

PAKISTAN-AFGHANISTAN COOPERATION ON TRADE: POLITICAL ECONOMY ANALYSIS

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PAKISTAN AFGHANISTAN TRADE COOPERATION

- Cross-border trade between the neighbors is multi-dimensional:
 - transit trade, formal bilateral trade, regional trade and illegal trade
- The multi-dimensional trade has been the subject of
 - political debate, negotiations and bilateral agreements,
 - but also a source of tensions
- Attempts to remove impediments mired in repeated complex negotiations because issues relating to different dimensions have been mixed
- Consequently trade relations have suffered,
 - marred by unmet expectations causing distrust between the governments.
- Approach adopted here:
 - Since each dimension of cross-border trade governed either by bilateral, regional or multilateral agreements or by commitments of the two countries to international charters,
 - untangle the main issues
 - discuss within the relevant format to mutual benefit.

TRADE BETWEEN AFGHANISTAN AND PAKISTAN CARRY VASTLY DIFFERENT IMPORTANCE FOR EACH

- **For Afghanistan**

- Afghanistan land locked, reliant on Pakistan (and Iran) for trade links with the world
- Pakistan largest destination for Afghan exports (33% of total X)
- Pakistan was also the second largest source of Afghan imports (17%) in that year

- **For Pakistan**

- Pakistan located on open seas with access to global markets
- Exports to Afghanistan 7% of total exports and declining
- Afghanistan not significant source of imports
- Afghanistan's market less than 8.5% of Pakistan's GDP; future prospects clouded by near-term downside risks

IN THE REGIONAL CONTEXT, THE DEVELOPMENT OF TRADE LINKS WITH AFGHANISTAN ACQUIRES SOMEWHAT ENHANCED IMPORTANCE FOR PAKISTAN, BUT..

- Afghanistan and four CARs together larger market, (about 60% of Pak GDP)
- Afghanistan potentially shortest transit route to CARs
- Access to surplus energy in the CARs attractive for energy-starved Pakistan
- **Even so, importance of CARs for Pakistan's trade should not be overstated,**
 - 90% of Pakistan's total trade with larger markets (EU, USA, East Asia), priority focus
 - Pakistan lower middle income country, serious resource constraints. Ability to develop physical and institutional infrastructure for CARs on its own limited.

DEVELOPMENT OF TRADE LINKS WITH REGION BEST DEVELOPED IN LARGER REGIONAL CONTEXT

- Both countries must explore multilateral, bilateral donor supported regional programs:
- Central Asia Regional Economic Cooperation (CAREC) with six corridors linking region globally
- CAREC program puts regional trade relations for both Pakistan and Afghanistan on a much larger scale,
 - with funding from multilateral institutions
 - convert economic potential into reality in the medium term
- Risks to CAREC:
 - Two CAREC corridors connect region through Afghanistan to Gwadar and Karachi for global links
 - Security situation in Afghanistan critical for success of CAREC program
 - Since near-term prospects for peace in Afghanistan uncertain, CPEC can provide alternative interlinking route to by-pass conflict stricken Afghanistan.

TRADE RELATIONS VICTIM OF HISTORICALLY STRAINED POLITICAL RELATIONS BETWEEN THE TWO COUNTRIES

- Since Pakistan's independence, Afghanistan not recognized the Durand Line as the legitimate border between the two countries
- Opposing international alignments of the two countries during the cold-war era created tensions
- In recent years, illegal trade, unauthorized movement of people and contraband across the porous common border have further contributed to tensions
- But trade between the two countries has grown

SOURCES OF STRAINS IN TRADE RELATIONS

- Strains in economic relations reflect Afghanistan's claims that Pakistan has not removed 'impediments' to trade
- Pakistan claims that illegal trade under the cover of Afghan transit trade hurts Pakistani business interests and causes losses in government revenue
- Various government committees, business forums and studies have identified Pak-Afghan transit and bilateral trade complaints; these issues are related to:
 - trade facilitation,
 - transit and transport,
 - en route security,
 - customs procedures,
 - illegal trade,
 - tariffs,
 - banking and payments,
 - competitiveness,
 - and infrastructure.

PROPOSED STRATEGY TO REMOVE TENSIONS IN TRADE RELATIONS

- Adopt international best practices and address difficulties in the context of the institutional and legal framework of international commitments of Pakistan and Afghanistan through formal structured negotiations
- This approach will lower tensions, reduce acrimony and further trade in the interest of both countries
- The gains for both Afghanistan and Pakistan in undertaking reforms to reduce impediments to cross-border trade will far outweigh those associated with bilateral trade expansion as reforms facilitate regional integration as well

TRANSIT TRADE

- Afghanistan's access to open seas through Pakistan formalised in 1965 Afghan Transit Trade Agreement (ATTA), years before the United Nations Convention on the Law of the Sea (UNCLOS) Dec. 1982
- A more comprehensive agreement, followed 2010 Afghanistan-Pakistan Transit Trade Agreement (APTTA), which defines:
 - transit routes, mode and nationality of transport, bank guarantees and insurance cover from traders and transporters
 - Pakistan has exercised its rights under the UN COLS, ensuring that APTTA "in no way infringe(s) (on its) legitimate interests."
- Afghanistan's demand of access to India overland Pakistan through Wagah is not rooted in the UN Convention UNCLOS,
- Agreeing to the Afghan demand of using Afghan transport cause loss of jobs in KPK and Balochistan provinces
- The rights of access to the seas articulated in the UNCLOS also apply to the land locked Central Asian countries transiting through Afghanistan

TRANSIT TRADE PROBLEMS, SOLUTION

- Relate to transport vehicles, routes, security, customs procedures, bank guarantees, and illegal trade
- Difficulty arises due to conflicting objectives of smooth movement of transport and reducing illegal trade under the guise of transit trade.
- Solution: full adoption of international best practice for Transit trade, the TIR convention.
- Transit trade can move smoothly and illegal trade can be reduced by
 - improving border procedures,
 - strengthening the bonded transport and guarantee system,
 - build the institutional and financial apparatus to implement the TIR convention system.
- Now both Afghanistan and Pakistan are signatories to the TIR convention
- Mere accession to the TIR convention is not enough, both Pakistan and Afghanistan need to develop the five pillars of the TIR customs transit system

ILLEGAL TRADE

- Illegal trade across Pakistan's borders and the coastline is widely acknowledged. It:
 - the informal economy which evades taxes,
 - deals in contraband, other criminal activities
 - raises the cost for conducting legal economic activities,
 - weakens states,
 - threatens development opportunities,
 - undermines the rule of law
 - and keeps countries trapped in a cycle of poverty and instability
- Illegal trade across the Pakistan-Afghanistan border not new to the porous border. Renewed focus stems from evidence it flourished under cover of Afghan transit trade
- Whatever the size of the illegal trade across the Afghanistan-Pakistan border and whatever methods are used, its impact on Pakistan's economy is significant.
- Need to reduce illegal trade without restricting transit trade.
- Solution: Illegal trade can be reduced by
 - improving border procedures,
 - strengthening the bonded transport and guarantee system,
 - especially build the institutional and financial apparatus to implement the TIR Convention system

BILATERAL TRADE ISSUES

- Pakistan's exports to Afghanistan:
 - Prospects for growth are limited in view of the assessment of the IMF and World Bank about Afghanistan's economy and donor support in the years ahead.
 - Likely to be driven more by donor spending and priorities than competitiveness and market forces.
 - Nevertheless bilateral trade can benefit by addressing issues related to trade facilitation.
- Trade facilitation contains provisions for expediting the movement, release and clearance of goods
- Reforms important for both countries in bilateral context, and more in the regional context.
- Trade facilitation reform can be undertaken with technical assistance from multilateral organizations.

SOLUTION FOR EXPEDITING THE MOVEMENT, RELEASE AND CLEARANCE OF GOODS

- Both countries need to bring their customs and border procedures in conformity with international norms as adopted in international conventions and agreements.
- Pakistan has formally accepted the WTO Trade Facilitation Agreement (TFA) and submitted commitments under the category “A” provisions.
- Pakistan has acceded to the Revised Kyoto Convention (RKC). The Revised Kyoto Convention (RKC) is the main trade facilitation Customs convention
- Pakistan addressing trade facilitation shortcomings with ADB and the World Bank assistance.
- Afghanistan also has undertaken extensive reforms of its customs procedures and border operations according to the World Bank
- But according to the most recent World Bank’s Logistics Performance Index scores for Afghanistan, performance had declined over the last five years.
- Pakistan with a better score had nevertheless remained stagnant since 2006

IMPROVE IMPLEMENTATION OF APTTA

- APTTA established the Afghanistan Pakistan Transit Trade Coordination Authority (APTTCA) which includes private sector representatives, to monitor effective implementation of APTTA and measures adopted to curb illegal trade
- APTTCA needs to be strengthened by providing a voice at its deliberations to all relevant private sector stakeholders in the Pakistan Afghanistan trade environment.
- Specifically, the membership of PAJCCI needs to be broadened and made more inclusive on the Pakistan side to include:
 - giving a seat to PAJBC at APTTCA
 - stakeholders involved in transit trade, bilateral trade, the industries hurt by illegal trade and transporters who lose jobs if Afghan demand for permission to use Afghan transport inside Pakistan is accepted