

Case Study Series

**UNDERSTANDING MARKETS
IN AFGHANISTAN**

**A Study of the Market
in Second-hand Cars**

Anna Paterson

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Acronyms

ADB	Asian Development Bank
ANSA	Afghanistan National Standardisation Authority
AREU	Afghanistan Research and Evaluation Unit
ATTA	Afghan Transit Trade Agreement
INGO	international non-governmental organisation
MoC	Ministry of Commerce
MoE	Ministry of Economy
MoF	Ministry of Finance
Mol	Ministry of Interior
NEPA	National Environmental Protection Agency
PAH	poly aromatic hydrocarbon
SUV	sports utility vehicle
UAE	United Arab Emirates
UNEP	United Nations Environmental Programme
WHO	World Health Organization

Executive summary

This study is the fifth in a series of six case studies that aims to enhance understanding of the role of markets in affecting prospects for growth, and the distribution of the benefits of growth, in Afghanistan. The studies explore the structures and functioning of markets in Afghanistan, with a view to assisting in the formulation of policies to enhance broad-based growth and poverty reduction in a market environment.

The purpose of this study on the market in second-hand cars was to gain insight into: the experiences of Afghan dealers in the vehicle market; numbers of players; where the greatest margins were made; what connections there were between market players; and what, if any, barriers were faced by new entrants.

The study found that:

- **Vehicle use has grown dramatically in Afghanistan since 2002.** The number of passenger cars registered in the country in 2003 was 340,000, an increase of 94% from the previous year (this increase in registration is also the result of a greater drive to register vehicles by the Ministry of Transportation). This growth is expected to continue in the medium term, albeit from a low level of car ownership by international standards. 1.4% of the Afghan population currently owns a vehicle, and this number is projected to grow to 4% of the population by 2015. [Section 2: Vehicle use in Afghanistan, pp. 4–6]
- **There are signs that the import vehicle market is not as vibrant as it was in the immediate post-Taliban period.** Trade has been affected by the ban on right-hand drive vehicles in mid 2004, and the increase in demand for vehicles may have slowed. Most traders reported that the vehicle import trade was at its most profitable during the Taliban period, when right-hand drive vehicles were imported into Afghanistan for re-export to Pakistan. [Section 2: Vehicle use in Afghanistan, pp. 4–6 and Section 3: Main players in the second-hand car market, pp. 7–13]
- **Many Afghans rely on vehicles to make a living through provision of private transport services. Availability of affordable vehicles is important for livelihoods and for economic growth.** There is a balance to be struck between, on one hand, improving regulation of vehicle standards and removing dangerous vehicles from circulation, and on the other hand, protecting access to affordable cars. [Section 2: Vehicle use in Afghanistan, pp. 4–6, Section 4: Prices and types of vehicles on the market, pp. 14–16 and Section 5.4: Quality, testing and pollution, pp. 26–28]
- **During the conflict period, vehicles became popular as a form of small-scale investment after other assets such as real estate and agricultural land became insecure.** Vehicles are still used as a store of value in the absence of an effective banking system. **There is some anecdotal evidence that the car and motorbike trade may be used as a means of laundering money.** The purchase of electronic appliances, spare parts or vehicles, which can be procured with little or no scrutiny from official bodies, might represent a way of moving significant amounts of money and disguising its origin. [Section 3.4: Customers, pp. 11–13]
- **The current difficulties experienced by the vehicle business illustrate how unreliable such commodities are as a means of investment.** Afghans who have bought vehicles as a store of value may now be facing a reduction in the value of their investment. An effective and reliable banking system would provide a sound

means of investing money that would also benefit the broader Afghan economy. [Section 3.4: Customers, pp. 11–13]

- **Importers of vehicles were often from traditional trading families with a history of trading different commodities along different routes, depending on the constraints and opportunities of demand and of geopolitics.** Japanese vehicles are currently imported largely via second-hand car markets in Dubai, from where they are shipped to Bandar-e-Abbas in Iran and driven overland to Islam Qala near Herat. Some traders buy vehicles in Germany and transport them overland to Afghanistan – a route made popular in the 1970s. There are older vehicles from the former Soviet Union on the market, and Russian and Central Asian vehicles continue to be imported to Afghanistan. [Section 4: Prices and types of vehicles on the market, pp. 14–16 and Section 5: Import routes, pp. 17–23]
- **The ban on import and registration of right-hand drive vehicles appears to have been successful enough to significantly reduce the previously vibrant import of vehicles destined for re-export to Pakistan.** This suggests that government regulation can be enforced and can have an effect upon markets. The trade in spare parts transiting from Afghanistan to Pakistan remains active. [Section 6: Government regulation, pp. 24–28 and Section 5.2: Trafficking of vehicles and spare parts over the Pakistani border, pp. 20–22]
- **There is ample scope for streamlining cross-border procedures, including the process of clearing vehicles through Afghan customs and registration – reducing waiting times and minimising the potential for corruption and bribe-taking.** Such streamlining, coupled with reduction of informal charges paid by traders and negotiation of favourable trade agreements with neighbouring countries could help to harness cross-border trade as a driver of growth in the formal economy. [Section 6: Government regulation, pp. 24–28]

1. Introduction

This study is the fifth in a series of six case studies conducted under the Afghanistan Research and Evaluation Unit's Political Economy and Markets research stream. The first three case studies were produced in mid 2004, and dealt with three important sectors in the Afghan economy: raisins, carpets and construction materials. The current set of studies deal with three key import markets: petroleum fuel, second-hand cars and pharmaceuticals. The aim of the studies is to enhance understanding of the role of markets in affecting prospects for growth, and the distribution of the benefits of growth, in Afghanistan. They explore the structures and functioning of markets in Afghanistan and thereby aim to assist in the formulation of policies to enhance broad-based growth and poverty reduction in a market environment. Each study is designed to stand alone, but the series can be read together to gain a fuller picture of markets across a range of sectors. A briefing paper was produced after the first three studies, which provides discussion and preliminary analysis of overall findings.¹ A longer synthesis paper drawing together and analysing the findings of the six studies will be produced on their completion.

The purpose of this study, like that of the previous studies, was to investigate the real structures of markets in Afghanistan. Researchers attempted to gain an insight into the experiences of Afghan businessmen in the used vehicle market: how numerous the players are, where the greatest margins are made, what connections there are between market players and what, if any, barriers are faced by new entrants. Semi-structured interviews were conducted with importers, large and small retailers, some groups of customers, international agencies and relevant government bodies. Research was conducted in: Kabul; Mazar-i-Sharif and Heiratan; Herat, Islam Qala and Turgundi; Zaranj; Quetta; Kandahar; Peshawar; and Jalalabad from April to May 2005. In Herat and Kabul, repeated visits were made to the large vehicle markets on the outskirts of the city, where owners of vehicle shops and "bargainers" working on their sites were interviewed. Second-hand vehicle shops, motorbike shops and smaller vehicle markets and spare parts markets based in town were visited in all locations. Vehicle and spare parts traders were also interviewed at border areas. Certain groups of customers were interviewed, including procurement officers in large organisations, individual car owners and professional drivers, as well as groups of mechanics in the workshops of two large organisations.

The second-hand vehicle trade in Afghanistan has been a vibrant one since Taliban times. In fact, there is some suggestion that the trade was even more vibrant in Taliban times, stimulated by the transit of vehicles through Afghanistan into Pakistan. The internal market for vehicles in Afghanistan has grown since 2002, and vehicles have become more available and affordable for Afghan consumers. Vehicles often provide livelihoods for Afghans involved in private transport services, and they are also used as a form of investment by Afghan consumers. However, there is some concern over the quality of vehicles available in Afghanistan. Many vehicles are very old and may have been involved in accidents, while others have steering on the right-hand side or have had the steering altered in sub-standard workshops. Some vehicles on the market may even have been stolen in their country of origin. There are indications that the vehicle market in Afghanistan has become less profitable as the number and type of vehicles on the market are outstripping demand. The regulation of vehicle imports needs to strike a balance between preserving the

¹ S. Lister and A. Pain, 2004, *Trading in Power: The Politics of "Free" Markets in Afghanistan*, Kabul: Afghanistan Research and Evaluation Unit

affordability of vehicles for Afghans whose livelihoods depend on them, and ensuring the quality and safety of goods sold to Afghan consumers, especially given that those consumers have little recourse to guarantees or insurance.

This study looks first at the use of second-hand vehicles in Afghanistan, then at the different market players involved in the supply chain for these vehicles. Prices and types of vehicles on the market and the main import routes for these products are then considered, after which the report turns its attention to government regulation. Finally, possible means of ensuring the openness, quality and competitiveness of the market are discussed.

2. Vehicle use in Afghanistan



The number of vehicles on the roads in Afghanistan has increased dramatically since 2002. According to the *Afghanistan Statistical Yearbook*, the number of passenger cars registered in the country in 2003 was 340,000, compared to 175,000 in 2002: an increase of 94 percent.² This increase in registration is the result both of an increase in imported vehicles and of a greater drive to register vehicles by

the Traffic Department of the Ministry of Transportation (many vehicles in Afghanistan are likely to remain unregistered). The growth in vehicle use in Afghanistan is set to continue in the medium term, albeit from a very low level of vehicle ownership per capita by international standards. In 2003, the number of vehicles owned per 1,000 people in Afghanistan was 14, or 1.4 percent. This number is expected to rise to 27 in 2010, and 40 in 2015.³

There is a general pattern of growth in vehicle use across the developing world. While in 1990, only one fifth of all kilometres driven were in developing countries, by 2030 it is estimated that this share will have risen to one half.⁴ Much of this growth in developing countries (generally) and in Afghanistan (specifically) is fed by second-hand cars, which are within the reach of those who cannot afford a new vehicle. There are key implications of this growth in terms of public health and environmental pollution. The substances emitted from car exhausts aggravate heart and respiratory diseases such as asthma, bronchitis and emphysema. Old vehicles produce more harmful emissions than the more technologically advanced newer models. In Mexico, where 60 percent of kilometres are travelled by cars more than 10 years old, these old vehicles account for 90 percent of all hydrocarbons and carbon monoxides, and for 80 percent of all nitrogen oxides emitted.⁵ There are no statistics available to show what percentage of kilometres travelled in Afghanistan are driven by vehicles more than 10 years old, but an observation of vehicles on the road, even in Kabul, suggests that the percentage may be even greater than that in Mexico.

However, as well as posing a potential public health risk, the availability of affordable second-hand vehicles is important for livelihoods and economic growth across the developing world. Many Afghans rely on vehicles to make a living through offering private transport services in taxis, private vans, minibuses and buses, and trucks. The *Afghanistan Statistical Yearbook* recorded the registration of over 65,000 trucks in 1382 (March 2002–March 2003) – this was 60% more than the previous year. Over 37,000 private buses were registered during the same period, up 41% from the previous year, while 52,393 private taxis were registered, up 58% from the previous year. An Asian Development Bank (ADB) report on the Afghan transport sector suggests that there may be as many as 30,000 private taxis operating in Kabul. Regional transport of goods and people also relies on the private sector, and

² Central Statistics Office, *Afghanistan Statistical Yearbook 2004*

³ *Securing Afghanistan's Future: Accomplishments and the Strategic Path Forward*, Government/International Agency report, March 2004, p. 43

⁴ J. Janischewski, M. P. Henzler and W. Kahlenborn, 2003, *The Export of Second-Hand Goods and the Transfer of Technology: An Obstacle to Sustainable Development in Developing Countries and Emerging Markets?* Adelphi Research (commissioned by the German Council for Sustainable Development)

⁵ Janischewski et al, 2003

165 long distance bus companies are estimated to operate in the country, using mostly second-hand buses, minibuses and vans.⁶ A previous ADB report on the Afghan transport sector confirms that Afghans in Afghanistan, as well as those who have relocated to Pakistan, have traditionally had a very strong presence in the road transport business, with their business “facilitated by easy availability of competitively priced European trucks, spare parts and low priced (smuggled) fuel.”⁷ Many Afghans rely on smaller vehicles such as passenger cars as a means of generating income, through registering as a taxi or through transporting goods.

The *Afghanistan Statistical Yearbook* (2004) records the following patterns in imports of vehicles and spare parts to Afghanistan since 1999.

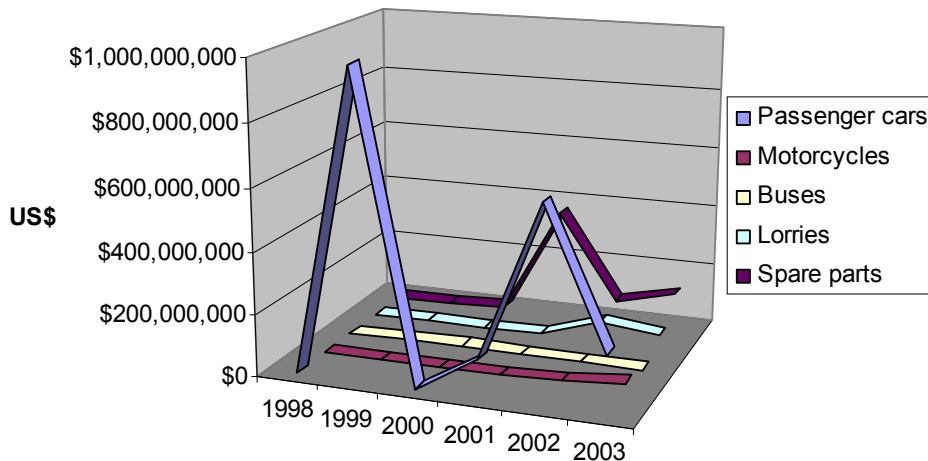


Figure 1. Value of vehicle imports in US\$, 1999–2003

It is relatively difficult to smuggle vehicles into Afghanistan in large numbers and this research did not find significant numbers of individuals smuggling vehicles into the country. However, the above statistics cannot be considered a reliable guide to vehicle imports, particularly because of the difficulty of collecting data over the past decade in Afghanistan: large numbers of individuals may bring vehicles across porous borders, and import statistics have not always been reliably fed to the central government, especially from Herat.

Nonetheless, it is useful to consider the patterns emerging from these statistics. The spike in passenger car imports in 1998–99 suggests that the car trade was vibrant during the Taliban period, and this was borne out by the many traders in this research who reported that business had been at its best during Taliban times. That this was largely fuelled by the lucrative business of re-exporting cars into Pakistan (discussed in further detail below) is evidenced by the fact that there were far fewer vehicles on the road in Afghanistan during Taliban times. One vehicle trader reported that it was difficult to be a car owner in Kabul during the Taliban period as driving a car could make the driver a conspicuous target for harassment. The Taliban

⁶ ADB, March 2004, *Transport Sector: Building Connections, Securing Afghanistan’s Future: Accomplishments and the Way Forward*

⁷ ADB, 2002, *Afghanistan’s Transport Sector: On the Road to Recovery*, http://www.adb.org/Documents/Reports/Afghanistan/Transport/Transport_Sector_AFG.pdf.

For more information on fuel smuggling see: A. Paterson, *A Study of the Market for Petroleum Fuels*, 2005, Kabul: Afghanistan Research and Evaluation Unit.

themselves used mostly civilian vehicles rather than military ones, installing rocket propelled grenades on the back of pick-up trucks. Taliban leaders were known to have a preference for four-wheel drive Toyotas. Images of Toyota-driving Taliban fighters in the international media after September 11, 2001, even prompted the Toyota Motor Corporation to issue a statement claiming that only one Toyota vehicle had been exported to Afghanistan since 1997 and that “any other Toyota products presently in the country have probably arrived from neighbouring countries via unofficial channels.”⁸ These Toyotas came mostly via Pakistan, often “donated” by Pakistani religious schools and organisations.

The immediate post-Taliban period (2001–02) saw some growth in vehicle imports as is to be expected in a post-conflict context. However, the decline in imports since 2003 suggests that the vehicle import trade is not as strong as it was in the immediate post-Taliban period and that the growth in vehicle demand is slowing. This was confirmed by the statements made by many traders during this research. The two products that have bucked the general trend since 1998 are motorbikes, the import of which continues to show strong growth, and spare parts, the import of which actually declined in the immediate post-conflict period, but showed a moderate recovery in 2003.

⁸ John Burns, “Trucks of the Taliban: Durable, Not Discreet”, *New York Times*, 23 November 2001

3. Main players in the second-hand car market

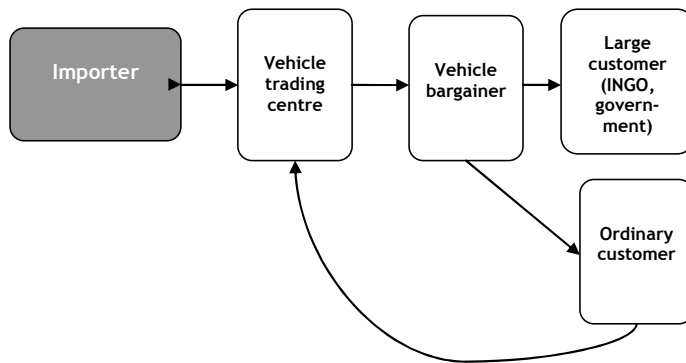


Figure 2. Supply chain for second-hand vehicles in Afghanistan

Figure 2 illustrates the main players involved in the supply chain for second-hand vehicles in Afghanistan. Many commodities have been used in Afghanistan as “coping strategies” by those who buy and sell or resell goods, often on a one-off or opportunistic basis. This was observed in the second-hand car trade, where there are many small players involved.

Vehicle bargainers selling vehicles on behalf of car trading “centres” are essentially self-employed, receiving a flat rate or a small commission for each vehicle sold. Some reported that they had become trapped in this business because of debt. There are also players in the second-hand car market who are involved as a means of investment or even informal credit. Further up the supply chain, importers of vehicles are frequently long-established players who have been involved in the market since the Taliban period or longer.

The second-hand car trade in Afghanistan is a good example of the way in which a commodity can change hands many times, and the way in which commodities can be “bought” without being paid for and “sold” by players other than the owners. However, in spite of these informal mechanisms allowing players in this market to borrow and invest, the market currently appears to be experiencing a difficult period. There was little evidence of competition acting to deliver a better quality product to consumers. Moreover, it appears that the trade is delivering lower returns to traders, with most interviewees reporting that the market was less profitable than it had been.

3.1 Importers

Importers bring regular consignments of vehicles, procuring them abroad and transporting them into Afghanistan. Importers vary in size, but traders of second-hand cars in Kabul said that the largest importers with whom they conducted business brought instalments of some US\$1m worth of vehicles at a time, although these instalments were not regular. These traders estimated that a minimum of US\$400,000 in starting capital would be required to begin importing vehicles from abroad, as the logistics of doing so were difficult – involving visas and employment of local agents. Most importers reported that they had been involved in the vehicle business since the Taliban period, if not longer. Asked when the vehicle import industry had been at its best, many importers said the Taliban period had been particularly profitable because of the strong trade in vehicles transported across Afghanistan to Pakistan, and vehicles re-exported into Pakistan. This trade had been seriously affected by the ban on importing right-hand drive vehicles in July 2004, since Pakistani vehicles, unlike Afghan cars, drive on the left-hand side of the road

and have right-hand steering. Many importers in Herat reported that they had lost significant amounts of money as they had right-hand drive vehicles that were currently sitting in the customs compound and could not be released.

Most importers interviewed in this research either travel abroad themselves to procure cars or have family members who travel or live abroad, thus limiting the cost of employing agents in foreign countries. Importers mostly do business in Dubai, which is a large repository for second-hand vehicles from Japan destined for export to the developing world. Importers claimed that vehicles were sufficiently cheap in Dubai to make buying in large numbers and shipping to Afghanistan a profitable business. There is a large Afghan business community in Dubai, making this a comparatively easy place to do business for those Afghans who do have relatives or business partners there. Some Afghan importers procure vehicles directly from Japan, where many foreign and especially Pakistani traders are involved in the used-vehicle trade.

This research found that direct dealings between Afghan importers and Japan were much rarer than the Dubai connection. Some importers encountered in this study procured vehicles directly from Europe (mostly Germany) but these were less common than those importing from Dubai. One importer in Kabul said he travelled to Hamburg, where he had relatives, up to three times a year to procure vehicles, from where he brought the vehicles back to Afghanistan himself through south-eastern Europe, Turkey and Iran. He had been involved in the vehicle trade for more than 20 years and over this time he had travelled to Dubai, India, Russia and Central Asia as part of this trade. The route from Germany was profitable, as he was able to specialise in larger vehicles such as trucks. There were buses and refrigerated trucks on sale in his trading centre. Smaller vehicles could be packed inside the larger ones for transport from Germany to Afghanistan.

Box 1. An importer's experience

I have been a used car importer for nine years. I come from a Kandahari family of traders. Previously our family was involved in the clothing import trade. I import cars into Afghanistan through Islam Qala. My brother travels to procure the cars from Dubai, then I deal with them when they arrive here. I have 150 cars currently on sale in different car trading shops in the market in Herat. Prices for cars have dropped by up to 20 percent over the past six months and the ban on right-hand drive vehicles has also hit business. The business is not as profitable as it was during Taliban times. Most car importers here are Kandaharis; import-export is their traditional business. There are around 50 large vehicle importers in Herat.

Vehicle importer, Herat

Box 2. The vehicle-trading business

The vehicle trade is not as lucrative as it once was. During the Taliban period, most cars coming into Afghanistan had right-hand steering and were destined for re-export to Pakistan. Now the business must concentrate on the domestic market, but everyone has a car now and demand has decreased. Also, many altered steering vehicles are now on the market. The alteration is often badly done and these vehicles can be dangerous.

Vehicle trader, Herat

I have been involved in selling vehicles for 11 years and I was the first second-hand car trader in town. I have a representative who goes to buy vehicles for me in Herat. When I started in the business I brought cars from Karachi via Kandahar, but this was difficult as the roads were insecure. Business was best toward the end of the Taliban time, when we were buying from Herat and exporting to Pakistan.

Vehicle trader, Zaranj

Bulk import of second-hand cars appeared to be dominated by long-established players who had also often been involved in other types of trade, such as textiles or food. In Herat, many of the second-hand car importers interviewed were from Kandahar, whereas the players lower down the supply chain, such as owners of car trading shops and “bargainers”, were from Herat. Some importers were thought to be politically connected at a high level, and one was reported to be the son of a provincial governor. However, there was also evidence of an increase in the number of players importing vehicles. One customs official in Herat explained that previously there had been “a group of Kandaharis bringing 200 vehicles at a time”, whereas now there were more importers bringing 10–50 vehicles at a time.

Although importers of second-hand cars sometimes also deal in spare parts, shipped in containers from Dubai, this research encountered many spare parts importers who were specialised in this trade. Nonetheless, the dominant pattern of the spare parts import business was similar to the trade in complete vehicles, with importers sending family members to Dubai to oversee the purchasing of spare parts. Motorbike importers tended to be similarly specialised and many were newer entrants in the business, reflecting the recent growth of motorbike imports into Afghanistan. One such importer and shop owner in Zaranj had been in the motorbike import business for one and a half years and imported motorbikes and fridges from Iran.

3.2 Used vehicle-trading markets



Used vehicles are sold in two different types of shops: individual shops based in the centre of cities and large sites dedicated to this trade and often located outside city centres. The latter are sometimes spread over large areas and divided into lots with small offices surrounded by the vehicles on sale. Some markets contain as many as 80 lots. The number of vehicles on sale in each lot varies from twenty to over a hundred. Each business in the market

has its own name and is owned by individuals, family businesses or business partnerships which register with the authorities, rent the land on which they are based, and, generally speaking, sell cars on behalf of importers or small private owners. These traders may also own some of the vehicles they sell, which they either buy from importers or individuals bringing deliveries, or they buy direct from Herat. Buying vehicles from Herat is a cheaper option than setting up as an importer of vehicles from abroad. One trader reported that whereas to make importing from abroad profitable one had to operate on a much larger scale, one could spend US\$10,000 buying vehicles in Herat and then make a rapid return on this investment by selling the vehicles quickly in Kabul. It appeared at the time of research that this was still possible in spite of the slowing of the vehicle business. There is also some vertical integration, with importers owning their own vehicle-trading market lots. This was more often the case for importers in Herat, and for importers who specialised in larger, more expensive vehicles.

Box 3. Business expansion

There is no room for expansion in the vehicle imports market. There are so many traders involved in this business these days and there seem to be more cars than people in Kabul.

Vehicle importer, Kabul

In Kabul there are four second-hand car trading markets on the outskirts of the city; the Qasaba market on the road to Bagram, the Company market on the road to Kandahar, the Binihesar market on the Logar/Gardez road and the Sarikotal market just beyond the Khair Khana pass. In Kabul and Herat, vehicle-trading markets have been moved out of the city centre by municipal authorities within the past year. In Kabul, traders had previously been based in different locations in the centre of town, particularly in Taimani. Some traders remained in the centre, but these were also slated to be moved outside the city. Many shops still located in the city are merely offices or showrooms for vehicle traders who also have lots in one of the main out-of-town markets. In Kabul, as elsewhere, motorbike traders are mostly based in the city itself.

In Herat, the vehicle markets are located along the road to Turgundi. Whereas they were previously based near the customs building on the fringe of the city, they have recently been moved further away from the city centre towards Turgundi. In Mazar-i-Sharif and Zaranj, car markets were smaller and based inside the city, but they were still mostly grouped together in small markets containing more than one business. All traders complained that access to land and security of tenure were major obstacles to business. Those who had been moved by municipal authorities said they had spent money building their offices on their new sites, without knowing how long they could remain there securely. Scarcity of space was a problem in Kabul, where traders complained that they had insufficient space to display all the vehicles they were selling. However, many traders reported that there was little room for expansion in the market which was already flooded with vehicles, so constraints of space were not necessarily preventing them from growing their businesses.

3.3 Second-hand car “bargainers”



When visiting second-hand car markets, it is notable how many people are gathered in the offices of each business. This is because the owners of vehicle-selling businesses in car markets do not necessarily involve themselves in the daily business of selling each vehicle in their lot. Rather they frequently use “bargainers” who operate on these sites as the interface with the customer – negotiating prices, finalising deals and arranging payment methods. Sometimes, these bargainers are employed on a small wage by the owner of the shop or lot, but often they are effectively self-employed. It appears that some bargainers are paid a flat rate per vehicle sold, some are paid a commission and some are paid a small wage and a commission. One importer in Herat reported that bargainers received a standard fee of 1,000 Afghanis (US\$20) when they sold a vehicle. A bargainer in Kabul reported that he was paid 1 percent of the vehicle’s price. This would be US\$50 from the sale of a US\$5,000 Toyota Corolla – a reasonable wage, assuming that a bargainer can sell a sufficient numbers of vehicles. One Herat bargainer claimed that this was a good trade as he could earn up to 16,000 Afghanis (US\$320) per month. However, a number of bargainers reported that they

had difficulty selling vehicles. There can be as many as seven bargainers in each vehicle-trading centre, and centres outside Kabul reported that sometimes a week could pass with no sales. One trading business in Zaranj, which had seven traders and claimed to pay them a small salary as well as a commission, reported sales of only 2–3 vehicles per week.

Not surprisingly, entry into and exit from the second-hand vehicle market seems to be easier the smaller the scale of the business. Most bargainers had been involved in the used vehicle trade for a significantly shorter period of time than owners of trading businesses or importers, averaging from one to three years. It appeared that no physical capital was necessary to begin working as a bargainer, although personal contacts were clearly required to be allowed to operate on a car trading site. Many bargainers reported that they had started in the car trading business because they had no income. These small scale opportunistic market players are likely to be hit hardest by a contraction in the market. Such players could, in theory, simply move to another more profitable trade, but some bargainers suggested that they had accumulated debt and were now trapped in this occupation. No further details were given, but one can speculate that bargainers might attempt to buy vehicles on informal credit, perhaps from their employer, and in this way become further indebted if they could not sell the vehicle quickly enough or for the right price.

3.4 Customers

Many international organisations, including international non-government organisations (INGOs), procure vehicles from their countries of origin through their foreign headquarters. This can lead to difficulties in extracting vehicles from customs and passing them through registration procedures in Afghanistan, as elaborated on below in the Section 6 on government regulation. The assistance community also has official suppliers to meet its vehicle needs. For example, the Russian truck manufacturer Kamaz is an official supplier for UN agencies in Afghanistan, southeast Europe, Cyprus, Israel, Jordan, Lebanon and Palestine.

The Afghan government does import some of its own vehicles, but it also buys on the local market. Some INGOs also buy vehicles on the local market and many traders reported that international customers were the main consumers of more expensive vehicles such as Landcruisers and other Sport Utility Vehicles (SUVs). As one trader told a news reporter:

“We have enough customers willing to pay US\$50,000 for this car,” salesman Muhammed Khaled said, pointing at a shiny black Toyota Landcruiser. “Customers are either foreigners, important commanders or government officials.”⁹

Afghan customers include individuals buying for personal use and those who plan to use vehicles as a commercial venture – as a taxi, as a private bus or to transport goods. One vehicle trader reported that village community members would sometimes group together to buy a vehicle, the use of which they would then share. Vehicles are also used in Afghanistan as a means of investment and as a substitute for an effective banking system. Vehicles became popular as a form of small-scale investment after other assets such as real estate and agricultural land became

⁹ Aleksandr Vasovic and Natacha Pisarenco, “Kabul’s streets jammed with jalopies, luxury Mercedes and even an occasional tank”, Associated Press, 26 September 2003

insecure during the conflict period. Assets that were used, particularly by the middle class, to hedge against conflict, political instability and unexpected currency devaluation included US dollars, Pakistani rupees and gold. Vehicles were considered a valuable liquid asset, especially as a vehicle could be used to generate income in the private transport services sector. As one report has noted:

Some Afghans have spent their life savings on second-hand cars and make a living ferrying the scores of aid workers, journalists and other foreigners around the city.¹⁰

Afghan customers continue to buy vehicles as an investment in the post-conflict period. Many individuals travel to Herat in order to buy a vehicle for immediate resale in Kabul or elsewhere. The fact that vehicle purchase is considered an investment makes the issue of quality all the more important, especially in the absence of insurance. Those buying a vehicle as an investment risk losing that investment if the vehicle turns out to be sub-standard, either because it is too old, has been involved in an accident, contains an engine that is older than its frame or has had its steering altered by poor quality mechanics. Afghans who have bought vehicles as a store of value may now be facing a reduction in the value of their investment. As an alternative, an effective and reliable banking system would represent a sound means of investing money that would also benefit the Afghan economy more generally.

Box 4. A customer speaks

I work in Kabul and I am here in Jalalabad to buy my fourth car. This is the best kind of savings for me. I don't trust the Afghan banking system, I don't want to keep my money in Pakistani banks and I can't afford to buy property in the part of Kabul where I live. So buying cars is my chosen alternative.

Afghan customer in Jalalabad

Buying a vehicle is also used as a means of informal credit in some parts of Afghanistan, and in Pakistan in the Federally Administered Tribal Areas (FATA), Baluchistan and the Northwest Frontier Province (NWFP). Many banks operating in these areas do not accept non-movable property as collateral for a loan, as there is

Box 5. Import sources

If someone says they are importing 300 or 400 Landcruisers or 100 containers of spare parts, then the likelihood is that the money used to buy these came from an illegal source.

Trader, Khyber Agency, Pakistan

widespread collective ownership of land. Many car dealerships are being used as informal sources of credit for individuals or families facing business liquidity issues, personal financial shocks or other short-term cash requirements. An individual can buy a vehicle from a trader for an amount slightly higher than its market price,

but without paying the money up-front. The vehicle is resold at its market price and these funds are used by the borrower. The individual then pays the vehicle trader back over an agreed timeframe.¹¹

Some have suggested that the vehicle market in Afghanistan is also used as a means of laundering incomes from illegal sources. The purchase of electronic appliances, spare parts or vehicles, which can be procured with little or no scrutiny from official bodies, might represent a way of moving significant amounts of money and disguising

¹⁰ Vasovic and Pisarenco, 2003

¹¹ Jamal Khan, 2005, *Pakistani and Afghan Vehicle and Spare Parts Trade* (unpublished report for Afghanistan Research and Evaluation Unit)

its origin. These commodities have the benefit of being easily movable and can also be quickly resold and the resulting profits declared as a legal transaction. A group of motorbike traders told researchers that money laundering had distorted the market and had made business less profitable for legitimate traders, as those laundering money through motorbikes could undercut the market price for these vehicles. The above suggestions are highly speculative and anecdotal in nature; researchers did not look for or find any concrete evidence of money laundering in the used vehicle trade.

4. Prices and types of vehicles on the market

This study attempted to identify typical prices of the most popular vehicle models on sale at car markets. Types and prices were collected at four locations in Kabul, Mazar, Zaranj and Herat in May–June 2005. The resulting information is not a reliable guide but rather provides a snapshot of the types and prices of vehicles available at certain locations at a certain point in time. Most makes run on diesel engines, but some have petrol engines. Most vehicle-trading shops sell a mixture of passenger cars, vans and pick-up trucks. Many motorbike traders specialise in motorbikes and sometimes also electrical equipment. Fewer vehicle-trading shops sell trucks and buses.

	<i>Kabul</i>	<i>Mazar</i>	<i>Herat</i>	<i>Zaranj</i>
Toyota Corolla	1992–94 US\$5,400–6,800	1993–95 US\$4,000–5,000	1993–97 US\$4,106–6,700	1991–95 US\$3,325–5,500
Other passenger car	Mercedes 2003 US\$30,000 BMW 1997 US\$15,000 KIA (Korean) 1995–96 US\$5,400–5,800	Mercedes, year unclear US\$4,500–5,500 KIA (Korean), year unclear US\$3,800–5,500	Mercedes 1994 US\$10,500	
Sports Utility Vehicle (SUV)	Toyota Prado, Surf, Hilux & Landcruiser 1991–new US\$9,000–32,000	Toyota Prado, Surf, Hilux & Landcruiser 1991–94 US\$7,000–9,500	Toyota Prado, Surf, Hilux & Landcruiser 1992–94 US\$5,830–15,600	Toyota Prado, Surf, Hilux & Landcruiser 1991–2004 US\$8,300–19,950
Small truck	Mazda 1990–96 US\$7,800–10,000	Mazda, year unclear US\$4,800–5,000	Mazda 1992 US\$6,160	Mazda 1990–98 US\$4,200–6,300
Motorbike		Chinese motorbike, new US\$450–500 Russian motorbike, new US\$330–350	“Shanin” renamed Chinese motorbike, new US\$490	
Truck			Mercedes 1988–94 US\$30,000–40,000	
Bus	German buses 1979–90 US\$26,000–40,000	German bus, year unclear US\$45,000–50,000	German 54-seater bus, year unclear US\$24,000	

Table 1. Survey of make, year and price range popular vehicles



This research found that vehicle markets sold mostly passenger cars, some SUVs and vans, with trucks and buses least commonly sold. The proportions changed according to the trader, with some specialising in larger vehicles. Some traders also sold a greater proportion of new vehicles or luxury vehicles. Traders also reported that the market for SUVs had been boosted by demand from INGOs, coalition forces, government departments and the Afghan

National Army. Motorbikes were most commonly sold in specialised shops.

There are many Russian cars on the road in Afghanistan, but researchers did not find these in great numbers on sale by traders. Russian Kamaz trucks were prominent in businesses that sell larger trucks, as were Indian TATA trucks and older German Mercedes trucks. There were some Mercedes and BMW passenger cars on the market, but the most common passenger cars after Toyotas were Korean Kia and Hyundai vehicles. Afghan traders reported that Korean vehicles were becoming more popular as they had left-hand steering. Most small trucks on sale were altered-steering Japanese Mazdas and most vans were altered-steering Japanese Toyotas. Among the vehicles observed on the market in smaller numbers were American Hummers, probably shipped from Dubai, and Ford pick-up trucks, assembled in Thailand. These are also bought by the military and other organisations such as the de-mining NGO HALO Trust.



The vehicle market in Afghanistan is overwhelmingly dominated by Japanese cars, of which the majority are Toyotas. The most common vehicle is the Corolla sedan passenger car (the Toyota Corolla is also one of the best-selling passenger cars worldwide). Japanese second-hand cars are affordable, of reasonable quality and, significantly, spare parts for these vehicles are easy to find. The price range shown in Table 1 of US\$3,325–6,800 for models from

1991 to 1997 compares to price ranges of US\$2,575–6,325 for models of the same age span advertised on the internet.¹²

Vehicles are not particularly cheap in Afghanistan by international standards, especially given average Afghan incomes and the quality of vehicles on sale. However, traders reported that the price of a vehicle was becoming more affordable for Afghan customers. Prices are cheaper in Dubai, presenting an incentive for importers. A study of purchasing power around the world in 2003 compared the prices of a popular standard (four- to-five door) mid-range new car model in 68 cities: the price in Dubai was in thirteenth place, with a Mitsubishi Galant 2.0 costing US\$13,100. The cheapest place was Bucharest, where a Dacia 1310 was found to cost US\$4,000. The cheapest cars were mostly locally manufactured

¹² <http://autos.msn.com/research/vip/default.aspx?make=Toyota&model=Corolla>

models. Most expensive was Singapore, where a Korea Optima 2.0 DOHC cost US\$44,900.¹³

Transactions in the second-hand car market are often conducted in Pakistani rupees – this was the case with many dealers in Kabul and even in Herat near the Iranian border. This may reflect the fact that the Afghan car trade was previously focused to a large extent on re-export of vehicles to Pakistan. In Mazar-i-Sharif, prices were frequently quoted in US dollars and in Zaranj prices for cars, as for most other commodities, were all quoted in Iranian rials. Use of the *hawala* system for payments was widely reported by importers and smaller traders.

¹³ UBS Wealth Management Research, 2003, *Prices and Earnings, A Comparison of Purchasing Power around the World*, Zurich. Prices used the average exchange rate from mid February–end March 2003.

5. Import routes

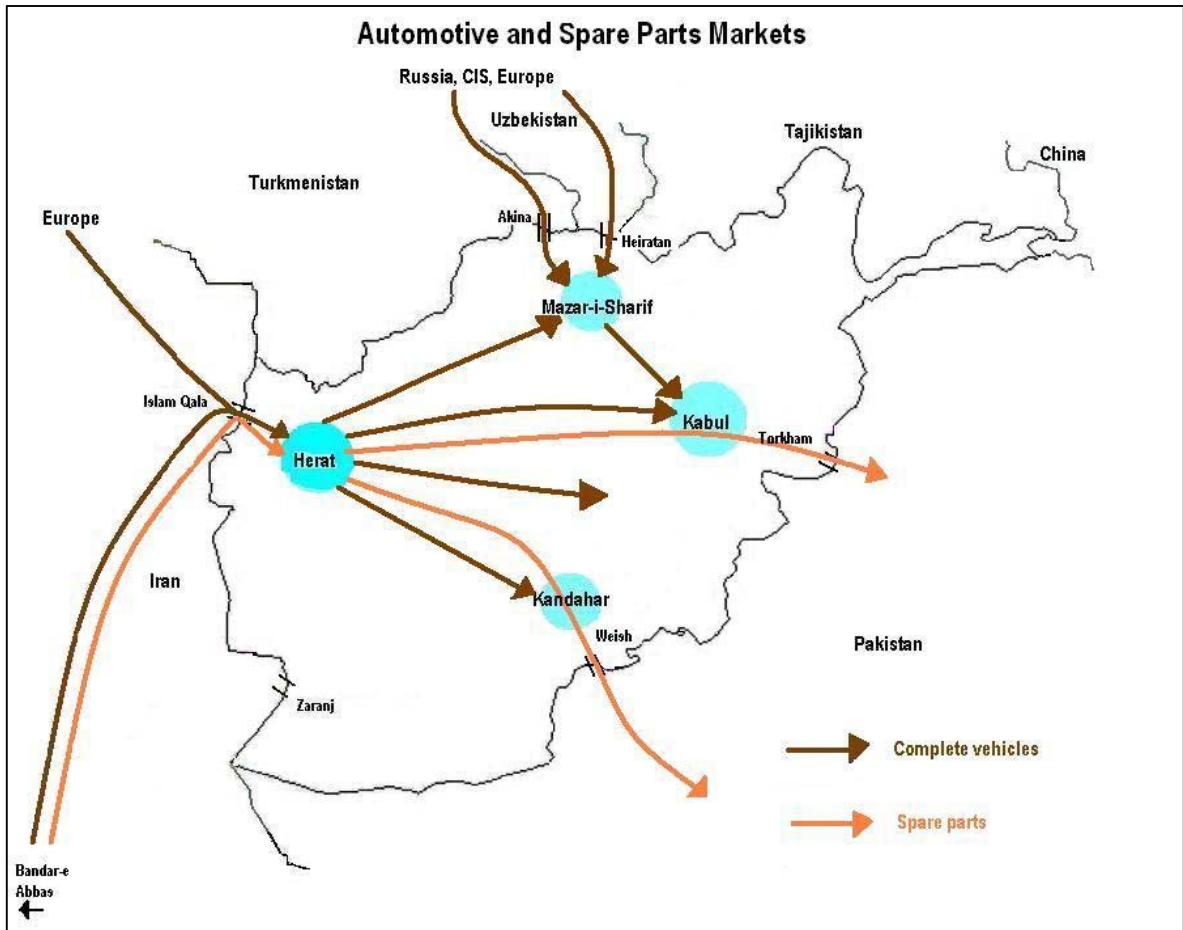


Figure 3. Routes for import of automobiles and spare parts

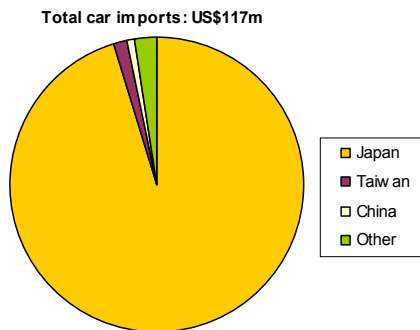


Figure 4. Passenger car imports by country, February 2003–February 2004

Source: *Afghanistan Trade Statistical Yearbook*, February 2003–February 2004, Central Statistics Office

The statistics in Figures 4–7 provide a picture of the origins of the vehicles and spare parts imported into Afghanistan, which is consistent with what researchers observed on the Afghan market. For example, the dominance of Japanese-manufactured

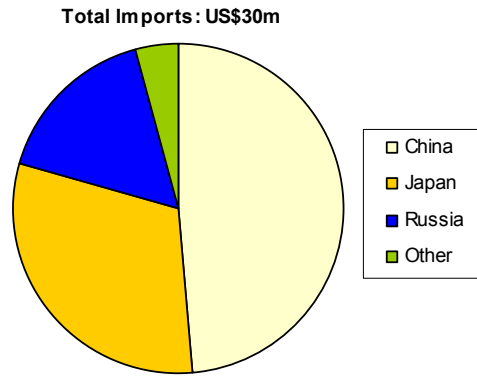


Figure 5. Motorbike imports by country, February 2003–February 2004
 Source: *Afghanistan Trade Statistical Yearbook*, February 2003–February 2004, Central Statistics Office

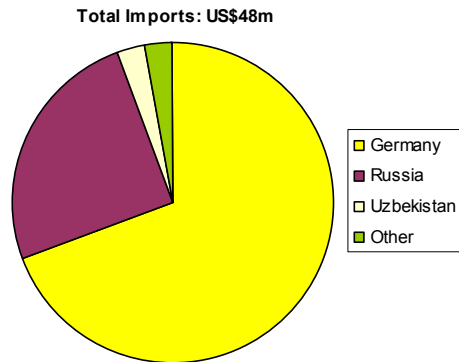


Figure 6. Truck imports by country, February 2003–February 2004
 Source: *Afghanistan Trade Statistical Yearbook*, February 2003–February 2004, Central Statistics Office

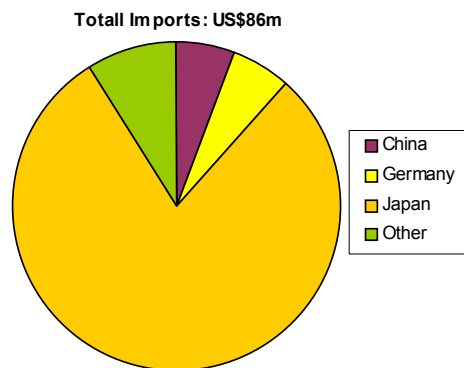


Figure 7. Spare parts imports by country, February 2003–February 2004
 Source: *Afghanistan Trade Statistical Yearbook*, February 2003–February 2004, Central Statistics Office

passenger cars and spare parts, of German- and Russian-made trucks and of Chinese motorbikes was certainly borne out by this research. However, the statistics may not be entirely reliable. They do not specify whether the “country of origin” means the

country of manufacture or merely the country where the vehicle was last registered. Moreover, only three imported buses were registered in the trade statistics for February 2003–February 2004, of which two were from Germany and one was from Russia. Some 382 tractors were imported during this period, of which the largest share came from Russia (224), followed by the UK (96) and China (20). These figures seem very low and do not appear to fit with the number of buses witnessed by researchers on sale in Afghan markets, nor with the large number of buses registered in 2003 according to the *Afghanistan Statistical Yearbook*.

5.1 The Japan/Korea–Dubai–Iran–Afghanistan route



Afghanistan is not the only country to receive significant imports of second-hand cars from Japan. The value of second-hand car exports from Japan has dramatically increased since 2003. Apart from the popularity and affordability of Japanese cars, the Japanese have also come to dominate exports of used cars because the other big car-producing regions have their own sizable domestic used car markets. The EU and the US both have sufficient domestic

demand for used cars to drive strong domestic second-hand car markets. Japan, on the other hand, has a particularly strict and expensive system for testing the roadworthiness of cars over three years old, which acts as an incentive for Japanese drivers to buy new cars. Therefore, Japan has a surplus of second-hand cars, which cannot be sold on the domestic market. The result is a large trade in Japanese used cars, especially to other countries that drive on the left-hand side of the road. Some 160 auction houses in Japan sell second-hand cars to traders of many different nationalities, including many South Asians. According to the Japanese used vehicle export association, around half of the country's used vehicle exporters are non-Japanese and most are from Pakistan.¹⁴



One Tokyo auction house reportedly moves 10,000 cars per day. From January to July 2005, Japan exported almost 350,000 used passenger cars worth almost US\$1.5b.¹⁵ The total yearly quantity of used vehicles exported abroad, including large consignments shipped to destinations such as Dubai and Russia as well as smaller consignments that may not appear in trade statistics, is thought to be around one million. Automotives analysts have suggested that these

exports may include the significant number of vehicles stolen in Japan every year. According to some analysts, the number of cars stolen in Japan and smuggled abroad by crime syndicates could be as many as 60,000 per year.¹⁶

Japanese and Korean vehicles are exported by traders to vast showrooms in Dubai, from where they are sold to key markets in the developing world, especially South

¹⁴ Tomoko Otake, "Foreigners dominate used vehicle export trade in Japan", *The Japan Times*, 3 June 2004

¹⁵ Japan Ministry of Finance trade statistics

¹⁶ Otake, 2004

Asia and East Africa. One Pakistani dealer in a Japanese auction house told a Japanese newspaper that he had purchased 24 vehicles, including the Toyota HIACE and Toyota Corolla that day. The trader went on to describe his business:

“The money is great,” Ali said, adding that his profit margin averages 10 to 20 percent. His company, Alibaba International, has 19 employees and rakes in 700 million yen (US\$6m) in sales per year. He also has his own showrooms in Tanzania and Dubai, where he travels six or seven times a year.¹⁷

Another article traced the journey of one Corolla station wagon that became part of the Japanese used vehicle export trade:

Three years ago, Michiya Ogawa bought a new Toyota Corolla station wagon for \$15,800...A year later, (he) got in an accident and sold the damaged car. Since then, his white Corolla wagon has traveled 7,000 miles around the world, first to a massive used car market in the deserts of Dubai and now to the rugged streets of Nairobi, Kenya. Its new owner, 30-year-old Wilfred Gathai, bought the car for \$3,400 to deliver fresh fruits and vegetables.¹⁸



Dubai has relatively recently become a key conduit for Japanese and Korean cars destined for the developing world. In 2000 Dubai established a sprawling second-hand vehicle market in the desert near the airport, after witnessing the growing trade in second-hand cars in the neighbouring Emirate of Sharjah. As many as 700 cars per day are reportedly sold in the Dubai market, known as Ducamz. They are bought by traders from Afghanistan, Russia,

East Africa and Iraq, where the trade in used cars has grown since the fall of Saddam Hussein, whose regime had restricted their import.

Many Afghan importers reported that after vehicles had been procured in Dubai they are loaded onto containers to be shipped to Bandar-e-Abbas on the Iranian Gulf coast. From there they are transported overland, often still in containers or loaded on trucks, to Islam Qala on the border with Afghanistan, just outside Herat. The customs office at Islam Qala told researchers that about 80–100 vehicles passed through this border point every day. The number of vehicles coming through other ports, such as Zaranj, may increase, especially given the recent renovation of the bridge at Zaranj which makes the border crossing navigable by road.

¹⁷ Otake, 2004

¹⁸ “How Japan’s second hand cars make their way to the third world”, *Wall Street Journal*, 1 August 2004

5.2 Trafficking of vehicles and spare parts over the Pakistani border

Vehicles

All interviewees confirmed that the past decade had seen strong trade in second-hand vehicles destined to be smuggled into Pakistan, but that this trade had been hit by the ban on right-hand drive vehicles in Afghanistan. Right-hand drive vehicles were previously included on the list of goods that could be transported from Pakistan into Afghanistan duty free under the Afghan Transit Trade Agreement (ATTA). However, they were removed from this list in mid 2004 after Afghanistan banned the import of right-hand drive vehicles.¹⁹ Thus, the ban on right-hand drive vehicles has also hit the business of re-exporting vehicles from Pakistan into Afghanistan and back into Pakistan.



Pakistan has officially imposed restrictions on the import of second-hand vehicles since 1994, to support its own manufacturers. Vehicles found to be imported illegally into Pakistan are impounded by Pakistani authorities, and this has meant that smuggling is concentrated in the poorly policed border areas of the NWFP. There is also some evidence that vehicles continue to be smuggled across other porous sections of the Pakistani border. Foreign vehicle manufacturers have assembly factories in Pakistan and some of these vehicles cross the border in the other direction, ending up in Afghanistan. However, since buying a vehicle in Pakistan is more expensive than in Afghanistan, there is little financial incentive to legitimately export second-hand vehicles from Pakistan to Afghanistan.

Spare parts

If the trafficking of complete cars across the Afghanistan–Pakistan border has diminished in the last two years, the trade in spare parts and tyres remains robust and has a long history dating back 30 years. The comparatively high Pakistani tariff on imports created an incentive for Pakistani and Afghan traders to import goods to Afghanistan under the duty free ATTA and then to re-export them to Pakistan. Spare parts were part of this re-export trade until some categories of spare parts were excluded from the ATTA by Pakistan. This resulted in fewer spare parts entering Afghanistan from Pakistan, and more from Iran. The pattern of smuggling spare parts into Pakistan was also changed, with more spare parts coming from Iran through Afghanistan and then into Pakistan, as opposed to the Pakistan–Afghanistan–Pakistan route.

As shown in Figure 7, most spare parts imported into Afghanistan are from Japan, and these follow the same route into Afghanistan as complete cars – via Dubai, Bandar-e-Abbas and Herat. Both new and second-hand spare parts are delivered in containers purchased on order by large importers, some of whom are also involved in the import of complete cars. Small buyers often buy from these large importers,

¹⁹ “More Afghan border posts likely”, *Daily Times* (Pakistan), 31 August 2004 [http://www.dailytimes.com.pk/default.asp?page=story_31-8-2004_pg5_6]

sometimes on credit which allows them to pay for the parts after they have been sold.

The trafficking of spare parts through Afghanistan to Pakistan makes use of both the Kandahar–Quetta highway and the Jalalabad–Peshawar highway. Some dirt tracks along the way are also reportedly used to avoid check-posts. Small-scale individual smugglers are known as *lagharian* or *karaya dar*, or “unregulated commission agents”. These smugglers earn a flat rate of 600–1,500 Pakistani rupees (US\$10–25) to cross the border and deliver smuggled merchandise to buyers on the other side. They are also provided with money to cover bribes for officials on either side of the border. Large and well-connected smugglers can afford to transport spare parts in trucks along main highways by paying bribes.

The largest market for spare parts in Afghanistan is in Weish, along the Kandahar–Quetta highway, near the border on the Afghan side. This town has a significant number of spare parts shops which are organised into “markets”, the biggest of which is Kakar Mandi. Sales from these markets could be in the order of hundreds of millions of dollars per year. Exports to Pakistan are thought to account for most of this trade, but increased demand in Afghanistan has increased the share of domestic trade conducted in these markets. From Weish, vehicles are smuggled into Pakistan over the border, especially through Chaman, and until the recent counter-terrorist operations in Waziristan, through Angor into the FATA. The other large market used for export into Pakistan is in Torkham near the border on the Jalalabad–Peshawar highway. Containers of spare parts brought from Japan via Dubai to Herat are often transported straight to this market in Torkham. Traders report that this is a particularly popular route for diesel and petrol engines.²⁰

5.3 Imports from Europe, Russia, China and Central Asia

Although most vehicles come to Afghanistan via Dubai and Bandar-e-Abbas, other import routes are also used and there is some evidence that these routes are becoming more popular since the ban on right-hand drive vehicles. Most European vehicles on the market in Afghanistan are German. Many German families buy new cars rather than repairing old ones, and the strict and relatively expensive procedure for scrapping old cars leads many Germans to dispose of their old cars by selling them to second-hand vehicle dealers. As a result, Germany is a major exporter of second-hand vehicles and although many of these vehicles are sold to European countries (particularly eastern European transition countries), some are also exported to the Middle East and to Africa. Vehicles from Germany are usually driven overland and enter Afghanistan either through Islam Qala, as with vehicles from Dubai, or through one of the border crossings with Central Asia. Both German-made vehicles and other makes, notably the ubiquitous Toyota, are imported from Germany this way. The benefit of Japanese vehicles imported from Germany is that they are left-hand drive. As with Japan, there is some concern that some vehicles imported into Afghanistan may be stolen vehicles from Germany, where some 45,000 vehicles are stolen each year.

Cars

Russian second-hand cars, such as Volgas and Moskvitches, can also be observed on the road in Afghanistan. This research did not reveal large numbers of second-hand

²⁰ Khan, 2004

vehicles from the former Soviet Union being imported into the country, but, as mentioned, Kamaz trucks were certainly available at second-hand vehicle markets. Some Russian and Central Asian vehicle manufacturers have contracts to import new vehicles to Afghanistan. The Russian truck manufacturer Gorky Automobile Plant (GAZ) has offices in Kabul, as does the Indian truck manufacturer TATA. Central Asian-manufactured vehicles have also been given as aid to Afghanistan. Vehicles produced in the former Soviet Union enter the country through the northern border crossings with Turkmenistan, Uzbekistan and Tajikistan.

Motorbikes

The availability of Chinese motorbikes on the Afghan market reflects the significant growth of Chinese motorbike manufacturing over recent years. China now produces half of all motorbikes in the world. China's market share has grown particularly in developing countries, as the average price of a Chinese motorbike worldwide has fallen from US\$700 in the late nineties to US\$200 now. This makes Chinese bikes significantly cheaper than their Japanese equivalents.²¹ Traders reported that Chinese motorbikes were ordered directly from their manufacturers and then imported in containers via Bandar-e-Abbas and Islam Qala (like their Japanese equivalents). The opening of the bridge connecting Iran to Zaranj in Nimroz Province has also allowed consignments of motorbikes to be transported via this route. Most Japanese motorbikes on the market were second-hand Hondas.

5.4 Transport of vehicles

Vehicles are shipped from Dubai to Bandar-e-Abbas using commercial shipping. Once in Iran, many importers employ Iranian transport facilities to bring the vehicles, often still in sealed containers, to the Afghan border. Here the vehicles are unpacked in order to go through customs inspection. Importers in Kabul, who were involved in buying vehicles both directly from Dubai and from Herat, reported that they had arrangements with "transport associations", which transported the vehicles they bought from Herat to Kabul. After the engine and chassis numbers of the vehicles they had ordered had been faxed to them, they employed these transport unions to transport the vehicles to Kabul. The vehicles are often driven individually, employing a number of drivers. One importer related that individual vehicles, especially new ones ordered directly from the manufacturer, were sometimes brought by plane.

²¹ John Hagel, "The Shifting Industrial Landscape: Rethinking Products", <http://www.optimizemag.com/article/showArticle.jhtml?articleId=159905025&pgno=3>

6. Government regulation

Government regulation and taxation of the second-hand vehicle market is primarily the responsibility of customs offices, the Ministry of Finance, and the Traffic Department of the Ministry of Transportation, although many agencies can be involved in the registration of vehicles for international organisations.

6.1 Customs

Customs representatives at Islam Qala reported that they inspect the paperwork showing the origin of vehicles and waybills, while also checking that the frame and engine numbers match each other and match the documentation. They reported that they could process documents for up to 200 vehicles in a day. After checking documents, vehicles are referred to the customs office in Herat, where duties are paid. A database based on market information from Afghanistan and abroad is used to decide the value of imported vehicles and spare parts. There is no pre-declaration of the value of goods by importers. This sometimes leads to disputes between importers and customs over the latter's valuation of the goods. Vehicles are taxed at between 10 and 16 percent, according to model and year. Spare parts are taxed at a lower rate than complete cars, with the rate varying according to the type of spare part (the average rate is 5 percent). Trucks and buses are taxed at a rate of 2.5 percent. It is unclear what, if any, testing of quality takes place during customs processing of vehicles.

Right-hand drive vehicles have been impounded by customs since their import was banned in 2004. This was a cause of considerable complaint from a number of importers, who reported that they owned right-hand drive vehicles that were now stuck in the customs compound in Herat. The Traffic Department in Kabul told researchers that some right-hand drive vehicles had been released after protests by importers. Importers also complained that the process of extracting legitimately imported vehicles from customs could take weeks. However, importers said this did not prevent them from doing business, and areas where vehicles are stored while they are undergoing customs procedures, such as the border area at Islam Qala or inside the customs compound in Herat, are often used as "markets" for buying and selling cars. Here a trader can buy or sell a car before it has passed through the customs and registration process.

Some importers said that they had sometimes been forced to pay customs taxes on imported vehicles twice: once in Herat and once in Kabul. The origin of this complaint was unclear. Vehicles need to be taken to Kabul Province customs where they have their documents checked and become registered in Kabul. It is possible that during the period when Ismail Khan was governor of Herat, and some customs duties from Herat were not reaching central government, Kabul customs may have compensated for this by charging duties on vehicles for which duties had already been paid in Herat.

Researchers heard reports of nepotism and patronage in customs appointments at border ports and in provincial capitals – positions which could provide rent-seeking opportunities for those inclined to take them. Enforcement of proper customs procedures is generally problematic and some have suggested that differential tax rates and tax exemptions are being granted to favoured traders, in some cases by those who lack the authority to do so.

6.2 Registration

Most vehicles are registered in Kabul, although the Traffic Department does have provincial offices in Herat, Nangarhar and Balkh that can register vehicles. Since April 2005, the Traffic Department reported that almost 17,000 vehicles had been registered in Kabul and only 856 had been registered in other provinces. In order to register a car, the owner is required to take import and customs documents to the Kabul customs offices to be checked. At this point the owner brings the vehicle to the Traffic Department where the vehicle itself is inspected.

Owners wanting to register vehicles in other provinces need to bring their vehicles to the Kabul Traffic Department to obtain permission to register them elsewhere. The Traffic Department suggested that this was one reason why so many vehicles were registered in Kabul, as it was easier for owners to register in Kabul even if they planned to use the vehicles in other provinces, thus avoiding the extra bureaucratic step of registering locally. Some traders and bargainers reported that they could commission a facilitator to obtain registration for a vehicle on a customer's request. They claimed that getting a licence for a vehicle could take from 20 days to one month.

The extent to which the Traffic Department is able to ensure the road safety of second-hand vehicles is uncertain. It is not clear that the department has the facilities to check whether reconditioned vehicles have been involved in accidents, or whether speedometers have been altered to show a lower mileage reading. Traffic Department officials reported that they did not possess the facilities to check whether a vehicle might have been stolen in its country of origin.

The Traffic Department is also responsible for issuing driving licences. The main office in Kabul issues international licences and Afghan licences are also issued in provincial capitals. Vehicles are checked every year when licences are renewed, but it is unclear how rigorous these checks are, or how well enforced the yearly inspection is in practice.

6.3 Customs and registration process reported by INGOs

International NGOs reported that vehicles procured on international markets could take a long time to arrive at their offices even after they had entered Afghan territory, due to bureaucratic processes at customs and registration. One procurement officer reported that a vehicle bought abroad and shipped to Torkham via Karachi had been kept in customs for six months. Pressure from the former Minister of Planning for NGOs to procure vehicles on the domestic market had complicated the process of extracting vehicles from customs and processing their registration.

The steps followed from a vehicle's arrival at customs were described as follows:

- Details of the car given to the Ministry of Economy (MoE – formerly the Ministry of Planning);
- MoE then asks the Ministry of Commerce (MoC) to check whether the product is available on local markets;
- If not available locally, MoE processes a letter to the Ministry of Finance (MoF), which, in turn, provide a letter to customs;
- After this clearance document has been obtained, a letter is written to the Ministry of Interior (MoI), asking for registration of the vehicle;

- The Traffic Department of the Ministry of Transportation sends a representative to customs to check that the vehicle meets safety standards, and that it is a left-hand drive vehicle;
- At this point the vehicle can be taken from customs, but cannot be driven until the registration plates have been collected from the Traffic Department.

On more than one occasion, researchers were shown several sheets of official papers containing a large number of stamps and signatures to illustrate the complexity of the present procedure. The number of steps involved in this process currently allows significant opportunities for corruption and bribe-taking. Both traders and INGOs were in agreement that there was great need for streamlining the process of clearing vehicles through customs and registering them in Afghanistan.

6.4 Quality, testing and pollution

There is serious concern that Afghanistan is becoming a dumping ground for poor quality vehicles. Many vehicles on the market in Afghanistan are old, and, as one trader pointed out, may in fact be third- or fourth- rather than second-hand. Old vehicles are potentially dangerous, both in terms of roadworthiness and accidents, and in terms of harmful emissions. In the developed world, technological progress and stricter regulation to protect the environment have resulted in a considerable reduction in harmful emissions from road vehicles. Older engines, combined with the use of low-quality fuel in Afghanistan, produce more potentially harmful emissions.²²

That air pollution from vehicle emissions is a potential problem in urban areas of Afghanistan can be seen first-hand by anyone moving in Kabul's traffic: the emission of diesel soot from exhausts, suspected to be a carcinogen, is caused by poorly tuned and old engines and low-quality fuel. Little research into air pollution levels in Afghanistan has been undertaken, although in 2002 a United Nations Environment Programme (UNEP) mission to Afghanistan carried out some air sampling at urban sites in Kabul, Mazar, Herat and Kandahar. Increasing vehicle density in urban areas and the use of low-grade diesel were identified as serious causes of air pollution. High levels of polyaromatic hydrocarbons (PAH) "most likely originating from vehicle exhaust emissions" were discovered in some areas:

*The highest concentrations were detected in Mazar-i-Sharif, where analyses show 13.6 Ng/m³. The WHO average values for urban areas range from 1 to 10 Ng/m³. Concentrations for Kabul and Kandahar were between these values, while those for Herat were below WHO average values.*²³

One of the PAHs discovered in the air during this sampling process was identified as Benzene-a-pyrene, a substance suspected of increasing the risk of lung cancer in humans. The potential risk to human health of PAHs is increased by the presence of dust in the air, which binds hydrocarbon particles and prevents them from escaping into the atmosphere.²⁴ There is a need for more research on pollution levels from car emissions in urban areas of Afghanistan, and on the role of old engine technology in urban air pollution. Two agencies recently established in Afghanistan may take a leading role in this process:

²² For more information see Paterson, 2005

²³ UNEP, 2003, *Afghanistan Post Conflict Environmental Assessment*, <http://www.reliefweb.int/library/documents/2003/unep-afg-01feb.pdf>

²⁴ UNEP, 2003

1. The National Environmental Protection Agency (NEPA) of Afghanistan was established in April 2005. NEPA currently has no enforcement or implementation role as there is no environmental management law in place. However, the first Afghan environmental law is presently under review by the Ministry of Justice and is expected to be passed into law in the near future. Policy papers on pollution control and on industrial and urban pollution are also under review. An ADB project (in collaboration with NEPA) is underway to establish baseline information on air pollution in Kabul.
2. The Afghanistan National Standardisation Authority (ANSA) within the Ministry of Commerce is the result of the work carried out by the National Commission for Metrology and Standards. This body has been established with the support of the World Bank Emergency Customs Modernisation and Trade Facilitation project and is also part of the United Nations Industrial Development Organisation (UNIDO) Post Conflict Assistance for Industrial Rehabilitation and Development in Afghanistan. The ANSA will have a brief to both test and regulate consumer products in Afghanistan, and is set to be the single national standards authority for all domains, as specified by presidential decree.



In the face of increasing numbers of sub-standard vehicles, some governments in the developing world have imposed restrictions on the import of vehicles older than a certain year. A study of 111 countries and their policies regarding second-hand car imports found that 61 have such restrictions. Of these, 21 have imposed an absolute ban on the import of second-hand cars, 23 have imposed a ban on vehicles more than five years old and/or heavy

customs duties, and 17 have imposed a ban on imports that are more than six years old and/or heavy customs duties.²⁵ Some governments have also banned the import of altered-steering vehicles. These include the Saudi authorities, whose ban on altered-steering vehicles impacted upon the business of importers aiming to sell to Dubai-based traders, some of whom allegedly had to have their car shipments scrapped in Dubai.²⁶ Since Afghanistan does not have a domestic automotive industry, and has a continuing demand for affordable vehicles, strong restrictions may not be appropriate in this context. Nonetheless, the market might be able to sustain some level of restriction or, at the very least, better regulation of quality through increased inspection, active enforcement of inspection by rejecting sub-standard vehicles, and servicing.

Quality of spare parts and automotive services in Afghanistan is an issue that was not directly addressed by this research, but which did emerge as a concern. Some spare parts may be counterfeit, or they may have been taken from a vehicle that has been stolen and dismantled or from a vehicle that has been involved in an accident. Researchers also heard numerous tales of newer vehicles that, upon inspection, were found to contain old engines, indicating that new vehicles are being stripped of valuable parts. Spare parts are subject to less inspection than complete vehicles as they do not go through the registration process.

²⁵ Janischewski et al, 2003, p. 41

²⁶ Otake, 2004

The availability of trained mechanics is also a significant issue for motorists. Mechanics working for the state bus service, Melli Bus, and mechanics working for a large NGO in Kabul told researchers that only older generations of mechanics had received formal training from Kabul Polytechnic or from the now defunct technical schools. On-the-job training and informal apprenticeships are now the main means of training mechanics.

6.5 Steering

Since the ban on right-hand drive vehicles in July 2004, many altered-steering vehicles have appeared on the Afghan market. Japanese vehicles for domestic use (and therefore second-hand exports from Japan) are right-hand drive. Only Japanese vehicles made for export to right-hand driving countries such as Germany, and then exported from these countries as second-hand vehicles, have left-hand steering already. There are workshops in Afghanistan capable of carrying out alteration of steering, but since right-hand drive vehicles can no longer be cleared by customs or registered, many steering alterations are conducted abroad, in Dubai or in Pakistan. The Traffic Department told researchers that an advanced workshop known as Shaheen Technical Company had been established with the backing of a foreign investor and would shortly begin conducting alterations in Kabul. It was unclear how the vehicles would be brought legally to Kabul under the new regulations.

Many traders reported that customers were suspicious of vehicles with changed steering, fearing that the alterations were not properly carried out. Altered steering also makes vehicles more expensive, adding US\$1,000–5,000 to the price of a vehicle, depending on the model. Landcruisers in general are harder and more expensive to alter than passenger cars or vans. Vehicles with modified steering should ideally be subject to rigorous inspection since changing the steering alone is insufficient to make the vehicle suitable for driving on the right of the road. Other modifications must also be carried out, such as headlight alterations to prevent these from throwing light in the face of oncoming traffic. Altered-steering minibuses are particularly conspicuous, as the passenger door is on the wrong side of the vehicle.

In spite of the ban, many right-hand drive vehicles were observed on the markets in all locations where this research was conducted. Right-hand drive vehicles contribute significantly to the accident rate in Afghanistan according to the Traffic Department, as drivers do not have complete visibility when overtaking. However, while there are still some right-hand drive vehicles on the market, the protests of traders and importers suggest that enforcement of the ban has at least been successful enough to change patterns of trade in second-hand cars.

7. Conclusions and recommendations

7.1 Harnessing trade and traders

The spare part trade and the second-hand vehicle market in general demonstrate the existence in Afghanistan of experienced traders who have been importing goods into and across Afghanistan for years. Traders have been actively involved in transit trade for some time, contrary to the common impression of a post-conflict economy as a “blank slate”. In fact, many second-hand car importers encountered in this research have long used Afghanistan’s geographical position as a “land corridor” for trade, even during periods of war and international isolation – sometimes shifting from one commodity to another depending on profitability or feasibility of trade routes.

It is not clear whether the transit trade in second-hand spare parts could be easily brought into the formal economy, as its profitability may well lie entirely in its evasion of taxes and regulation (one might expect it to be easier to ship second-hand spare parts directly from Dubai to Karachi). However, the traders involved in this informal transit trade appeared to have substantial experience in trading a variety of goods, and with the right incentives they could be enticed into the formal economy and become a legitimate driver of economic growth and private sector development consistent with the vision of Afghanistan as a future hub of regional trade. The import of cumbersome spare parts in large quantities from the Iranian coast across Afghanistan to Pakistan shows that this part of Afghanistan’s trade “corridor” is logistically viable, even before the full reconstruction of roads along the route. Were the formal economy to offer incentives and opportunities for trading goods legitimately along this route, traders who have shown such flexibility in the past might be persuaded to grasp those legitimate opportunities.

In order to promote Afghanistan as a “land corridor” for trade, a strong trade administration, improved security and road infrastructure are necessary, and incentives to become involved in formal cross-border trade need to be demonstrated to traders.

The kinds of benefits that traders stand to gain from entering the formal economy include:

- The streamlining of cross-border, customs and registration procedures – reducing waiting times as well as reducing informal taxes levied on trade internally and at borders.
- Strengthening the interaction between border control agencies and between these agencies and trading communities.
- Government negotiation of trade agreements with neighbouring countries to open up regional opportunities for traders.
- Certified learning opportunities for transport operators, freight forwarders, importers and exporters.²⁷
- Stability and predictability: state-building and reconstruction can offer long-term security, and legitimate trading removes the risk of being put out of business as law enforcement capacity improves.

²⁷ *Reducing poverty, sustaining growth, scaling up poverty reduction* (case study on trade and transport facilitation in southeastern Europe), World Bank conference notes, Shanghai, May 2004, p. 51

7.2 Standards and public health

Ensuring quality and standards for Afghan consumers is critical to the Afghan reconstruction effort. As a World Bank official recently commented:

...however impressive the flow of funds is to implement the reconstruction, it is easily possible that an equal amount is lost because the consumers are suffering the costs of substandard infrastructure in the areas of health, pollution and other aspects of daily life relating to the quality of goods and services. The losses suffered by consumers also represent losses to the economy.²⁸

Regulating the import of second-hand vehicles in the Afghan context will necessarily be a balancing act between maintaining the affordability of cars and thereby supporting the livelihoods of those working in the private transport services sector, and ensuring that the country does not become a dumping ground for substandard and dangerous vehicles. The following means of ensuring supply of better quality vehicles should be considered:

- Minimal standards for vehicles and components should be set, even if these are initially low. Testing facilities should be sufficiently equipped to test these standards, especially for safety-critical components such as windscreens, brake pads and headlights. Non-compliant vehicles that cannot be repaired should be removed from the supply chain.
- Restricting imports of older models could be considered in order to establish whether the costs of such restrictions would outweigh the benefits.
- Environmental pollution from vehicle emissions is both a medium-term and a long-term problem for Afghanistan which requires immediate research and planning. The creation of the Afghan National Environmental Protection Agency is a positive step in this direction.
- Formal training for mechanics and the establishment of better vehicle maintenance facilities would help to increase vehicle efficiency and reduce harmful emissions.
- In the long term, Afghanistan could consider introducing emissions testing for vehicles.

7.3 Private sector development

The second-hand vehicle market in Afghanistan provides employment for a large number of mostly small-scale players. However, these players often make very small, and in some cases diminishing, returns. There is limited room for movement and innovation for many of these smaller market players, some of whom stated to researchers that they were in debt. This is an example of the way in which lack of access to credit can keep small market players trapped in sub-scale enterprises with little chance of expanding their businesses.

Although there appears to be less potential for monopolistic behaviour in the second-hand vehicle trade than in the petroleum fuel trade, it appears that traders

²⁸ Amer Durrani (Task Manager for World Bank activities in Afghanistan), comments from a meeting with United Nations Industrial Development Organisation staff in Vienna, October 2004, quoted in UNIDOScope Weekly Internet Newsletter 24–30 October 2004.

are not on a level playing field. Openness, competition and demand-driven business development in the used vehicle market could be promoted in the following ways:

- Access to credit through banks and other financial institutions would open the market to players who were not able to gain unofficial credit. Access to micro-credit would allow small players to expand their businesses.
- Promotion of an effective and reliable banking system would represent a sound means of investing money for those who have historically invested in commodities such as vehicles. This means of investment would also benefit the Afghan economy more generally.
- Improved procedures for buying land and securing tenure for businesses renting accommodation would encourage the growth and expansion of small- and medium-sized players.
- The establishment of membership-based, democratically run chambers of commerce, especially in the provinces, should be supported.
- In addition to more effective private sector lobby groups, the government needs to adopt a more consultative and receptive approach to its dealings with businessmen, large and small, irrespective of their political contacts.
- Anti-competitive practices in trade should be addressed in order to ensure the maximum realisation of the benefits of free market competition – in terms of increased productivity and innovation for businesses, and better value for consumers.

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