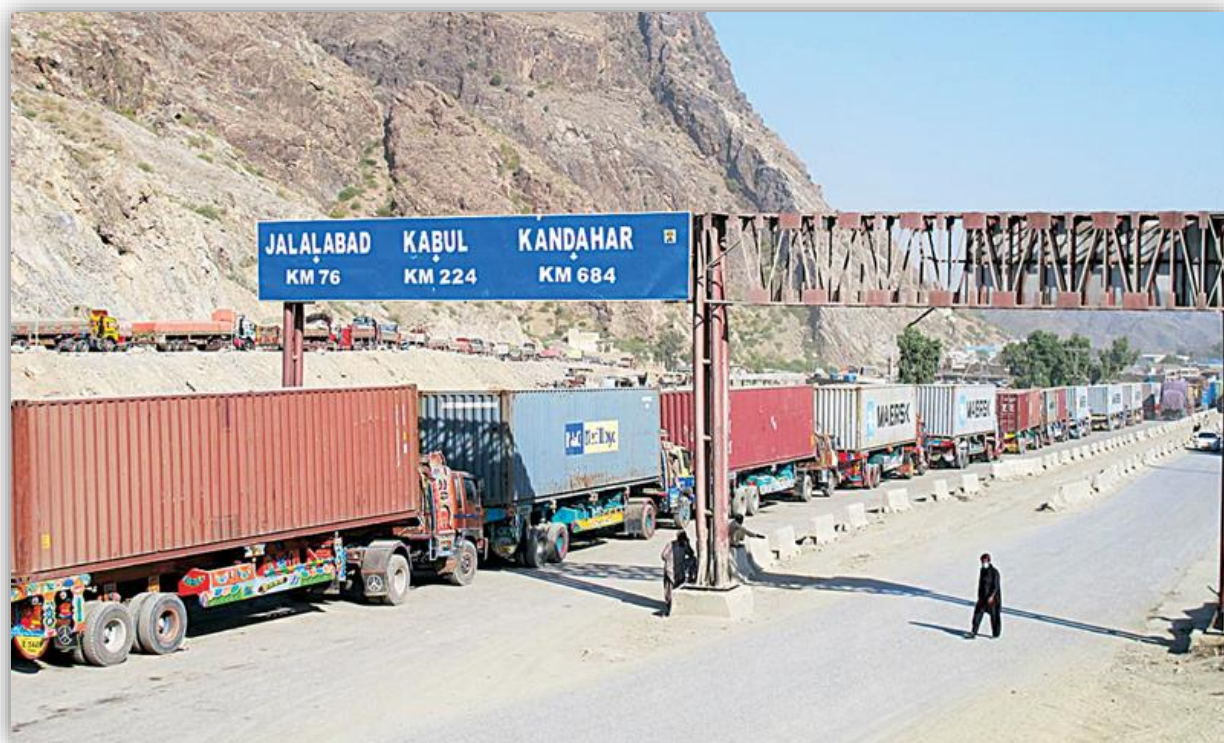


# تحليل اسبتي

## WEEKLY ANALYSIS

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### ECONOMIC AND TRADE RELATIONS BETWEEN AFGHANISTAN AND NEIGHBOURING COUNTRIES (POLICY RECOMMENDATIONS)



Weekly Analysis is one of the CSRS' publications analyzing significant weekly political, social, economic, and security events of Afghanistan and the region. The prime motive behind this is to provide strategic insights and policy solutions to decision-making institutions and individuals in order to help them design better policies. Weekly Analysis is published in Pashto, Dari, English and Arabic languages.

## ECONOMIC AND TRADE RELATIONS BETWEEN AFGHANISTAN AND NEIGHBOURING COUNTRIES (POLICY RECOMMENDATIONS)

The economic and trade relations of Afghanistan with its neighbours are very crucial for both Afghanistan and the neighbouring countries. Since Afghanistan does not have access to the sea and is a landlocked country, not only most of its trade is with the neighbouring countries, but also depends on its neighbours for trade with the remaining world. At the same time, Afghanistan is an important market for neighbouring countries, particularly to Pakistan and Iran. However, in recent years, the dependence on Pakistan in terms of trade and transit has decreased.

According to the [figures](#) of the Ministry of Commerce and Industry, the total trade of Afghanistan in 2020 was about 6.4 billion dollars, of which 754 million dollars were exports and 5.63 billion dollars were imports. Most of the imports were from Iran, China, Pakistan, Kazakhstan, Uzbekistan and India. On the other hand, more exports were made to India, Pakistan and China.

Since last August of 2021, when the previous government collapsed, the situation has faced obstacles due to international sanctions on the new government. For instance, recent statistics show that the annual trade with Pakistan has [dropped](#) from 2.5 billion dollars to 1 billion dollars. The basic cause of which is lack of friendly policies between the two countries and no proper banking system in Afghanistan. Similarly, the level of trade with Iran has decreased by at least 20 percent and [reached](#) 1.8 billion dollars in 2021. If we compare the trade between Iran and Afghanistan in the first season of 2021 with the trade of the [first season](#) of 2022, it seems that the level of trade has decreased by 35 percent in this season alone compared to last year.

Nevertheless, Afghanistan has many economic opportunities in terms of trade and transit due to its special geographical location in the region as it is a connecting bridge between Central Asia and South Asia. However, the constant political and security instability in the country has led to the fact that there are always problems with neighbouring countries in the areas of economy, trade and transit. Currently, since a relative security has been established in Afghanistan and at the same time facing a serious economic crisis, the economic and trade relations with neighbouring countries play a vital role in controlling this crisis, which needs further discussions.

The 'economic and trade relations between Afghanistan and neighbouring countries' was one of the five sessions of the recent joint seminar under the title of "The Future of Relations between Afghanistan and Neighbouring Countries" by the Center for Strategic and Regional Studies



(CSRS) in Kabul, in which dozens of academics and experts from Afghanistan and neighbouring countries held discussions by presenting their papers. As a result of these discussions, this issue has been discussed in a comprehensive manner and recommendations have been made to the relevant policy makers. These policy recommendations are presented here for the benefit of the parties involved without the details of these discussions:

### **Economic and Trade Relations between Afghanistan and Neighbouring Countries; Policy Recommendations:**

- First of all, security stability is the first and most important need for business and economic activities. Now that a relative security has arrived in Afghanistan, positive benefit should be taken from the situation, and economic activities and trade between Afghanistan and neighbouring countries should be increased and further facilitated.
- Due to the sanctions imposed on the current government, various problems have arisen in the trade with other countries, of which the most vulnerable part is the common people. Therefore, all the relevant parties are requested to help removing these imposed sanctions.
- Also, due to the crisis of mistrust and political problems between Afghanistan and neighbouring countries, transit trade has been greatly affected, which still affects the common people, so effort should be put into work to build trust in all related countries.
- Afghanistan and regional countries all need each other for extensive economic and trade cooperation. Therefore, the governments should take necessary steps in this regard to eliminate the existing issues and problems.
- Economic, trade and transit cooperation leads to the economic, political and security stability of all countries in the region, and therefore, efforts should be made to ensure that economy and trade are not affected by politics.
- There are three types of trade between countries, the first is transit trade, the second is bilateral trade, and the third is illegal trade or smuggling. Attention should be paid to all these three trades, so that the trade is legal and its problems can be reduced.
- The creation of Free Trade Zones between Afghanistan-Pakistan, Afghanistan-Iran, and Afghanistan-Central Asian countries may have various benefits, where there are joint productions and trades but no taxes. Therefore, taking steps in this regard is in the interest of all sides.
- Every year, Iran imports 8 billion dollars of food alone, but a very small part of it is imported from Afghanistan and Pakistan. Iran can import two to three billion dollars' worth of agricultural products from Afghanistan, and on the other hand, Iran is a country with large energy reserves at the regional level, but unfortunately, there is no cooperation in these areas as needed. It seems that these countries do not have a proper knowledge of each other's economies or are under pressure from other factors. For instance, Iran has brought a gas pipeline to the border of Pakistan, but it has not been developed due to



American pressure. Similarly, between Afghanistan and Iran, the presence of foreign forces created obstacles, but now that foreign presence in the region has ended, there is a need to strengthen economic relations between all neighbouring countries and develop them beyond political issues.

- The Afghanistan-Pakistan Transit and Trade Agreement (APTTA) must be negotiated once every ten years. Last time this agreement was signed in 2010 and now it is time to renegotiate it, as despite having defects in implementation it's still very efficient for bilateral trade and transit. It should be reinstated from the point where it was halted with revolution political changes in Afghanistan. The international conventions and International best practices particularly for the land locked countries should have to be taken into consideration to remove imbalance and facilitate smooth, reliable and predictable trade and transit trade through Pakistan and vice versa.
- The focus of both governments have been drastically political throughout the decades, the focus needs to be changed. The transit trade must be treated separate than political motives. The trade and transit of Afghanistan through Pakistan require political and diplomatic support. The challenges, obstacles and problems should be responded spontaneously and be provided institutional support in order not to transfer its impact to common consumers.
- The closure of identified crossing-points should have to be regulated through a mutually agreed and predictable mechanism, to allow the traders (both Afghan and Pakistani) be vigilant and refrain themselves from indefinite and undetermined financial losses.
- Pakistan to be provided unconditional access to the Central Asian market and vice versa Afghanistan to the South Asian market particularly to India/ Indian market. The current practice in waghera border is nothing except the disrupting of trade. A reciprocity mechanism to be developed and implemented when either of the signatories violated the provisions. It's also recommended that both governments shall remove all tariff and non-tariff barrier for accessing either of the regions.
- Seasonal tariff that have been the practice for decades now, shall have to be removed. International standards for perishable goods should have to be taken into consideration, and the trucks carrying perishable goods (such as fresh fruit exports from Afghanistan) must be given priority over the normal and ordinary goods.
- Diversification of trade routes is also equally important for Afghanistan to reduce overreliance on one country (Pakistan) for its transit trade and access to international market. Iran can be the alternate option for Afghanistan to enter into a comprehensive transit trade agreements for Afghan transit trade.
- Efficient risk management system to be implemented in accordance the standards of the Revised Kyoto Convention (RKC). The signatories shall considered themselves stuck to the provision of mutually agreed provisions under APTTA 2010. Searching for



alternatives or going beyond permitted scale can do nothing except to disrupt and destroy the bilateral relations and depart additional cost on the traders.

- The dispute mechanism under the current Afghanistan Pakistan Transit Trade Agreement (APTTA) has always been exploited. APTTCA under APTTA has never been an affective authority for the solution of problems, so it is recommended that dispute mechanism to be revised and be made an effective authority to find spontaneous solutions for the emerging trade and transit trade issues.
- loading and unloading of containers and customs clearance system at the customs at Pakistani ports should be streamlined in accordance with the provisions of APTTA 2010, and an Article to be inserted in the revised version which shall assure the smooth customs clearance system. A mutually agreed mechanism to be adopted ahead of the revised version to avoid unfair demurrage charges on transit goods.
- A mechanism to be adopted at the most senior level to find a solution for the problems instead of exchange of letters in lower level which merely results in documentation and additional bureaucratic involvement.
- Both the countries are required to ensure people with expert level knowledge be deployed to facilitate the operation since the trade and transit are very specialized area. The deployment of experts will also help to find spontaneous solutions for the issues.

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The Centre for Strategic and Regional Studies (CSRS) is an independent, non-profit, and non-governmental research organization established in July 2009 in Kabul. CSRS is committed to promoting policy-oriented research through conducting authentic and unbiased research concerning Afghanistan and the region.

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