Pak-Afghan Trade: Addressing Challenges to Enhance Economic Potential

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ABSTRACT

Trade is crucial for the economic growth and development of a country particularly a developing one such as Afghanistan. Being a land-locked country, Afghanistan mainly relies on its neighbouring country, Pakistan, for trade activities. It connects with Pakistan at different crossing points. Torkham, Chaman, and Ghulam Khan are the key crossing points which are operational. Despite a significant trade potential, there are challenges such as transportation, and transit barriers at these crossing points, en route security and border route closures, customs’ procedural problems, banking and payment issues, etc. that hinder the trade with Pakistan and link Pakistan with Central Asia. To improve trade ties with Afghanistan, the study proposes to develop transit and transport facilities at crossing points, enhancing route security and resolving border disputes. The study also proposes the implementation of customs procedures, promotion of formal trade channels, and ban on illegal trade, etc. With an improvement in trade ties, the diplomatic relations between the two countries can also be strengthened.

Keywords: Pak Afghan trade, border crossing points, Torkham and Chaman border
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## Table of Contents

1. Introduction 5
   1.1 Major exports and imports in bilateral trade 5
   1.3. An Overview of Pak-Afghan Bilateral Trade 6

2. Methodology 7

3. Discussion & Findings 8
   4.1. Afghanistan-Pakistan Transit Trade Agreement and Transit Routes 8
   4.2. Challenges faced during the Pak-Afghan trade 9
      4.2.1 Transportation and transit barriers at crossing points 9
      4.2.2. En route Security and border route closures: 9
      4.2.3. Inadequacies in the implementation of customs procedural framework 9
      4.2.4. Illegal and informal trade channels 10
      4.2.5. Banking and payment issues 10
      4.2.6. Barter Trade and Market Issues 10
      4.2.7. Infrastructural barriers 11

4. Policy Recommendations 11

5. Conclusion 12

References 13

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## List Of Figures

- Figure 1: Major Export and Imports from Pakistan | Courtesy by Observatory by Economic Complexity 5
- Pak-Afghan Transit Trade and border crossing point 5
- Figure 2: Pak-Afghan Border Crossing Points 6
- Figure 3: Pakistan and Afghanistan Trade Trends 7

## List of Tables

- Table 1: Economic comparison of Pakistan and Afghanistan 5
1. Introduction

Afghanistan, as a landlocked country, mainly relies on Pakistan, for trade. Regardless of the border security issues, both the countries share strong economic and trade relations (Malik et al. 2019). In 2021, when Afghanistan was facing trade restrictions, economic and banking collapse, humanitarian crisis, and international sanctions, Pakistan continued transit trade with Afghanistan. Pakistan, as the largest trading partner of Afghanistan, accounts for 59% of its total exports (World Bank 2023). Though trade is favourable for both the countries, at the same time it is also very challenging because of the severe economic crisis on both sides.

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>Pakistan 2022-23</th>
<th>Afghanistan 2021-22*</th>
<th>Afghanistan’s comparison with Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth (%)</td>
<td>0.29</td>
<td>-20.7</td>
<td>▼</td>
</tr>
<tr>
<td>Per capita income (US $)</td>
<td>1,568</td>
<td>426.2</td>
<td>▼</td>
</tr>
<tr>
<td>Exports ($ Million)</td>
<td>21088</td>
<td>1880</td>
<td>▼</td>
</tr>
<tr>
<td>Imports ($ Million)</td>
<td>41494</td>
<td>9040</td>
<td>▼</td>
</tr>
</tbody>
</table>

Table 1: Economic comparison of Pakistan and Afghanistan
* Source: World Bank and OEC. *Figures for the year 2021 have been used due to limited data availability.

Table 1 shows the economic outlook of both countries wherein the negative economic growth, low per capita income, low exports and imports of Afghanistan is the result of COVID-19 pandemic as well as the political and economic instability. Similarly, low GDP growth of Pakistan’s economy is governed by the global recession.

1.1 Major exports and imports in bilateral trade

Bilateral transit trade volume between Pakistan and Afghanistan usually fluctuates. According to the Observatory by Economic Complexity (2023), exports to Pakistan and imports from Pakistan with Afghanistan account for $595 million and $833 million respectively. Major export items include raw cotton (26.2%), coal briquette (15.9%), soapstone and scrap iron (4.57%), whereas rice, medicaments (10.4%) and vegetable oils (8.51%) are the major import items of Economic Complexity [OEC] 2021.

Figure 1: Major Export and Imports from Pakistan | Courtesy by Observatory by Economic Complexity
Pak-Afghan Transit Trade and border crossing point
Durand Line, the border between Pakistan and Afghanistan, has around eight formal crossing points, namely Torkham, Chaman, Ghulam Khan, Arandu, Gursal, Nawa Pass, Kharlachi, Anngor Adda, and Spin Boldak. However, the operational border openings for official trade are Torkham, Chaman, and Ghulam Khan (Makki & Iftikhar 2022).

As the opening of the border crossing points posits a positive impact, there is an inflow and outflow of 7,000 and 11,000 vehicles respectively, which causes a massive traffic flow.

Irrespective of the growing potential, Pak-Afghan trade is prone to several challenges, e.g. transportation and transit barriers at crossing points, en route security and border route closures, inadequacies in the implementation of the customs’ procedural framework, illegal and informal trade channels, banking and payment issues, barter trade and market issues, and infrastructural barriers. Improvement in the landscape of Pak-Afghan trade will ultimately contribute to economic growth and regional stability.

1.3. An Overview of Pak-Afghan Bilateral Trade

Pakistan is Afghanistan’s largest trading partner, which accounts for 59% of its total exports (World Bank 2023). Wheat, peat, textile, and petroleum products are the major imports whereas the exports mainly comprise low-value goods such as cotton, carpets, dried fruits, and cereals (BACI Database 2021). Owing to a rise in textile and coal exports by 38.5% and 16.5% respectively, the merchandized exports show a growth of around 9%. However, Afghan trade with Pakistan has shown a decline due to the closure of borders, tight control on borders, and dispute on Afghan-Pakistan trade transit agreement (Pakistan Economic Survey 2023-24). The exports to Afghanistan have declined sharply with a change of 21.57%, and now it reaches to $ 805.14 million. Moreover, the import from Afghanistan has increased by 30.77% due to an increase in food exports as the import basket of Pakistan majorly comprises food, textile, and minerals (Pakistan Bureau of Statistics 2023).

The study aims to address the concerns of exporters and importers which they face during the transit trade between Pakistan and Afghanistan. It further focuses the challenges faced by Afghanistan in potential opportunities for trade developments. Despite a significant trade potential between Pakistan and Afghanistan, there are a number of challenges that need to be addressed in order to materialize
this potential. This study attempts to explore the transit trade routes, challenges faced by the traders, and the way forward to improve the trade ties with the bordering country.

*Figure 3: Pakistan and Afghanistan Trade Trends*

<table>
<thead>
<tr>
<th>Financial Year July-June</th>
<th>Exports to Afghanistan</th>
<th>Imports from Afghanistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
<td>852.31</td>
<td>468.26</td>
</tr>
<tr>
<td>2020-21</td>
<td>1,026.51</td>
<td>612.38</td>
</tr>
<tr>
<td>2021-22</td>
<td>805.14</td>
<td>800.78</td>
</tr>
</tbody>
</table>

*Source: Based on the data from Pakistan Bureau of Statistics*

### 2. Methodology

The study analyzes data resources from the last 10 years, including journal papers, reports, webpages, unstructured interviews with stakeholders. To collect data, Public Private Dialogues conducted in connection with Pak-Afghan trade.
3. Discussion & Findings

4.1. Afghanistan-Pakistan Transit Trade Agreement and Transit Routes

The goal of 2010 Afghanistan-Pakistan Transit Trade Agreement (APTTA) was to make it easier for the two countries to move goods between them. After the first extension of the APTTA, which expired on May 11, 2022, Pakistan was granted a second extension till the signing of the revised APTTA. The 10-year contract had previously expired on February 11, 2021. The modalities have reportedly been settled, but, the contract has yet to be signed. In addition, Pakistan has recently announced a trade concession to Afghanistan in response to the nation’s impending humanitarian and economic crisis. Pakistan’s exports to Afghanistan have reached $805.14 million during the period of between July 2021 to June 22, which was $1026.51 million in the previous year (Pakistan Bureau of Statistics 2022). However, the import rose from $612.38 million to $800.78 million during July 21- June 22, according to the record of Pakistan Bureau of Statistics. In accordance with the APTTA, 72821 20-foot containers entered Pakistan in 2017; of those, 70311 were for commercial purposes (Shoaib 2022).

Pakistan and Afghanistan share a 2640 km border, which is called Durand Line, with around eight formal crossing points. Torkham, Chaman, and Ghulam Khan are the key border points for official trade. These key points connect Karachi with the Torkham and Ghulam Khan borders through Indus Highway and Chaman from Quetta-Karachi Road (Rauf and Ahsen 2023). Furthermore, the exchange of heavy fire by the border guard from both sides due to argument on the border delineation led to the closure of central crossing points; Torkham and Chaman (Rehman 2023), which is now operational but the temporary closure for an uncertain time leads to exacerbate the economic crisis. During the current recession period, the border shutdown has disrupted the supply chain in intensifying the gravity of the challenges currently experienced by the business community. As the major exports from Afghanistan are tangible goods, including cotton, dried fruits, cereals, etc., so the abrupt and protracted suspension of these points has hurt the Afghan economy.

The escalating tension between Afghanistan and Pakistan has caused instability in their transit economic ties. APTTA and ATTA were made possible by international accords and legislation. However, these accords were unable to make a substantial difference in the Afghan merchants’ transit trade issues, who continue to confront obstacles from Pakistani officials. As the political strife between the two nations increases, the situation becomes worse. In these conditions, Afghanistan’s poor geographic location causes economic suffering (Shoaib 2022). Over the years, the terrible transit trade hurdles have been utilized to exert political pressure over Afghanistan, a country which is completely landlocked.
4.2. Challenges faced during the Pak-Afghan trade

With the recent increase in the potential of trade between Pakistan and Afghanistan, there is an improvement in contribute economic growth and regional stability. Regardless of the trade potential, some challenges need to be addressed to leverage the trade benefits.

4.2.1 Transportation and transit barriers at crossing points

Regarding the transportation at the border entry points, major concerns revolve around the cost, inconvenience, and time involved in verifying the containers which are returned after having been emptied. Under the APTTA, bonded carriers must be used for goods transmission that raises the transportation cost from Rs 50,000 to 80,000 (Rahim 2018). Transit trade hurdles encompass the shipment of trucks carrying commodities from Uzbekistan entering Pakistan via Torkham. These items are transported by Transports Internationaux Routiers (TIR) or International Road Transport. A global agreement known as the “Convention on International Transport of Goods Under Cover of TIR Carnets” (Permits) was signed in Geneva on November 14, 1975, to reduce the administrative burden of TIR. As requested by the Afghan participants, the new government in Afghanistan has refused to recognize TIR, which is a significant barrier. Installation of tracking devices in the trucks for transport has been ensured by Pakistan. However, at the end of Afghan traders, it is missing that further proliferates the cost for them. Traders urge the authorities on both sides to agree on a common framework to settle the conflict.

4.2.2. En route Security and border route closures:

Whenever done, the abrupt and protracted suspension of crossing points by Pakistan as a result of border disputes weakened the Afghan economy. Transit route security concerns and lack of insurance coverage have been affecting the trader. Among other export products, main Afghan exports include perishable fresh fruits and vegetables. It is crucial that the commerce route must be efficient, dependable, and quick. As a strongly import-dependent nation, prompt product delivery helps keep the economic machine running in Afghanistan. Afghan wheat, edible oil, sugar, and meat needs, among other things, have historically been included in the provincial budget forecasts for Khyber Pakhtunkhwa (KP) and Balochistan. It is learnt that demand and supply disruptions across borders tend to arise, and the prohibition on a specific export product from Pakistan that causes scarcity of that product in Afghanistan, leads to unjustified exploitation.

4.2.3. Inadequacies in the implementation of customs procedural framework

Lack of implementation of insurance guarantees, bonded carriers, and tracking devices from both countries simultaneously pressurize the cross-border trade. Owing to inefficient risk management mechanisms by the customs authorities, the delays in the clearance of goods and documentation at the border crossing point have been observed, and perishable commodities left stranded at the
border, lacking clearance results in a significant loss in revenue. Consignment to consignment-based bank guarantees have been further deferring the clearance process. Additionally, importers from Afghanistan must pay tariffs and taxes at the ports in Pakistan, which they can later get reimbursed for. For the importer, this is a time-consuming bureaucratic process that raises his upfront costs, making it challenging for many small dealers (Rahim 2018). In Afghanistan, the customs framework is not well-developed as there is a varying weighing allowance, intense scrutinizing, lengthy export documentation, heavy customs duties on low-value goods, and fewer complaints handled by the customs department.

4.2.4. Illegal and informal trade channels

In order to reduce unnecessary and mostly illegal taxes and levies collected by the different ministries on the Pakistani side, traders across the border said that tax collection should be streamlined at entrance points. This practice is not only depleting merchants’ funds but also contradicts the claim that it would ease Pakistan-Afghanistan commerce and trade. Illegal and informal trade hinders formal trade growth and discourages legal channels of trade. To combat smuggling and illegal trade channels, the implementation of insurance guarantees, bonded carriers, and tracking devices is crucial. Owing to the lack of bank guarantees on a revolving basis, restrictions on partial shipment, high installation cost of trackers, and heavy security deposits execution of the APTTA security measures are arduous to put into practice.

4.2.5. Banking and payment issues

In 2021, there was a banking crisis in Afghanistan Businesses closing faced difficulties as bank deposits drop sharply and foreign exchange reserves froze. Trade between both countries suffered due to crumpling banking infrastructure including the low foreign reserves, the form E facility missing, banking dispute resolution, and complex banking procedures. Highly volatile domestic currency urged the traders to use the alternative currency model.

4.2.6. Barter Trade and Market Issues

For the Business to Business (B2B) barter trade mechanism, the Government of Pakistan approved in June 2023 a commodity list, including exports ad import products for barter trade. Barter trade initiative can reduce the pressure on the falling reserves and proves to be an alternative to formal banking. An issue that can be faced by the traders in the completion of the barter trade agreement between the concerned is to locate a similar trader where there is a double coincidence of wants. Improvement in the trade between both countries that comprises low value-added and perishable goods, requires the establishment of a legal border market for the trade facilitation. For this purpose, following actions need to be taken.
• Standardization of procedure,
• Quality assessment,
• Mechanism for price assessment,
• Consistencies in pricing, and
• Dispute resolution of traders.

4.2.7. Infrastructural barriers

Infrastructure is the major issue that is currently faced by the Pak-Afghan trade. It increases the processing time at the border crossing. Lack of matching infrastructure at border crossing points is challenging. According to the Federal Bureau of Revenue, at the Torkham Border, a 2+3 lane facility is available and at Chaman Border 3+3 lane and 2 rail facilities are present whereas on Afghanistan side, only one lane is operational.

4. Policy Recommendations

Following measures are proposed to fully utilize the trade potential between Pakistan and Afghanistan

• Transportation cost of the bonded carrier vehicles for goods transportation by the Pakistan Customs should be reduced while sustaining the processing fee which is the administration cost.
• Both the Customs departments in Pakistan and Afghanistan should develop security measures, and make sure the installation of tracking devices in trucks for transportation to prevent the smuggling of goods and people across the border.
• To develop the border markets for perishable commodity items and disruption in supply chain, traders on both sides need a supportive environment in terms of financial services and security guarantees by the Chambers of Commerce, Ministry of Commerce, State Bank of Pakistan, and Da Afghanistan Bank.
• There is a need to ensure trade transit route security along with insurance coverage, security guarantees and resolution of border disputes under international agreements for the traders.
• Banking and payment problems should be addressed by establishing a dedicated banking channel between Pakistan and Afghanistan through the central banks. Moreover, financial institutions should be directed to facilitate cross-border transactions and devise reliable payment mechanisms to boost trade activities.
• A formal framework with clear guidelines, procedures, and documentation requirements should be prepared to establish barter trade facilitation centers at key border crossings to provide traders with necessary support services.
• Traders should be trained about the formal barter trade framework and standardized procedures. Further, there is a need to encourage the use of technology platforms for barter trade transactions to enhance transparency and efficiency.
• Logistics, transportation, and border infrastructure needs to be improved and cross-stuffing rules should be implemented to facilitate trade through the National Highway Authority, Ministry of Planning and Development and Special Initiative, and Ministry of Telecommunication. This would help improve the roads, railways, and ports that connect the two countries as well as implement rules that allow goods to be transferred from one mode of transportation to another without having to be re-inspected.

• A single window clearance system should be set up in Afghanistan and integrated with the Pakistan Single Window. This will streamline the process of customs clearance and make it easier for businesses to import and export goods.

• A regional transportation network must be developed to improve connectivity between Pakistan and Afghanistan and make it easier to transport goods between the two countries.

• There should be the consideration of international practices and dispute settlement mechanisms to ensure that disputes between traders are resolved in a fair and efficient manner. This could be done by adopting the standards and procedures of organizations such as World Trade Organization (WTO) and International Chamber of Commerce.

• For the optimum utilization of border crossings between Pakistan and Afghanistan for trade, there should be a proposal to explore the conversion of dollar trade into rupee trade, given the availability of dollars to traders in both countries. The State Bank of Pakistan and Da Afghanistan Bank can initiate a model of alternative currency that would help reduce the cost of trade for a country with balance of payment issue with low foreign reserves and make it easier for businesses to operate in both countries.

5. Conclusion

Pakistan is the primary trade market for Afghanistan regardless of the economic, security, and institutional challenges on both sides. It links Pakistan with Central Asia. The closure of borders and dispute on the Afghanistan-Pakistan Trade Transit Agreement have disrupted the trade relations between the two countries. There is a fruitful impact on the economic growth of Afghanistan and Pakistan by increasing exports, generating employment, providing foreign exchange, reducing food inflation, providing raw material at a competitive rate, and improve regional trade and economic integration. With an improvement in trade ties, the diplomatic relations can also be cemented. It requires political will to resolve the border disputes and improve border security. Lack of financing coupled with high cost of infrastructure development is crucial for the development of a competitive regional trade route.
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