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RESEARCH ARTICLE

THE ECONOMIC EFFECTS OF IMPORT DEPENDENCE ON SMES IN AFGHANISTAN- A SYSTEMATIC REVIEW

Tamim Adil and Ghazala Perween

1. Research Scholar, Maulana Azad National Urdu University, Hyderabad.

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Abstract

Economic empowerment of developing countries has direct relation with SMES of the country, Small and medium-sized enterprises (SMEs) contributing an important role in Afghanistan's employment, income generation and overall economic development of the country, however, due to structural economic challenges the survival of SMEs remains uncertain. Heavy dependence on import of raw materials, intermediate goods, energy, and productions inputs (raw materials) is one of the major obstacles of Afghanistan SMEs. There are many barriers in Afghanistan's business environment which effects SMEs operations, such as reliance exposes firm to supply, chain disruptions, borders closure, exchange rate volatility and trade related uncertainties. Although this is an important cause but still research on Afghan firms is incomplete, and there are no proper studies that clearly identify how dependence on imports affects whether firm survival. In this literature review which includes academic literature and policy reports evaluating the relationship between survival and import dependence of SMEs in the country. In this study SMEs covers early-stage startups as well which reflect the common classifications of startups within the SMEs sector in the country. This study result will discover that those SMEs which depends too much on imports, can easily cause in trouble if any problem accrued in importing the goods for running the operations. The review will sum up by identifying key research gaps and highlighting policy implications aimed at strengthen businesses resilience and reducing unnecessary import reliance in Afghanistan.

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Introduction:-

Startups and SMEs play a very important role in every developing country such as Afghanistan's economy and constitute the backbone of the country's private sector. In a scenario identified by long period of conflict, political instability, and limited formal employment opportunities, SMEs deliver as a primary source of livelihoods, particularly in urban and peri-urban areas. World Bank Enterprise related report, SMEs account for more than 90% of private businesses in Afghanistan and provide approximately 70% to 75% percent of non-agricultural employment, this shows how important SMEs are for the income source and economic stability (World Bank, 2020).

Corresponding Author:-Tamim Adil

Address:-Research Scholar, Maulana Azad National Urdu University, Hyderabad.

The productivity and survival of these firms are playing a vital role not only for economic growth but for social resilience of the country as well. A defining structural feature of the economy is its high reliance on imports. Afghanistan relies heavily on imported such as raw materials, intermediate goods, fuel, and machinery from foreign countries due to underdeveloped production infrastructure and limited domestic industrial capacity (UNCTAD, 2022). This dependence is specifically reliance among SMEs and startups operating in trade, manufacturing, and service sectors. Afghanistan as the center of Asia, reliance on transit through neighboring countries, and exposure to political and security disruptions further escalate import risks. Reports by the Asian Development Bank and the World Bank indicate that trade disturbance, exchange rate volatility, and border closures have challenged private sector activity by increasing costs and difficult supply chains (ADB, 2019; World Bank, 2022).

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

Although, the central role of SMEs and the evident risks associated with import dependence, existing studies on Afghanistan remains fragmented. Whereas previous studies indicate that private sector development, trade constraints, or firm performance in segregation, there is a lack of systematic combination focusing specifically on the relationship between SME survival and import dependence. This gap challenges a comprehensive understanding of how trade-related risks affect firm sustainability in Afghanistan. Addressing this gap, the objective of this paper is to systematically review the existing academic and policy literature on import reliance and the survival of SMEs in Afghanistan, with the purpose of centralizing key findings, identifying underlying mechanisms, and indicating directions for future research and public policy intervention.

Objectives Of The Study:-

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

Background Of The Study:-

In Afghanistan small and medium-sized enterprises are mainly divided based on employment size and scale of operations rather than formal registration status. According to the World Bank and national policy documents, SMEs typically include firms employing fewer than 100 workers, with micro and small enterprises constituting the majority of businesses (World Bank, 2020). Early-stage startups are commonly rooted within this SME category, as most new firms in Afghanistan run their businesses with limited capital, informal structures, and small labor forces. Due to regulatory, financial, and security restrictions, many SMEs and startups operate informally, particularly in trade and service sectors (ILO, 2019). Import dependence is a common feature of fragile and conflict-affected economies, where weak domestic production capacity limits the availability of locally produced inputs.

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

Afghanistan's trade and import structure reflects these structural challenges. The country is highly import-dependent, in a context where imports dominate exports by a wide margin. Afghanistan primarily imports are fuel, food products, construction materials, machinery, and consumer goods, while exports remain very limited to a small number of agricultural and low-value products (ADB, 2019; World Bank, 2022). This imbalance, combined with dependence on transit routes through neighboring countries, exposes Afghan SMEs and startups to repeated supply barriers and cost fluctuations. Understanding this trade structure is essential for analyzing how import dependence shapes the survival prospects of SMEs in the developing country.

Methodology:-

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

Data Sources:-

Data has been collected from multiple sources to record both academic and contextual evidence, such as Peer-reviewed journal articles from Google Scholar, while policy reports and country-specific studies were reviewed from international organizations, including the World Bank, International Labour Organization (ILO), Asian Development Bank (ADB), United Nations Development Program (UNDP), and UNCTAD. These sources were selected due to their extensive coverage of private sector development, trade, and SME-related barriers in fragile and conflict-affected economies, especially in Afghanistan. The systematic review process identified contextual studies and reports through database and institutional searches and an initial pool of publications was screened based on relevance to SMEs, import dependence, and firm survival in Afghanistan, resulting in the exclusion of studies that lacked firm-level or trade-related focus. The final set of selected sources was reviewed thematically to synthesize evidence on import dependence and SME survival.

Findings and Thematic Analysis:-**Import Dependence of Afghan SMEs:-**

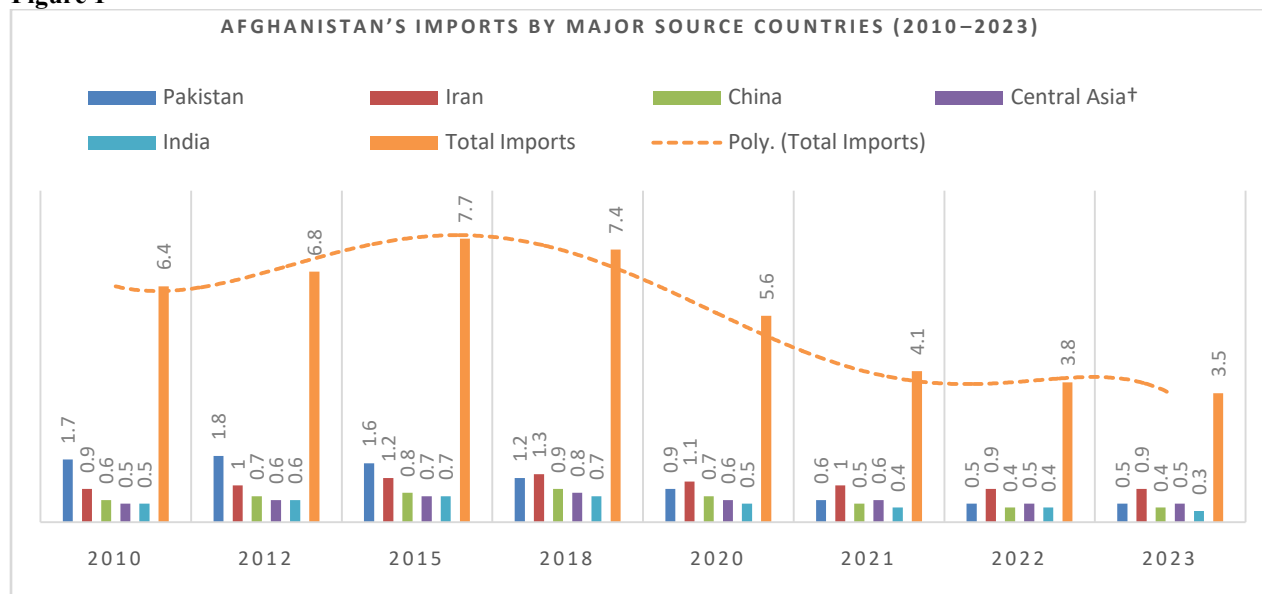
The reviewed literature consistently highlights that Afghanistan startups & SMEs, exhibit a high degree of dependence on imported goods and inputs. SMEs rely extensively on imports for raw materials, intermediate goods, fuel, machinery, and consumer products, Due to limited domestic production capacity and weak industrial infrastructure, (World Bank, 2020; ADB, 2019). This reliance such as trade, construction, manufacturing, and services, is particularly pronounced, which dominate the SME landscape in Afghanistan. Several studies show that the inputs supply constrains locally leaves SMEs highly exposed to external market conditions and cross-border trade dynamics (UNCTAD, 2022).

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.

Figure 1



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

The table and figure oneshow that Afghanistan’s total imports peaked during the mid-2010s, particularly between 2012 and 2018, reflecting strong reliance on imports from Pakistan, Iran, China, Central Asia, and India. After 2020, imports from all major partners declined sharply, indicating a structural contraction in the availability of raw materials and intermediate goods. This downward trend highlights increasing vulnerability of Afghan SMEs and startups, which depend heavily on imported inputs for continued operations.

Table 2:-

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

The table 2 highlights Afghanistan's heavy reliance on a limited number of countries for essential raw materials and production inputs. Country-specific trade constraints, such as border closures, sanctions, and political & logistical barriers have directly challenged supply chains, leading to cost volatility, production delays, and temporary shutdowns among Afghan SMEs and startups. Overall, the evidence underscores the vulnerability of the SME sector to external trade shocks due to limited domestic input alternatives.

Discussion:-

The study highlights that import dependence is a central structural factor determining the survival of SMEs and startups in Afghanistan. The evidence indicates that Afghan SMEs depend heavily on imported raw materials, fuel, machinery, and intermediate goods sourced from a limited number of trading partners. As substantiated by the decline in imports after 2020, disruptions arising from border closures, financial constraints, sanctions, and logistical barriers have directly affected firms' operational stability. These findings are consistent with the literature on fragile and conflict-affected economies, which shows trade dependence as a key source of weakness for small firms.

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

Conclusion:-

This is an academic and policy-oriented literature to assess whether depending too much on import goods will affect startups and SMEs in Afghanistan. The evidence highlights that Afghan small businesses, due to limited domestic production capacity, operate within a highly import-dependent economic structure, relying extensively on imported raw materials, fuel, machinery, and intermediate goods. Import trends show that Afghanistan's total imports increased during the early and mid-2010s but declined substantially between 2010 and 2023, with a particularly sharp contraction after 2020. This continued decline reflects the combined effects of border disruptions, financial constraints, sanctions, and logistical challenges, all of which have had significant implications for SME and startup operations. The review indicates that reduced import availability has directly affected SME survival through supply chain disruptions and cost volatility. Interruptions in access to essential inputs have continuously forced firms to stop operations or suspend productions, while rising import costs and exchange rate fluctuations have weakened financial sustainability; these barriers have been most severe for startups and smaller SMEs, which typically have insufficient capital buffers and inventory reserves. Manufacturing, construction, and agro-processing sectors have faced the highest survival risks due to their intensive reliance on imported inputs. Meanwhile, the decline in imports over the period 2010–2023 has led to a degree of adaptive response among SMEs and startups in Afghanistan. The study suggests that some firms have increasingly relied on informal sourcing, local substitutes, scale reduction, and operational adjustments to sustain activities in the face of persistent trade constraints. While these adaptations do not highlight full import independence, they reflect steady efforts by SMEs to reduce exposure to external shocks and improve short-term resilience. To conclude, the findings show that SMEs and startups survival in Afghanistan are influenced less by firm-level inefficiencies and more by structural trade constraints, with import dependence remaining an important indicator of business continuity in Afghanistan.

Recommendations:-

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

Public Sector and Policy-Level Measures:-

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

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

2. The government should support local input production and partial import substitution, particularly for basic construction materials, agro-processing inputs, and packaging goods. While full independency is impossible in the short term, targeted incentives, technical assistance, and small-scale industrial support can slowly reduce excessive import dependence among Afghan SMEs.
3. Their important factor is the government should improve access to finance and working capital support for the firms. Government guaranteed loan programs, trade finance mechanisms, and risk-sharing instruments can help Afghan firms absorb temporary import shocks and manage cost volatility without resorting to production shutdowns, such support is especially important for startups, which face the highest risk of collapse during trade disruptions.

Firm-Level Strategies for SMEs and Startups:-**Simultaneously, SMEs and startups must adopt flexible strategies to strengthening operational dependence.**

1. Should seek to expand different supply sources, including exploring regional alternatives and domestic substitutes where possible, in order to reduce dependence on a single country or trade route.
2. Connecting with multiple suppliers can lower the risk of complete operational suspension during border disruptions, SMEs should also strengthen inventory and input management practices, such as maintaining minimum buffer stocks for critical raw materials when financially possible.
3. Although holding inventory increases short-term costs, it can significantly improve production continuity during temporary import interruptions.
4. Local startups and SMEs should focus on gradual localization of operation, including adapting production processes to use locally available inputs and reducing excessive reliance on imported machinery or specialized materials. Improving financial planning, cost management, and flexibility in product design can further support consistency of operations. Finally, these firm-level adjustments can enhance resilience, support continuous operations, and contribute to greater long-term independence from external trade shocks.

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