

# WEEKLY ANALYSIS

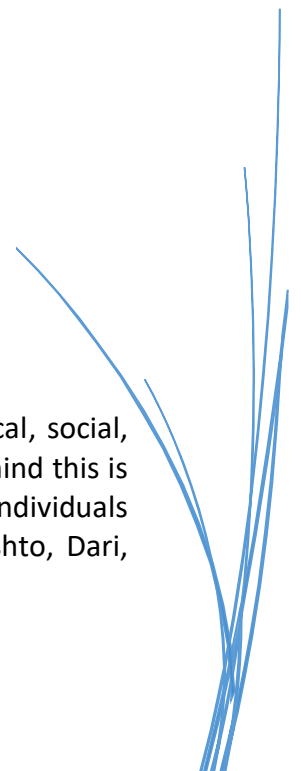
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## A LOOK AT THE ECONOMIC RELATIONS OF THE ISLAMIC EMIRATE WITH IRAN

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Center for Strategic and Regional Studies (CSRS)



## **A LOOK AT THE ECONOMIC RELATIONS OF THE ISLAMIC EMIRATE WITH IRAN**

### **Introduction**

Before the collapse of the republican system in Afghanistan, despite the comprehensive presence of the United States in Afghanistan as Iran's ranked enemy, the political relations and more than that the economic relations between Afghanistan and Iran were good and moving towards more satisfactory, as far as Iran in the last few years in terms of exports had become Afghanistan's largest trading partner. The question is, after the withdrawal of the US from Afghanistan in August 2021 the collapse of the republican system, and the return to power of the Islamic Emirate, what is the status of economic relations between the two countries, and in which direction is it moving? Examining the amount of trade between the two countries shows that the economic relations between the two countries are returning to the previous situation in the past two years despite the deep political developments and the change in the political system in Afghanistan. In the continuation of the discussion, while explaining the economic situation between Afghanistan and Iran, the main reasons for the growth of economic relations between the two countries will be presented.

### **THE STATUS OF ECONOMIC RELATIONS BETWEEN AFGHANISTAN AND IRAN**

As stated in the introduction, the economic relations between Afghanistan and Iran were developing during the previous regime, while America, as Iran's first-class enemy, had a large military-political presence in Afghanistan. In response to how this paradox could be summed up, it can be said that America, on the contrary of applying political and economic restrictions related to the projects under its control, had left the hand of the Afghan government free in business relations with Iran in the rest of the economic issues similar to the Iran-Iraq model. However, general restrictions were imposed on Iran, especially in the context of Iran's participation in infrastructure projects in Afghanistan, and that country was almost deprived of large investments in Afghanistan. Nevertheless, as it was said, the trade relations of the two countries are at the level of trading essential items such as fuel products, iron, medicine and medical equipment, oil, edible fruits and vegetables, cement and plaster, plastic products, household appliances, beans, etc.<sup>1</sup> It was developing until it reached the ceiling of three billion dollars a year.<sup>2</sup>

After the Islamic Emirate regained power in Afghanistan, there was a 40% decrease in trade between the two countries, so from August 2021 to the month of August 2022,



the bilateral trade between the two countries reached one billion and two hundred million dollars.<sup>3</sup> Among the most important reasons for this decrease, we can mention the sanctions on Afghanistan, the suspension of international aid to Afghanistan, the instability caused by the change of government in Afghanistan, the chaos in the customs, and the decrease in the purchasing power of the people. However, the two sides (Islamic Emirate and Iran) are trying to return the economic relations to normal and the bilateral trade to reach the level of satisfaction. According to the presented statistics, the decline in Iran's exports to Afghanistan has stopped since the second half of 2021, and the trade between the two countries has started to grow again. Based on this, Iran's share of the Afghan market reached 27% in 2022, and this figure increased to 35% in 2023, which reached 975 million dollars in the seven months of this year (2023).<sup>4</sup> According to this trend, it is expected that Iran's exports to Afghanistan will exceed two billion dollars by the end of this year. It is worth mentioning that due to this volume of Iran's exports to Afghanistan, this country is still considered Afghanistan's first-ranking partner in terms of exports to Afghanistan. In contrast to this volume of Afghanistan's exports from Iran, Afghanistan's export to Iran is about 28 million dollars, which was done last year.<sup>5</sup> Although this trade balance is very different, but with the implementation of the development plans that the two countries have in the future, it is expected that the amount of Afghanistan's exports to Iran will increase to a higher figure than the current situation.

#### **THE REASONS FOR THE GROWTH OF ECONOMIC RELATIONS BETWEEN THE TWO COUNTRIES**

As it was said, in the previous regime, Iran's exports to Afghanistan reached three billion dollars per year, but with the occurrence of political developments in Afghanistan, this amount was reduced by almost half. Affected by this reduction, the forecasts were still not optimistic, but on the contrary, in the last two years, it was observed that Iran's exports to Afghanistan revived again, not only coming out of the recession but also starting the process of growth and increase at a good speed. Also, Afghanistan's exports to Iran have been growing. In general, several reasons affect this increase, the most important of which are mentioned below.

#### **THE EXISTENCE OF GOOD POLITICAL RELATIONS BETWEEN THE TWO COUNTRIES**

Although the history of political relations between Iran and the Islamic Emirate was not very favorable in the past, and it can even be said that the two sides adopted the most hostile approach towards each other during the first round of the Emirate; However, during the 20 years of the Emirate's struggle against the American occupation,



both sides concluded that both sides are jointly at enmity with America. This alignment attitude as the common denominator of the macro and some other domestic and regional issues caused Iran and the UAE to change their attitude towards each other and take the path of peaceful coexistence with each other. Based on this new approach, Iran has opened the door of interaction with the leaders of the Emirate, and at the same time as the US-Taliban negotiations, Mullah Abdul Ghani Baradar made a trip to Iran as the Taliban's chief negotiator against the US.

After the Islamic Emirate came to power in Afghanistan again, Iran established its relations with the Emirate on a de facto level while keeping its embassy active in Kabul and its consulates in the cities of Mazar-e-Sharif and Herat. Although Iran has raised some demands, including the creation of an inclusive government and ensuring the rights of minorities and women, like other countries, as a precondition for the official recognition of the Islamic Emirate, these preconditions are an obstacle to the development of political relations and more than that, the growth and development of economic relations between two countries have not been placed. If in the political dimension, Iran has the most political interaction with the Emirate, which can be seen from the extent of its embassy and consulate activities in Afghanistan and the handover of the Afghan embassy in Tehran and the Afghan consulate in Mashhad to the Islamic Emirate. Naturally, since the warmth and intimacy of political relations between countries pave the way for the development of economic relations, it can be said that this situation is clearly visible between Iran and the Islamic Emirate. It is based on this that since the Islamic Emirate came to power, the economic relations between the two sides have grown and developed more and more. If, after a slight stagnation, the level of commercial transactions of both sides has taken on a normal routine and is reaching the limit of the previous situation.

#### **THE ECONOMY-ORIENTED FOREIGN POLICY OF THE ISLAMIC EMIRATE**

After the Islamic Emirate regained power in Afghanistan, the biggest concern of other countries, especially Afghanistan's neighbors, was what kind of foreign policy the Islamic Emirate would adopt. Of course, the coming to power of the Islamic Emirate was accompanied by some kind of concern because there was an idea that the Islamic Emirate would adopt a security-oriented foreign policy against some countries in the region in collusion with political-military groups opposed to those countries. However, at the same time as coming to power, the leaders and spokesmen of the Islamic Emirate announced that Afghanistan's foreign policy was neutral and economic-oriented, and even on the day after the complete withdrawal of the American military from Afghanistan, the spokesman of the Islamic Emirate stated at the Kabul airport that the



Islamic Emirate would henceforth be with the United States. There was no enemy and our struggle was only to end the occupation she asked America and all the countries of the world to resume their relations with Afghanistan under the rules of international law and seek to secure their interests in Afghanistan through legitimate means.

Based on a neutral, balanced, and economy-oriented foreign policy, Afghanistan opened the doors of economic interaction with other countries, and through this, good opportunities to access the markets of Afghanistan and develop economic relations with this country were provided to all countries, especially the neighbors, and among the countries that have the most opportunities to take advantage of this situation was Iran.

#### **THE SPECIAL MUTUAL ECONOMIC ATTENTION OF THE ISLAMIC EMIRATE AND IRAN TOWARDS EACH OTHER**

As stated, the Islamic Emirate has opened the doors to strengthening trade and economic investment in Afghanistan by adopting an economy-oriented foreign policy for all countries, but studies show that the Islamic Emirate pays special economic attention to Iran. Several major reasons can be given for this special attention. The first reason is that economically, Iran is a complete economic package for Afghanistan, in the sense that Iran can meet all of Afghanistan's consumer needs in the fields of consumption, including some food items, clothing, sanitary, medical, household appliances, and hardware. The second reason is that Iran can help Afghanistan in the fields of technical and engineering, road construction (asphalt and railway lines), and electrical infrastructure. The third reason, which is of great concern to the Afghan government is, Iran's transit position for Afghanistan. In this context, it can be said that Afghanistan has serious problems with Pakistan, which are more visible even during the Islamic Emirate. It is trying to find a transit alternative instead of Pakistan, or at least to diversify the transit routes for itself, and Iran is the only country that can help Afghanistan in this field and even make Pakistan marginalized. This issue was also considered by the previous government and even a tripartite agreement was signed between Iran, Afghanistan, and India in 2016 regarding the use of Iran's Chabahar port by Afghanistan and India. However, the Islamic Emirate is following this issue with more seriousness and wants to increase Iran's share in the transit of goods and remove Afghanistan from transit bottlenecks. The fourth reason is that Afghanistan has taken up the task of restarting the Khawaf-Herat railway line with more seriousness and speed, and after the reconstruction of the destroyed parts, it will be used practically in this solar year.

Another reason that shows that Iran is a special concern of the Islamic Emirate in the field of economic relations is the numerous trips of the officials of the Islamic Emirate to Iran. In this context, in the past two years, several high-ranking officials of



Afghanistan's economic sectors, including last year the Minister of Industry and Trade, and this year a delegation of 30 people led by Mullah Abdul Ghani Baradar, Deputy Prime Minister's Economic Deputy, have visited Iran. Among other things, Molla Berader and his 30-person delegation to Iran are very important. During this trip, which lasted for six days, all the ministers and officials of Afghanistan's economic sector accompanied Mulla Berader. During these six days, the delegation of the Emirate visited the economic and industrial sectors of Iran while meeting with high-ranking officials of Iran, including the vice president, the minister of foreign affairs, and other Iranian officials. During this trip, dozens of memorandums of understanding were signed with Iran in various economic fields, the most important of which are: Understanding the increase of Afghan imports and exports through Chabahar port, signing the memorandum of understanding of the meeting of the Joint Commission for Economic Cooperation, the minutes of the meeting of the Joint Committee on International Road Transport Cooperation, the signing of the memorandum of understanding on cooperation between the Civil Aviation Organization of Iran and the Afghan side, the signing of the cooperation document between Isfahan iron smelter and the Afghan side, the document of cooperation between free zones.<sup>6</sup> Also, according to Zabihullah Mujahid, the spokesman of the Islamic Emirate, the most important achievements of this trip are as follows:

Important issues in the visit of the delegation of the Islamic Emirate to the Islamic Republic of Iran, under the supervision of Mullah Beradar Akhund, Deputy Minister of Economy: Creating facilities for export and import, the parties' emphasis on connecting Iran to China through Wakhan, and appointing special teams for the speed of practical work and pursuing this issue, connecting Iran to Uzbekistan, through Afghanistan. Also, the construction of a railway line along this route as well as along the Wakhan Corridor, the agreement and emphasis of the parties on the construction of the railway route to Kandahar, the fight against drug production and trafficking, and joint efforts to provide alternative livelihoods and cultivation to Afghan farmers. Duration of customs activities with Iran up to 24 hours, exemption of monetary soil from both sides, consensus on trade balance with Iran and taking practical steps in this direction, imposition of preferential tariffs on some Afghan exports, creation of joint committees to solve the problems of Afghan immigrants and also a series of other topics.<sup>7</sup>

On the other hand, Iran also pays special economic attention to Afghanistan. The most important goals that Iran has from its special economic attention to Afghanistan [regardless of its political dimensions, which are very important, but its explanation is beyond the scope of this article] include the following: Iran's first economic goal of developing economic relations with Afghanistan is to increase its trade with Afghanistan



to 10 billion dollars.<sup>8</sup> In this context, the advisor of the Iranian President's Special Representative for Afghanistan Affairs has said that Iran's economic strategy regarding Afghanistan is to increase bilateral trade to ten billion dollars in a period of 3 to 5 years and to take many measures in this field in the short term. And it has been on for a long time. Among the important things that Iran has undertaken to reach the ten billion dollar trade horizon with Afghanistan are things like providing transit facilities, activating railway lines, especially the Khaf-Herat railway line, Imposing preferential tariffs on some commercial items, activating more customs ports on the border with Afghanistan, creating more facilities in customs, including 24-hour processing of customs affairs, providing free trade zones to Afghanistan and signing memorandums of understanding to strengthen trade relations between the two countries, as the most recent of which was done during Molla Berader's trip to Iran. Iran's second goal is access to Central Asian countries and China through Afghanistan. Although Iran has access to Central Asia and China through Turkmenistan, the geographical location of Afghanistan is such that this country can directly access Uzbekistan and Tajikistan through Afghanistan. Also, Iran will be connected to China through Afghanistan if the Wakhan Corridor is developed by traveling a very short distance compared to the Central Asian route, and the prospect of developing the Khaf-Herat railway line is to achieve this goal. In this context, according to Jovanmard Qasab, the advisor of the Iranian President's special representative on Afghanistan affairs, one of the issues that Iran discussed during Molla Berader's visit to Iran, which the Chinese also have a positive opinion on, is the completion of the Wakhan Corridor. According to him, the tripartite consortium of Iran, China, and Afghanistan will soon start working in the field of transit issues, and after discussing the relevant issues, we will be able to witness the realization of this corridor within the next year with the start of the transit process. In addition, Iran plans to connect to Pakistan through Afghanistan.<sup>9</sup> With the opening of the transit route from Pakistan to Khorasan-Razavi via Taftan-Chaman-Islam Qala-Mashhad route, instead of traveling 1500 km, commercial goods will travel less than 1000 km to reach their destination in Iran and Pakistan.<sup>10</sup> The third economic goal of Iran towards Afghanistan is that Iran wants to invest in mining and other sectors. The new development in Afghanistan has provided enough opportunities for Iran because, in the previous regime, the presence of America in Afghanistan was a big obstacle for Iran to make large economic investments in Afghanistan. After the new development, a good environment has been provided for Iran to invest in the mining sector and other infrastructure sectors in Afghanistan. Such a favorable environment has caused Iranian investors to travel to Afghanistan to evaluate the investment fields, which can be referred to as the trip of 85





businessmen and investors from that country to Kabul accompanied by the Governor of Khorasan Razavi.<sup>11</sup>

## CONCLUSION

What can be concluded from this brief look at Afghanistan's economic relations with Iran are several important issues: **First**, the economic relations of Afghanistan during the republican regime were not much affected by the political situation in the two countries, especially the presence of United State in Afghanistan. **Second**, with the coming of the Islamic Emirate, according to the reasons that were presented, the economic relations between the two countries were on the path of further growth, which of course is mostly in line with the increase of Iran's exports to Afghanistan. **Thirdly**, Afghanistan's economic policy towards Iran also has two major issues, the first issue is placing that country as an alternative route for Pakistan to access sea ports, And the second issue is attracting Iran's investment in infrastructure fields such as road construction, railways, mechanization of agriculture, construction of electric dams, mining and establishment of industrial factories, especially iron extraction and smelting, extraction and processing of oil and gas products, etc. **Fourthly**, Iran's economic policy towards Afghanistan includes three major issues. The first issue is the growth of exports bringing it to ten billion dollars.

Although both in the past and now the trade balance has been very much in favor of Iran, Afghanistan can use the economic interaction with Iran as a strength for more productivity. First, Afghanistan is the only export destination for Iran due to the imposition of global sanctions and the lack of attractive markets for Iranian products at the regional level. Also, Western sanctions have caused Iran to be in dire straits in terms of investing abroad, and in this context, Afghanistan is one of the best investment destinations for Iranian investors. This is while Afghanistan has many applicants and volunteers in both fields of importing and attracting foreign investments. Therefore, such an environment has provided a good opportunity for Afghanistan to get many economic benefits from Iran in the fields of technology, industry, agriculture, extraction and processing of mineral resources, and most importantly, Afghanistan's access to sea ports. **The End.**



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