

# The Afghan Carpet Industry: Issues and Challenges

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## Summary:

This paper describes the current issues and challenges that the carpet industry in Afghanistan is facing. The context of this paper is based on review of literature, policy papers and interviews carried out with public and private institutions, carpet producers/weavers and sellers/traders. Millions of people are directly and indirectly employed and earn their income from this sector in major hand-made carpet producers and exporters of Asian countries including Afghanistan. The Afghan carpets export rose rapidly from USD 4 million in 2001/02 to USD 216 million in 2005/06. After six years the export trend considerably slumped to USD 44 million, which also abruptly affected domestic carpets production. The main issues and challenges found are: competition from other Asian carpet producers and exporters, lack of branding and market linkage, lack of access to finance, low quality raw materials, inadequate cut and wash facilities, lack of market research and limited training, endemic corruption etc. Considering the current unemployment and poverty condition, the cited issues and challenges of the industry should be tackled. To do so, there is a great need of huge and concrete attention plus strong cooperation by the Afghan government, private sector, donor agencies and NGOs.

**Key words:** Afghanistan, carpet, industry, issues, challenges, markets.

**JEL Classification:** L52, L67

## 1. Introduction

In today's economic situation, employment and income generation are considered one of the important matters in the national development policies. Significantly, the carpet sector is extremely labor intensive and millions of people are directly and indirectly employed and earn their income from this sector in major hand-made carpet producers and exporters from the Asian countries (see Section 3). Like most of other commodities, the trade in carpets is strongly dependent on the changes in economic and political situations at the national or international levels. For instance, Iran's production and exports declined following the US-led sanctions imposed on the country over its nuclear program. As a result, India became the world's largest exporter of hand-made carpets, particularly to the United States. On the other hand, following the Russian invasion, the Afghan refugees in Pakistan became carpet exporters, and as a result, Pakistan earns profits worth millions of dollars annually.

Noticeably, for centuries Afghanistan has been known as an international leader in hand-made carpet production, but decades of war and political turmoil inflicted irreparable

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damage to the country's carpet industry (Arthur, 2011). Fortunately, the commitment on the part of the international community in 2001, and the efforts of carpet sector stakeholders, including the Afghan government, the private sector, a few donors and NGOs, prompted the industry's revitalization.

Interestingly enough, exports skyrocketed, increasing from USD 4 million in 2001/02 to USD 216 million in 2005/06. Unfortunately, six years later exports showed a sustainable decline, falling to USD 44 million (see Figure 1). Apparently, the decline in exports affected carpet production at the domestic level, specifically in the northern region, where the major portion of Afghan carpets is manufactured. The Kunduz province alone suffered from a decline in carpet production by more than 50 percent, which had a detrimental effect on the livelihood of the carpet weavers (UNAMA, 2013). The Faryab province suffered from a decline in carpet production by nearly 40 percent (Kohi, 2015). Therefore, this paper seeks to find out and discuss the issues and challenges which have caused the decline. Furthermore, the paper attempts to provide recommendations with regard to the possible recovery of the carpet industry. To this effect, a descriptive research method is applied.

## 2. A brief overview of the Afghan carpet industry

Like other economic sectors, Afghanistan's carpet weaving sector was adversely affected by the years-long war and political instability. Millions of people (including carpet producers and traders, among other economic agents) were forced to leave the country, the migrant outflow heading mainly to Pakistan and Iran. Since 2001, when economic recovery began, the majority of refugees returned home. Carpet weavers, carpet manufacturing factories and traders, among other agents, expected more of

the much needed support by the stakeholders in the carpet sector. Regrettably, as a result of the lack of the necessary support, their expectations failed to materialize, which in turn hit the carpet industry.

Bebi Shirin Akbari, a 38-year-old entrepreneur who established her own carpet factory in Kabul after coming back from Pakistan, has now been driven out of business. As she said, "until 2009, I used to employ 300 workers in my factory. But orders plummeted and I was unable to provide the pay to my staff. Now my employees number a mere 20 people" (Ethirajan, 2012). What is more, Murad Carpet Manufacturing Company (MCMC) used to have hundreds of workers but it shrank recently.<sup>1</sup> Unfortunately, the majority of other carpet businessmen and manufacturers are also worried about the contraction of their business.

The Afghan government voiced its concerns about the decline. As Anwar-ul-Haq Ahadi, former minister of commerce and industry, said "I think our future economy mostly relies on carpet production, so the government should put serious effort into its promotion" (Ufuq Magazine, 2012). Though there are no official figures, it is generally assumed that millions of people are employed, whether directly and indirectly, in the Afghan carpet sector. Moreover, according to Afghanistan SME Development Strategy, in the carpet industry there is a big concentration of SMEs in the cutting and washing facilities. They usually employ about 200 people, and pretty often the employees encompass 10 to 20 workers (Ministry of Commerce and Industries [MoCI], 2009). Hence, the carpet sector's recovery would contribute to job creation, thus fighting unemployment and poverty.

### 2.1 Carpet production and export

Annually, Afghanistan produces around two million square meters of carpets

<sup>1</sup> Interview with owner of Murad Carpet Manufacturing Company, August 2016

## Articles

(Zarindast, 2012), and a big portion of the output is exported to the international markets in Asia, Europe and the USA. Out of around two million square meters of annual carpet output, about 60 percent is produced in the Northern provinces of Afghanistan, while the remaining quantity is produced in other provinces (see Table 1). Carpets are produced traditionally at homes and normally they are sold through intermediaries that earn better profits than producers.

Table 1. Carpet production at provincial level

Region	Province	Production (%)
North	Jowzjan	30
	Faryab	20
	Balkh	6
	Kunduz	5
West	Herat	10
Northwest	Badghis	1
Centre	Kabul	25

Source: Modified from SME Development (SMED) Directorate, MoCI (2014/15)

The costs of carpet production from the initial stage to sales involve different expenditures, as the estimates of the SMED directorate of MoCI show.

Table 2. Cost differences at the different stages of carpet production and sales

No	Involved in carpet production and trade	Unit	Unit in USD
1	Raw material expenses	Per square meter	60
2	Weaver's income	Per square meter	50
3	Traders' income in transport to Pakistan, including cut and wash	Per square meter	50
4	Transportation expenses to European countries	Per square meter	18
5	Wholesalers' revenues	Per square meter	97
6	Retailers' income outside Afghanistan	Per square meter	240
Total Expenses			USD 565

Source: SMED Directorate, MoCI (2014/15)

The table reveals that only 10 percent of expenses involves raw material and 10 percent staff pay. The remaining 80 percent does not go to carpet producers, but is pocketed by Pakistani salesmen who benefit from this trade. There is a big margin between the production cost of the carpet and its sales price. Hence production is a niche for possible investments that

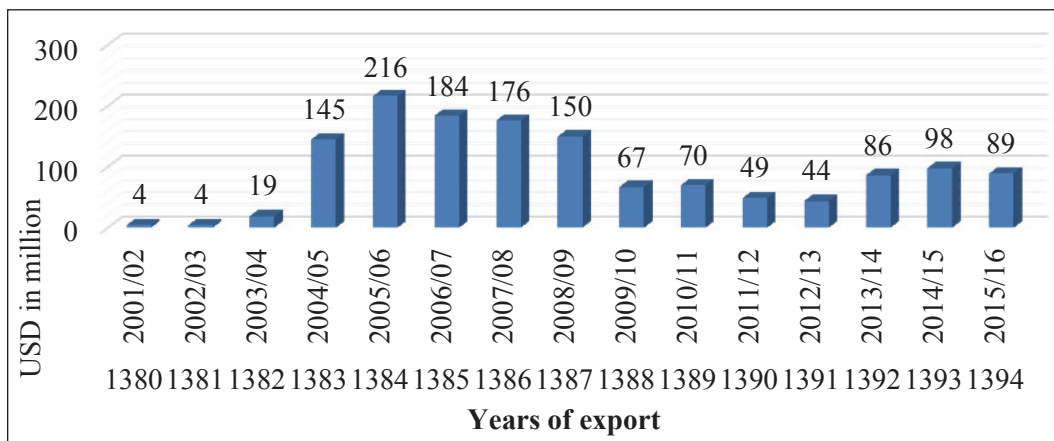


Fig. 1. Carpets Export 2001/02-2015/16

Source: Compiled by the authors from Afghanistan Statistical Yearbooks, CSO

can reduce this price difference between producer and end buyer (MoCI, 2014/15).

In terms of carpet exports overseas, the country has experienced a sharp decline over the past years. The data published by Central Statistical Office (CSO) shows that after 2005/06 carpet exports (USD 216 million) gradually declined to USD 44 million in 2012/13. Later on, after a slight increase (USD 98 million) in 2014/15, the exports plummeted to USD 9 million (see Figure 1) in the following year.

Furthermore, in 2008/09 with total exports of 27 percent, the carpet industry was listed as the second largest export sector, following that of dried fruits, with exports of 45 percent (CSO, 2008-09). After the continued decline, in 2015/16 the carpet industry formed 16 percent of total exports, though it yet again was one of the largest export sectors (CSO, 2015-16). In an aid-dependent Afghanistan, exports account for around 20 percent of GDP (see Trading Economics, 2000/16). The carpet industry is one of the main contributors to the country's GDP.

### 3. Carpet Industry in Asia

The carpet industry in Asia has been experiencing a dynamic expansion. It has been known that the majority of hand-made carpets in the world are produced in Asian countries. The major producers and exporters of hand-made carpets include: Iran, India, Pakistan, Turkey, Nepal, Afghanistan and even China. Europe, the United States and the Middle East are the world's largest consumers of carpets. This section briefly describes the main issues and challenges of hand-made carpet industries in Asia.

#### 3.1 Iran

The carpet weaving industry in Iran dates back to hundreds of years ago. Persian carpets are famous for their quality design,

richness of color and artistic patterns in the international markets (Mirrazavi, 2012). Iran's hand-made carpet is considered as one of the outstanding goods in the country's non-oil export sectors. In recent years, the trend of Iranian export of hand-made carpets showed a decline due to various challenges. Normally, until two years ago Iran used to export USD 500 million worth of hand-made carpets annually but later on, due to many issues including the US-led sanctions, exports dropped to USD 314 million (*The Financial Tribune*, 2016).

According to Saeedi, Nabilou, Masouleh, Beikkhakhian (2012), the main challenges to Iran's hand-made carpet industry are the lower carpet prices offered by competitors like India and China, as well as their ability to design, produce or sell abroad carpets superior to the Iranian ones. Furthermore, Omid (2015) describes the challenges Iran's carpet production and exports face as follows: the competition in the global market, the low quality of raw materials, the lack of expert human resources (e.g., in dying, knitting, designing etc), no marketing research or information centers, no approach to carpet exports, the production of machine made carpets, among other factors.

In addition to the aforementioned challenges, Hamid Kargar, head of Iran's National Carpet Center said that the country had maintained its position of global leader in the exports of hand-made carpets. According to Kargar, there are around 2.3 million people employed in carpet weaving. Annually, they weave around 5 million square meters of carpet, and 80 percent of them are exported (see Press TV, 2015). Iranian carpets are exported to many countries across the world. Even during the sanctions, Iranian carpets exported to about 80 countries (*The Tehran Times*, 2015).

Before the sanctions imposed in 2010, Iran was a market leader in international carpet markets. What is more, Iran's

share of world carpet market is more than 30 percent. As a result, Iran to the ranking, coming before its rivals like India, Pakistan, Turkey and China (*The Financial Tribune*, 2016).

### 3.2 India

Carpet weaving is one of the oldest industries in India. The tradition is not as old as in Turkey and Iran. The tradition of carpet weaving was brought from Persia in 16<sup>th</sup> century. Today, India is one of the world's largest producers and exporters of hand-made carpets. According to India Brand Equity Foundation (IBEF), India accounts for about 35 percent of the global exports of hand-made carpets. From April 2014 to February 2015, Indian carpet exports stood at USD 1.173,4 million and are expected to grow by 9 percent annually in 2015–16 (IBEF, 2015). Compared to Iran and its other rivals, the figures show that India is the world's largest producer and exporter of carpets. Moreover, more than 3 million of Indians are directly and indirectly employed and earn their income from the carpet industry particularly in the rural areas (Pandy, 2015).

With their fascinating design and color and excellent quality, Indian carpets are exported to more than 70 countries across the world. The United States is the largest importer with a share of with 43.84 percent (Carpet Export Promotion Council, 2015/16). One of the main reasons which have made India the biggest carpet exporter, particularly to the United States is the economic sanctions imposed against Iran. Even though the sanctions on Iran have now been lifted, India may retain its position if Iran does not take measures to tackle the various challenges its carpet sector is now faced with (see section, 3.1).

Interestingly enough, the Indian carpet industry enjoys a strong on the part of government and artisans and manufactures.

The Carpet Export Promotion Council holds numerous trade fairs every year both in India and abroad. Despite the government's support, the Indian carpet industry is facing some challenges both in carpet manufacturing and exports. According to Pandy (2015), the major challenges are: the less quantity of wool production the lack of access to easy and low rate financing, as well as the lack of management training, and the shortage of skilled artisans. These challenges can be seen as opportunities to its rivals, particularly to Iran and Pakistan.

### 3.3 Pakistan

Like other Asian countries, Pakistan has long history of hand-made carpet industry. The technique of carpet weaving in Pakistan is basically influenced by Persian style (Shaheen, 2004). Pakistan's carpet industry experienced a boom in the late 1970s until early 2000s. The thriving was due to: the decline of Iran carpet production in the late 1970s as a result of Iranian revolution and influx of Afghan refugees to Pakistan as a result of Russian invasion. According to Shahid Hasan Sheikh's Lahore Carpet Manufacturing Company, the technology, fabrics, varieties, weaving skills and natural dyes brought by Afghan refugees to Pakistan are still helping the country survive in the global carpet market. Furthermore, Shahid stated that 35-40 percent of Pakistan's carpet exports are woven in Afghanistan (Jamal, 2014).

The Pakistani carpet industry provides jobs to more than 1.5 million Pakistanis (*The Express Tribune*, 2015). Almost all of carpets produced in Pakistan are exported to various countries across the world. The main export destinations are: the United States, Germany, Italy, Japan, among other countries. Despite free access to European markets, Pakistan carpet industry has faced decline in the recent years. According



to Qamar Zia, senior vice chairman of Pakistan's Carpet Manufacturers and Exporters Association (PCMEA), hand-made carpet exports have fallen from USD 320 million to USD 120 million during the last seven years and millions of people lost their jobs (Adeel, 2015).

Like its rivals, Pakistan hand-made carpet industry is also facing a number of challenges. As various reports show, the main issues and challenges are as follows: competition largely from India and Iran, the shortage of skilled labour due to the return of Afghan refugees (including skilled carpet labors) back to Afghanistan, electricity cuts, insufficient carpet trade fairs, rising inflation, among other factors.

### 3.4 Turkey

Historically, the Turks are among the most ancient carpet weavers. The Turkish carpet industry includes both machine-made and hand-made carpets. Due to technological advances in Turkey, the production of hand-made carpets was fast transformed into machine-made production. For example, in 2013, Turkey exported USD 132 million worth of hand-made carpets and about USD 2 billion machine-made carpets (Ministry of Economy, 2014). Turkish carpets are exported to a wide range of countries. Turkish hand-made carpets are mainly exported to the United States, Europe, Japan, etc.

Turkey is one of the world's largest producers and exporters of carpets. The major factors determining its global leadership are: its geographical location (easy access to Middle east, Europe and Central Asian countries; well-trained labor force; advanced technology; liberal trade policies; high supplies domestic yarn; the free trade agreements signed with many countries; among other factors (Istanbul Textile and Apparel Exporters' Associations [ITKIB], 2011).

Despite these achievements, Turkish hand-made carpet exports declined from USD 175 million in 2011 to USD 132 million in 2013 (Ministry of Economy, 2014). The technological advances in Turkey and the international competition from rivals like India, Iran and Pakistan are two of the main reasons for the decline in hand-made carpets. However, it was not only the hand-made carpet exports that showed a decline. Turkey's exports decreased by about 8.7 percent (USD143.7 billion) in 2015 compared to 2014. Because of fluctuations in parity, the declining commodity prices, the military conflicts raging in neighboring Syria and Iraq and crisis in the relations between Russia and Ukraine (*The Daily News*, 2016).

### 3.5 Nepal and China

A small and land-locked country, Nepal is sandwiched between two giant neighbors (China and India). Yet the country is also one of the world's top producers and exporters of hand-made carpets. The carpet industry provides employment and ensures income to a big number of Nepalese. According to Nepal's Trade and Export Promotion Center, the carpet industry is the backbone of the Nepalese economy. Nepalese carpets boast with strong fabric and durability, color combination, texture and resiliency. They are exported to over 40 countries. Germany and the United States are the biggest export markets for Nepalese-produced carpets.

From 1976 to 1994, Nepal's carpet industry experienced a boom. However, since 1995 onwards, as a result of the legal issue of child labour in the carpet industry, the Nepalese carpet production and exports experienced a declining trend, particularly in the German market (Grote, Basu and Chau 2007, p.63). In 1993-94, with 3,000 carpet firms in operation, around 1.2 million people were directly and indirectly employed in the carpet industry. Unfortunately today only

about 600 carpet firms are still functioning, and the number of employees plummeted to 100,000. As a result the industry was deeply affected and by the fiscal 2008-2009 year, its exports had halved to USD 71.5 million (Sharma, 2010).

According to *The Kathmandu Post* (2015), Nepal exported carpets worth USD 62.48 million last year, down from USD 64.74 million during the previous year. Various reports pointed out the main challenges of Nepal's carpet industry such as: the cheaper carpet production in India and China, the government apathy, the shortage of skilled labor, the high production cost of raw materials and high interest rates on loans, and load-shedding, among other factors.

China has long history of carpet weaving. Carpet production in China has a long history of culture-specific customs and traditions of the Chinese people. The dyes used in carpet production are often chemical (Carpet and Rug Pedia, 2008). It has been known that China's machine-made carpet production and exports exceeds hand-made carpet production due to advanced technology, which prompted carpet weavers to seek other employment. Hence China is now importing hand-made carpets from countries like Iran, India, Pakistan and even Afghanistan. The rise of machine-made carpets in China, global competition, the high quality and design of the carpets offered by its rivals, particularly by Iran and India, are some of the major challenges that the Chinese hand-made carpet industry is yet to resolve.

#### 4. Methodology

The main purpose of this paper is to describe the issues and challenges of Afghanistan's carpet industry. To this effect, a descriptive research method was used. Qualitative data were gathered for description. Primary and secondary data were used in

order to answer the questions of "What are the issues and challenges of Afghan carpet industry?" And "How should the recovery of the carpet industry be promoted?"

The primary data were collected in the form of interviews with respondents from the Afghan government (MoCI and Afghanistan Investment Support Agency - AISA) and the private sector (Afghanistan Chamber of Commerce and Industries – ACCI, carpet producers/weavers and sellers/traders). A total of 25 interviews were conducted in the capital city of Kabul in August 2016. Most respondents were carpet producers/weavers and sellers/traders, who were selected on the basis of their experience in the carpet sector.

Secondary data was obtained from the overview of the available literature, strategy/policy papers and the published donor and governmental documents. The majority of the statistical data was gathered from Afghanistan's CSO and MoCI.

#### 5. Findings and Discussion

##### 5.1 Competition

The competition emerging in the aforementioned countries is a major challenge to the recovery of Afghanistan's hand-made carpets. Afghanistan's carpet manufacturing and exports has been hit largely by cheap competitors from Iran, Pakistan and Turkey. As a carpet seller from Kabul pointed out, Afghan carpets are expensive, so the ordinary people prefer to buy Iranian and Turkish carpets that are cheaper and more affordable (Ethirajan, 2012). Moreover, the imports of machine-made carpets have brought about the decline in the sales of Afghan hand-made carpets in Afghanistan. Unfortunately, it is impossible for the Afghan government to impose a ban on Iranian machine-made carpets. This is what Afghanistan's President Hamid Karzai said during a meeting held with carpet

businessmen: "if we ban their carpets, then they will ban all their products exported to Afghanistan" (Dawn, 2012). Yet, the increase of the duty levied on imported carpets is an alternative through which the government can improve the sales of domestic carpets.

Another seller in the Faryab province said that a major reason for the decline in Afghan carpet sales is the imports of low-price and poor-quality carpets from Iran, Turkey and Pakistan. He went on to say that "Earlier, I was selling three to four carpets per day, but now I cannot sell four carpets in four months" (Kohi, 2015). In the Kunduz province, besides a sharp decline in carpet production from an annual output of almost 100,000 square meters to 38,000 square meters, carpet exports also dropped because importers preferred to buy carpets from other countries, particularly from Iran and Turkey (UNAMA, 2013).

Competition is not just a factor determining the fall in domestic carpet production and exports. It also has an adverse effect on the employment opportunities in the carpet sector of Afghanistan. Furthermore, competition is a key challenge not only to Afghanistan but also to other carpet producers and exporters (see Section 3). The countries where the support by the government and the private sector is not significant have suffered the negative effects of competition.

In Afghanistan carpet producers and sellers alike blame the government for the lack of support with regard to the provision of high-quality raw materials at a reasonable price, market placement, raising customer awareness of design, color and price in order to secure the competitive advantage of domestic producers.<sup>2</sup> In fact, the Afghan government does not have the economic and political tools to boost the development of the carpet sector and meet all the

expectations of carpet makers/traders. It needs the support of donor agencies, NGOs, and private sector as well.

### 5.2 Branding and market access

Various reports show that a large portion of Afghan carpets which are produced in Afghanistan, or by Afghan refugees in Pakistan, are exported to international markets under Pakistani brand. Haji Khidar, who has a 30-year old experience in Afghan Carpet Union in Peshawar, accused the Afghan government for this, pointing out that Pakistan earns the principle income from the Afghan carpets (Basharat, 2015).

In addition to the brand issue, Afghanistan's Chamber of Commerce (ACCI) further pointed out that carpet producers tend to criticize the government for lack of markets for their products.<sup>3</sup> The lack of access to markets is one of the main reasons for the loss of Afghan carpet branding. The government and private sector have not taken sufficient measures to directly connect producers with end buyers. For instance, the Government of Afghanistan has provided a subsidized freight rate for carpets shipped on Ariana Afghan Airlines from Kabul to Dubai (Landrigan and Omar, 2010). As a fairly recent development, a MoU was signed between representatives of the Afghanistan's Carpet Manufacturers and Exporters Guild (ACMEG) and Turkish Airlines in order to support Afghan carpet exporters to sell their carpets to global markets at lower shipping rates and without intermediaries from neighboring countries (ABADE, 2015). However, carpet sellers demand more transportation and logistics facilities, and organizing more trade fairs and exhibitions by the stakeholders in order to be able to directly sell their products in international markets under the Afghan-made label.<sup>4</sup>

<sup>2</sup> Interview with carpet producers and sellers, August 2016.

<sup>3</sup> Interview with Siamuden Pasarly, Public Relation Director, ACCI, August 2016.

<sup>4</sup> Interview with carpet sellers, August 2016.



According to MoCI (2013/2016), Afghanistan exports carpets to only 22 countries. This is a small quantity compared to competitors' exports to a wide range of countries (see Section 3). Therefore, besides existing markets, the Afghan government should enter into new markets, especially in countries where competitors do not have high exports, such as Japan, South Korea, Indonesia, and other countries. Katib, who has had a carpet company for more than two decades, pointed out that access to markets and Afghan carpet manufacturers' entry into international markets are more important than the provision of financial subsidies.<sup>5</sup> Indeed, if carpet makers have good sales then they will reinvest their profits. This will in turn contribute to job creation and producers will not have to rely heavily on the financial aid to be provided by the government.

### 5.3 Access to finance

The financial system in Afghanistan has seen a rapid expansion over the past 15 years. Yet many businesses do not have access to loans because of the high interest rates and security requirements set by the majority of banks. Like other sectors, access to finance is also one of the key challenges to the development of carpet sector. According to Landrigan and Omar (2010), the commercial banks in Afghanistan do not extend any loans to carpet producers. In their opinion, the reason for this is the lack of sufficient security, as well as producers' need to borrow small sums several times a year, which are costly to service. As an ACCI business monitor survey conducted in 2014 in five major provinces (Kabul, Herat, Balkh, Kandahar and Nangarhar) found, 36 percent of business people are encountering

problems in accessing funding (ACCI, 2014). Moreover, business surveys reveal that many businesses refuse to take out loans because they believe that the interest is prohibited by Islam (ACCI, 2013; 2014). As a source of support for their business, they rely on business profits, savings and new partners, among other sources of financing.

Specifically in the carpet sector, MoCI affirms limited access to financing for "wholesaler provide cash advances to weavers for production and household expenses and for investment in new production facilities" (MoCI, 2013/2016, p. 11). Almost all carpet manufacturers that were interviewed criticized the government for its policy of lacking subsidies. They stated that "as a result of lacking subsidies, we cannot compete with imported carpets, especially from Pakistan, where carpet entrepreneurs enjoy state subsidies."<sup>6</sup> MCMC, which was recently shrank in Kabul, pointed out that one of the major reasons for their shrinking business was the lack of government aid.<sup>7</sup> Taking the stance of MCMC, Farzam Carpet Export and Manufacturing stated that the government had promised to extend a 10-percent loan but that system had not yet been launched.<sup>8</sup> The lack of access to financial services in Afghanistan and the available interest-free lending in Pakistan has made Afghan carpet producers dependent on Pakistani intermediaries for access to international markets. As a result, the intermediaries sell the Afghan carpets abroad at a price that is about 30 percent higher. Hence they make an easy profit from the Afghan-made carpets (Landrigan and Omar, 2010).

### 5.4 Low quality raw materials

Wool is one of the essential raw materials used in carpet weaving. Similarly, making thread/yarn, dye and washing chemicals are also very essential ingredients. One of

<sup>5</sup> Interview with carpet producers and sellers, August 2016.

<sup>6</sup> Interview with Siamuden Pasarly, Public Relation Director, ACCI, August 2016.

<sup>7</sup> Interview with Murad Carpet Manufacturing Company, August 2016.

<sup>8</sup> Interview with Farzam Carpet Export and Manufacturing Company, August 2016.

Afghanistan's advantages compared to its rivals is the high quality of wool produced in the Ghazni province, which is described as "soft-hard wool" (OTF, 2006). Unfortunately, years of war has dramatically reduced livestock population, which in turn had a detrimental effect on both the high-standard quality of wool production and thread/yarn business in the country. Hence only 40 percent of domestic raw materials (e.g. wool) are used in carpet weaving. The remaining raw materials are imported from countries such as Iraq, New Zealand, Belgium, Saudi Arab and Pakistan (MoCI, 2014/15).

In fact the import of raw materials is expensive for landlocked Afghanistan with a poor road infrastructure from countries other than Iran and Pakistan. This is the reason why traders' prefer to import raw materials mainly from these two neighboring countries, even though these materials are not pure but are mixed with petroleum products (Bakhter news, 2015). Aman, a producer with some 15 years of experience in carpet weaving, said "even available domestic wool is exported mainly to Pakistan for washing, spinning and dying. In Pakistan the wool is mixed with low-quality materials and transferred back to Afghanistan."<sup>9</sup> The lack of quality control, manufacturing thread/yarn business, dye, washing chemicals and dependency on neighboring countries has had an adverse impact on the production and quality of Afghan carpets. Also, it has affected the competitiveness of Afghan carpets in the global markets.

### **5.5 Cut and wash facilities**

The lack of land for establishing and conducting business in Afghanistan, on one hand, and poor management of industrial parks by the government, on the other, are among the main reasons behind limited availability of carpet cut, wash and

finishing facilities in Afghanistan. According to Afghanistan SME Development Strategy, around 85 percent of Afghan carpets cut and wash, and whole selling is performed in Pakistan, (MoCI, 2009). To shift the value back to Afghanistan, recently with the support of carpet stakeholders, some cut and wash facilities were established in provinces like Balkh, Herat, Kabul and Nangarhar (MoCI, 2014). Compared to the total production of carpet (see Section 2.1) the cut and wash facilities seem insufficient.

Industrial parks are one alternative to meet the needs of carpet cut and wash facilities but they lack basic infrastructure including water supply, electricity, roads, and other things. For instance, in the eastern province of Nangarhar, which is the most suitable place for cut and wash due to availability of abundant water and the favorable climate conditions, industrial parks' roads and other fundamental infrastructure remain only partially finished (Center for International Private Enterprise [CIPE], 2015). On the other hand, in the Northern province of Faryab, the construction of carpet industrial park has not yet been completed because funds were not allocated by the government (Pajhwok Afghan News, 2015). The availability of land inside industrial parks and other areas will support the development of carpet sector clusters.

### **5.6 Market research and limited training**

Indeed, understanding consumer demand with regard to carpet design, color and price in the global markets require an advanced market research. As a result of the negligence on the part of stakeholders, Afghanistan has not yet set up an advanced research center for carpet sector improvements. Considering that the majority of carpets are produced in small towns and villages, carpet production is

<sup>9</sup> Interview with Aman, carpet producer, August 2016.

not in line with the international standards in terms of designs and colors (MoCI, 2014/15). As the research manager of AISA pointed out, majority of the carpet traders are not fully aware of the business practices in the international markets, which has had a negative impact on local production and sales.<sup>10</sup>

The Afghan Carpet Exporters Guild (ACEG) is a non-governmental organization established in the 1960s working under MoCI is in charge of the development of carpet products and carpet exports.<sup>11</sup> In practice, majority of the carpet traders/sellers interviewed were dissatisfied from ACEG's actions. Interviewees stated that ACEG does not have intensive and ongoing capacity to expand Afghan carpets based on international demands.<sup>12</sup> Unexpectedly, ACEG still does not have a website to share indispensable information with the carpet traders, producers and sellers.

In the private sector, recently Tanweer FBMI Company and Afghanistan Rugs and Carpets Center (ARCC) are established with the aim to do research and provide up to dated training services (e.g., designing, dying, wool collection, etc.) in the carpet sector in order to compete with the global markets in line with the international markets demand. Also, USAID has been involved in marketing initiatives, establishing computerized design centre, organizing international trade shows (see Sami, 2010). But decline trend in carpet production and exports indicates that the efforts of the stakeholders are not enough. Therefore, more needs to be done in research based marketing, training to carpet makers and traders in business management, accounting, and international business, among others. These effective

measures will contribute to transform the carpet sector to more profitable sectors in the future.

### 5.7 Corruption

Endemic corruption is one of the biggest challenges in Afghanistan. It is not only a hurdle for the improvement of carpet sector; however, it is one of the major obstacles to national economic development. According to the 2010 CIPE business survey, nine out of ten businesspeople surveyed agree that corruption is a major problem. They suggested that more steps need to be taken to fight against it (CIPE Survey, 2010, p.7).

Carpet industry representatives blame the government for red tape and endemic corruption, which they believe is blocking improvements and marketing that they hope would bring fresh expansion (see Taylor, 2012). According to CIPE, the complicated, burdensome and volatile tax system, on one hand, and the centralized system of exports and imports, and various bureaucratic procedures on the other hand has provided breeding grounds for corruption business in the country (CIPE, 2015).

Carpet traders/sellers and manufacturers tend to blame the government for the non-transparent, unfair and arbitrary tax system, the bureaucracy in government institutions and ignoring the restrictions on the import of low quality raw materials, especially the imports from Pakistan.<sup>13</sup> Also, Khan Jan Alkozai, deputy head of ACCI, pointed out that government's neglect, red tape, and graft has slowed down the development of the Afghan carpet industry (Kohi, 2015). Corruption has negative impacts on both domestic and foreign investors willing to invest in any sectors including the carpet sector of Afghanistan.

<sup>10</sup> Interview with research manager of AISA, August 2016.

<sup>11</sup> For more information about ACEG goals see [https://www.facebook.com/AfghanCarpetExportersGuildAceg/about/?entry\\_point=page\\_nav\\_about\\_item&tab=page\\_info](https://www.facebook.com/AfghanCarpetExportersGuildAceg/about/?entry_point=page_nav_about_item&tab=page_info)

<sup>12</sup> Interview with carpet traders/sellers, August 2016.

<sup>13</sup> Interview with carpet traders/sellers, August 2016.

Therefore eliminating corruption will greatly contribute to converting the aforementioned challenges into opportunities for investment.

## 6. Conclusion and Recommendations

A vibrant carpet industry can play a vital role in promoting sustainable economy growth. In Afghanistan carpets is among the major official export items. The industry is extremely labor intensive and has been providing employment to millions of Afghans, especially to those living in the rural regions. Not only the Afghan carpet industry but other Asian hand-made carpet industries have also their own issues and challenges (see also Table 3). Even though the challenges may more or less differ in nature, they have invariably had an adverse effect on carpet production and exports. Notably, competition is the most common and key challenge for all carpet producers and exporters.

are on the rise, thus, restoring of the carpet sector is essential to job creation and income generation. Also, improving the carpet sector will help develop other sectors including livestock and trade. This will in turn contribute to reducing Afghanistan's dependency on foreign aid.

*How should the recovery of the carpet industry be promoted?* The Afghan carpet industry needs serious action and specific measures taken by the stakeholders in the carpet sector. The stakeholders should pool their efforts to resolve the listed issues and meet the challenges described above. What is more, they will thus increase the competitiveness of the Afghan carpets in the international markets. Therefore, this paper comes up with recommendations listed hereinafter to draw the attention of carpet stakeholders and help them transform the challenges into investment opportunities:

Table 3. Main issues and challenges to major Asian carpet producers and exporters

Carpet producers exporters	Main issues and challenges
Afghanistan	Competition from other carpet producers and exporters, branding and market access, access to financing, low quality raw materials, cut and wash facilities, market research and limited training, corruption etc.
China	Increase in machine-made carpets due to advanced technologies, competition, high quality and design of hand-made carpets from rivals etc.
India	Less quantity of wool production, lack of access to easy and low rate financing, lack of management training, and shortage of skilled artisans etc.
Iran	Competition in the global market, low quality of raw materials, lack of expert human resources, no market research, no information centers, no approach to carpet exports, the production of machine-made carpets etc.
Nepal	Competition (e.g. cheaper carpets production in China and India), the government negligence, the shortage of skilled manpower, the high production cost of raw materials and high interest rates on loans, load-shedding etc.
Pakistan	Competition from India and Iran, shortage of skilled labour due to the return of Afghan refugees, electricity cuts, insufficient carpet trade fairs, rising inflation etc.
Turkey	Increase in machine-made carpet production due to advanced technologies, competition etc.

Source: Developed by the authors from sections 3 and 5

Considering Afghanistan's current economic development and security environment, unemployment and poverty

- The Afghan National Standards Authority (ANSA) should take action to avoid the import of low and mixed quality of raw materials

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from neighboring countries. The government should provide funding and equipment to increase the supply of domestic resources such as wool, especially produced in the Ghazni province, yarn spinning, natural dying, carpet washing chemicals (for instance, sodium hypochlorite), among other measures. Such measures will undoubtedly boost the competitiveness of the Afghan carpet industry.

- A minor investment in promoting expertise can result in lasting returns with regard to production and profitability. Therefore, the government, with the help of donors such as ASMED/USAID, needs to make investments in market research and training in the field of carpet design, color, business management, and other skills.
- Moreover, knowledge sharing strategy should be developed by the government to enhance the coordination between the international and domestic traders, and domestic producers. This will help domestic carpet traders and producers get informed about consumer demand in international markets.
- Building a strong carpet brand in the country requires the development of cut, wash and finishing facilities that meet modern internationally recognized standards. Therefore, stakeholders should improve the existing cut and wash factories in terms of both capacity and quality. Additionally, new facilities should be set up especially in the carpet manufacturing provinces. At the same time, the government needs to establish new industrial infrastructure and improve the existing parks' infrastructure, so as to provide space to carpet makers and traders/sellers. These facilities will in turn contribute to the development of carpet sector clusters. "Clusters are a driving force in increasing exports and magnets for attracting foreign investments" (Watkins, Christensen and Kraemer, 2015, p.215)
- As a landlocked country with unsatisfactory transport system, the government with the support of donors and the private sector should provide sufficiently subsidized services in the field of transport and logistics.
- Access to financial services is crucial to economic growth. Therefore, based on financial needs within the carpet sector, the government and the commercial banks should develop an adequate lending policy in order to provide access to financial services for carpet producers and other enterprises. Furthermore, the government should implement measures such as tax relief, low land rent, public private partnership, and other action to encourage the private sector to ensure that all stages of carpet manufacturing are held in Afghanistan and avoid exporting some manufacturing processes to neighboring countries like Pakistan.
- Action should be taken to boost the image of Afghan carpets in countries other than the ones to which Afghanistan and its rivals currently export. Organizing trade fairs could contribute to securing access to new international markets.
- It is impossible to impose a full ban on imports of machine-made carpet to Afghanistan, especially from Iran (see Dawn, 2012). The government should therefore increase the duty rates on imports, which will gradually reduce the inflow of imported machine-made carpets from Iran. As a result, Afghan carpets will stand better chances of increasing their sales in the domestic market.
- Given that the majority of Afghan carpet rivals lack skilled labour (see Table 3), the Afghan government and donors should contribute to improving the management of carpet producers and traders, offer them support, and thus motivate the professionals that came back from Pakistan not to leave their profession.
- Customs procedures need to be fully digitalized, which could help to get rid of the existing gaps in trade regulation.



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