

1                   **The Economic Effects of Import Dependence on SMEs in Afghanistan-**  
2   **A Systematic Review.**

3   **ABSTRACT**

4   Economic empowerment of developing countries has direct relation with SMES of the country, Small and  
5   medium-sized enterprises (SMEs) contributing an important role in Afghanistan's employment, income  
6   generation and overall economic development of the country, however, due to structural economic  
7   challenges the survival of SMEs remains uncertain. Heavy dependence on import of raw materials,  
8   intermediate goods, energy, and productions inputs (raw materials) is one of the major obstacles of  
9   Afghanistan SMEs. There are many barriers in Afghanistan's business environment which effects SMEs  
10   operations, such as reliance exposes firm to supply, chain disruptions, borders closure, exchange rate  
11   volatility and trade related uncertainties. Although this is an important cause but still research on Afghan  
12   firms is incomplete, and there are no proper studies that clearly identify how dependence on imports  
13   affects whether firm survival.

14   In this literature review which includes academic literature and policy reports evaluating the relationship  
15   between survival and import dependence of SMEs in the country. In this study SMEs covers early-stage  
16   startups as well which reflect the common classifications of startups within the SMEs sector in the  
17   country. This study result will discover that those SMEs which depends too much on imports, can easily  
18   cause in trouble if any problem accrued in importing the goods for running the operations. The review  
19   will sum up by identifying key research gaps and highlighting policy implications aimed at strengthen  
20   businesses resilience and reducing unnecessary import reliance in Afghanistan.

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22   **Keywords:** SMEs, Startups, Import dependence, business survival, Afghanistan.

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## 26 1. INTRODUCTION

27 Startups and SMEs play a very important role in every developing country such as Afghanistan's  
28 economy and constitute the backbone of the country's private sector. In a scenario identified by long  
29 period of conflict, political instability, and limited formal employment opportunities, SMEs deliver as a  
30 primary source of livelihoods, particularly in urban and peri-urban areas. World Bank Enterprise related  
31 report, SMEs account for more than 90% of private businesses in Afghanistan and provide approximately  
32 70% to 75% percent of non-agricultural employment, this shows how important SMEs are for the income  
33 source and economic stability (World Bank, 2020). The productivity and survival of these firms are  
34 playing a vital role not only for economic growth but for social resilience of the country as well.

35 A defining structural feature of the economy is its high reliance on imports. Afghanistan relies heavily on  
36 imported such as raw materials, intermediate goods, fuel, and machinery from foreign countries due  
37 to underdeveloped production infrastructure and limited domestic industrial capacity (UNCTAD, 2022).  
38 This dependence is specifically reliance among SMEs and startups operating in trade, manufacturing, and  
39 service sectors. Afghanistan as the center of Asia, reliance on transit through neighboring countries, and  
40 exposure to political and security disruptions further escalate import risks. Reports by the Asian  
41 Development Bank and the World Bank indicates that trade disturbance, exchange rate volatility, and  
42 border closures have challenged private sector activity by increasing costs and difficult supply chains  
43 (ADB, 2019; World Bank, 2022).

44 In this regard, the survival of SMEs remains a continuous challenge. Afghan SMEs face multiple barriers,  
45 including limited access to finance, weak infrastructure, informal regulations, and high levels of  
46 uncertainty (ILO, 2019). Import dependence increases these challenges by raising input costs, creating  
47 supply shortages, and limiting firms' ability to plan production and pricing strategies. Most of the time  
48 Startups and small firms are at risks, as they often lack financial support and alternative sourcing options.  
49 Empirical and policy-oriented studies highlights that such vulnerabilities contribute to high rates of  
50 business closure and instability within the Afghan private sector (UNDP, 2021).

51 Although, the central role of SMEs and the evident risks associated with import dependence, existing  
52 studies on Afghanistan remains fragmented. whereas previous studies indicates that private sector  
53 development, trade constraints, or firm performance in segregation, there is a lack of systematic  
54 combination focusing specifically on the relationship between SME survival and import dependence. This  
55 gap challenges a comprehensive understanding of how trade-related risks affect firm sustainability in  
56 Afghanistan. Addressing this gap, the objective of this paper is to systematically review the existing  
57 academic and policy literature on import reliance and the survival of SMEs in Afghanistan, with the

58 purpose of centralizing key findings, identifying underlying mechanisms, and indicates directions for  
59 future research and public policy intervention.

## 60 **2. OBJECTIVES OF THE STUDY**

- 61 • To assess the degree of import dependence among SMEs in Afghanistan.
- 62 • To measure how import dependence affects the survival of SMEs.
- 63 • To suggest ways to reduce import dependence and improve SME stability.

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## 65 **3. BACKGROUND OF THE STUDY**

66 In Afghanistan small and medium-sized enterprises are mainly divided based on employment size and  
67 scale of operations rather than formal registration status. According to the World Bank and national policy  
68 documents, SMEs typically include firms employing fewer than 100 workers, with micro and small  
69 enterprises constituting the majority of businesses (World Bank, 2020). Early-stage startups are  
70 commonly rooted within this SME category, as most new firms in Afghanistan run their businesses with  
71 limited capital, informal structures, and small labor forces. Due to regulatory, financial, and security  
72 restricts, many SMEs and startups operate informally, particularly in trade and service sectors (ILO,  
73 2019).

74 Import dependence is a common feature of fragile and conflict-affected economies, where weak domestic  
75 production capacity limits the availability of locally produced inputs.

76 In a country such as Afghanistan import dependence is a common feature for SMEs, in such contexts,  
77 firms rely heavily on imported raw materials, intermediate goods, fuel, and machinery to run operations.  
78 While imports can improve access to quality inputs, excessive import dependence increases firms'  
79 exposure to external barriers for instance exchange rate volatility, border disruptions, sanctions, and  
80 logistical constraints. The literature on fragile economies suggests that these challenges affect SMEs and  
81 startups, which typically lack financial buffers and alternative sourcing options, thereby challenging firm  
82 survival (UNCTAD, 2022; Naudé, 2010).

83 Afghanistan's trade and import structure reflects these structural challenges. The country is highly import-  
84 dependent, in a context where imports dominate exports by a wide margin. Afghanistan primarily imports  
85 are fuel, food products, construction materials, machinery, and consumer goods, while exports remain  
86 very limited to small number of agricultural and low-value products (ADB, 2019; World Bank, 2022).  
87 This imbalance, combined with dependence on transit routes through neighboring countries, exposes

88 Afghan SMEs and startups to repeated supply barriers and cost fluctuations. Understanding this trade  
89 structure is essential for analyzing how import dependence shapes the survival prospects of SMEs in  
90 the developing country.

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## 92 **4. METHODOLOGY**

93 The research is systematic review-based paper to join together existing academic and policy-oriented  
94 proofs on the relationship between import dependence and the sustainability of SMEs in the country. This  
95 research adopted a systematic approach to ensure transference, replicability, and comprehensive coverage  
96 of the relevant literature. (Page et al., 2021).

### 97 **4.1 DATA SOURCES**

98 Data has been collected from multiple sources to record both academic and contextual evidence, such as  
99 Peer-reviewed journal articles from Google Scholar, while policy reports and country-specific studies  
100 were reviewed from international organizations, including the World Bank, International Labour  
101 Organization (ILO), Asian Development Bank (ADB), United Nations Development Program (UNDP),  
102 and UNCTAD. These sources were selected due to their extensive coverage of private sector  
103 development, trade, and SME-related barriers in fragile and conflict-affected economies, especially in  
104 Afghanistan.

105 The systematic review process identified contextual studies and reports through database and institutional  
106 searches and an initial pool of publications was screened based on relevance to SMEs, import  
107 dependence, and firm survival in Afghanistan, resulting in the exclusion of studies that lacked firm-level  
108 or trade-related focus. The final set of selected sources was reviewed thematically to synthesize evidence  
109 on import dependence and SME survival.

## 110 **5. FINDINGS AND THEMATIC ANALYSIS**

### 111 **5.1 Import Dependence of Afghan SMEs**

112 The reviewed literature consistently highlights that Afghanistan startups & SMEs, exhibit a high degree  
113 of dependence on imported goods and inputs. SMEs rely extensively on imports for raw materials,  
114 intermediate goods, fuel, machinery, and consumer products, Due to limited domestic production capacity  
115 and weak industrial infrastructure, (World Bank, 2020; ADB, 2019). This reliance such as trade,  
116 construction, manufacturing, and services, is particularly pronounced, which dominate the SME landscape

117 in Afghanistan. Several studies show that the inputs supply constrains locally leaves SMEs highly  
 118 exposed to external market conditions and cross-border trade dynamics (UNCTAD, 2022).

119 Table 1

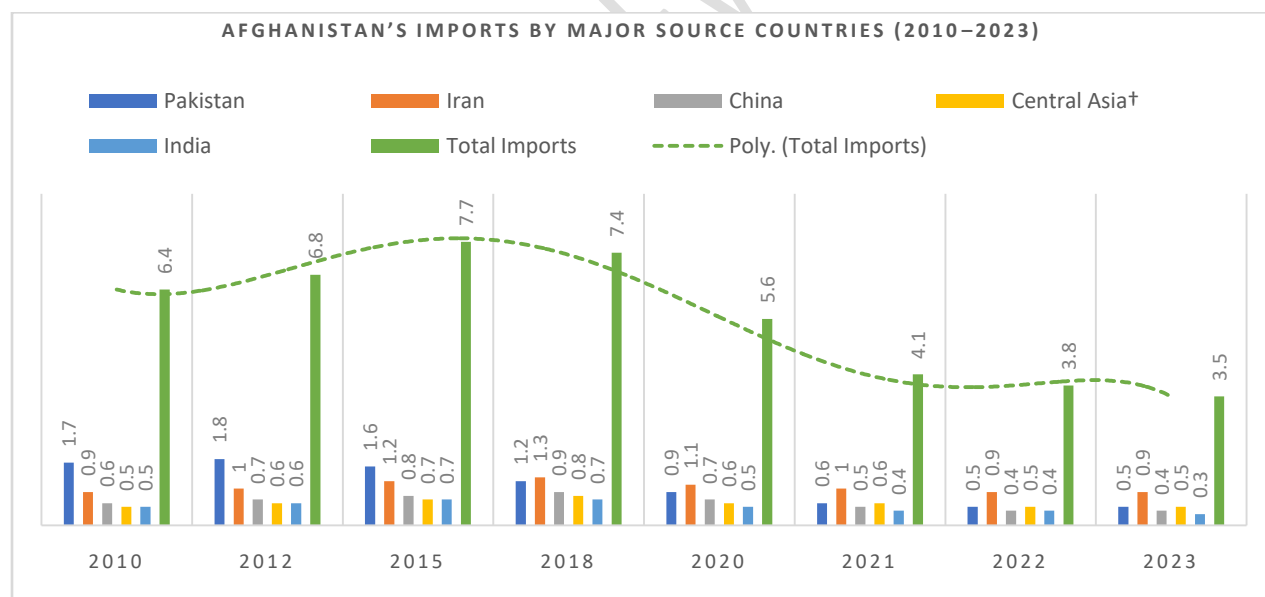
Afghanistan's Total Imports of Goods by Major Source Countries, 2010–2023 (USD Billion)						
Year	Pakistan	Iran	China	Central Asia†	India	Total Imports
2010	1.7	0.9	0.6	0.5	0.5	6.4
2012	1.8	1.0	0.7	0.6	0.6	6.8
2015	1.6	1.2	0.8	0.7	0.7	7.7
2018	1.2	1.3	0.9	0.8	0.7	7.4
2020	0.9	1.1	0.7	0.6	0.5	5.6
2021	0.6	1.0	0.5	0.6	0.4	4.1
2022	0.5	0.9	0.4	0.5	0.4	3.8
2023	0.5	0.9	0.4	0.5	0.3	3.5

**Source:** World Bank World Development Indicators (2023); UNCTADstat (2022); Asian Development Bank (2019, 2022); Pakistan Ministry of Commerce; India Ministry of Commerce.

120

121

Figure 1



122

123 **Source:** World Bank World Development Indicators (2023); UNCTADstat (2022); Asian  
 124 Development Bank (2019, 2022); Pakistan Ministry of Commerce; India Ministry of  
 125 Commerce.

126 The table and figure oneshow that Afghanistan's total imports peaked during the mid-2010s, particularly  
 127 between 2012 and 2018, reflecting strong reliance on imports from Pakistan, Iran, China, Central Asia,  
 128 and India. After 2020, imports from all major partners declined sharply, indicating a structural

129 contraction in the availability of raw materials and intermediate goods. This downward trend highlights  
 130 increasing vulnerability of Afghan SMEs and startups, which depend heavily on imported inputs for  
 131 continued operations.

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Table 2

<b>Afghanistan’s Raw-Material Imports by Major Source Countries and Trends, 2010–2023</b>			
<b>Country</b>	<b>Key Raw Materials Imported (Across Years)</b>	<b>Main Constraints Affecting Imports</b>	<b>Impact on Afghan SMEs &amp; Startups</b>
<b>Pakistan</b>	Cement, steel bars, food-processing inputs, packaging materials, pharmaceuticals	Border closures, transit restrictions, political tensions	Construction, manufacturing, and retail SMEs halted or reduced operations
<b>Iran</b>	Fuel, petroleum products, construction materials, basic chemicals	Sanctions, banking and payment barriers	Fuel-dependent startups faced cost shocks and volatility
<b>China</b>	Machinery, industrial equipment, electrical goods, chemicals, spare parts	Logistics delays, financial constraints	Manufacturing startups delayed expansion and repairs
<b>CentralAsia*</b>	Electricity, fuel, wheat, basic raw materials	Infrastructure limits, capacity constraints	SMEs experienced intermittent production stoppages
<b>India</b>	Pharmaceuticals, agro-inputs, processed food inputs, light industrial goods	Transit limitations, political and logistical barriers	Health, food-processing, and trading startups faced shortages
<b>Source.</b> World Bank World Development Indicators (2023); UNCTADstat (2022); Asian Development Bank (2019, 2022); UNDP (2021); national trade statistics.			

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135 The table2 highlights Afghanistan’s heavy reliance on a limited number of countries for essential raw  
 136 materials and production inputs. Country-specific trade constraints, such as border closures, sanctions,  
 137 and political&logistical barriershave directly challenged supply chains, leading to cost volatility,  
 138 production delays, and temporary shutdowns among Afghan SMEs and startups. Overall, the evidence  
 139 underscores the vulnerability of the SME sector to external trade shocks due to limited domestic input  
 140 alternatives.

141 **6. DISCUSSION**

142 The study highlights that import dependence is a central structural factor determining the survival of  
 143 SMEs and startups in Afghanistan. The evidence indicates that Afghan SMEs depends heavily on

144 imported raw materials, fuel, machinery, and intermediate goods sourced from a limited number of  
145 trading partners. As substantiated by the decline in imports after 2020, disruptions arising from border  
146 closures, financial constraints, sanctions, and logistical barriers have directly affects firms' operational  
147 stability. These findings are consistent with the literature on fragile and conflict-affected economies,  
148 which shows trade dependence as a key source of weakness for small firms.

149 The review further discloses that import dependence affects SME survival through two primary  
150 mechanisms: cost volatility and supply chain disruptions. Barriers in the availability of imported inputs  
151 frequently force firms to reduce production or temporarily stop operations, while exchange rate  
152 fluctuations and rising import costs reduce profit margins and undermine financial sustainability. Startups  
153 and smaller SMEs are particularly exposed due to limited inventory holdings, access to  
154 financerestrictions, and weaker adaptive capacity. Sectoral differences are also evident, with  
155 manufacturing, construction, and agro-processing SMEs facing hug survival risks than service-oriented  
156 firms. Overall, the discussion pointsout that SME survival in Afghanistan is driven less by firm-level  
157 inefficiencies and more by underlying structural trade barriers in an import-dependent and fragile  
158 economic environment such as Afghanistan.

## 159 **7. CONCLUSION**

160 This is an academic and policy-oriented literature to Assess whether depending too much on import good  
161 will affect Startups and SMEs in Afghanistan. The evidence highlights that Afghan small businesses, due  
162 to limited domestic production capacity operate within a highly import-dependent economic structure,  
163 relying extensively on imported raw materials, fuel, machinery, and intermediate goods. Import trends  
164 show that Afghanistan's total imports increased during the early and mid-2010s but declined substantially  
165 between 2010 and 2023, with a particularly sharp contraction after 2020. This continued decline reflects  
166 the combined effects of border disruptions, financial constraints, sanctions, and logistical challenges, all  
167 of which have had significant implications for SME and startups operations.

168 The review indicates that reduced import availability has directly affected SME survival through supply  
169 chain disruptions and cost volatility. Interruptions in access to essential inputs have continuously forced  
170 firms to stop operations or suspend productions, while rising import costs and exchange rate fluctuations  
171 have weakened financial sustainability, these barriers have been most severe for startups and smaller  
172 SMEs, which typically insufficient capital buffers and inventory reserves. Manufacturing, construction,  
173 and agro-processing sectors have faced the highest survival risks due to their intensive reliance on  
174 imported inputs.

175 meanwhile, the decline in imports over the period 2010–2023 has led to a degree of adaptive response  
176 among SMEs and startups in Afghanistan. The study suggests that some firms have increasingly relied on  
177 informal sourcing, local substitutes, scale reduction, and operational adjustments to sustain activities in  
178 the face of persistent trade constraints. While these adaptations do not highlight full import independence,  
179 they reflect steady efforts by SMEs to reduce exposure to external shocks and improve short-term  
180 resilience. To conclude, the findings shows that SMEs and startups survival in Afghanistan are influenced  
181 less by firm-level inefficiencies and more by structural trade constraints, with import dependence  
182 remaining an important indicator of business continuity in Afghanistan.

## 183 **8. RECOMMENDATIONS**

184 Based on the findings of our study, strengthening the survival, independency, and continuity of SMEs and  
185 startups in Afghanistan requires coordinated action by both the public sector and the firms themselves.

### 186 **8.1. Public Sector and Policy-Level Measures**

187 The public sector has an important role in minimizing the weakness of small and medium size enterprises  
188 and startups to import-related barriers.

189 1. Government should providefacilitates and border management reforms to minimize delays and  
190 uncertainty in the import of essential raw materials and intermediate goods, simplifying customs  
191 procedures, improving proper coordination contracts with neighboring countries to ensuring predictable  
192 border operations would significantly reduce supply chain interruptions that frequently force SMEs and  
193 startups to suspend operations in Afghanistan.

194 2.The government should support local input production and partial import substitution, particularly for  
195 basic construction materials, agro-processing inputs, and packaging goods. While full independency is  
196 impossible in the short term, targeted incentives, technical assistance, and small-scale industrial support  
197 can slowly reduce excessive import dependence among Afghan SMEs.

198 3.Their important factor is the government should improve access to finance and working capital support  
199 for the firms. Government guaranteed loan programs, trade finance mechanisms, and risk-sharing  
200 instruments can help Afghan firms absorb temporary import shocks and manage cost volatility without  
201 resorting to production shutdowns, such support is especially important for startups, which face the  
202 highest risk of collapse during trade disruptions.

### 203 **8.2. Firm-Level Strategies for SMEs and Startups**

204 Simultaneously, SMEs and startups must adopt flexible strategies to strengthening operational  
205 dependence. 1. should seek to expand different supply sources, including exploring regional alternatives  
206 and domestic substitutes where possible, in order to reduce dependence on a single country or trade route.

207 2. Connecting with multiple suppliers can lower the risk of complete operational suspension during  
208 border disruptions, SMEs should also strengthen inventory and input management practices, such as  
209 maintaining minimum buffer stocks for critical raw materials when financially possible.

210 3. Although holding inventory increases short-term costs, it can significantly improve production  
211 continuity during temporary import interruptions.

212 4. Local startups and SMEs should focus on gradual localization of operation, including adapting  
213 production processes to use locally available inputs and reducing excessive reliance on imported  
214 machinery or specialized materials. Improving financial planning, cost management, and flexibility in  
215 product design can further support consistency of operations. Finally, these firm-level adjustments can  
216 enhance resilience, support continuous operations, and contribute to greater long-term independence from  
217 external trade shocks.

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