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Diminishing Pak-Afghan Trade: Unrealised Potential of Bilateral Commerce

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Key Points:

- The arrival of the Taliban government in Afghanistan has once again led to a decline in trade relations between both countries.
- Just a few months after the Taliban takeover, the KP customs chief collector reported that Pakistan had lost its export volume to Afghanistan by 25 per cent.
- Frequent mismanagement at the Torkham border explains the slowing down of cargo movement through this leading trade border.
- The traders across both sides believe that inefficient border measures by the two states have led to the failure to realise the potential of 10 billion dollars worth of trade.
- Pakistan's FBR's Directorate General of Trade published a report in 2019 that blames Afghan Transit Trade for establishing an alternate "black economy" in Pakistan.
- Provided that both states put effective trade mechanisms and policies in place, there is a massive trade potential yet to be realised between both countries.

Introduction

The Pak-Afghan trade relations have remained inconsistent throughout history. However, the arrival of the Taliban government in Afghanistan in 2021 has once again led to a decline in trade relations between both countries. The trend has allowed academia and policymakers to explore the factors contributing to this inconsistency. This paper analyses a few factors responsible for the scenario, such as border mismanagement, policy hurdles for Afghan traders, illicit trade, and smuggling – all of which have renewed once again in the backdrop of the new government in Afghanistan. Following the assessment of these factors, the paper argues about the potential trade opportunities between both states and

gives recommendations to realise that potential.

Impact of Taliban Takeover on Pak-Afghan Trade

The recent Taliban takeover in Afghanistan and the political turmoil that followed had a spillover effect not only on the social sector but the economic sector in Afghanistan as well. From a shortage of dollars to increasing scrutiny from across the borders, the Taliban government found itself in economic chaos reflected in Afghanistan's trade relations with Pakistan. Just a few months after the Taliban takeover, the chief collector (customs) of Khyber Pakhtunkhwa (KP) reported that Pakistan had lost its export volume to Afghanistan by 25 per cent.¹ According to a report, the import value of the transit cargo declined from 444 million dollars to 130.7 million dollars after the Taliban takeover, along

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¹ Ibrahim Shinwari, "Pakistan's exports to Afghanistan decline by over 25pc," *Dawn*, January 15, 2022, <https://www.dawn.com/news/1669451>.

with a 73 per cent drop in the cargo flow.² The economic uncertainty prevailing in Kabul can be associated with the massive administrative failures of the Taliban government. The Taliban takeover pushed the banking system closer to collapse, which had a severe blowback on the country's foreign exchange reserves. Despite having a history of good bilateral relations with the Taliban government, Pakistan officials and their Afghan counterparts could not translate the political goodwill into economic certainty, which eventually reduced the bilateral trade between the two.

Moreover, the Taliban takeover has significantly lowered the flow of foreign aid into the country, further depleting the already dried-up reserves. The international sanctions imposed on the Taliban government cut off aid worth 8 billion dollars a year, making up 40 per cent of the country's GDP.³ Along with it, nine billion dollars worth of Afghanistan's foreign exchange reserves were frozen.⁴ The cash crisis emerged after the limit on withdrawals. Besides, the business sector also took a hit, meaning that the private traders also failed to secure a significant proportion of trade deals. Moreover, amid security concerns and global scrutiny after the Taliban takeover, Pakistan allowed only 20 Afghan trucks to cross the borders daily. The Afghan Chamber of Commerce and Investment criticised this development for impeding bilateral trade and causing huge financial losses for Afghanistan.⁵ Hence, among other factors that prevailed long before than Taliban took over Afghanistan, the recent developments have significantly contributed to declining trade relations between both countries.

Effects of Border Mismanagement on Pak-Afghan Trade

Border skirmishes, mismanagement and related hurdles have always been an uncomfortable element in Pak-Afghan trade relations. The mismanagement at the Torkham border increases time and time again, which is why trade through this leading trade border for cargo movement has significantly slowed down. Most officials regard this border mismanagement as the consequence of the Taliban takeover. The Pakistani exporters are reluctant due to security concerns and uncertainties while trading across the Torkham border.

² Mubarak Zeb Khan, "Pakistan's exports to Afghanistan fall sharply since Taliban takeover," *Dawn*, October 3, 2021, <https://www.dawn.com/news/1649838>.

³ William Byrd, "How to Mitigate Afghanistan's Economic and Humanitarian Crises," *United States Institute of Peace*, January 4, 2022, <https://www.usip.org/publications/2022/01/how-mitigate-afghanistans-economic-and-humanitarian-crises>.

⁴ Ibid.

⁵ Zabihullah Jahanmal, "Afghan Businessmen Face Export Problems in Trade with Pakistan," *Tolo News*, October 5, 2021, <https://tolonews.com/index.php/business-174824>.

Kabul's delay in formulating and implementing the policies for trade and customs duties at the Torkham border has further pushed away Pakistani exporters. According to one study, traders across both sides believe that inefficient border measures by the two states have led to the failure to realise the potential of 10 billion dollars worth of trade.⁶

The gaps in border management and protocols have caused delays in clearance procedures, consequently reducing trade efficiency. The irony about the border management between both countries is that it is not really welcomed, particularly by the Afghan side. For example, in order to upgrade trade through Torkham, Pakistan attempted to set up a trading terminal on the border under National Logistic Cell.⁷ However, traders and businessmen across borders who are not acquainted with such management protocols assume them to be mere interference in their conduct of trade-related activities. Hence, a conciliatory approach regarding border management and protocols, which all the stakeholders could agree upon, will increase the trade potential between both countries. The infrastructural shortages at borders are yet another significant element that exhibits meagre efforts for border management to create conducive grounds for trade. Moreover, the traders across both sides of the borders need to acquaint themselves with a more regulated framework for the conduct of commerce rather than being in charge themselves.

Policy Hurdles for Afghan Traders

To fan the flames, the policies regarding Afghan traders are another major contributing factor to the waning trade relations. Initially, the primary hurdle for Afghan traders was acquiring a visa. However, in June 2022, a new visa policy was issued by the Pakistani side for the Afghan traders, according to which the category of "sub-workers" was incorporated for drivers and transports, along with allowing multiple entry visas for six months.⁸

However, the simultaneous state bank policy issued by the government, per which the Afghan traders are supposed to possess US dollars at the time of their entry to Pakistan to conduct trade, has once again resulted in exhaustion on the part of Afghan traders and stagnation in the efficiency of trade. The intention

⁶ J. Riaz Hussain, "Border Management: Case Study of Torkham Border, Pakistan," *Global Politics Review* 5 (2019): 121-137, doi: 10.5281/zenodo.3568106.

⁷ "About Border Terminals," *National Logistics Cell*, accessed October 10, 2022, <https://www.nlc.com.pk/border-terminals/index.htm>.

⁸ "Pakistan approves new visa policy for Afghan traders," *Bol News*, June 11, 2022, <https://www.bolnews.com/pakistan/2022/06/pakistan-approves-new-visa-policy-for-afghan-traders/>.

on the Pakistani side was to attract US dollars for their foreign exchange reserves. However, the collapsing economic structure in Afghanistan did not produce conducive grounds for Afghan traders to possess or carry US dollars across Pakistan. Hence, the State Bank's policy has backfired and failed to enhance bilateral trade. Moreover, the policy implementation was followed by a boycott of goods clearance at the Torkham border. The Afghan traders protested against the backdrop of collapsed formal banking in Afghanistan and insisted on being allowed to conduct trade in Pakistani currency.⁹ Therefore, it implies that both sides need to formulate a mutually beneficial arrangement for trade while keeping in view the concerns of all the actors involved.

Impact of Illicit Trade and Smuggling on Pak-Afghan Trade

Post-conflict reconstruction comes with various problems. The regime changes in Afghanistan, therefore, have left severe impacts on the state in all aspects. Lack of a sense of security in the people of Afghanistan, no solid plan of action, weakened political processes and institutions, deteriorated diplomatic relations with other countries, and destabilised economy are a few issues that Afghanistan is facing. One of the factors contributing to the weakening of the economy of Afghanistan, even before the regime change, is the illicit trade and smuggling between Afghanistan and Pakistan. It has prevented the realisation of smooth bilateral trade relations between both countries. Pakistan and Afghanistan, being neighbours, have a much greater potential for strengthening their trade relations. A study by Pakistan's Federal Tax Ombudsman published in 2011 shows that several goods were being smuggled from Afghanistan into Pakistan.¹⁰ Afghan traders have accused Pakistan of selling them products of Afghan origin previously smuggled into Pakistan while collecting heavy customs duties on them. There have also been accusations of bribery from customs authorities on both sides.¹¹ The Pakistani side has also been reluctant to provide a transit trade facility for India into Afghanistan due to the concerns that Indian exported goods will be smuggled back into Pakistan, which has negative consequences for local industry and revenue sources. Before 2002, no tariffs were collected on transit trade to Afghanistan. These goods were therefore smuggled

back into Pakistan to bag up to a 35 per cent differential on tariffs that Pakistan collected on its imports. It was estimated that Pakistan lost 30 billion rupees annually in the Afghan transit trade.¹²

Pakistan's Federal Board of Revenue's (FBR) Directorate General of Trade published a report in 2019 that blames Afghan Transit Trade for establishing an alternate "black economy" in Pakistan. It was further reported that the Afghan authorities were deliberately misreporting transit trade data to international institutions. According to the account, the Afghan government presented the value of Afghan Transit Trade passing through Pakistan at 14.8 billion dollars for 2019 to the UN's International Trade Centre.¹³ In contrast, per the Pakistani valuation framework, the value comes up to 44.4 billion dollars. This was done to negate Pakistan's raised concerns against Afghanistan over smuggling. A recent Karachi Chamber of Commerce and Industry (KCCI) report suggests that the Pakistan Government's policies to curtail imports have caused a hike in commodity prices, encouraging the smuggling of these commodities from Afghanistan.¹⁴ A hike in customs duties, additional customs duties and regulatory customs duties have been imposed. Although these measures have positively impacted the trade balance, they have also encouraged the smuggling certain products into Pakistan. These products include tea, motorcycle parts and plastic granules.¹⁵

On the other hand, anti-smuggling initiatives have also provoked protests from traders on both sides.¹⁶ Extensive monitoring, restrictions on partial shipments of goods, security deposits, tracking device installation, and customs clearance have increased shipping costs for truckers.¹⁷ All these circumstances have contributed to a trust deficit between Afghan and Pakistani authorities, proving to be a hurdle for smooth Pak-Afghan trade relations. Therefore, this issue will keep diminishing the trade potential between the two countries if left unaddressed. Likewise, building trust between the authorities across both countries will become a great challenge, especially now that the Taliban government

¹² Razia Sultana, "Pakistan-Afghan Economic Relations: Issues and Prospects," *Pakistan Horizon* 64, no. 1 (2011): 21–37, <http://www.jstor.org/stable/24711140>.

¹³ Rizwan Asif, "Afghan Transit Trade 'hurting Pakistan's Economy,'" *The Express Tribune*, September 23, 2019, <https://tribune.com.pk/story/2063522/1-afghan-transit-trade-hurting-economy>.

¹⁴ Usman Hanif, "Are import-curtailling policies encouraging smuggling?," *The Express Tribune*, February 8, 2022, <https://tribune.com.pk/story/2152370/import-curtailling-policies-encouraging-smuggling>.

¹⁵ Ibid.

¹⁶ "Customs Authorities Unmoved with the Strike of Traders at Torkham Border," *Customs News*, July 8, 2019, <https://customnews.pk/2019/07/08/customs-authorities-unmoved-with-the-strike-of-traders-at-torkham-border/>.

¹⁷ Mubarak Z. Khan, "Falling Afghan Transit Trade," *DAWN*, March 2, 2015, <https://www.dawn.com/news/1166704>.

⁹ Ibrahim Shinwari, "Pakistan's exports to Afghanistan decline by over 25pc," *Dawn*, January 15, 2022, <https://www.dawn.com/news/1669451>.

¹⁰ "Precautionary Measures Fail to Check ATTA Misuse: FTO," *Business Recorder*, January 21, 2011, <https://www.brecorder.com/news/amp/3838650>.

¹¹ Ishrat Husain and Muhammad Ather Elahi, "The Future of Afghanistan-Pakistan Trade Relations," *United States Institute of Peace*, August 17, 2015, <https://www.usip.org/publications/2015/08/future-afghanistan-pakistan-trade-relations>.

is in charge.

Pak-Afghanistan Potential Trade

As per World Bank data, Afghanistan and Pakistan are major trade partners, and Pakistan is Afghanistan's second biggest import and export destination.¹⁸ However, the true potential of Pak-Afghan trade is yet to be realised. A study by the Trade Development Authority of Pakistan identifies 97 products as having huge potential for export to Afghanistan from Pakistan. Out of these, 25 were identified as priority products based on tariff concessions and the cost of the products. According to the study, as per the trade data for 2020, the total potential volume of trade between Pakistan and Afghanistan is 5.2 billion dollars, of which 4.44 billion dollars were potential exports to Afghanistan and 724.6 million dollars were possible imports from Afghanistan.¹⁹

The top products identified for potential exports to Afghanistan were: road tractors for semi-trailers, medicament, motorcycles, black tea, frozen cuts and edible offal of fowl, frozen edible bovine offal, fresh eggs of domestic fowl, surgical instruments, blankets and travelling rugs of synthetic fibres, sanitary towels and tampons, parts of telephone sets and cellular networks, parts of gas turbines, gas turbines for a power of 5,000 kW, insecticides, onions and shallots, articles of plastic, jewellery, hair use preparations, machines and mechanical appliances, bakery products, gloves, transmission apparatus, frozen meat, un-denatured ethyl alcohol, full-length or knee-length stockings, socks and other hosiery. The top potential imports from Afghanistan were figs, grapes, almonds, onions, cumin seeds, apples, beans and cotton.²⁰

Trade with immediate neighbours is always mutually beneficial. It produces mutual interdependence, reduces the trade cost, enhances trade efficiency, and builds trust. Economic cooperation is translated into all the other sectors of bilateral relations, including political goodwill. Pakistan is already unable to conduct bilateral trade on its eastern border with India. It has the longest border with Afghanistan, where multiple trade corridors can be functional. Hence, provided that both sides put effective mechanisms in place, there is a vast trade potential yet to be realised between both countries.

¹⁸ "World Integrated Trade Solution," accessed September 15, 2022, <https://wits.worldbank.org/CountrySnapshot/en/AFG>.

¹⁹ Trade Development Authority of Pakistan (TDAP), *Potential of Preferential Trade Agreement (PTA) between Pakistan and Afghanistan*, (Karachi: TDAP, 2021), 1-71, available at: <https://tdap.gov.pk/wp-content/uploads/2022/03/Potential-of-Preferential-Trade-Agreement-PTA.pdf>.

²⁰ Ibid.

Recommendations

- The hike of 11 per cent customs duty and two per cent additional custom duty on black tea; and 35 per cent customs duty and 2 per cent additional custom duty on motorcycle parts shall be reviewed and reduced to discourage the smuggling of the two frequently smuggled commodities into Pakistan.
- Similarly, the customs duties, including regulatory and additional duties on commodities such as tires and plastic parts, shall also be revised.
- International barter trade shall be encouraged between Afghan and Pakistan traders to increase trade in place of falling buying capacity in Afghanistan post-Taliban takeover.
- Well-regulated and secure border terminals shall be established for transparent and speedy customs clearances and tax collection.
- A preferential trade agreement shall be signed between the two countries to realise the maximum potential of trade between the two countries.
- Tariffs shall be rationalised, and double taxation shall be brought under check.
- People-to-people contact shall be increased through trade expos and market events.
- As the Taliban takeover in Afghanistan is one of the reasons for the downfall in economic trade between both states, Pakistan can assist Afghanistan in rebuilding its wrecked state institutions and structures by bringing the assistance of regional powers, including China and Russia, into the loop.
- A border regulation committee consisting of personnel from both sides of the borders shall be established so that there is required understanding and no miscommunication between both sides and the concerns of all the involved actors can be presented.

Conclusion

Pak-Afghan trade relations have never been consistent. From border mismanagement to inadequate trade policies to Afghanistan's economic collapse due to the Taliban takeover, many other trends have kept on meddling in the smooth conduct of bilateral trade between the two states. Hence, in order to realise the maximum mutual benefits through the existing trade potential between both countries, certain policy measures are required, some of which have been recommended in this paper. The post-Taliban takeover state building in Afghanistan provides Pakistan with an excellent opportunity to ensure that the conducive grounds and mechanisms for bilateral trade are set in place.