

Strengthening Trade Relations between Pakistan and Afghanistan: Opportunities and Challenges

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Abstract: *This paper delves into the complex dynamics of trade relations between Pakistan and Afghanistan, two countries with shared cultural heritage and geographic proximity. Despite these inherent advantages, bilateral trade volumes have remained notably low, hindered by historical, geopolitical, and economic factors. Utilizing a mixed-methods approach including secondary data analysis and interviews with stakeholders, the research identifies and analyzes key obstacles impeding optimal trade relations. The analysis reveals several challenges, including the stalled negotiations on the Preferential Trade Agreement (PTA), non-tariff barriers, and issues in transit trade operations. Afghanistan's ban on Pakistani meat imports, non-tariff barriers on pharmaceutical products, and imposition of export taxes on coal are among the hurdles examined. Furthermore, Pakistan's unilateral measures to enhance trade, such as the Barter Trade Mechanism, are scrutinized alongside issues in transit trade operations, including delays, smuggling, and bureaucratic inefficiencies. The study emphasizes the need for both countries to adopt a cooperative approach, address mutual concerns, and streamline trade procedures to unlock the untapped potential of their economic partnership. Short-to-medium-term recommendations include finalizing the APTTA, improving border crossing points, and enhancing customs cooperation. In the medium-to-long term, the paper suggests pursuing regional transit trade agreements, investing in infrastructure projects like the Trans Afghan Railway, and advancing multilateral connectivity initiatives. Ultimately, the paper underscores the significance of economic cooperation between Pakistan and Afghanistan in fostering regional stability and prosperity. By addressing the identified challenges and implementing the recommended measures, both countries can bolster their trade relations, unlock economic opportunities, and contribute to broader regional connectivity and development goals.*

Keywords:

Afghanistan, Pakistan, borders, economy, conflicts, agriculture, resources, trade, investment, stability, infrastructure, partnership.

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Introduction

Afghanistan is a land-locked nation situated at the crossroads of China, Central Asia and South Asia. Pakistan, Iran, Turkmenistan, Uzbekistan, Tajikistan, and China share borders with Afghanistan making its economy shaped by diverse historical, geographical, and geopolitical factors. The country's recent history has been marked by prolonged conflicts, including the Soviet invasion, civil wars, and the rise of the Taliban, all of which have had profound impacts on its society, economy, and global politics. Its economy is largely agrarian, with agriculture employing a significant portion of the population and contributing substantially to the country's GDP. Despite this, Afghanistan is faced with enormous

challenges including decades of conflict, political instability, and limited infrastructure, hindering economic development. Efforts aimed at diversification of the economy beyond agriculture have not borne fruit due to the security situation and lack of resources, though sectors such as mining and logistics show potential. Afghanistan needs international aid and investment to develop and exploit its abundant natural resources and provide the much-needed capital to kick start economic activities. Afghanistan's strategic location and potential for energy and trade corridors make a politically and economically stable Afghanistan a necessity for the whole region.

Pakistan and Afghanistan enjoy shared cultural heritage creating potential for a robust economic partnership. However, despite these inherent advantages, the trade relations between the two nations, especially the volume of bilateral, which hovers around US \$ 1.5 billion annually, have remained much below their true potential. On the other hand, Pakistan's efforts to exploit its geographical location and become a regional hub of trans-shipment and connectivity are also frustrated by prolonged instability in Afghanistan and related geopolitical factors and security concerns. By critically examining historical, geopolitical, and economic factors, this paper seeks to identify the underlying reasons for this suboptimal trade relationship and to provide insights and recommendations for policymakers and stakeholders for overcoming these challenges with a view to enhance trade cooperation for sustainable economic growth.

Statement of Problem

Despite their shared cultural heritage and geographical proximity, Pakistan and Afghanistan have not effectively translated these ties into a strong economic partnership. Historically, their trade relations have fallen short of potential, reflected in a notably low bilateral trade volume. To tap into latent economic opportunities, it is crucial to identify and address the obstacles that have constrained optimal trade relations.

Methodology

This study uses mixed approach. Secondary data was collected. For secondary data, reliance was made on organizational reports, news article and research papers. Interviews were conducted with officers of the Ministry of Commerce, Pakistan Customs (Secretary Transit & Border Trade FBR, Deputy Collectors Appraisal & Enforcement, Peshawar, Directors Transit Trade, Karachi & Peshawar), Afghanistan's Commercial Counselors at Islamabad and Peshawar, and businessmen from both sides of the border.

Pakistan's Bilateral Trade with Afghanistan

Despite sharing deep rooted socio-cultural heritage and geographic proximity, trade relations between Pakistan and Afghanistan, especially the volume of bilateral trade, has remained far below its true potential as is evident from the trade figures given below:

Table 1
Bilateral Trade between Pakistan and Afghanistan (US \$ Million)

Years	Exports	Imports	Total Trade	Trade Balance
2013-14	1760.17	359.05	2119.22	1401.12
2014-15	1875.46	323.03	2198.5	1552.43
2015-16	1472.9	388.73	1861.63	1084.17
2016-17	1299.00	335.93	1634.93	963.07
2017-18	1300.33	450.05	1750.38	850.28
2018-19	1270.41	557.70	1828.11	712.71
2019-20	857.49	472.53	1330.02	384.96
2020-21	1018.53	578.71	1597.24	439.82
2021-22	840.16	801.41	1641.57	38.75
2022-23	972.44	893.21	1865.65	79.23

Source: PRAL(FBR) June, 2023

Issues in Pak-Afghan Bilateral Trade

Pak-Afghan PTA

Pakistan shared draft of Pak-Afghan Preferential Trade Agreement (PTA) with the Afghan side in 2015. No consensus could be reached despite several rounds of discussions spanning six years. Negotiations were stalled after advent of the Taliban in Afghanistan in 2021. Ministry of Commerce has already finalized Pakistan's preliminary Request List after consultations with stakeholders. In recent interactions, both sides have expressed willingness to implement the PTA initially with 10-12 Tariff Lines which will be extended at a later stage.

Ban imposed by Afghanistan on import of Meat from Pakistan

After coming to power, the current regime imposed an unofficial ban on import of Meat/Poultry products from Pakistan. After multiple queries, Afghan side conveyed that the ban has been imposed on import of Meat/Poultry products from around the world to promote local industry. Pakistan meat/poultry exports dropped from US \$ 25 million in 2020-21 to zero in 2021-22. The issue has been taken up with the Afghan side during all high level interactions but the illegal ban is still intact.

Non-Tariff Barriers on Pakistani Pharmaceutical Products

All pharmaceutical exports from Pakistan are required to undergo test in a laboratory in Kabul. Cargo containers carrying pharmaceutical products have to wait for several days at the BCP till arrival of the lab reports of the samples which results in delays and long queues. Medicines also get damaged due to long delays and weather conditions.

Imposition of Export Tax on Coal

After Taliban take over in 2021, Pakistan increased import of coal from Afghanistan. However, Afghanistan imposed a tax of around 60-65 \$ per Ton on export of coal to Pakistan. The import value of Afghan coal doubled after imposition of the tax. Afghanistan also charges Transit Fee on coal being imported by Pakistan from CARs. Export tax imposed on any commodity is counter to international practices, and Pakistan has asked Afghanistan to eliminate the tax but no progress has been made so far.

Unilateral Measures by Pakistan to Enhance Pak-Afghan Trade

After Taliban take over in August 2021, Pakistan extended unilateral favours to ensure continuity of Pak-Afghan trade to support the local communities on the border which are totally dependent on border trade for their livelihood as well as to prevent Afghan economy from total collapse after imposition of sanctions on the Taliban regime and the banking channels. These measures include:

- Waiver from Electronic Import Form (EIF) for imports from Afghanistan in PKR, as banking channel not available due to US sanctions on Afghan government
- Allowing of export in PKR of 18 products to Afghanistan
- Exemption of Afghan products from imposition of Regulatory Duties on import of non-essential items
- Pakistan abolished Customs Duty on import of vegetables and legumes/pulses from Afghanistan
- Pakistan reduced Customs Duty by 50% on fruits imported from Afghanistan

Barter Trade Mechanism

The mechanism notified by Ministry of Commerce allows exchange of goods on the principle of "Import followed by export". Barter trade is being promoted by Pakistan to save foreign exchange keeping in view

our precarious BoP situation. Pakistan can engage in a mutually beneficial barter trade with Afghanistan by offsetting its imports of coal with cement, cotton with textiles, raw minerals with finished products, vegetables/fresh and dry fruits with rice, citrus, mangoes etc. The Barter Trade Mechanism, if efficiently implemented by Pakistan Customs, has the capacity to substantially increase volume of bilateral trade to new heights.

Table 2

Afghan Transit Trade Via Pakistan

Year	Forward		Reverse		Total	
	No. of Containers	Value in US \$ Million	No. of Containers	Value in US \$ Million	No. of Containers	Value in US \$ Million
2017-18	60,516	3,974.81	541	260.22	61,057	4,235.03
2018-19	85,597	5,234	803	282.48	86,400	5,516.48
2019-20	88,985	5,403	1239	273.13	90,224	5,676.13
2020-21	86,837	4,407	1506	382.97	88,343	4,789.97
2021-22	74,316	4,016	951	461.72	75,267	4,477.72
2022-23	102,886	6,701	953	394.22	103,839	7,095.22

Source: Directorate General of Transit Trade (FBR)

Issues in Transit Trade

Implementation of Temporary Admission Document (TAD)

TAD is the mechanism under which cargo trucks from both sides will enter the territory of the other country to deliver cargo directly to the importer's premises (Bilateral TAD) or to cross into a third country (Transit TAD). Currently cargo trucks can go only up to the BCP where cargo is first unloaded from the truck of the exporting country and then reloaded on to the truck of the importing country which is time consuming and exposes the cargo to several risks in terms of quality and quantity. Both sides have yet to agree on modalities for implementation of TAD despite several rounds of negotiations.

Cross-Stuffing Facility for Afghan Transit Cargo

Currently, The Afghan Transit Cargo arrives at Karachi ports in containers of international shipping lines. After appraisalment and collection of Insurance Guarantee equal to the Customs Duty applicable, the containers are sealed with Tracking Devices and loaded onto trucks for onward journey up to the BCPs where they are again unsealed and assessed before entry into Afghanistan. After entering the Afghan territory, the containers are unloaded from Pakistani Trucks and loaded on to Afghani Trucks to reach their final destinations within Afghanistan. This cumbersome process is the major stumbling block in Pak-Afghan transit as well as bilateral trade. To prevent such procedures and formalities from frustrating Pakistan's over all push for regional connectivity, Pakistan has offered the facility of cross stuffing to all CARs in their respective bilateral transit trade agreements with Pakistan. Under the facility, transit cargo is allowed to be shifted into a local container from the container of an international shipping lines under Customs supervision. This facility saves the importer from the demurrage charges incurred on account of delay in return of the container to the Shipping Line. It may be noted that Uzbekistan is already availing cross stuffing facility in Pakistan.

The procedures and legal framework for provision of cross-stuffing facilities to Afghanistan transit cargo is near completion. Early implementation of cross-stuffing facility for Afghan transit cargo will resolve the major issue of demurrage and delays.

Transit Fees charged by Afghanistan

Pakistan is not charging any transit fee except Refundable Insurance Guarantee equal to the assessed custom duty. However, Afghanistan is charging multiple fees on Pakistan's transit trade with CARs which is against international practices.

Increase in Examination at Pakistan Ports

Increased examination of Afghan Transit Cargo at Pakistani ports is causing significant delay in the clearance of shipments. The basic reasons causing increased time in clearance include much higher transit volumes without corresponding increase in work force, need for increased scrutiny of value for purpose of insurance guarantee and availability of only one company for provision of tracking services.

Misuse of Afghan Transit Trade for Smuggling into Pakistan

Since early days of the Afghan Transit Trade Agreement the issue of informal trade and smuggling of the Transit cargo back into Pakistan persists. The Afghan Transit Trade data shows an unexplained hike particularly in smuggling prone items such as tyres, fabrics, tea, electronics and home appliances. There is no plausible explanation for this increase except that unscrupulous elements are using the facility with an intention to smuggle such goods back to Pakistan. This phenomenon is supported by the data of Anti-Smuggling operations as the same reveals that seizure of smuggled goods through ATT has also increased manifold.

T-1 Form Pendency on Part of Afghanistan Customs

The issue of T-1 form pendency on Afghanistan side is becoming more serious with each passing day as acknowledgment of around 200,000 containers is pending currently. It is the responsibility of Afghan Customs Authorities to provide electronic intimation of the receipt of transit cargo on Form T-1. The Afghan customs is not feeding the data on real-time basis since August 2021 resulting in piling up of the insurance guarantees of more than US\$ 2 billion.

Integrated Transit Trade Management System

Construction work on Integrated Transit Trade Management System (ITTMS) projects at Torkham and Chaman is underway to modernize both the main BCPs as per international standards and enable them to handle and clear transit and bilateral trade cargo expeditiously in view of the rapidly increasing cargo volumes of CARs through Pakistan. At Torkham there is provision for five lanes on export side and two lanes for import side. However, the narrow gate at zero point prevents flow of cargo traffic as only one vehicle can pass through the gate at a time. The issue remains unresolved despite several attempts by Pakistan to widen the gate.

Regional Connectivity

Pakistan is vigorously perusing signing of Transit Trade Agreements with CARs, with a view to enhance exports to the non-traditional markets of Central Asia as well as to attract transit trade of these land-locked economies through Pakistan. Uzbekistan-Pakistan Transit Trade Agreement is operational since March, 2022 and transit containers from both sides are transiting through each other's territory. Pakistan-Tajikistan Transit Trade Agreement will be operationalized soon. While negotiations on draft Transit Trade Agreements with Kazakhstan, Turkmenistan and Kyrgyzstan are under various stages of finalization. Since, Afghanistan is the key to access to all CARs therefore, a mutually beneficial and predictable trade and transit set-up between the two countries is necessary not only for bilateral economic relations but also to attract regional transit cargo to Pak-Afghan route.

Trans Afghan Railway

Trans Afghan Railway project has the potential to transform bilateral and transit trade among countries in the region. The agreement to construct the railway line has recently been signed among Afghanistan, Pakistan and Uzbekistan. The project will usher a new era of economic development for the whole region through regional connectivity. Incoming transit cargo of Afghanistan and CARs will move hassle free through Pakistan and Afghanistan reaching destinations throughout Central Asia in half the time and cost by the sea route.

TIR Operations through Afghanistan

The TIR (Transports Internationaux Routiers) system is an international customs transit procedure in more than 70 countries + EU that facilitates the movement of goods across international borders. TIR is particularly beneficial for CARs, streamlining and expediting cross-border trade, reducing transit times and costs, and enhancing the overall efficiency of international trade. With expeditious customs clearance and minimal transport delays, TIR brings greater trade volumes. Pakistan's commencement of TIR operations and adoption of measures under Trade Facilitation Agreement in recent years has enabled us to enhance our share in regional transit trade.

Analysis

Keeping in view the complex nature of Pak-Afghan relations, a mere study of the bilateral and transit trade data is not sufficient to form a hypothesis and suggest remedies to trade related issues. Unlike their political representatives, the trading community on both sides of the Durand Line wants increased interaction, open borders, speedy procedures and less scrutiny but it is geopolitics that determines the nature, extent and direction of the economic relations on both sides. Most of the officials and businessmen interviewed acknowledged that due to historical mistrust between Pakistan and Afghanistan, both are unwilling to offer any meaningful relaxation to the other without realizing that this very attitude has kept their economies at low growth trajectory. Both the countries have to adopt measures as if they are facilitating themselves rather than extending a favor to its "ungrateful, extortionist, unreasonable" neighbor. Both nations have to begin with facilitating one another's Transit Trade through their territory. A good gesture showing goodwill and accommodation of other's needs will result in reciprocity creating a ripple effect over the entire spectrum of bilateral relations. Most of the persons interviewed were of the opinion that if Pakistan and Afghanistan put their own house in order and do away with the needless barriers to trade the volume of bilateral trade will get an immediate boost and the regional countries would prefer Pak-Afghan transit route being the shortest and most cost effective for CARs.

Conclusion

Geographic location of both Pakistan and Afghanistan at the crossroads of Central and South Asia, gives us a distinctive position linking major economies with the resource-rich regions. To achieve its vision of regional connectivity Pakistan has to align its geopolitical considerations as well as internal policies to our broader economic and trade policy paradigm. There is realization in both the countries that short sighted and security driven relations between Pakistan and Afghanistan have been the major reasons both countries have lagged far behind others in economic development. By keeping the unresolved issues of Transit Trade especially cross stuffing facility and TAD both countries are doing more harm to themselves than the other trading partner. Failure of both nations to finalize and operationalize APTTA 2021 has not only increased cost of doing business for the business community but have also driven away other nations intending to use the Pak-Afghan Transit route for their global trade.

Recommendations

(Short to Medium Term)

Finalization of APTTA

APTTA-2010 expired in 2021. Most of the problems being faced by the business community on both sides of the border emanate from failure of both governments to finalize APTTA negotiations in 2020-21. Now due to non-recognition of the current Afghan government by Pakistan, the Agreement can not be signed but various components of the Agreement requiring further negotiations can be implemented one by one through exchange of notes. These points of difference include:

- Allowing Cross-Stuffing facility to Afghan Transit Cargo
- Provision of multi-modal transit facility to Afghan Transit Cargo (land-to-air facility)
- Resolving TAD issue
- Issues in Tracking Devices/Services

Efficient Barter Trade Mechanism

Pakistan Customs is required to address the reservations of the business community regarding settlement of trade transactions and make the mechanism more business friendly. Ministry of Commerce and FBR to arrange seminars and workshops for business community to encourage utilization of the mechanism.

Efficient Border Crossing Points

The construction work on the ongoing ITTMS projects at Torkham and Chaman be expedited for timely completion keeping in view the increased transit traffic at both the border terminals. The issue of narrow gate at Torkham zero points needs to be taken up with Afghan side at the highest level. Furthermore, facilities at Kharlachi, Ghulam Khan and Angoor Adda may be further upgraded with a view to reduce pressure on the two main BCPs.

Preferential Trade Agreement with Afghanistan

Early finalization of Pak-Afghan PTA will also help streamline bilateral trade issues and address non-tariff barriers to bilateral trade as the PTA will have provisions for Rules of Origin, Mutual Recognition of Standards, SPS Measures and Dispute Settlement etc.

Customs-to-Customs Cooperation

Though Customs officials routinely hold joint meetings but these meetings usually fail to resolve basic issues to ensure efficient and expeditious cargo clearance procedures contributing to a more conducive trading environment. Customs officials at the highest level need to sit together at least on quarterly basis to resolve issues at appropriate level.

(Medium to Long Term)

Regional Transit Trade Agreement

Bilateral Transit Trade Agreements do help increase trade volumes but it is not the need of two or three countries but of the entire region. Therefore, Pakistan is required to push the idea of a multilateral regional transit Trade Agreement. In this regard Pakistan can take initiative by inviting all the CARs along with Afghanistan to a Regional Connectivity Conference to set the ball rolling.

Construction of Trans Afghan Railway and ML-1

Improving transport infrastructure and connectivity is crucial for enhancing trade relations. Pakistan, Uzbekistan and Afghanistan have recently signed agreement for construction of Trans-Afghan Railway.

On the other hand, ML-1 is a project of strategic nature for Pakistan. Ministry of Railways and Planning Division to ensure timely arrangement of funds for both the projects to help Pakistan become a real hub of regional connectivity.

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