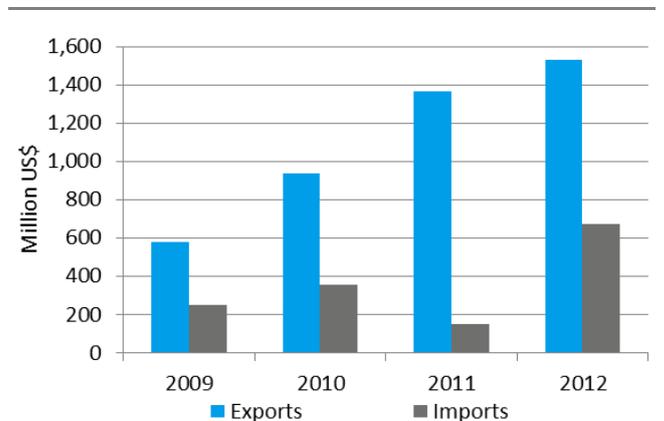


Figure 4. “Other business services” trade



SERVICES SUBSECTORS

“Other business services”

Afghanistan is a net exporter of “other business services”. Over 2009 to 2012 export volumes of these services almost tripled, from US\$ 577 million in 2009 to US\$ 1.5 billion in 2012, with an average annual growth rate of 40%. Technical and trade-related services are the main drivers of this sector growth

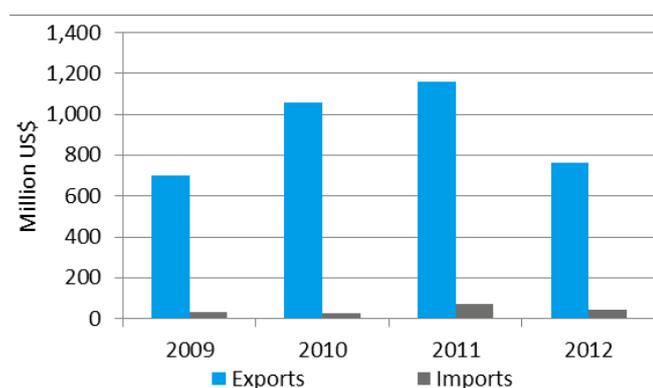
Diagnostic Trade Integration Study (DTIS) report for Afghanistan reveals that a major constraint to the supply side and for private sector development in Afghanistan is infrastructure⁶.

Construction services

Afghanistan is a net exporter of construction services (see figure 5). Export volumes increased from US\$ 702 million in 2009 to US\$ 1.2 billion in 2011, with 30% average annual growth rate. In 2011 exports dropped by 34% settling at US\$ 762 million, the year when military troops started leaving and a major economic and political transition in Afghanistan began.

The construction sector is one of the fastest growing sectors in the country. The main reasons have been an increase in foreign donor supported projects and a strong Afghan government focus on reconstruction⁷.

Figure 5. Construction services trade

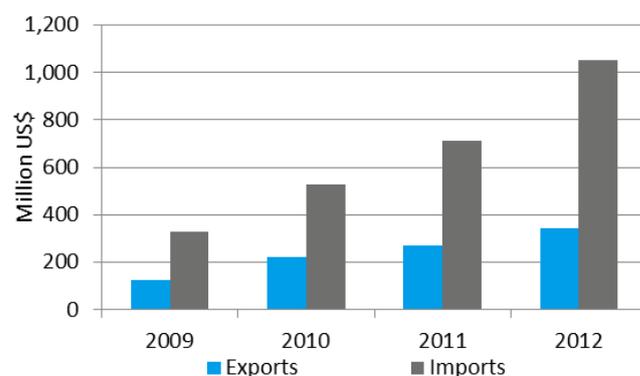


Transport services

Afghanistan is a net importer of transportation services. In 2012 exports grew 27% while imports – 47%. Imports grew from US\$ 330 million in 2009 to US\$ 1.1 billion in 2012 (see figure 6). Exports are also increasing; however the volume is relatively low (US\$ 343 million).

Afghanistan's road network is in serious need of rehabilitation. Only 30% of roads are paved⁶. The government has pursued improvements in transport infrastructure⁸. In 2011, 17 road construction projects were implemented and 35% of the country's roads were upgraded. The road network is expected to have grown by an additional 7,000 km by 20147. The rail network is being built and Afghan air transport is being upgraded to international standards.

Figure 6. Transport services trade



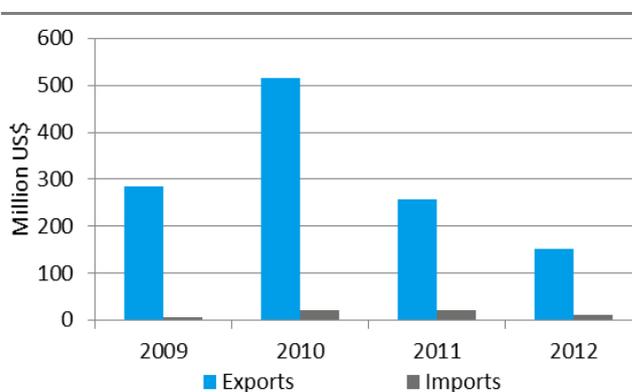
Financial services

In 2009 the World Bank provided a grant for the Financial Sector Straightening Project, implemented by the Central Bank of Afghanistan⁹. Financial services exports increased from US\$ 285 million in 2009 to US\$ 515 million in 2010 (see figure 7).

Financial services trade shrank, however, over the subsequent period, settling at US\$ 151 million in 2012. Afghanistan nevertheless remains a net exporter of financial services, imports of these services being relatively low.

Kabul Bank, one of the major banks in Afghanistan, was near to collapse in 2010. Specialists agree that the banking sector is still weak and in need of a stronger regulatory regime¹⁰.

Figure 7. Financial services trade



FOREIGN DIRECT INVESTMENT (FDI)

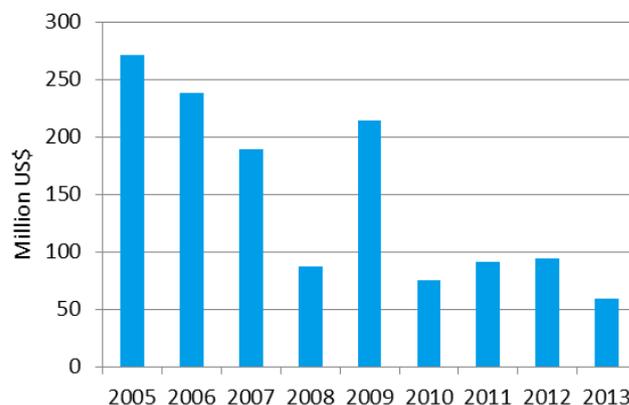
Net FDI inflows decreased over 2005 to 2013 (see figure 8). High levels of corruption are a continued major impediment for international investment. Transparency International's Corruption perception index dropped from 25 in 2005 to 8 in 2013 out of total score of 100¹¹, indicating international perception of poor governance. In general, private investment is risky due to a lack of rule of law. Afghanistan ranks last globally and regionally on the strength of investor protection in World Bank Doing Business 2012 report⁷.

Government efforts to encourage inward FDI are focused on improving infrastructure, pursuing engagement in bilateral and multilateral trade agreements and trade related reforms in construction, telecommunications, transport and logistics

According to the Afghanistan Investment Support Agency (AISA), over the period 2003 to 2011, the major sector attracting FDI in Afghanistan was the services sector- 89%, while manufacturing attracted 10% and agriculture 1%.

Afghanistan ranked 168 out of 189 economies in the World Bank Ease of Doing Business index in 2013. This result is worse than the previous year, when Afghanistan had 160th place. A World Bank assessment of the business climate in Afghanistan in 2011 recommended reforms in nine of the ten indicators of the Doing Business Index¹³.

Figure 8. Foreign direct investment (net inflows)



FOOTNOTES / SOURCES

1. Key data derived from: United Nations Statistics Division – National Accounts Official Country Data, WTO Trade Profile, ITC Trade Map.
2. The services percentage of industry value added includes construction and utilities.
3. All trade data is for commercial services. Data for all figures derived from Trade Map (ITC, UNCTAD, WTO joint dataset).
4. WTO: Trade Facilitation Forum.
5. Exports of merchandised goods are low in comparison with services exports (US\$403 millions in 2009 and US\$515 million in 2012).
6. Enhance Integrated Framework (EIF), Diagnostic Trade Integration Study (DTIS): Afghanistan. November 2012.
7. Afghanistan Chamber of Commerce and Industry (ACCI) : Afghanistan : the land of rising opportunity, 2011.
8. Afghanistan Investment Support Agency (AISA): Market prospects: Construction is the main driving force.
9. World Bank: Report No : 47797 – AF, 2009.
10. Special Inspector General for Afghanistan Reconstruction (SIGAR): Afghanistan's banking sector, 2014.
11. Transparency International. The CPI scores and ranks countries/territories based on how corrupt a country's public sector is perceived to be on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean.
12. World Bank : The Afghanistan investment climate 2008.
13. Improving the Ease of Doing Business in Afghanistan Reform Memorandum , WB - IFC, February 2011.



For additional information

Contact person: Jane Drake-Brockman, Trade in Services Senior Officer
E-mail: drake-brockman@intracen.org
Telephone: +41-22 730 0446

Street address: ITC, 54-56 Rue de Montbrillant, 1202 Geneva, Switzerland
Postal address: ITC, Palais des Nations, 1211 Geneva 10, Switzerland
Internet: www.intracen.org