# The Effects of Socio-Cultural, Economical, Political and Geographical Factors on International Trade
# (A Case Study on Afghan-India Trade Relations)

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## ABSTRACT

From an early age, human beings have been involved in a number of works and activities for the supply and continuing of life, the most important and main work was to trade. Ever since humans began social life, their business and trade relationships have been more significant due to meeting and needs of their lives alongside other human relationships. Day by day human communities expanded and the world divided into dependent and independent countries, and the countries considering to their needs and other effective factors developed their trade relationships with each other. Afghanistan and India from the early age considering to the Economical, Social, Cultural, Political and Geographical factors have followed the good trade relationships with each other and this trend is expanding and developing day by day. India is the second importer and exporter for Afghanistan and the main motivation behind this trade is some impactful factors (Economical, Social, Cultural, Political and Geographical factors) that based on them the trade relationships between India and Afghanistan is increasing and developing.

*Keywords--* Afghan-India Trade, Socio-Culture Factors, Economical Factors, Political Factors, Geographical Factors

## I. INTRODUCTION

International trade plays an important role in increasing the production of any country. The foreign trade is remarkable factor in expanding the market and encouraging the producers. In countries where home market is limited it is necessary to sell products in other countries.

International trade is not a new concept among different countries. In the past there were several noticeable instances of international trade. In 14th and 15th century traders used to transport silk and spices through silk route. In the 1700s fast sailing ships used to transport tea from China to different European countries. Foreign trade also has a big impact on economic development.

International trade in recent decades has considerable growth, so that world trade of goods has exceeded 9 trillion U.S. dollars per year. It is evident that most conducted traded in this area is associated with monetary and financial system and many banks and financial institutions do financing the exchange of goods and services. Over the past years, we have been witness gradual development of integrated global economic system. Developing of science and technology in the various areas has followed different conditions of business in these years. On the one hand, communications development and widespread access of customer to information, has changed markets face and influenced their demands, on the other hand production based on advanced technology and improved methods provides possible of respond to the changing demands of customers.

International trade is mostly dependent to some important and impactful factors that can open the doors of trade and can be counted as barriers as well. These factors are: Socio-cultural factors, Economical factors, Geographical factors, political factors and etc. Along with the necessities of countries to each other's products, the above noted factors are the main reason for sharing commodities with each other and vice-versa.

This research paper which I have worked on it is about "The Effects of Socio-cultural, Economical, Geographical and Political factors in Afghanistan-India trade". As India and Afghanistan have had strong relationships considering to the noted factors in the past, these relationships have been increased since the new government established in Afghanistan after Taliban that the trade relations between the two countries have been salient and highlighted more.

India and Afghanistan shared long historical, cultural and political contacts. Prior to the partition of the Indian subcontinent, Afghanistan was a neighbor of undivided India and had a history of close contacts with Indian people and vice versa. The close relationship dates back to the days of Gandhara civilisation which flourished on the border regions of India and Afghanistan between 6 BC and 11 AD.1 During the British rule, Afghanistan was made a buffer state between British India and Russian Empire. Conflicts with Pakistan over the Pashtunistan issue and preference for non-aligned foreign policy brought Afghanistan closer to India during the regimes of King Zahir Shah and Daoud.(Basu, 2007)

India has significant trade interests in Afghanistan. The success of Afghan fruit and nut exports to India and India's grant of 50-100 per cent tariff concessions for Afghan exports of dried fruits, fresh

fruits, seeds, medicinal herbs and precious stones under a preferential trade agreement and Afghanistan's grant of a 100 per cent margin of preference on eight Indian products including black tea, certain categories of medicines, refined sugar, cement clinkers 197 and white cement bear testimony to the fact of mutual dependence between India and Afghanistan in terms of trade. Furthermore, Afghanistan has a rich resource base of unexplored minerals like iron, chrome, copper, silver, gold, barite, sulphur, talc, magnesium, mica, marble, lapis lazuli, asbestos, nickel, mercury, lead, zinc, bauxite, lithium and rubies. Exploitation of oil and natural gas reserves in and around Afghanistan also promises huge potential. In the 1970s, Afghanistan's natural gas reserves were estimated at about 150 billion cubic metres. In the early 1980s, natural gas exports were in the range of 2.5 – 2.8 bcm a year, and constituted its main source of export revenues. It is due to the outbreak of civil war and ensuing instability that the upstream development in this sector halted.50 Recently, Indian government has shown its interest in the iron ore blocks in the Hajigak mines in Afghanistan and plans to sponsor the Steel Authority of India proposal to set up a steel plant in that country.51 Stability in Afghanistan is, therefore, necessary for the regional powers like India for investment in and trade with Afghanistan and to explore the natural resources.

From the past to present, the similarities in culture, behavior and necessities between the people of Afghanistan and India have paved the way to share products for each other. Although these two countries have not direct land access, but they have very import and exports through air and ships.

in five past years, to increase the level of exports and imports these two countries established new ways of trade such as Chabahhar Port and Air corridor. These two ways made India the second trade partner of Afghanistan.

In this research paper, I have discussed the relationship between India and Afghanistan, a short trade history, factors which are impactful in trade between these two countries. In this research I have collected first hand and second hand resources that the first hand has been collected through questionnaire and the second hand has been collected from books and the related research papers which have been published in international and popular journals around the world.

## II. AFGHAN-INDIA TRADE (SHORT OVERVIEW)

India and Afghanistan have a strong relationship based on historical and cultural links. The relationship is not limited to the governments in New Delhi and Kabul, and has its foundations in the historical contacts and exchanges between the people. India-Afghanistan relations have improved substantially under the leadership of Prime Minister Narendra Modi and Afghan President Ashraf Ghani.

Afghanistan is the 150th largest export economy in the world. In 2017, Afghanistan exported $878M and imported $5.07B, resulting in a negative trade balance of $4.19B. In 2017 the GDP of Afghanistan was $19.5B and its GDP per capita was $1.97k. The top exports of Afghanistan are Grapes ($143M), Insect Resins ($102M), Tropical Fruits ($101M), Coal Briquettes ($59.7M) and Other Nuts ($58.4M), using the 1992 revision of the HS (Harmonized System) classification. Its top imports are Wheat Flours ($419M), Armored vehicles ($331M), Refined Petroleum ($258M), Raw Sugar ($248M) and Delivery Trucks ($189M). The top export destinations of Afghanistan are India ($411M), Pakistan ($392M), Germany ($8.9M), Turkey ($8.74M) and the United States ($8.33M). The top import origins are Pakistan ($1.39B), the United States ($753M), India ($630M), Kazakhstan ($562M) and China ($532M). (Council, 2019).

The bilateral trade between India and Afghanistan is expected to more than double to reach USD 2 billion by 2020 with the opening of air cargo route between the two countries. The bilateral trade between India and Afghanistan is USD 900 million and with opening of air corridor our target to take it to USD 2 billion by 2020," Afghanistan Ambassador to India, Shaida Mohammad Abdali today said at an USAID-FICCI event.

Since starting of Kabul -New Delhi air corridor in mid-June 2017 followed by second air corridor between Kabul-Mumbai in December 2017 more than 100 Flights have been conducted between the two countries and transported 2,500 metric tonnes of goods (Times, 2018).

## III. SOCIO-CULTURAL FACTORS AND TRADE

Many studies are found out that socio-culture factors are essential in business ,especially in trade between different regions . Kluckhohn (1985) discussed that culture contains of patterned ways of thinking, feeling and reacting and that the necessary core of culture consists of conservative ideas and values. Cultural values have been defined as a set of conscious and subconscious beliefs and norms, which are often fixed in the morals, law, customs and practices of a society, that specify what is right and wrong and identify general preferences (Helga Kristjánsdóttir, Þórhallur Örn Guðlaugsson, Svala Guðmundsdóttir & Gylfi Dalmann Aðalsteinsson, Jun,2017).

Social factors essentially control market consumption. According to sociologists, people as consumers are inspired and motivated by clusters to which they belong or attempt for individual needs and desires. This is especially so because the mainstream (about 70%) of the world population today live in the so-called cooperative cultures that are under the strong inspiration of social groups, in contrast to the minor share

of the world population existing in the so-called separate cultures.

According to above statement, trade companies functioning on diverse foreign markets must bear in mind the high degree of interdependence between themselves and social factors (Molly Eckman , Sema Sakarya, Karen Hyllegard , Miguel Angel &Alejandro Molla Descals, Oct 2014).

If corporations forget about the impact of social factors or possible social problems, it will have a destructive outcome on their actions

Hence, when entering an international market, trading corporations should look at all the signs that show the social image of the consumer atmosphere. This mostly relates to social factors that define the consumer behavior and their shopping trend in one society, such as physical welfare, household features, lifestyle, free-time activities, ethical values, belonging to appropriate and reference groups, and the like. Knowing these elements will make it easier for the company to select a market and create a "set" for that market (Sreten Cuzovic , Svetlana Sokolov, Mladenovic &Dorde, March,2019).

Among other aspects, cultural factors that exist in one country are also significant for trade internationalization (Elke Angelika Pioch , Park , Cheltenham, 2014) In this look, it is difficult to understand the trading structure of a country without understanding its culture, since it defines what people buy and the purpose of using certain products (Sreten Cuzovic , Svetlana Sokolov, Mladenovic &Dorde, March,2019).

The impact of cultural factors on trade internationalization reveals on all its phases and activities. Since an international trading corporation seeks to meet the needs and demands of consumers, it cannot ignore the cultural influences that affect their behavior. Consumer marketplace judgments are greatly influenced by consumer lifestyle, and this depends straight on the culture of the society to which the buyer belongs, (Sreten Cuzovic , Svetlana Sokolov, Mladenovic &Dorde, March,2019).

While designing marketing mix mechanisms, cultural influence is reflected in all marketing actions. Through products, the effect of culture is obvious in the degree of product assortment adjustment to several international standards and necessities of the local market. (Sreten Cuzovic , Svetlana Sokolov, Mladenovic &Dorde, March,2019)

Weber (1947) discussed, in his book titled The Theory of Social and Economic Organization, the status of culture in relation to economic growth. Since then, researchers have discovered the relationship between domestic culture and business and trade, employment, people, marketing, financial wealth, social systems as well as political constancy (Helga Kristjánsdóttir, Þórhallur Örn Guðlaugsson, Svala Guðmundsdóttir & Gylfi Dalmann Aðalsteinsson, Jun,2017)

Several elements can affect international trade, such as religion, law and system of politics and government. (Ghemawat ,P and S. Reiche, 2011)Pointed out that when looking at domestic cultural dissimilarities and international trade, one has to look at the dissimilarities and 'diversity of the religious beliefs around the world'.

Christianity accounts for 33% of the world population; Islam, 21%; Hindu, 14% and the non-religious, 16%. In overall, there are 19 main religions in the world with 270 large religious clusters (Ghemawat ,P and S. Reiche, 2011) Different beliefs may have different views and traditions concerning dietary variance and alcohol consumption. We also have to look at diverse forms of governments in the world; some carry features of dictatorship, a military government and pluralistic democracies, etc. (Helga Kristjánsdóttir, Þórhallur Örn Guðlaugsson, Svala Guðmundsdóttir & Gylfi Dalmann Aðalsteinsson, Jun,2017).

Hofstede discrete cultural dimensions, as well as religion can be beneficial when entering into global trade. The masculinity/femininity element and religion are found to most considerably affect global trade (Helga Kristjánsdóttir, Þórhallur Örn Guðlaugsson, Svala Guðmundsdóttir & Gylfi Dalmann Aðalsteinsson, Jun,2017).

For a financial exchange between social performers to happen, all parties involved must make logic of the transaction.

Bilateral trade, as a system of economic exchange, is infused with meaning and thoughts about proper economic strategies, goals and media of exchange, and it is formed by the cultural formations of trading partners (DiMaggio, 1994).

Practices of financial exchange are not wide spread but culturally specific(Bandelj, 2002) (This cultural embedded is particularly significant for understanding multinational procedures and making cross-national comparisons(DiMaggio P, Zukin S, 1990).

A nation is culturally more proximate with some countries than others. In precise, trade is smoothed by th ease of communication in a common language (Bliss H , Russett B, 1998)historical colonial link screate relatively stable trade networks, such that trading favorite between former colonizers and colonies is still obvious(Louis,W.R, Robinson, R, 1994);a like social values and behavior forms resulting from the same religion-based civilizations implify communication, foster trust, and generate parallel if e style and taste. In light of the significance of language, colonial history, and civilization, they are most often employed as proxies for cultural similarities(Zhou, Jan 2010).

It is to be sure likely that hosting a huge number of migrants from other areas tend to encourage trade because they possess active linkages with their networks at home. Immigrants know the features of many local buyers and sellers and convey this knowledge overse as(E.Rauch, Dec 2001).

Certainly a high number of migrants might increase imports from origin countries both because migrants preserve part of their perception for home

goods and because nationals partly attain a taste for those new diversities. Even though it is promising to draw some inferences about the relative strengths of those two networks, recognizing them independently in a rigorous way is a significant but tough assignment.

Gould (1994), Head and Ries (2001), Girma and Yu (2002), Rauch and Trindade (2002) and Wagner et al. (2002)elucidate the trade-creating influence of networks using assessments of migration variables in gravity-type equations. The first three papers estimate the impact of migrants settled in the United States, Canada, and the United Kingdom separately on state trade flows, whereas Wagner et al. (2002)use evidence on the trade volumes of each Canadian provinces with a set of overseas countries, coupled with the regional stocks of migrants from each of those trade partners. All papers find affirmative effects of migrations on trade capacities (Pierre-Philippe Combes , Miren Lafourcade , Thierry Mayer, 2005)

Two-sided trust is negatively correlated with a country's exposure in the local newspapers of another country. Sharing the same legal origin (a variable that could proxy both for information and for culture) has a positive and significant effect on the level of trust, as long as we do not control for the common linguistic root As a first pure measure for a country's cultural tradition, we use commonality of religion(Luigi Guiso, Paola Sapienza, Luigi Zingales, oct 2008).

Religion had (and still has) has a huge impact then and now on school taught. Therefore, we expect that two countries with the similar religion tend to have similar cultures and therefore will trust each other more. Certainly, we found this to be the case. A pair of countries where 90% of citizens share the matching religion (e.g., Italy and Spain) has a level of bilateral trust one quarter of a standard deviation higher.

Cultural differences also explain why Rose (2000) found that historically currency unions have increased trade by 235%, while Baldwin (2005) found that the Euro currency union improved trade by only 9%. The unions studied by Rose (2000) are among countries with very close cultural roots, such as Belgium and Luxembourg(Luigi Guiso, Paola Sapienza, Luigi Zingales, oct 2008).

An important determinant in trade flow between countries is their culture similarity. The connection of two countries' key features, such as dominant religion, business language, form of government, and economic development, specifies the cultural distance between them. Sharing similar culture not only reveals the tendency of the people in two countries to consume similar goods but indicates a lesser cost of doing business for firms from one country in another(Chwo-Ming Joseph Yu , Dixie S. Zietlow,, Mar 1995).

## IV. ECONOMIC FACTORS AND TRADE

The greater emphasis by the United States on preventing unfair trade also has both positive and negative effects in promoting an open trading order. For example, careful scrutiny of a country's subsidy programs by another country with a view toward possible countervailing duty actions can serve to reduce the likelihood that special interest groups within the first country will be successful in getting subsidies that not only reduce the country's own welfare but slow down growth in other countries. Similarly, predatory dumping restricts competition in the long run and hence leads to slows growth. The protection of intellectual property rights is also necessary for maintaining high rates of technological progress (Robert E, May 1989).

Trade can be promoted through different networking channels. The literature has proposed two main economic mechanisms: The reduction of information costs and the diffusion of preferences. From these preferable channels The first channel relies on the potential alleviation of costs incurred by economic agents when gathering information about distant markets. Indeed, for these methods and opportunities informational barriers make it difficult for both consumers to obtain relevant information on the goods produced in another location and for non-local producers to learn the tastes of consumers or to be aware of the practices of local retailers. Both effects increase transaction costs and thus perceived prices, which has a negative impact on trade flows(Pierre-Philippe Combes, Miren Lafourcade, Thierry Mayer, 2005).

Countries with similar economic structure have more intensive grade as in developed countries. Trade activities can be affected by the different price level of the nations. If export and import indexes are calculated similarly for several countries using a common base period, then variations across nations in these indexes in a given year can approximate the cross-nation variation of export/ import price levels. A higher level of the export price index reduces exports and a higher level of import price index increases imports. The attraction for the non-member countries to do business there is due to the formation of the regional agreements which increases the market size. With Indonesia, Malaysia, the Philippines, Singapore and Thailand as charter member countries, the Association of Southeast Asian Nations (ASEAN) was formed in 1975. The association seeks closer economic integration and co-operation through establishment of complementary industries and investment incentives for non-member countries (Jain 1990). ASEAN countries tend to receive more imports from other countries due to the attractiveness of the enlarged market (Chwo-Ming Joseph Yu , Dixie S. Zietlow,, Mar 1995).

According to the gravity model the countries with currency unions trade two to three times as much with each other as countries with separate currencies. Certainly, currency conversion costs and exchange- rate uncertainty can add to trade costs but sometimes exchange-rate variability can have direct negative effects

on capital flows, and hence any direct negative effect on trade flows will result in an additional, indirect source of capital- market imperfection according to the analysis (Maurice Obstfeld , Kenneth Rogo, 2000).

A small economy is generally believed to be more highly dependent on trade as they highly rely on trade than a large economy. We, therefore, use modeling accounting for economies of scale, with the incorporation of a country's economic and market size, along the lines of Krugman (1991). But as the Economic weight of economies is found to weaken their trading volumes, as the theories that imply that as economies become larger and they tend to be more self-sufficient and thus rely less on international trade with other countries. Along the same lines, the market size of countries is generally not estimated to have an impact on their trading volumes ( Helga Kristjánsdóttir, Þórhallur Örn Guðlaugsson, Svala Guðmundsdóttir & Gylfi Dalmann Aðalsteinsso, Jun 2017).

The companies that choose the economic factors from the international trade for the market are also an important determinant of trade internationalization. Economic factors from the national environment take different forms. First of all, there are numerous taxes and quotas, as well as non-tariff barriers. Taxes and quotas are imposed so as to protect the national economy, but they also act as a source of state revenue. Quotas must be especially accounted for in terms of planning the quantity of products that can be obtained from domestic sources, but also the quantity that can be imported. In addition, numerous non-tariff barriers can be a determinant of international retailers' operations, especially when it comes to subsidies for local companies, antidumping regulations, international exchange controls, product standardization, etc. Given the above, companies choosing the right market for the trade will give the right of priority to markets with less restrictive tariff and non-tariff barriers. The group of economic factors at the national level should also include factors relating to market size, market growth assessment, urbanization and economic results. Thus, large markets with significant economic development opportunities are more attractive, as well as those where forecasts point to growth potential in the future. When it comes to urbanization, it is in a number of cases a significant factor of economic development, but also an indicator of the direction of trade companies' international expansion. Economic indicators, such as gross domestic product, also affect market attractiveness, so those with a higher economic growth level and rate will be preferred. In this context, the inflation rate is also significant, so companies will be interested in those markets with a balanced inflation rate. Generally speaking, economic factors, both at international and national levels, determine trade internationalization in terms of direction, as well as the retention time on a given market (Sreten Ćuzović, Svetlana Sokolov Mladenović & Đorđe Ćuzović, 2019).

# V. POLITICAL FACTORS AND TRADE

Two countries facilitate a bilateral trade when it comes to similarities between the political institutions and this have been supported by many of the political and sociology theories. Socio logists often see that in this state institutions act as a fundamental and crucial context of economic exchange. In a country with a different political system but having the similar political institutions reduce uncertainties and costs associated with dealing between the respective countries. Political scientists well know that to perfectly shape the international trade relations the country's political institutions must be strong as they affect widely by the trade policies. Trade openness predicts the country's regime as these are closely related— hence as a result democratic countries are more likely to carryout liberal trade policies than their auto critic counterparts, and the regime change such as democratization often induces trade liberalization. Thus, the pair of similar democratic country show greater trade flows. The more similar the two countries are in their democratic institutions, the more bilateral trade they are likely to develop. This is because similar group of democracies are better than the groups composed of both democracies and autocracies as they are more able to liberalize trade (Zhou, Intensification of Geo-Cultural homophiy in Global Trade: Evidence from the gravity model, 2010).

Changes in constituencies and further to promote economic reform it is assumed that political liberalization play a key role and arguments based on leadership turnover. Altering the process of decision making and nature of economic policies due to democratization specially when these leads to changes in leadership, ethnic and class bases of power, the accountability of leaders, and levels of decision-making authority (Henry Bienen , Jeffrey Herbst, Oct 1996).

Political stability of a country affects the inflow and outflow of the trade .hence these countries have higher economic growth rates, enhances the international competitiveness of local firms, and reduces the risk of foreign firms doing business with local firms. Srivastava and Green (1986) examines the impact of political stability on bilateral trade flows and finds that only the political instability of the exporting country affects trade flows. Their results may be a consequence of measuring irregular political power transfers during 1958-67 while examining trade flows in 1977. A more recently developed measure of political instability used in this study might produce a different result (Chwo-Ming Joseph Yu , Dixie S. Zietlow,, Mar 1995).

As a cause of burdens of war the citizens bear the loses of their private property, civil liberties again have to elect their government and the individual rights also abolished so to enjoy the benefits of trade the conditions must be maintained in a peaceful manner. thus liberal states such as  the US, Japan and the European

allies makes for peace and in these founded that the individual rights are equal before law . (Doyle, 1968)

We argue that the play of power politics is an inexorable element of any agreement to open inter-national markets because trade produces security externalities. Domestic resources can be employed from the sources of gains from trade which will increase the efficiency arises due to externalities. trade with an ally produces a positive externality. In either case, agreements to open international markets create a divergence between the private and social costs of trade. Government interventions can be welfare enhancing for nation when taken during any trade agreements.

Many of the trade targets can be achieved depending upon the ability of a country to affect the income of the state by the successful intervention in trade to correct the security externalities associated with it. Although any tariff will distort resource allocation in the target country and therefore decrease its real income, it will do so without imposing net costs on the home country only if the latter can affect its terms of trade.

Many of the further studies to analyze the impact on bilateral trade of political conflict and cooperation as they conclude bilateral trade is inversely proportional to the conflicts between the participants than when political relations between them are relatively cooperative (Joanne Gowa , Edward D., Jun 1993).

There are different forms of governments in the world which we need to look into it some carry elements of dictatorship, a military government and pluralistic democracies, etc. Finally, various laws and regulations in different countries can affect trade, such as protective tariffs, e.g. these strict import rules and quotas when one imports meat to Iceland from abroad, which are stricter when one exports these products. Also, the country also has some internal rules and regulations for the trade in their own country as there are different types of intergovernmental agreements where regional barriers, i.e. free-trade areas, common external tariffs and different import quotas, exist or do not exist between states ( Helga Kristjánsdóttir, Þórhallur Örn Guðlaugsson, Svala Guðmundsdóttir & Gylfi Dalmann Aðalsteinsso, Jun 2017).

The effects of alliances on commerce emanate from the incentives of both governments and firms. Governments have an incentive to liberalize trade with allies because the efficiency gains from trade yield increases in national income that can be used to augment states' military power.

Open trade is much more likely to evolve among allies than among adversaries. Trade among allies is likely to enhance the security of all the parties; the gains from trade accrue to states with common security goals and bolster the aggregate political-military power of the alliance. In contrast, open trade among adversaries produces negative security externalities. A state that trades with an adversary augments the national income of its trading partner, thereby threatening to undermine its own security. Especially among states with sufficient

market power to influence their terms of trade, governments are expected to discriminate in their foreign economic policies between allies and adversaries.

Many empirical studies of the international political influences on trade focus on diplomatic cooperation and conflict between states. For example, argues that utility-maximizing actors tend to engage in cooperative relations with trading partners because of the opportunity costs associated with forgoing trade in the event of conflict. In the only studies bearing directly on this topic, Pollins (1989a, 1989b) examined the effects of preferential trading arrangements and diplomatic co-operation and conflict on bilateral trade flows. He found that cooperation promotes trade, but he also observed that his model may not account for variations in trade patterns between allies and adversaries or between major powers and other states (Pollins 1989a, 757). Indeed, since there is evidence that allies frequently engage in political conflicts, it is important to isolate the effects of alliances on trade rather than infer them from studies focusing on the effects of political cooperation and conflict (Edward D. Mansfield , Rachel Bronson Source , Mar 1997).

We examine whether groups of democracies are better able to liberalize trade than are groups of autocracies or groups comprised of both democracies and autocracies. By providing one of the first assessments of whether patterns of commercial protection depend on regime type, we help shed light on whether there is a "democratic difference" in foreign economic policy.

A democracy lowers its trade barriers more when it seeks mutually acceptable concessions with another democracy than when it deals with an autocracy, no matter what the relative preferences of the two leaders. Why? When both are democracies and home makes the initial proposal, it is the pressure of the foreign legislature that forces the home country to compromise or else end up in a trade war. (Edward D. Mansfield , Helen V . Milner, B .Peter Rosendorff, Jun 2000)

Political factors of trade internationalization can be considered at three levels

**1.** Interstate cooperation, when one country enters different political or economic trade unions;
**2.** State, relating to trade regulation within the state borders;
**3.** Local, which relates to local regulation of trade, within one state (Alexander and Doherty, 2009):

If political factors are viewed at interstate level, it is necessary to look at numerous international political associations, whose goals vary over time, which directly or indirectly affect the operations of international trading companies. Thus, for example, North America has a North American Free Trade Zone and Organization of Pacific Economic Cooperation. In Europe, the European Union and the European Free Trade Area (EFTA), as well as the Organization for Economic Co-operation and Development (OECD), take the most prominent place. If political factors are observed at the state level, it is necessary first to look at the state's political organization, i.e. the differences between federal and unitary states. In

this context, a first-time retail company needs to consider the following factors: political stability, ongoing or possible political disorders, the existence of democracy, ruling political parties' support to economic policy, opposition parties' (dis)agreement with government's economic principles, and the like. The analysis of these factors is important because of their possible impact on international trading companies, especially those who enter the new market with the strategy of building their own facilities. Under such conditions, there is a high risk of the influence of political factors on property rights or public animosity toward the company. If the political factors of trade internationalization are observed at the local level, it is necessary to look at the effect of the local government's independent politics, especially in federal states. This may relate to the right to impose income or turnover tax, or postpone certain decisions made by a national government. Local political factors can in many situations stimulate international trading companies to start operations. Thus, practice has examples of free land allocation, tax exemption for a certain period of time, accelerated procedures of obtaining building and other permits, which, in general, has positive effects and attracts foreign trade companies in the local area. Examining all these factors is an important aspect in determining the direction of trade internationalization. By entering the foreign market, retail companies must be aware of different political factors, and, in this regard, the markets of countries with positive political structures and systems will have the right of priority (Sreten Ćuzović, Svetlana Sokolov Mladenović & Đorđe Ćuzović, 2019).

## VI.    GEOGRAPHICAL FACTORS AND TRADE

It is almost the reality of the trade is that distance affects the trade very much and it is likely to be sure that those nations which are close in contact with each other the more the favorable the trade would be than which are far a distance.

This geographic homophile is reflected in some interesting observations. For instance, scholars have noticed that roughly a quarter of global trade by value occurs between countries that share a land border, and that half of global trade takes place between partners less than 3000 km apart. These proportions have not changed much over recent decades. While the artificial factor of preferential trade arrangements may play a role, "new economic geography" scholars assert that geographical proximity is the real force that creates the high regional concentration of trade(Zhou, Intensification of geo-cultural homophily in global trad: Evidence from the gravity model, Jan 2010).

Recent literature has emphasized the importance of transport costs and infrastructure in explaining trade, access to markets, and increases in per capita income. For most Latin American countries, transport costs are a greater barrier to U.S. markets than import tariffs.

Our results indicate that an increase in country-specific transport costs from the 25th to the 75th percentiles is associated with a reduction of 22% in bilateral trade, hence geography here plays an important role as included as the forth factor that affects the trade and most studied determinant of transport cost is geography, particularly distance. Thus plays an inverse role in trade and transport cost as more the distance between two markets, the higher the expected transport cost is.



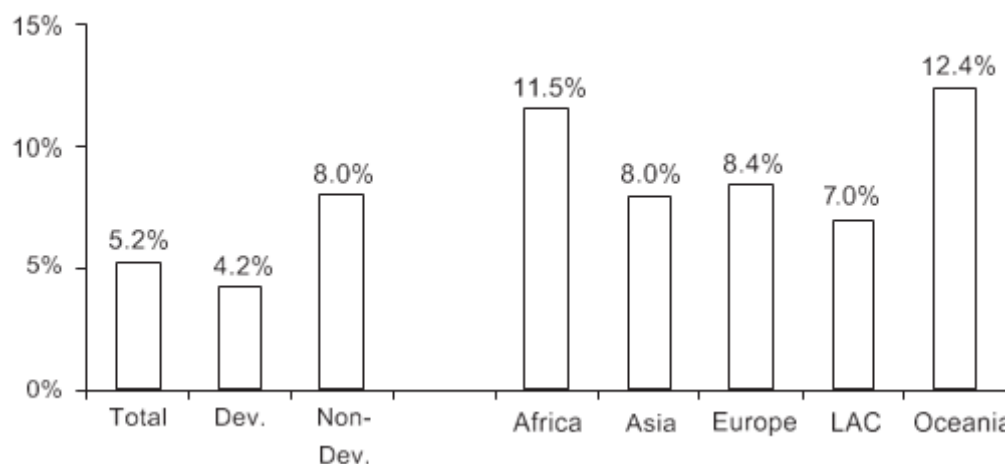X. Clark et al. / Journal of Development Economics 75 (2004) 417–450

**Figure 1:** Estimates of total imports freight costs relative to imports (CIF), 1997.

It is one of the most widely accepted results in international economics that trade is impeded by distance, as testified by the large set of papers estimating standard gravity equations. A more recent finding, initiated by McCallum (1995), is that, in addition to the impact of distance, the crossing of national borders also sharply reduces trade.[1] Furthermore, contiguity has also been largely shown to

have a positive impact on trade volumes (Pierre-Philippe Combes , Miren Lafourcade , Thierry Mayer, 2005).

Trade composition additionally helps to explain transport costs differences across countries. First of all, due to the insurance component of transport costs, products with higher unit value have higher charges per unit of weight. On average, insurance fees are around 2% of the traded value, and they represent around 15% of total maritime charges. Therefore, high value added exporting countries should have higher charges per unit weight due to this insurance component. On the other hand, different products have different requirements special transport features and therefore have different freight rates.

The level of containerization, presents a significant negative effect on transport costs. As explained before, this variable represents technological change at both vessels and seaport level. The idea behind this result is that containerization reduces services cost, such as cargo handling, and therefore total maritime charges. Our results suggest that containers reduce transport costs in around 4%. It is important to note that in 1998, most of the cargo arriving through liners was in containers (90%), in particular the cargo from developed countries.

Finally, the quality of onshore infrastructure is an important determinant of transport costs. LV (2001)find that it accounts for 40% of predicted transport costs for coastal countries and up to 60% for landlocked ones.[18] If a country with a relatively poor infrastructure, say at the 75th percentile in an international ranking, is able to upgrade to the 25th percentile, it will be able to reduce transport costs by between 30% and 50%. Onshore infrastructure certainly affects transport cost via its effect on port efficiency ( Ximena Clark , David Dollar and Alejandro Micco, Mar 2004).

The physical distance between countries hinders trade activities. As a proxy for transportation cost, longer distance implies a higher level of transportation cost and thus reduces trade flows (Bergstrand 1985; Srivastava and Green 1986) (Chwo-Ming Joseph Yu , Dixie S. Zietlow,, Mar 1995).

Countries which are near each other tend to know much more about each other, either because of direct interaction between their citizens for tourism or business, or because of better media coverage, or because they tend to learn each other's language. ''Because of uncertainty-a version, they would naturally have biases against trading with more distant partners(in addition to the consideration of transport costs)(Rocco, 2007).

Radelet and Sachs (1998) argue that countries that have high shipping costs due to adverse geography (for example, high mountains or limited port access) grow much more slowly than countries with natural transport advantage. Several characteristics of China's geography and trade suggest that distance to the coast is a good measure of foreign market access. Maritime transportation is the primary mode of shipping in external trade, while exports over land to bordering countries account for a small share (6.7 percent) of total exports (authors' calculation using 2006 UN Comtrade data). The share of air shipments in exports to top-20 trade partners is just 17.4 percent (Harrigan and Deng 2010). While inland rivers play an important role in freight transportation in general, their export share is limited. Inland river ports, most of which are also in close proximity to the sea, constitute only 20 percent of port capacity (in terms of tonnage) suitable for international trade (authors' calculation using data from Chinese Statistical Agency) (A. Kerem Cosar , Pablo D. Fajgelbaum, 2016).

The former finds that port efficiency is an important determinant of ocean freight costs. For example, they estimate that maritime transport costs in Brazil or India would fall by over 15 percent if their port efficiency was at the level of France or Sweden. The latter finds that own infrastructure explains 40 per cent of transport costs for coastal countries while own and transit country infrastructure explains 60 per cent of transport costs for landlocked countries. However, geography and the quality of infrastructure probably matter even more for timeliness than for freight rates. Gravel roads, for example become impassable after rain storms. Poor port infrastructure or inadequate port handling capacity may cause long delays that are not necessarily reflected in the monetary outlays on transport services. The same goes for red tape at customs. Transport costs are generally captured by distance and island, landlocked and border dummies to reflect that transport costs increase with distance; they are higher for landlocked countries and islands and are lower for neighboring countries (Hildegunn Kyvik Nordas , Roberta Piemartini, Aug 2004).

The New Economic Geography implies that economic affairs are related to geography, in that trade flows and trade patterns are subject to the size and location of economics, thus allowing for accountancy of distance to reflect on geographical location Newton's gravity equation explains gravity as dependent on mass and distance, with the gravitational pull being weakened with increased distance (Helga Kristjánsdóttir, Þórhallur Örn Guðlaugsson, Svala Guðmundsdóttir & Gylfi Dalmann Aðalsteinsson, Jun,2017).

Distance usually is included in the gravity model as a proxy for transportation and transaction costs. These costs are expected to rise, and hence bilateral trade flows are expected to decrease (Edward D. Mansfield , Rachel Bronson Source , Mar 1997).

## VII. EMPIRICAL ANALYSIS

This empirical analysis tests previous hypotheses. This study analyzes respondents from two countries: Afghanistan and India.

## VIII.   METHODOLOGY AND DATA

This empirical study analyzes 2020 data to determine whether socio-cultural, economic, political, and geographical factors affect International Trade, and whether this effect varies for different countries. Data comes from the respondents from both countries (Afghanistan/India), books, journal, articles and official websites.

PLS combines principal component analysis and multiple regressions. PLS allows to address co linearity problems(multi variation or multi is not necessary) when working with several predictors in comparison with the number of observations (the method is more suitable with small samples) (D. Barclay, C. Higgins and R. Thompson, 1995). Thus, the latent variables model is as follows:
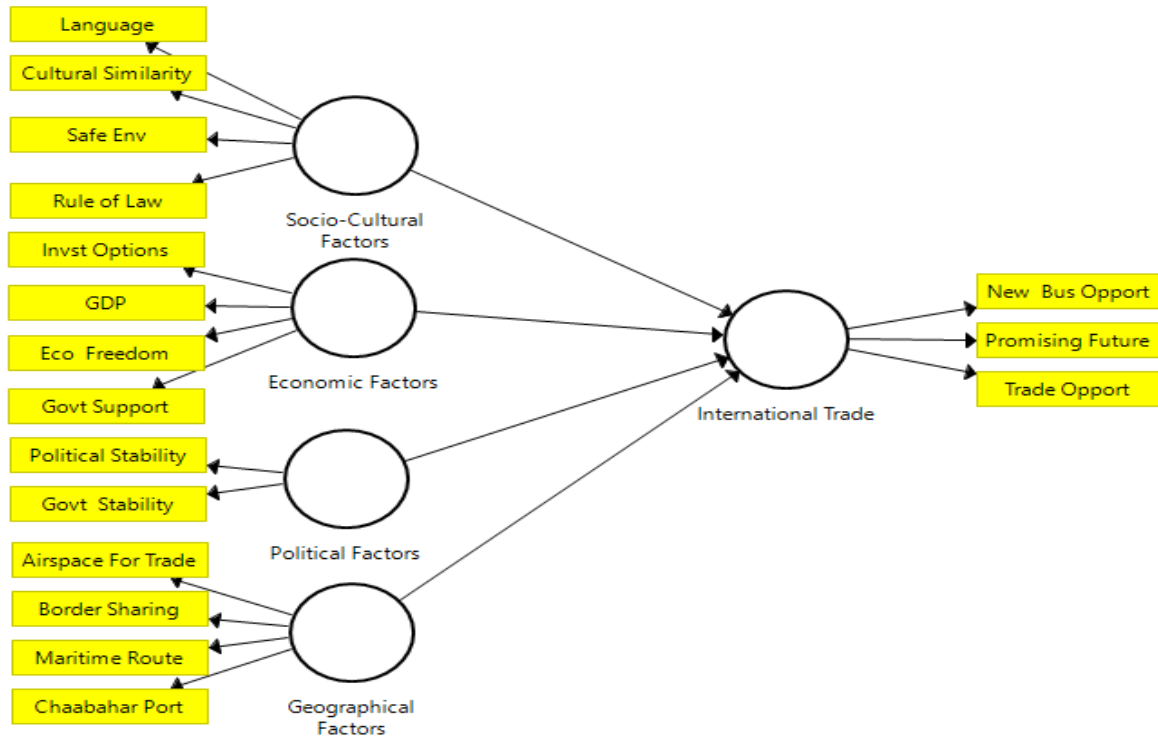


**Figure 2:** Proposed Conceptual Model

Where we have endogenous variable represents International Trade, rest we have four latent variables which represents different factors, socio-cultural, economic, political and geographical factors, Partial least squares(PLS) estimates this equation using the Smart PLS 3.3.2 Program (https://www.smartpls.com/), adopting the structural ormultiple regression method (Path Weighting) (Tenenhaus, M.; Vinzi, V.E.; Chatelin,, 2005).

The following discussion explains the indicators composing the model's latent variables.

The first latent variable represents socio-cultural

factors. This variable's indicators are: Language, cultural similarity, safe environment and rule of law.

The second latent variable represents economic factors and comprises four indicators: Economic Freedom, GDP, Investment options, and government support. The third latent variable represents political factors and comprises wo indicators: Political stability and Government stability. Lastly the latent variable represents geographical factors which comprise four indicators: Airspace for trade, Border sharing, Maritime route and Chaabahar port.
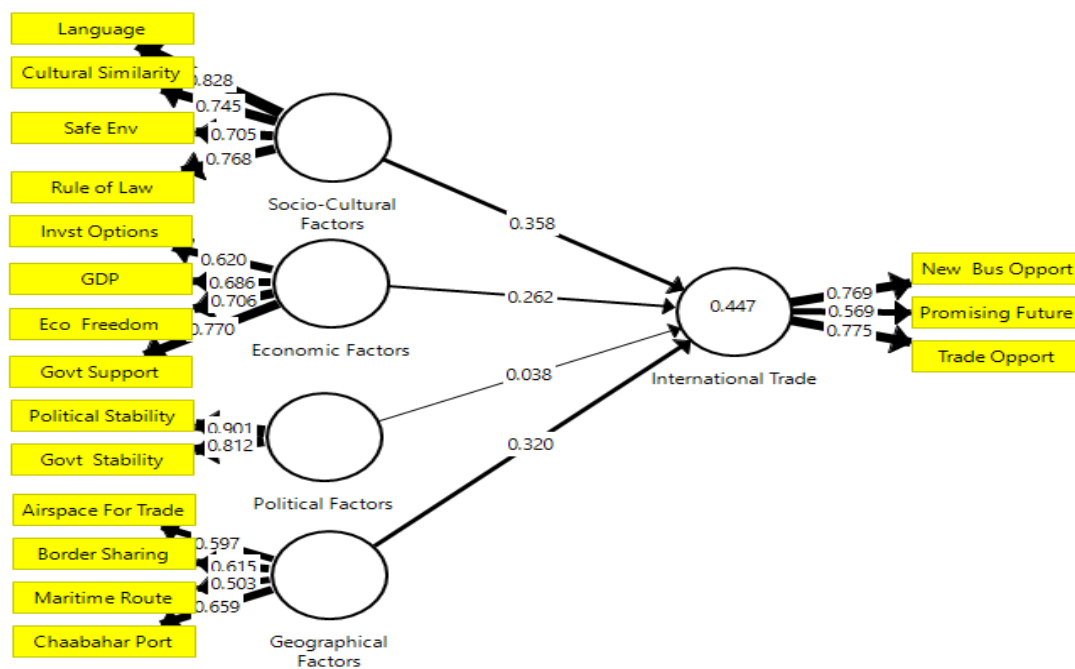
**Figure 3:** Measurement Model

## IX. RESULTS AND DISCUSSION

Figs. 2 and 3 show the path diagram for each group, displaying variables' main effects and relations.

Table 1 show the values of different tests for models' reliability. The AVE(convergent validity or the common medium variance from all constructs) should be greater than 0.5 (Fornell, C. & Larcker, D., 1981).

For the structural sub-model, measuring the $R^2$ coefficients for the latent variable regressions is only possible in endogenous constructs. $R^2$ value indicates the amount of the construct's variance that model explains. All endogenous latent variables are significant with valuesgreaterthan0.1 (Falk, R. Frank and Nancy B. Miller, 1992).

Cronbach's alpha value measures the simple relationship between each item and its construct (D. Barclay, C. Higgins and R. Thompson, 1995).

Composite reliability is a preferred alternative to Cronbach's alpha, as a test of convergent validity in a reflective model Composite reliability varies from 0 to 1, with 1 being perfect estimated reliability. In a model adequate for exploratory purposes, composite reliabilities should be equal to or greater than 0.6 (Chin, 1998).

Equal to or greater than 0.70 for an adequate model for confirmatory purposes and equal to or greater than 0.80 is considered good for confirmatory research (Henseler, Jörg; Ringle, Christian M.; & Sarstedt, Marko, 2012).

Loadings are the standardized path weights connecting the factors to the indicator variables the closer the loadings are to 1.0, the more reliable that latent variable. By convention, for a well-fitting reflective model, path loadings should be above 0.70 (Henseler, Jörg; Ringle, Christian M.; & Sarstedt, Marko, 2012)

The socio-cultural factors positively affect results and goodness of fit is acceptable, since the AVE is greater than 0.5 in this model(Tables1), supporting H1, which posits that adequate socio-cultural structures foster International Trade. Summarizing, in countries where the rule of law is more evolved and individuals enjoy high cultural similarity, International trade is more prevalent.

Economic factors positively affect International Trade between Afghanistan /India, (Table1). Results are consistent with literature review. Specifically, a small economy is generally believed to be more highly dependent on trade than a large economy (Krugman 1991), market size of countries ( Helga Kristjánsdóttir, Þórhallur Örn Guðlaugsson, Svala Guðmundsdóttir & Gylfi Dalmann Aðalsteinsso, Jun 2017).

Formation of a regional economic (Chwo-Ming Joseph Yu , Dixie S. Zietlow,, Mar 1995) and countries with currency unions (Maurice Obstfeld , Kenneth Rogo, 2000) positively affect International trade. Analysis also confirm a suitable goodness of fit of the model, as model's AVE for this latent variableisgreaterthan0.5(Tables1).Therefore, data for both cases empirically supports H3.

Geographical factors are positively affects International trade, as the AVE is greater than 0.5 (Table 1) and the total effect on International trade is 0.320(figure#2) which comes after socio-cultural factors.

Political factors on international trade is also considerable, as in this study the AVE is greater than 0.5 and the total effect value is 0.873 (table#2).

**Table 1**
**Reliability measurements:**

|  | AVE | Composite reliability | R square | Cronbach's Alpha |
|---|---|---|---|---|
| **Socio-Cultural Factors** | 0.501 | 0.857 |  | 0.804 |
| **Geographical Factors** | 0.633 | 0.873 |  | 0.807 |
| **International Trade** | 0.647 | 0.846 | 0.447 | 0.737 |
| **Political Factors** | 0.776 | 0.873 |  | 0.717 |
| **Economic Factors** | 0.568 | 0.839 |  | 0.764 |

# X. CONCLUSION AND RECOMMENDATIONS

Undoubtedly, Foreign trade provides foreign exchange that is used to remove the poverty and for other productive purposes. International trade plays an important role in increasing the production of any country, and it is remarkable factor in expanding the market and encouraging the producers.

Foreign trade develops economic cycle of a country, exchange earning, expand markets, creates goodwill and increase investments in countries, and countries follow this procedure to resolve their needs. Countries considering to the historical background, culture, habits and effective factors like, social factors, cultural factors, economical factors, geographical factors and political factors tie up trade relations with each other. Afghanistan and India have also followed the above mentioned items and have tied up trade relations for many years. Afghans and Indians have been friends and had trade relations in the past and these relations have been increased and enhanced since 2000 when the Taliban sovereignty went down. Afghans and Indians shared aptly the same culture and have a strong goodwill for each other, and factors like social, cultural, economical, geographical and political have had remarkable impact on these two government's trade relations.

Although, Afghanistan and India have no shared border still they have maximum export and import for each other so that India is the second biggest importer of Afghani commodities. These two countries have been able to maintain their trade relations through air corridors, ports and sometimes through the neibouring counties that have joint border with both Afghanistan and India.

Even though, there are differences in language, religion, social situations, and geography these two countries have been interested to learn each other's language or talk in a foreign language that citizens of both countries can easily understand. In addition governments of both Afghanistan and India have paved the way too many facilities in trade between each other. Before 2010, maximum imports and exports between Afghanistan and India took place through air and Pakistan, but after that because of some political issues with Pakistan India and Afghanistan conducted several air corridors and established Chabahar port in Chabahar area of Iran. With establishing this port the trade between India and Afghanistan witnessed an unprecedented development.

Overall, the relationship between Afghanistan and India is not limited to the governments in New Delhi and Kabul, and has its foundations in the historical contacts and exchanges between the people, and one of the most important and fundamental part of this relationship is trade relations that is improving and increasing day by day.

There are some recommendations:

1. India and Afghanistan have similarities in culture and habit, so it will be better and essential to increase investment in each other's country.
2. These two countries should provide some facilities in tariffs and taxes of their commodities.
3. To develop and maintain the trade relations, India and Afghanistan should work on political issues that stand in front of the trade between these two countries.
4. These two countries should work on conducting more air corridors and establish several ports to facilitate import and exports.
5. Traders and business persons from both countries should own special privileges and facilities to be the real and operational mediums of trade and development for each other's country.

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