

# The Impact of India-Afghanistan Relations on the Economic Situation in Afghanistan

Mohammad Jawad Mosawi (Mohaddesi)<sup>1</sup> and Aziz Ahmad Fazli<sup>2</sup>

<sup>1</sup>Assistant Professor and Academic Staff Member, Department of International Relations, Law and Political Science Faculty, Khatam Al-Nabeen University, AFGHANISTAN.

<sup>2</sup>Lecturer and Quality Improvement Manager at the Mili Institute of Higher Education, AFGHANISTAN.

<sup>1</sup>Corresponding Author: mohaddesij@gmail.com



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## ABSTRACT

Afghanistan lost nearly all its economic infrastructure during more than three decades of war. Following the events of September 11 and the establishment of a new order, the country adopted a market-based economic system in its new constitution and pursued policies aligned with this model. Currently, Afghanistan maintains trade and transit agreements with neighboring and South Asian countries, including India, a key economic power in the region. Globally, India ranks as one of the largest developing nations and the fourth-largest economy, offering substantial economic opportunities for both countries through enhanced bilateral ties. Over the past decade, India has funded several development projects in Afghanistan, primarily in infrastructure. These initiatives have not only provided thousands of jobs but also laid the groundwork for the growth of other economic sectors. For instance, the construction of the Salma Dam has supplied electricity to western provinces and enabled the irrigation of thousands of hectares of farmland. In terms of investment, India has expressed interest in extracting the Hajigak mine in Bamiyan, which could create 32,222 to 35,222 jobs and generate \$322 million annually for Afghanistan. Bilateral trade relations reflect India's need for raw materials from Afghanistan and Central Asia, while these regions serve as significant markets for Indian goods. Afghanistan, strategically positioned as a bridge between India and Central Asia, also relies on India for access to global markets. This study examines the economic opportunities and challenges of India-Afghanistan relations and evaluates India's role in Afghanistan's trade, investment, and reconstruction sectors. Findings highlight India's influential role in Afghanistan's political, social, and economic transformation, emphasizing the strategic alliance's mutual benefits. However, Afghanistan must strengthen its security and defense to address shared threats, particularly from Pakistan, to fully leverage this partnership.

**Keywords-** economic reconstruction, trade, investment, infrastructure, security challenges.

## I. INTRODUCTION

The relationship between India and Afghanistan has historically been shaped by mutual economic and strategic interests. As a key regional partner, India has played a significant role in supporting Afghanistan's economic reconstruction and development, particularly after decades of conflict. This partnership has included substantial investments in infrastructure, education, healthcare, and capacity-building initiatives, reflecting India's commitment to fostering long-term stability in Afghanistan. Furthermore, trade agreements and projects

such as the Chabahar Port have aimed to improve Afghanistan's connectivity to global markets, reducing its dependence on landlocked trade routes. However, the evolving geopolitical dynamics and domestic challenges in Afghanistan have posed complexities to this relationship, influencing the effectiveness of Indian contributions. This study examines the multifaceted impact of India-Afghanistan relations on Afghanistan's economic situation, exploring both the opportunities and constraints shaped by their bilateral engagements.

Afghanistan's economic development has been severely hindered by decades of conflict, political

instability, and reliance on external aid. In this context, the role of regional partnerships, particularly with India, has emerged as a crucial factor in addressing these challenges. India has invested significantly in Afghanistan's infrastructure, education, healthcare, and trade, aiming to contribute to the country's long-term stability and economic resilience. Despite these efforts, Afghanistan continues to face persistent issues such as limited trade connectivity, underdeveloped industrial capacity, and fragile institutions, which raise questions about the effectiveness and sustainability of India's contributions. Furthermore, regional geopolitical tensions, coupled with domestic instability in Afghanistan, have complicated the implementation and outcomes of bilateral projects. This study seeks to analyze the extent to which India-Afghanistan relations have influenced Afghanistan's economic situation, highlighting both the successes and limitations of their partnership while identifying areas for potential improvement.

#### **Research Purposes**

This research aims to provide comprehensive information for students regarding India's role in Afghanistan's economy, as well as the challenges and opportunities inherent in the economic relations between the two countries. Additionally, it seeks to offer valuable insights for policymakers in Afghanistan to better understand India's position and contributions to Afghanistan's economic landscape.

#### **Importance of Research**

India, as one of the world's largest developing economies and the fourth-largest globally, presents significant economic opportunities for both countries through their bilateral relations. Over the past few years, Indian-funded projects in Afghanistan have predominantly focused on infrastructure development. These projects not only create employment opportunities for thousands of job seekers but also establish the foundational framework for the growth of other economic sectors. For instance, the construction of the Salma Dam provides electricity to Afghanistan's western provinces while enabling the irrigation of thousands of hectares of agricultural land, enhancing agricultural productivity.

In the domain of investment, India has shown interest in resource extraction, particularly in the Hajigak iron ore mine. This project alone is projected to create employment opportunities for approximately 32,222 to 35,222 individuals and contribute around \$322 million annually to the Afghan government's revenue. Such initiatives underscore the transformative potential of India-Afghanistan economic cooperation, making this research crucial for understanding and maximizing the mutual benefits of this relationship.

#### **Background of Research**

While there has been no specific study exclusively dedicated to India-Afghanistan economic relations, several scholarly articles and analyses have explored related topics, such as India's role in Afghanistan, its objectives in providing assistance, and

the strategic significance of the Chabahar Port. For example, Reza Ferzan, a professor at the Faculty of Economics, highlighted the importance of the Chabahar Port in his paper titled "*Chabahar and the Future of the Afghan Economy*," published in 2016 on the BBC Persian website. Ferzan emphasized the port's potential as a viable alternative to the Karachi Port, offering enhanced trade connectivity for Afghanistan.

Another relevant contribution is an article by Mohammad Hashem Qayyam, titled "*The Economic and Outlook of India and Afghanistan*," published in *8am*. This article examines the political and economic relations between the two countries, shedding light on the significance of their bilateral ties. These existing works provide valuable context but underline the need for a focused study on the economic aspects of India-Afghanistan relations to bridge the current research gap.

#### **Research Hypothesis**

In response to the main research question, it is hypothesized that, while numerous countries have played a role in the reconstruction and economic development of Afghanistan, India occupies a unique and significant position in the areas of trade, investment, reconstruction, and grants. This research seeks to substantiate this hypothesis by examining India's contributions to these key sectors of Afghanistan's economy.

## **II. RESEARCH METHODOLOGY**

This research employs a library-based methodology to explore the theoretical dimensions of the topic. Books, scholarly articles, and journals have been reviewed to construct the foundational framework of the study. Additionally, quantitative data, including trade figures and transit agreements between India and Afghanistan, have been collected from relevant institutions such as the Ministry of Commerce and Industry, the Chamber of Commerce, the Ministry of Economy, the Ministry of Mines and Petroleum, and the Afghanistan Investment Support Agency (ISA). The collected data have been analyzed using narrative statistical methods to derive insights and address the research questions comprehensively.

### **1. Theoretical Foundations and Research Terminology**

#### **1.1. Theoretical Foundations**

##### **1.1.1. International Trade Theories**

The theories of international trade seek to answer fundamental questions about why countries engage in trade, exporting certain goods while importing others. These questions were first systematically addressed over 150 years ago by classical economists such as Adam Smith and David Ricardo.

##### **1.1.1.1. Adam Smith's Theory of Absolute Advantage**

In his seminal work *The Wealth of Nations*, Adam Smith proposed the theory of absolute advantage, asserting that a country should specialize in producing goods it can produce more efficiently and trade for goods

it cannot. Smith stated, "If a country can provide a commodity at a lower price than we can, it is better to buy it and focus on producing goods in which we have an advantage." Using the analogy of a tailor and shoemaker exchanging their goods, Smith demonstrated that trade allows both parties to benefit by specializing in their respective areas of expertise. Similarly, nations can achieve mutual benefits through trade.

#### 1.1.1.2. David Ricardo's Theory of Comparative Advantage

Ricardo expanded on Smith's ideas with his theory of comparative advantage, which operates on several assumptions:

1. The theory of labor value.
2. International division of labor.
3. Two countries and two commodities.
4. Production factors are immobile between countries but mobile within a country.
5. Full employment of resources.
6. Constant cost allocation.
7. Negligible shipping costs apart from transaction costs (Pourmoghim, 2010: P- 22).

According to the labor value theory, goods requiring different amounts of labor for production possess varying values. The value of a commodity depends directly on the labor time required for its production.

#### 1.1.2. Opportunity Cost Theory

Haber's opportunity cost theory refines Ricardo's model, asserting that the cost of producing one good is the amount of another good that must be foregone to allocate sufficient resources to produce the first. A country with a lower opportunity cost in producing a specific good has a comparative advantage in its production (Safari, 1392: P- 28).

#### 1.1.1.4. Ohlin's Factor Proportions Theory

This theory emphasizes differences between countries in their possession of production factors, as well as differences in goods based on their use of these factors. Each country exports goods requiring abundant and inexpensive resources while importing goods needing relatively scarce and costly inputs. The relative abundance of production factors determines a country's comparative advantage.

#### 1.1.1.5. Linder's Relative Advantage Theory

In 1961, Linder proposed that countries initially produce goods for their domestic markets. Once expertise is developed, they export these goods to countries with similar income levels and demand patterns. This theory suggests that trade is influenced by the similarity of preferences across countries rather than resource endowments alone (Safari, 1392: P- 22).

#### 1.1.1.6. Leontief's Paradox

Leontief's empirical tests revealed a counterintuitive result: the United States, despite being capital-abundant, tended to export labor-intensive goods and import capital-intensive ones. This phenomenon, known as Leontief's Paradox, attributed the discrepancy

to the high quality of American labor, or "human capital," emphasizing the role of labor quality over quantity in determining comparative advantage (Safari, 1392: P- 24).

#### 2. The Difference between international economy and domestic economy

The primary distinction between the international and domestic economies lies in the barriers and trade restrictions that exist between countries. These barriers, which include customs regulations, commercial restrictions, and exchange controls, have economic, political, and social dimensions that significantly impact international trade (Pourmogim, 1392:P-12). Additionally, countries issue different currencies, such as the dollar, pound, or euro, and when traders engage in cross-border transactions, they must convert their currency into that of the exporting country. This difference in currency policies and systems affects trade dynamics, distinguishing the international economy from the domestic economy (Pourmogim, 2010: P-13). Furthermore, countries adopt various monetary, financial, and trade policies, including tax systems, currency policies, quotas, and trade controls, which are aligned with their domestic economic strategies and influence international trade (Pourmogim, 1389:P- 15).

#### 3. The Challenges of International Economy in Contemporary Era

1. The challenges facing the international economy in the contemporary era are multifaceted. One of the most significant issues is trade protectionism in advanced countries. This issue arises from a minority of producers who gain substantial benefits, often at the expense of the majority of consumers (Salvatore, 1391: P-13).

2. Another critical challenge is the occurrence of financial crises in market-based economies. Since the early 1990s, a series of financial crises have emerged, threatening the stability of the global monetary system. Notable examples include Mexico's major economic downturn in 1994-1995, the severe financial crises in Southeast Asia (Thailand, Korea, Malaysia, Indonesia, Philippines) in 1997, and the collapse of Russia's economy and financial crisis in 1998 (Salvatore, 1391: P- 14).

3. Additionally, globalization presents significant challenges. It refers to the increasing economic integration of the world's economies through the flow of goods, capital, ideas, labor migration, and improved transportation and communication systems. However, globalization has been criticized for causing various issues, such as rising income inequality, child labor, environmental pollution, and other social concerns, which have contributed to the emergence of anti-globalization movements (Salvatore, 1391:P. 16).

#### 4. International Trade Policies

##### 4.1. Trade restrictions

##### 4.1.1. Tariffs

Historically, tariffs have been the most significant type of trade restriction. These are taxes or fees imposed when goods are transported between countries. Import tariffs are levies placed on goods entering a

country, while export tariffs are imposed on goods being exported. However, import tariffs are generally considered more important than export tariffs. Export tariffs are prohibited in the United States, but some developing countries, such as Ghana, impose tariffs on cocoa exports, and Brazil applies tariffs on coffee exports. These measures are intended to increase prices and profits. Industrialized countries often impose trade restrictions to protect their domestic industries (Salvatore, 1391: P-376).

#### 4.1.2. Non-tariff restrictions

The most significant type of non-tariff trade restriction is quotas. A quota is a direct limit on the quantity of goods that can be imported or exported, determining the amount of import and export permits granted (Salvatore, 1391: P-354).

#### 4.1.3. Impact of Import quota

Import quotas were introduced after World War II and became a common practice in Western Europe. Today, quotas are employed by industrialized nations to support the agricultural sector, while in developing countries, they are used to encourage domestic production, reduce industrial imports, and facilitate balance-of-payments adjustments (Salvatore, 1391: P-354).

#### 4.1.4. Economic integration or free trade zones

Economic convergence theory is a trade policy aimed at reducing or eliminating trade barriers among countries. It emphasizes the establishment of economic links through various levels of trade agreements, including preferential trade areas, free trade zones, unions, customs unions, common markets, and other economic initiatives (Salvatore, 1391: P-419).

#### 4.1.5. Preferential trade regulations

Economic convergence theory reduces trade barriers among member countries while focusing less on non-member countries. Preferential trade rules represent the mildest form of economic integration. A prominent example of preferential regulations is the UK's preferential preferences scheme, established by Britain in 1932 for its members and certain affiliates of the former British Empire (Salvatore, 1391: P-419).

### 5. The theory of business and economic development

According to the theory of comparative advantage, if each country specializes in the production of goods in which it has a relative advantage, global production will increase. Both countries can benefit from trade. However, the comparative advantage theory suggests that developing countries should focus on exporting raw materials, minerals, oil, and food rather than industrial goods. While this strategy may offer short-term benefits, in the long term, it may limit the development potential of these countries. Relying on raw material exports deprives developing countries of the long-term dynamic benefits associated with industrialization. These dynamic benefits include workforce training, increased innovation, higher and more stable export prices, and greater income for

disadvantaged populations. In this context, the theory implies that the trade benefits are predominantly captured by developed countries, leaving developing nations poor and dependent (Salvatore, 1391: p. 465).

#### 5.1. The role of trade in development

Haberler is one of the scholars who emphasizes the importance and impact of international trade on economic development. He highlights that trade can facilitate the exploitation of unemployed domestic resources. According to him, for a developing country, trade serves as a market for agricultural products and raw materials, especially when there is insufficient domestic demand for these goods. By expanding trade markets, the division of labor and economies of scale are realized. International trade also serves as a means of transferring new ideas, technologies, management practices, and other skills. It encourages and facilitates the flow of capital from developed to developing countries. In some developing nations, the import of new industrial goods has led to increased domestic demand, followed by greater domestic production with enhanced productivity. Moreover, international trade acts as an efficient tool against monopolies. Due to increased competition, domestic producers are motivated to improve productivity, which in turn reduces the prices of intermediate and semi-intermediate goods used in the production of other domestic products. While some critics argue that international trade may primarily benefit developed countries to the detriment of developing nations, it is evident that in many instances, international trade has played a significant role in the economic development of countries. For example, prior to the 1990s, China adhered to a self-defense policy, but after 1992, international trade became a key factor in China's economic growth (Salvatore, 1391: p. 469).

#### 5.2. Export

**Definition of Export:** Exportation refers to the transfer or movement of goods from one location to another, either within a country or across national borders. In this context, the primary purpose of exportation is the departure of goods from a country's territory to another country. Exports, from the perspective of their exit, can be categorized into various classifications (Salvatore, 1391: P. 14).

#### 5.3. Import

**Definition of Import:** Import refers to the transfer of goods (or services) from the customs territory of one country to another. During this process, currency is exchanged between the seller in the country of origin and the buyer in the destination country. There are five types of foreign trade (Salvatore, 1391: P. 16).

#### 5.4. Foreign aid

**Definition of Foreign Assistance:** Economically, foreign assistance can be defined as the transfer of real resources from one country to another. In this context, any foreign assistance is reflected in the national aid bill, where the grant beneficiary and the aid recipient are key actors (Shahraastani, 1393: p. 1). There are two primary theories



regarding foreign aid and its availability. One theory suggests that countries and societies contributing to development goals are, in fact, disguising their true intentions. In this view, what is termed as aid is, in reality, a mechanism for exerting dominance over the recipient countries. On the other hand, another theory posits that humanitarian assistance is genuinely aimed at advancing the development of the recipient country, improving the livelihoods of its people by wealthier nations. As long as a gap exists between poor and rich countries, foreign aid will continue (Shahrestani, 1393: p. 12).

**Justification for Foreign Aid:** A common justification for foreign aid is that it constitutes an external form of savings. When foreign investments are directed toward productive ventures, they can contribute to capital accumulation within the recipient country, facilitating economic growth. This is particularly relevant since developing countries often face a lack of capital accumulation due to insufficient savings (Shahrestani, 1393: p. 5).

### 6. Afghanistan's Business Relationships

#### 6.1. History of India-Afghanistan Trade Relations

India has a long historical connection with the land that was once known as Aryan and modern Afghanistan. One of the earliest links between ancient Ariana and India was the racial bond. For eight years, the land of India was administered by the Shams, who either originated from or passed through Afghanistan (Taman, 1393: p. 258). Historically, Afghanistan has maintained strong economic relations with India. The introduction of bicycles in Afghanistan marked one of the significant imports from India, which were mainly facilitated through Iranian ports (Taman, 1393: p. 274). The political interactions between India and Afghanistan were exemplified by Sultan Mahmud Ghaznavi and the military campaigns of Ashoka, one of the most renowned emperors in Indian history. Many historians argue that these engagements, while portrayed politically, were also driven by economic interests. With India's independence in 1947, the bilateral relations entered a new phase. Afghanistan appointed Najibullah Toruayana as its ambassador to Delhi, and the two countries enjoyed good relations. However, during the Taliban era, India did not recognize the Taliban regime. The relationship improved again after the establishment of the Afghan Interim Administration in 2001, particularly in the economic sphere. India has since become one of Afghanistan's largest contributors, funding major infrastructure projects and providing significant aid to the country's development (Taman, 1393: p. 267).

#### 6.2. The Importance of Trade Relations between India and Afghanistan

India is one of Afghanistan's primary export partners. In return, Afghanistan exports goods such as dry fruits to India. Notably, export tariffs for certain merchandise to India have been reduced to zero. Under a bilateral agreement between Iran and India, Afghanistan can now export its goods to India through the Chabahar

port. The Chabahar route, in this context, not only reduces Afghanistan's dependency on the Karachi port but also strengthens India's strategic connection with Afghanistan (Shan Qi, 1386 p. 9).

### 7. Opportunities for India-Afghanistan Relations

**A. Business Opportunity:** Territorial trade relations between Afghanistan and India are hindered by Pakistan's policies. However, trade between the two nations continues through maritime routes. Currently, Afghanistan's markets are flooded with Indian products, including electronics, mobile phones, motorcycles, rice, and detergent products. In contrast, Afghanistan exports high-quality saffron and dried fruits, particularly to India. According to a local trader, Indian imported goods are more affordable than those from Pakistan and China. This price advantage has consistently provided a business opportunity, and as India's economy, similar to China's, has progressed significantly in recent years, these trade relations have strengthened. (Jalali, 2022: p. 28)

**B. Export of Afghanistan to India:** Under the agreement between the South Asian Association for Regional Cooperation (SAARC) and the Southeast Asian Free Trade Organization, Afghanistan's exports to India are exempt from customs duties. The Ministry of Commerce and Afghanistan's Export Promotion Agency report that India's efforts to expand Afghanistan's exports have been effective. Afghan Finance Minister Anwar Haq Ahadi states that India has reduced its tariffs on Afghan exports to nearly zero. Only a few minor tariffs remain, particularly on Afghan agricultural products, which have been eliminated. The removal of customs duties presents a significant opportunity for Afghan traders. Although Afghanistan's exports face higher import standards in Europe, exports to India are increasingly meeting the required criteria. Indian authorities note that the removal of tariffs serves two purposes: boosting Afghanistan's exports to India and promoting the country's economic development (Siddiqi, 1386: p. 6).

### 8. Challenges solution

Establishing an export chatroom within the Ministry of Trade and Industry is essential to improve communication and coordination among stakeholders. Reviewing and establishing cabinets in exporting countries can help streamline export activities and align them with national trade policies. Measures to prevent the influence of certain groups on financial expenditures should be implemented to enhance product productivity and ensure efficient use of resources. Strengthening communication systems by adhering to ISO and ITC standards, along with building international communication networks, will further integrate the country into the global trade system. Creating a centralized export analysis and distribution center is vital for analyzing market trends, managing export-related data, and effectively distributing products to target markets. Establishing control teams in various sectors ensures adherence to regulations and standards for both incoming and outgoing exports. Marketing efforts should

be bolstered through participation in business conferences led by specialized and professional delegations. Additionally, the creation of an independent commission to prevent extortion, separate from security agencies, is necessary to address issues affecting trade routes. The implementation and continued pursuit of transit agreements, including the Afghanistan-Pakistan Transit Agreement (APTA), are critical for facilitating smoother trade routes. Training courses on export preferences should be provided to enhance stakeholders' understanding of trade incentives and opportunities. Establishing lending banks tailored for exporters will offer financial support to bolster export activities. Control teams should also oversee processing areas to maintain compliance and quality standards. Lastly, following up on the Baghrabar Port Development Agreement is essential to ensure its completion and support the growth of trade infrastructure. (Sarkar, 2017: p. 25)

### 9. Commercial Tariffs between Afghanistan and India

India's implementation of zero tariffs on specific export items from Afghanistan plays a pivotal role in boosting Afghanistan's trade capabilities and economic stability. Among the items benefiting from zero tariffs are Afghanistan's renowned fruits, which include fresh apples, raisins, and other dried fruits, as well as culturally significant goods such as saffron, carpets, and wicker products. These concessions, particularly during Ramadan, provide Afghan exporters with increased access to the Indian market, fostering bilateral trade relations and supporting local producers. One highlighted export item with a zero tariff rate is fresh apples, which have the HS tariff number 080810. This tariff exemption enhances the competitiveness of Afghan apples in the Indian market, promoting agricultural exports and contributing to Afghanistan's economic growth. (Sarkar, 2017: p. 34)

#### B: Transit Opportunity

**Chabahar port** Chabahar, located in the southeastern city of Sistan and Baluchistan Province in Iran, is the country's only oceanic port. Situated along the Makran coast near the Indian Ocean, Chabahar serves as a vital hub for Iran's free trade zone and plays a strategic role in regional and international trade. Its proximity to the shores of the Indian Ocean positions it as the closest access route to Central Asian countries, including Afghanistan, Turkmenistan, Uzbekistan, Tajikistan, and Kyrgyzstan. This strategic location opens up significant trade opportunities by providing access to international waters and fostering connectivity. Substantial investments in Chabahar have focused on enhancing infrastructure, including the construction of docks and expanding the loading capacity for ocean-going ships. The port is integral to the North-South Transport Corridor, a major global trade route. Its connectivity is further enhanced by a rail network linking it to Central Asia and the presence of an international airport, making it a crucial node in regional and international commerce. Chabahar is also known for its natural beauty and

historical significance. The region's climate is temperate and pleasant year-round, earning it the name "Chabahar," which means "four springs" in Persian. It is located in the central part of Chabahar District, beside the waters of the Indian Ocean. The Free Trade-Industrial Zone of Chabahar has become a focal point for economic development and trade facilitation, solidifying its status as an essential port in the region. (Rahman, 2020: p. 34)

**Economic and trading status:** The economic and trading significance of Chabahar Port is underscored by its strategic position within the global transportation network. According to United Nations researchers specializing in international transportation, approximately half of the world's freight movement between the Far East and other regions relies on three key global transportation corridors. Of these, two corridors traverse Iran, with Chabahar serving as the southernmost point of the east-west transportation corridor. This corridor originates from the Silk Gate in China, an area vital to China's economy and centered on the economic powerhouse of Guangdong Province (Cantonese Province). From there, it extends through Southeast Asia and connects to India's major cities, including Kolkata, Nagpur, Jaipur, and Hyderabad. It then passes through Karachi and Gwadar in Pakistan, ultimately reaching Chabahar. This connectivity establishes Chabahar as a crucial node linking the Far East to the Middle East, Central Asia, and beyond. Chabahar Port covers an area of approximately 11 square kilometers, situated at an elevation of 7 meters above sea level, at coordinates 62°37' east longitude and 25°17' north latitude. As noted in the **Atlas of Iran Provinces (1392)**, Chabahar's role in facilitating international trade and transportation positions it as a cornerstone of regional and global economic integration.

**Chabahar Port Development Agreement:** The **Chabahar Port Development Agreement** was signed on Monday, May 23, 2016 (3rd of Jawza, 1395), by officials from Iran, India, and Afghanistan. A spokeswoman for Afghanistan's Ministry of Commerce and Industry emphasized that the agreement focuses on the shared use of Chabahar Port. Through this partnership, Afghanistan will benefit from exporting low-cost goods to India, while also importing essential goods from India via the port. Additionally, goods from India, Afghanistan, and Iran will be transported to Central Asia, boosting regional trade and connectivity. As part of the agreement, India committed to investing \$152 million into the development of Chabahar Port to enhance its infrastructure and capacity. Jafar Jamili, the Deputy Director of International Agreements at Iran's Transit and Transportation Bureau, stated that the signing of the Chabahar agreement marks a crucial step in eliminating barriers across various sectors, particularly in maritime, road, rail, and gas transportation. He emphasized that cooperation between regional governments and international organizations is crucial to addressing transportation challenges in the new conditions, making

such collaboration both unavoidable and necessary for the success of the agreement.( Tariq, 2020: p. 38)

**The Importance of the Harbor Cargo For Afghanistan:** One of Afghanistan's primary concerns has been its limited access to international waters. At present, Afghanistan accesses international waters via Bandar Abbas in Iran and Karachi in Pakistan. However, the port of Karachi has posed significant challenges for Afghan traders due to Pakistan's attempts to create obstacles for Afghan businesses. As a result, Afghanistan's reliance on Karachi increases its vulnerability to disruptions. In contrast, Chabahar Port provides one of the closest and most viable alternatives to international waters, being only 92 kilometers from Bandar Abbas and 722 kilometers from the center of Afghanistan, compared to Karachi's much greater distance. Currently, about 82% of Afghanistan's trade flows through Karachi, making it a critical but vulnerable route. Diversifying Afghanistan's access to international waters by utilizing Chabahar would reduce its dependence on Karachi, while also benefiting Afghanistan by earning hundreds of millions of dollars in transit fees. This shift would enhance Afghanistan's trade security and economic resilience, as outlined in Farzam's analysis.( Tariq, 2020: p. 35)

#### **10. Developing a Business Strategy for Afghanistan**

Afghanistan should not limit itself solely to the right of transit and access to international waters. It is crucial for the country to develop sustainable export strategies through Chabahar Port, facilitating trade with Iran, India, and global markets. To achieve this, Afghanistan must adopt a comprehensive and regular business strategy that promotes domestic industries and fosters export-oriented policies. Key elements of this strategy include creating a favorable environment for private investment in export-oriented industries, particularly by providing necessary facilities for growth. Investments in infrastructure, such as construction projects, and in information technology, are essential to support long-term export growth. Moreover, more than any trade agreements with Iran and India, it is important to eliminate barriers that hinder Afghanistan's exports. These measures will contribute to the sustained economic growth of Afghanistan, leveraging Chabahar Port as a strategic gateway. However, encouraging exports and ensuring their success will require full government support, including policy reforms and resource allocation to strengthen export industries and improve market access.( Khan, 2018: p. 32)

#### **11. Afghanistan's Problems Using the Chabahar**

Access to Indian and Iranian markets has been fraught with a variety of export restrictions. Afghan traders face special limitations, including strict standards for goods entering Iran, transportation barriers, constraints on money transfers, high tax tariffs on Afghan-produced goods, and numerous non-tariff barriers. These obstacles have significantly complicated Afghanistan's export activities and hindered its ability to

capitalize on trade opportunities with its neighboring countries. Despite these challenges, Chabahar Port presents a valuable opportunity for Afghanistan to expand its export capacities. It is within the Afghan government's ability to utilize this route effectively to enhance exports. By addressing existing restrictions and creating a more favorable trade environment, the government can unlock the potential of Chabahar Port to facilitate smoother trade with India, Iran, and beyond. Overcoming these barriers through strategic planning, policy reforms, and regional cooperation will be key to maximizing the benefits of this trade corridor.( Khattak, 2022: p. 29)

#### **12. The importance of the Chabahar port for all stakeholders**

Chabahar Port holds significant importance for all parties involved, as it serves as a strategic link between multiple regions. For Iran, Chabahar is a key asset, complementing its activities at other ports and enhancing its role in regional trade. For India, the port is crucial for accessing Central Asian markets, providing an alternative route to landlocked countries in the region. Central Asian nations benefit from Chabahar's position as an entry point to the Arabian Gulf and Arab countries, improving their trade connectivity and access to global markets. This makes Chabahar an essential gateway for Central Asia, enabling these countries to expand their economic ties with the Middle East and beyond. For Afghanistan, Chabahar Port offers the potential to become an international trade hub, further integrating the country into regional and global trade networks. By leveraging this strategic asset, Afghanistan can enhance its role as a key player in international trade, benefiting from increased exports and transit fees while fostering stronger economic ties with neighboring countries and global markets.( Jalali, 2022: p. 26)

#### **13. The importance of the Chabahar port for all stakeholders**

Chabahar Port holds significant importance for all parties involved. For Iran, it complements other ports in the country, enhancing its maritime trade capacity. For India, Chabahar provides a critical route to access Central Asian markets, offering an alternative trade route to landlocked countries in the region. Central Asian nations benefit from Chabahar's strategic location as a gateway to the Arabian Gulf and Arab countries, enabling them to expand their trade networks and reach global markets more efficiently. This connection positions Chabahar as a key transit hub for these countries, facilitating smoother access to international shipping routes. For Afghanistan, Chabahar offers the potential to become an international trade hub. By capitalizing on its strategic location and connectivity, Afghanistan could strengthen its position in regional and global trade, fostering economic growth and boosting exports. The port's development will benefit not only Afghanistan but also neighboring countries by enhancing trade flow and regional integration.( Khattak, 2022: p. 27)

#### 14. India-Afghanistan Business Relationships within Regional Organizations

**1- South Asian Economic Cooperation Organization (SAARC):** South-South regional cooperation is a political and economic organization comprising eight countries in South Asia, representing approximately 1.5 billion people, making it one of the most populous regions in the world. The organization was conceived in the early 1970s, following a proposal from Bangladesh's President Ziaul Rahman to establish a trade hub in South Asia. It was officially founded in November 1985 by the countries of Pakistan, Bangladesh, Sri Lanka, Nepal, the Maldives, and Bhutan. In November 2005, Afghanistan was admitted as an observer to the SAARC at the suggestion of the Government of India. Two years later, in April 2007, during the Fourth SAARC Summit, Afghanistan was granted full membership, becoming the eighth member of the organization. Afghanistan's inclusion in SAARC is significant, as it positions the country at the heart of the Middle Eastern trade market while simultaneously acting as a bridge to Central Asia for Southeast Asian countries. As one of the most economically advanced countries in the region, India's participation in SAARC can greatly enhance Afghanistan's trade opportunities, fostering stronger economic ties and improving regional cooperation. Afghanistan's membership in SAARC also offers potential to increase regional economic cooperation, particularly with countries like Pakistan, which has historically created challenges for Afghanistan's trade and transit routes with India. Afghanistan's full membership in SAARC is expected to strengthen ties, promote smoother transit, and encourage more robust trade between Afghanistan, India, and neighboring countries, ultimately benefiting the entire South Asian region. (Zaman, 2019: p. 28)

**A: South Asia Free Trade Area Agreement:** The South Asian Regional Cooperation (SARK) Organization has focused on the establishment of free trade zones, notably through the South Asian Free Trade Agreement (SAFTA). On January 6, 2024, during the Twelfth Saarak Summit held in Islamabad, a decision was made to enable member states to establish free trade zones. The Foreign Ministers of these countries reached a consensus on a framework that, by the end of 2025, aims to extend customs exemptions to nearly all products traded within these nations. Notably, it is expected that Pakistan and Tajikistan will implement this arrangement by 2022, Sri Lanka by 2023, and other nations such as Bangladesh, Bhutan, the Maldives, Nepal, and Thailand by 2025. SAFTA's main objective is to strengthen regional trade and economic activities by reducing export-level tariffs within South Asia. The agreement encompasses eight countries: Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, Sri Lanka, and Afghanistan. By 2026, SAFTA sought to further enhance this by ensuring that tariffs would not apply to goods between member countries that are not listed in the sensitive list, under the

condition that these goods meet the product origin requirements specified in the agreement. In addition to tariff reductions, the agreement includes provisions for customs cooperation, dispute resolution, trade facilitation, industry compensation, and technical assistance. The broader goal of SAFTA is the creation of a comprehensive economic alliance within Southeast Asia, comparable to the European Union, although achieving this vision will require considerable time. Currently, the focus of the agreement is on goods trade, with discussions underway regarding potential expansions into service trade, though details remain unresolved. The overall aim of SAFTA is to eliminate trade barriers, foster fair competition within the free trade area, and ensure equitable benefits for all participants. This framework is designed to promote deeper regional cooperation and the mutual development of economic relationships among the member countries. (Ahmadi, 1392: p. 3).

**B: The Importance of SAFTA for Afghanistan:** In November 2011, India reduced tariffs on exports to Afghanistan by 2%, while Pakistan also lowered tariffs on Afghan exports not included in its sensitive list. Furthermore, Pakistan committed to reducing the number of items on its sensitive list by 22%. These measures, in alignment with the South Asian Free Trade Agreement (SAFTA), grant Afghanistan enhanced access to major markets, reinforcing regional economic ties and offering crucial opportunities for Afghan businesses. The SAFTA agreement aims to bolster trade relations among the eight member countries of Southeast Asia, including India, Sri Lanka, Nepal, Pakistan, Bhutan, the Maldives, Bangladesh, and Afghanistan. By facilitating access to over 1.5 billion consumers in the South Asian region, SAFTA opens new avenues for Afghan exporters. Within the framework of SAFTA, regional tariffs on high-yield goods from Afghanistan are reduced, making Afghan products more affordable and competitive in member countries. This tariff reduction is a significant advantage for Afghanistan, as it allows Afghan goods to be priced more competitively compared to products from non-SAFTA countries, particularly India and Pakistan, where tariffs on non-SAFTA goods remain high. Additionally, SAFTA encourages investment in Afghanistan by providing lower tariffs, which further enhances the attractiveness of the Afghan market for regional investors. This agreement ensures that all members receive fair and equitable treatment, promoting competition in the commodity markets of Afghanistan while also offering special privileges to Afghanistan as a less developed country. Overall, SAFTA plays a crucial role in fostering investment in Afghanistan, increasing its access to global markets, and supporting the regional economy at large. (Seddiqi, 1386, p.2)

#### 16. Indian aid to Afghanistan

**1- Bandselma:** The Salma Dam project, located 162 kilometers east of Herat in the Chesht-e-Sharif district, began its sewage work on Saturday, 4th of Assad, 1394, after significant delays caused by political, security,



technical, and logistical challenges. This project, one of Afghanistan's most significant infrastructure initiatives, was first conceived in 1976 during the presidency of Dawood Khan. However, following the 1977 coup, the project, like many others, was halted. The project was revived in 2005 with the assistance of India. Originally, the project was slated for completion within four years and was estimated to cost \$82 million. However, due to delays, the completion period stretched to six years, with the total cost escalating to \$322 million before it was ready for operation. The completion of the Salma Dam represents not only the strong political will of the Afghan government but also has significant implications for the country's economy. The project is expected to have both direct and indirect effects on various sectors, including agriculture, the environment, and hydroelectric power generation, contributing positively to the country's overall economic development. (Ghorjestani, 1395, p.33)

**2. The construction of the parliament:** The new Afghan Parliament building consists of five mansions, with one salon designated for the House of Representatives, which accommodates 362 delegates. The Sunni Assembly holds 122 seats. The construction of the new building has been supported by over \$222 million in aid from India. The new parliament building is five times larger than the existing one and is designed to meet Afghanistan's needs for the next century. Designed and built by a collaboration of Indian and Afghan engineers and architects, the structure blends both Indian and Afghan architectural styles. The building features a dome, which, according to officials, is the largest in Asia. India has been contributing funds for the construction of the new National Assembly building since 2007. The new building occupies a vast area of 232 acres, equivalent to 42 hectares of land, in the city of construction. (Khattak, 2022: p. 27)

**3. Construction of Delaram Road - Zaranj:** With the assistance of India, the Zaranj-Delaram Road, spanning 222 kilometers and costing \$152 million, was completed in 2004. This road is a vital component in enhancing the economic relations between Afghanistan, Iran, and India. It connects Zaranj City in northern Nimroz province, on the Iran-Afghanistan border, to Delaram in Farah province, and links to the Kandahar-Herat Highway. The construction of the Zaranj-Delaram highway also facilitates the connection of Afghanistan to the Chabahar port in the Omani Gulf, providing access to the Afghani Belt Road (Herat-Kabul) which stretches 1,382 miles. This strategic route links 16 provinces of Afghanistan, including Herat, Mazar-e Sharif, Kabul, Ghazni, and Badakhshan, and extends toward Tajikistan. The highway forms part of a Northern Corridor-South route, bridging the Indian subcontinent to Central Asia, and connecting Afghanistan to the Arabian Sea via Iran. This infrastructure will not only promote trade with countries like India but also enhance regional connectivity, creating greater opportunities for investment and economic development. (Tariq, 2020: p. 30)

**4. Construction of Agricultural University in Kandahar province:** The National University of Agriculture, built with an investment of \$122 million from India, aims to provide advanced education in agricultural sciences. The university is designed to offer a range of agricultural courses, with the goal of enhancing the country's agricultural knowledge and capabilities. For its construction, approximately 40 acres of land were allocated, and additional parts of the university are planned for future development. The university was officially inaugurated on July 27, 2013, by Indian President Hamid Karzai. It is widely regarded as a unique institution in the region, contributing significantly to agricultural education and innovation. (Ahmed, 2021: p. 29)

**5. Construction of the National Institute of Mines of Afghanistan:** The initial program for the Institute of Mines in Afghanistan was funded by the Indian government, with representation from the Indian Embassy in Kabul. The initiative involved the collaboration of professors from the Indian Institute of Mining and the Afghan Ministry of Mines and Petroleum. According to the plan, the curriculum for the institute, developed in line with academic standards and Indian mining studies, will serve as a foundation for the institution during its first five years. The curriculum includes bachelor's and master's degree programs in mining, environmental sciences, and petroleum engineering, with plans to expand into doctoral studies in the long term. Additionally, the institute aims to offer short-term technical programs for engineers and miners. The construction of the Afghan Institute of Minerals was part of an agreement made with the Indian Prime Minister in 2011, with the goal of providing effective training for Afghanistan's mining industry workforce. The institute is structured into three main blocks: laboratories, office and conference hall facilities, and student accommodations. All programs at the institute will comply with the Indian Mining Act, and instruction will be delivered in English, with a preparatory year dedicated to English language training. Notably, the Indian government will cover all expenses for the first five years, after which the Afghan government will take over the operation and maintenance of the institute. (Khan, 2018: p. 22)

**6. Granting Indian Scholarships:** In 2013, the Indian government's cabinet approved a new budget to fund scholarships for Afghan students over a nine-year period. The Indian Education Office in Kabul announced that this initiative would significantly contribute to the development of human resources in Afghanistan. Prime Minister Mohan Singh of Kunduz highlighted the increase in funding for Afghan students in the past two years, emphasizing the role of the Indian Council for Cultural Relations (ICCR), which is responsible for administering these scholarships, under the "Assistance to Afghanistan" program funded by the Indian Ministry of Foreign Affairs. By 2022, approximately 10,000 Afghan graduates were studying in bachelor's and doctoral programs around the

world, with India hosting a significant share of these students. In line with this, the budget for scholarships has risen from \$10 million to \$15 million. Over the years, 152 students were sent to India by the Afghan government, and currently, 422 students are being funded by the state budget to pursue their studies in India. (Tamana, p. 261)

### 17. *India-Afghanistan Comprehensive Cooperation*

India has contributed significantly to several economic projects in Afghanistan, making it one of India's key destinations for development aid. On September 15, 2016, Afghan President Ghani announced that India would provide \$1 billion in aid to support Afghanistan's development. This aid is part of India's ongoing commitment to Afghanistan's economic progress. However, Afghanistan has faced challenges due to its reliance on Pakistani land transport for trade. In the latter half of 2016, Pakistan's decision to restrict the shipment of goods to Bahrain, particularly Afghan seasonal fruits, caused significant damage to Afghanistan's agricultural economy. This move had a detrimental effect on Afghanistan's exports and raised concerns about the broader implications for Afghan trade. In response, Afghanistan warned that it might close its routes to Pakistani goods destined for Central Asia, signaling the growing tension and the importance of secure trade routes for Afghanistan's economic stability. (Zaidi, 2019: p. 21)

### 18. *Reasons for India to help Afghanistan*

**A: Access to water:** India is working to expand the capacity of the Chabahar port in Iran, which officially opened this year, with the goal of enhancing trade routes for Afghanistan, India, and Central Asia. Afghan President Ghani has highlighted the importance of this development, referring to it as a crucial step for expanding exports and imports between these regions. By improving infrastructure at Chabahar, India aims to provide Afghanistan with better access to global markets, particularly benefiting Afghanistan's seasonal fruit exports through airspace routes. The expansion of Chabahar port and the establishment of air corridors could provide Afghanistan's agricultural sector with a much-needed boost, offering fresh opportunities for export and revitalizing the economy. Additionally, the mining industry in Afghanistan is also looking to benefit from improved trade logistics, though security issues continue to pose significant challenges, hindering progress in these areas. The full potential of these initiatives remains constrained by ongoing security concerns in Afghanistan. (Rahimi, 2021: p. 23)

**B: Access to energy:** India, as an emerging economy, requires substantial energy resources to sustain its growth and development. These resources are often found in the Middle East, with Afghanistan strategically located on the frontier of this region. As a result, India is increasingly looking to Afghanistan to help facilitate access to these vital energy supplies. In return, Afghanistan can benefit from India's expertise, investment, and market for its goods. By fostering closer economic ties, both nations stand to gain from improved trade routes and energy

cooperation, which could be crucial for India's energy security and Afghanistan's economic growth. (Singh, 2020: p. 22)

**C: security issues:** For many years, India has faced challenges from Islamist insurgencies, which have been exacerbated by Pakistan's control over certain border regions. Recently, Indian media reported that over 22 Islamist extremists have traveled from India to areas like Karelia and Afghanistan. This development raises concerns that these individuals may pose a threat to India in the future, similar to other extremist groups that have caused instability in the region. India's proximity to Afghanistan has become increasingly important, not only due to security concerns but also in addressing the economic needs of both countries. By engaging with Afghanistan, India seeks to secure its own economic and strategic interests while helping Afghanistan stabilize and develop. However, this proximity also brings the challenge of addressing the risks posed by extremist groups, underscoring the importance of a comprehensive approach to regional security alongside economic cooperation. (Singh, 2020: p. 22)

**D: Compete with Pakistan:** India, through its longstanding diplomatic engagements with Pakistan, has been working to strengthen its influence in Afghanistan, sometimes leading to competitive dynamics in the region. While Afghanistan has expressed concerns over Pakistan's involvement in Indian matters, it has also been a beneficiary of Indian aid and investments. One notable example is India's proposed investment in the Hajigak Iron Mine, located at the height of the Hindu Kush mountains in the Haji Gog area, 122 km northwest of Kabul. This iron mine was first identified in 1911 and has since been studied by various geologists, including experts from Germany, France, and Russia. The most significant exploration took place in the 1970s and early 1980s, particularly by Russian specialists, who completed the exploratory stages and designed extraction plans. Unfortunately, due to political instability, increasing insecurity, and lack of infrastructure, the extraction of iron from Hajigak was never realized. Hajigak is considered the largest iron ore mine not only in Afghanistan but also in the region. Stretching 16 kilometers in length and 552 meters in diameter, it holds vast potential. Current estimates suggest that the mine could contain up to 1.8 billion tons of iron ore, with a soda content of 62%. The development of this mine represents a significant opportunity for both Afghanistan and India, provided security and infrastructure challenges are addressed. (Khan, 2022: p. 21)

## III. CONCLUSION

From the above, it can be concluded that the economic relations between India and Afghanistan show promising prospects. India is one of the key donors to the Afghan government, and their economic ties in areas such

as investment, trade, and grants are evolving, although they still face various challenges.

In terms of investment, India remains cautious due to concerns about the security situation in Afghanistan and the lack of necessary investment infrastructure, such as reliable electricity, industrial parks, and the absence of adequate raw materials. These factors hinder Indian investors from fully engaging with Afghanistan. However, despite these challenges, trade between the two countries continues to grow, bolstered by significant trade agreements. India has eliminated many of its tariffs on Afghan exports to encourage increased trade, and both countries have fostered greater cooperation between their respective business communities.

India has also been involved in both small and large-scale development projects in Afghanistan. Some of the major projects include infrastructure development, such as the construction of the Zarang-Delaram highway, the establishment of an agricultural university in Kandahar, and various construction projects aimed at strengthening Afghanistan's national infrastructure. These initiatives play a crucial role in Afghanistan's governance and economic development.

Additionally, India has contributed to regional development projects coordinated by Afghanistan's Ministry of Economy, focusing on the development of both urban and rural provinces. Despite these positive contributions, most of these projects face security-related challenges. India also supports Afghanistan's educational development by offering scholarships, which have allowed a large number of Afghan youth to pursue higher education in various fields. These efforts aim to improve governance in Afghanistan, with many former students now contributing to the country's public sector development upon their return.

## OFFERS

1. To ensure the economic relations between India and Afghanistan remain balanced, efforts should be made to avoid provoking Pakistan's sensitivities, ensuring Afghanistan's foreign policy maintains equilibrium.
2. Both countries should focus on increasing trade by organizing exhibitions and fostering visits, creating more opportunities for business exchanges.
3. To enhance trade and economic relations, it is essential to implement and fully utilize the Strategic Agreement and other signed memoranda between the two countries.
4. To maximize the impact of India's assistance to Afghanistan, both nations should closely monitor aid consumption, ensuring transparency through the national budget.
5. Ensuring the safety of both Indian and local investors in Afghanistan is crucial to attracting investment from India.

6. Closer coordination between Indian investors and Afghanistan's Chamber of Commerce will support long-term cooperation between the two nations.
7. To facilitate trade, accelerating construction efforts for port development will be essential in enhancing bilateral commerce.

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