

# Accession to the TWO and Its Effects on Afghan SEMs

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## Abstract

**Introduction:** The establishment of the World Trade Organization (WTO) in 1994 emerged in Morocco through an agreement involving 124 countries. Its primary objective is to oversee and promote global trade liberalization, facilitate trade relationships, and eliminate trade barriers between nations. Afghanistan, subsequently approved for membership by its parliament, became the 164<sup>th</sup> member of the WTO. Among the chief advantages of WTO membership for Afghan Small and Medium Enterprises (SMEs) are improved market access and reduced trade impediments. As a WTO member, Afghanistan gains access to the favorable trade conditions outlined in WTO agreements and regulations.

**Objectives:** This study seeks to analyze Afghanistan's WTO membership and the integration of WTO rules into the nation's trade framework. Additionally, it explores the potential benefits of WTO affiliation for Afghan SMEs, encompassing enhanced market access, streamlined trade procedures, and expanded investment opportunities.

**Research methodology:** Employing a descriptive approach, this study delves into the implications of WTO accession for Afghan SMEs. The research focuses on the province of Kabul as its target population. A total of 384 questionnaires were distributed among government employees, economic experts, and entrepreneurs for data collection. Cronbach's alpha test was employed to ensure data validity and reliability.

**Results:** The study's findings indicate that Afghanistan's emerging industries possess the capacity to compete with foreign imports. The country's WTO accession is anticipated to yield positive outcomes for entrepreneurs.

**Conclusion:** Afghanistan's entry into the WTO has ushered in a blend of favorable and unfavorable consequences for its SMEs.

**Keywords:** WTO • Afghan SMEs • Entrepreneurs • Cronbach's alpha test

**Abbreviations:** WTO: World Trade Organization; SMEs: Small and Medium Enterprises; BRIHE: Bayazid Rokhan Institute of Higher Education; SPSS: Statistical Package for the Social Sciences; GDP: Gross Domestic Product; IHS: Information Handling Services; FDI: Foreign Direct Investment

## Introduction

Afghanistan's accession to the World Trade Organization (WTO) in 2016 has raised expectations of significant economic benefits for the nation. Nevertheless, the ramifications of this accession on Afghanistan's Small and Medium-Sized Enterprises (SMEs) remain an understudied subject. This literature review intends to dissect existing research to unravel the implications of WTO affiliation for Afghanistan's economy, with a specific focus on its SMEs. Despite the limited existing research in this realm, this review seeks to bridge the gap by delving into the available literature that examines how Afghanistan's WTO membership influences its SMEs.

A core advantage of Afghanistan's WTO membership for its SMEs is the amplification of market accessibility and the reduction of trade barriers. As a WTO member, Afghanistan is entitled to leverage the optimal trading conditions stipulated by the WTO agreements and trade regulations. Consequently, this has led to the elimination of numerous tariffs and non-tariff impediments, thereby simplifying the exportation of Afghan SME products to foreign markets and the importation of vital raw materials for production [1].

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Furthermore, the nation's WTO accession has spurred the enhancement of its trade-related infrastructure, conferring benefits to its SMEs. An exemplar of this is the WTO's trade facilitation agreement, which has streamlined customs procedures, culminating in decreased temporal and financial costs tied to imports and exports. This streamlined process has especially favored Afghan SMEs, frequently grappling with bureaucratic obstacles [2].

However, challenges have emerged for Afghan SMEs subsequent to their country's WTO accession. Foremost among these challenges is the absence of robust policies and institutional frameworks buttressing SMEs. Afghanistan's SMEs encounter hurdles in terms of securing financing, accessing training, and embracing technology. Furthermore, the nation's legal and regulatory framework exhibits fragility, thus curtailing SMEs' efficacy within the global marketplace [3].

Notably, Afghanistan continues to grapple with political instability and economic adversity, both of which cast shadows over the progression and maturation of its SMEs. These obstacles have triggered a downturn in foreign investments, pivotal for enhancing the competitive edge and productivity of SMEs [4].

### Research objective

Despite the fact that Afghanistan's share in world trade is very limited, its inclusion as a member of world trade organization is not without opportunities and challenges, and it requires that a comprehensive investigation be carried out on Afghanistan's continued membership in this organization in the future. How effective will be the consequences of membership in the world trade organization on small and medium enterprises in Afghanistan? Indeed, the mentioned issue will be investigated considering the following research questions:

- Conduct a comprehensive investigation into Afghanistan's sustained membership in the World Trade Organization (WTO), recognizing the manifold opportunities and challenges inherent to its limited share in global trade.
- Assess the effectiveness of the repercussions arising from Afghanistan's WTO membership specifically concerning its Small and Medium Enterprises (SMEs), which operate in a context of limited global trade engagement.
- Analyze Afghanistan's engagement with the WTO, examining the integration and application of WTO regulations within the nation's trade system, thereby assessing the extent to which it aligns with global trade norms.
- Explore the efficacy of trade operations in Afghanistan, probing the impact of a reduced presence of customs barriers, considering the intense competition posed by international producers and the fledgling Afghan enterprises.
- Evaluate the broader influence of Afghanistan's WTO accession on the domestic regulatory environment, the formulation of trade policies, and the adoption of contemporary business practices.

- Investigate the potential advantages that WTO membership may extend to Afghan SMEs, encompassing enhanced market access, streamlined trade facilitation, and promising avenues for investment.
- Examine the intricate repercussions of Afghanistan's WTO membership on various stakeholders within the national economy, including consumers, workforce, and environmental considerations.

### Statement of problem

Situated as a landlocked nation, Afghanistan occupies a strategic corridor among its regional counterparts. Its membership in the World Trade Organization (WTO) carries inherent promises of expanded business engagements with fellow member countries. However, alongside these prospects, numerous impediments hinder the smooth flow of trade. Although Afghanistan boasts expertise and a comparative advantage in producing specific goods like dry fruits, precious stones, and carpets, its membership in the WTO is poised to unlock markets for these Afghan products, driving up production levels and expertise. The WTO's technical assistance offerings further promise to augment Afghanistan's trading capacity and overall economic activities. Yet, beneath the veneer of opportunities, the WTO membership also harbors potential challenges, which, if mishandled, could render the drawbacks more formidable than the advantages.

Presently, Afghanistan's manufacturing sector is in its nascent stages, making it particularly vulnerable to the liberalization of imports facilitated by tariff reductions on goods and services. This exposure to international competition risks compromising domestic production. Such tariff-driven market alterations could, paradoxically, diminish the level of exports, exerting adverse pressure on the balance of payments. Concurrently, this tariff-induced scenario could lead to a reduced inflow of foreign currency, casting shadows over the stability of the country's exchange rate—A particularly precarious situation for an importing nation like Afghanistan.

The overarching contention herein revolves around Afghanistan's WTO accession, a prospect laden with both opportunities and challenges. This research seeks to undertake a comprehensive analysis and evaluation of this multifaceted issue, shedding light on the intricate interplay of potential advantages and looming pitfalls.

### The significance of the topic

Afghanistan's membership in the World Trade Organization (WTO) holds a position of considerable significance. While numerous scholars have conducted various studies and research endeavors regarding Afghanistan's participation in the WTO, the specific focus on the consequences of WTO accession for Afghan Small and Medium Enterprises (SMEs) remains notably underexplored. This research area is marked by a dearth of comprehensive studies, insufficient to cater to the needs of students, researchers, and stakeholders seeking a thorough understanding of this critical facet.

Consequently, this research effort assumes paramount social importance as it endeavors to bridge this gap in knowledge. By undertaking a comprehensive analysis and evaluation aligned with the research questions, the outcomes of this study are poised to yield valuable insights for an array of stakeholders. Entrepreneurs at the helm of SMEs, scholars seeking to deepen their comprehension, and individuals with a vested interest in this subject stand to benefit significantly from the research outcomes. The study's potential to furnish a holistic view of Afghanistan's SMEs in the context of WTO accession renders it a valuable resource for driving informed decision-making and a nuanced understanding of the subject matter.

### Research limitations

Scientific research requires opportunity and necessary cooperation, and it seems unlikely that the researcher can discuss all the topics included in the research correctly and comprehensively in the limited time. Because on the one hand, security challenges, road blockages and traffic problems are a major obstacle in collecting data in the specified time, and on the other hand, there is a lack of cooperation from the authorities that have the data needed for the research. These all are challenges that create obstacles in the process of collecting figures and statistical information. Therefore, efforts are being made to complete this scientific research on the fixed date under the current circumstances.

## Materials and Methods

### Study design

This is a descriptive study.

Number of questionnaire	Number	Percentage
Valid	100.0	79
Eliminated	0.0	0
Total	100.0	79

**Table 1.** Cronbach's alpha test.

Number of elements	Cronbach's alpha coefficient
11	0.84

**Table 2.** Cronbach's alpha coefficient.

## Results

The findings of this study shows that Afghanistan's nascent industries can compete with foreign imports. Because Afghanistan's economy relies more on agriculture, and in the field of industry and services, it fulfils the needs of its citizens by importing them. Meanwhile, by using the special rules of the WTO for less developed agricultural countries, it will be able to export its agricultural products

### Research population

The present research aims to investigate the accession to the WTO and its effects on Afghan SME's activities. Therefore, all SMEs and the academic community are included in the research population of this study. Due to the non-existence of counting the exact number of SMEs in the related departments, only Kabul province has been selected as the research population.

### Sample population

Non-probability sampling method has been used in selecting the sample population. In order to determine the sample size, the Morgan's table is used. According to the mentioned table, a confidence level of 95%, an acceptable error level of 0.05% and an unknown research population of 384 individuals have been determined as the sample population. 20% of the sample population of the research population are government employees and economic experts, and the remaining 80% are entrepreneurs. During the distribution of the questionnaires, sufficient information about the WTO has been provided to the respondents.

### Data analysis

Data analyzed using the SPSS version 20. Cronbach's alpha coefficient was used for the validity and reliability of the questionnaire (Tables 1 and 2).

#### Data validity and reliability test

to the whole world. These substances were obtained in the literature review and analysis of the questionnaire. After analysis of the data received from questionnaires and literature review, it is confirmed that Afghanistan's accession to the WTO will have positive consequences for entrepreneurs. As we mentioned above, Afghanistan is an agricultural country and its economy relies on the agriculture sector, which currently has the largest share in its GDP. Therefore, Afghanistan can gain more profit by exporting agricultural products and using the opportunities provided by the WTO for agricultural

developing countries and keep its production machine on the go.

## Discussion

According to the recent studies, Afghanistan is one of the poorest countries in the world that has recently joined WTO. This country hopes that with its membership in this organization, it will find more access to global markets, which is one of the important tools of economic growth. But instability seems to be one of the major challenges in achieving this goal. Officials of the Afghan government say that membership in this organization will help their country in the field of rule of law, transparency in the commercial system and healthy economic growth.

In the other study shows, director of public relations of Afghanistan chambers of commerce told DW "The WTO will give us a good opportunity for reforms in the trade sector, job creation and transportation". "We are facing problems with our neighboring countries such as Pakistan and Uzbekistan, while both countries are also members of this organization. For instance, we claim WTO to put pressure on Pakistan to stop illegal trade on the borders of Afghanistan". It is expected that membership in this organization will provide this country with benefits such as access to new markets and global supply chains, but it is not clear how much will be the share of Afghanistan. The country's export structure is based on agricultural products, carpet and leather products, which may benefit from low customs tariffs.

IHS economic expert Rajeev Biswas told DW about Afghanistan "Afghanistan has already removed its customs barriers as part of the WTO entry requirements that has increased import competition in some industries, as result, consumers will enjoy the benefits of variety in choice and lower prices in the market".

According to the Afghanistan Investment Support Agency's report that was published in the year 2015. During the last decade, Afghanistan has achieved significant growth, but in the last three years, due to the withdrawal of more international forces and the reduction of international aid, the country's economy has been severely damaged. For example, in 2014, GDP growth slowed to around 2%, and after two years, rates increased by 9%.

Mikhail Kugelman, an expert on South Asia says "Even if membership in WTO creates supply chains and opens the door to new global markets for Afghanistan, still few will be willing to invest in this country. Because the political instability and the lack of necessary security will cause the lack of interest of the big investors". Analysts believe that the government should continue to deal with issues such as corruption, government bureaucracy and excessive inefficiency in order to convince foreign investors to invest in this country.

Alexey Yusupov the head of one of the German charity foundations in Afghanistan says "Membership in regional and international organizations is a privilege for a poor country like Afghanistan" He continues to add "I fail to see how joining the WTO will help Afghanistan attract more foreign investment. Factors such as the insecurity is the main reason for the decrease in the interest of foreign investments in this country so reducing tariffs and removing other trade barriers cannot change the current situation".

Afghanistan is one of the undesirable candidates for a group of countries whose goal is the growth of international trade. In the past 15 years the war made this country unstable and at the same time it has been involved in civil wars in the last three decades. This country is deeply poor and to advance its nascent economy it needs foreign financial and technical aids.

After spending most of the negotiations to join the WTO, in 2016 Afghanistan was introduced as a less developed member of this organization. Experts believe that sustainable economic growth is impossible by attracting trade and investing without joining world markets. Its fundamental goal to join the WTO is to increase exports and attract FDI. Almost all Afghan business partners are either members of the WTO or are joining the organization. Therefore, its membership in the WTO provides more effective trade under the adopted laws of all members of the organization.

Afghanistan is a landlocked country and is currently dependent on foreign aids, its domestic production is mostly used for domestic consumption, that has a very small role in export. Considering the UN categorization this country is one the less developed and poorest countries of the world. In terms of educations, healthcare and life standards it located in a very low level which is the results of four decades of wars. According to the World Bank's report the ratio between import and export of the country reached 20% in year 2011, that export items includes fresh and dried fruits, leather, precious stones and carpets that are in the markets of neighboring countries such as Pakistan, India, UAE, Kazakhstan, Uzbekistan and other countries. Import goods include almost all items such as food, industrial products, cars, light and heavy machinery and energy.

The findings of this study show that the reduction of customs tariffs has been a sharp decline in government revenue. In the short term, according to the low level of domestic production, there will be no hope of export. Reducing tariffs has increased the imports, which will cause severe damage to local nascent producers and even in some cases this cause their bankruptcy. Finally, in the short-term and mid-term, Afghanistan cannot benefit from the WTO to resolve its business disputes due to the lack of experts. Membership in WTO means facilitating Afghanistan's access to world markets and reforms to commercial laws in its business sector. WTO often improves domestic standards, attract foreign investment, create more jobs and improve the economy and welfare level.

## Conclusion

In conclusion, Afghanistan's accession to the WTO has had both positive and negative effects on its SMEs. While increased market access and improved trade-related infrastructure have provided significant opportunities for Afghan SMEs to grow and expand, challenges related to weak policies and institutional frameworks, political instability, and security challenges still pose a considerable risk to their operations. Therefore, there is a need for the government of Afghanistan and other stakeholders to develop and implement policies that address these challenges to enhance the competitiveness of Afghan SMEs in the global market.

## Strengths and Limitations

**Limited access to data:** The exact number of SMEs were not available during the data collection, in order to collect data so the researcher went through the available number of SMEs.

- There is no other research on this topic, the recent research on this topic is relatively new in Afghanistan
- The official languages in Afghanistan are Pashto and Dari. In order to communicate and collect the respondent's feedback first the researcher converted the actual data from English to local languages that cause more time consumption
- Afghanistan has been plagued with political instability and on-going conflict, which could affect the ability to conduct research and collect data from the vast number of SMEs who were engaged in import and export previously.

## Ethical Approval

This study was ethically approved by the ethical department of research committee of the Bayazid Rokhan Institute of Higher Educations (BRIHE: 1394-1401).

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