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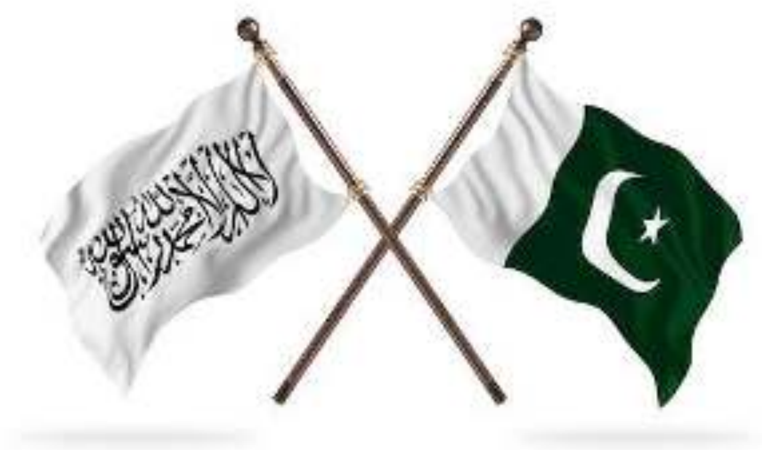
An Overview of the Economic Relations between Afghanistan and Pakistan during the Period of the Islamic Emirate



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In this issue:

AN OVERVIEW OF THE ECONOMIC RELATIONS BETWEEN AFGHANISTAN AND PAKISTAN DURING THE PERIOD OF THE ISLAMIC EMIRATE

INTRODUCTION

The path of economic relations between Afghanistan and Pakistan has been marked by numerous ups and downs, with much of the trade and transit between the two countries being influenced by their political ties and instabilities. The highs and lows in both economic and political relations between these two nations have been driven by various factors at different stages. Historically, many analysts have considered the issue of the Durand Line, in addition to other factors, as a fundamental element straining these relations.[1]

In the last two years during which the Islamic Emirate has held power in Afghanistan, the trade volume between the two countries has increased. However, a series of problems has also arisen, with factors that may differ from the past. Recently, Pakistan has implemented a set of economic policies regarding Afghanistan, and these policies can have a profound impact on the economic relations between the two nations. It is believed that the negative effects of these measures will be felt by both sides, potentially leading to long-term negative consequences in certain areas.

If we examine the trade between Pakistan and Afghanistan during both periods of the Islamic Emirate, it becomes evident that bilateral trade started at $25 million at the beginning of the previous period and increased to $170 million by the period's end. During the first decade of the Republic, this figure surged to two and a half billion dollars.[2] In 2021, following the re-establishment of the Islamic Emirate, bilateral trade between Pakistan and Afghanistan once again experienced growth, reaching two billion dollars. What sets this increase apart from the Republic era is the balance between exports and imports. In the past, there was an imbalance, with exports to Pakistan being lower and imports higher. However, in the current Islamic Emirate era, there is almost a balance in terms of exports and imports with Pakistan. The primary reason for this shift is the Islamic Emirate's involvement in mining and the export of a special type of coal to Pakistan.

On the other hand, in order to foster and structure economic relations between Pakistan and Afghanistan in 2010, the APTA [1] agreement was signed between the two nations. This agreement is still in effect, and the Islamic Emirate is responsible for upholding its obligations and can avail itself of its benefits. Additionally, regional trade occurs between Pakistan and Afghanistan under the APTA agreement. This means that, based on the APTA agreement, Pakistan can engage in trade with Central Asia through Afghanistan, and Afghanistan can trade with India through Pakistan. Both countries can participate in regional projects, with Casa 1000 and Tapi serving as good examples.

In their entirety, economic relations between Afghanistan and Pakistan encompass three aspects: bilateral trade, transit trade, and regional trade. This short analytical article will delve into these three components.

[1] Afghanistan-Pakistan Transit Trade Agreement(APTTA)

TRANSIT BETWEEN PAKISTAN AND AFGHANISTAN

In 2008, negotiations commenced for an agreement aimed at fostering cooperation in transit between Afghanistan and Pakistan. The agreement was ultimately signed in 2010 by the trade ministers of both nations and is known as APTA. This comprehensive agreement, consisting of 58 articles, remains in effect even during the current rule of the Islamic Emirate. While some obstacles hinder the implementation of certain articles within this agreement, it remains fully in force and can be depended upon by both sides.

According to this agreement, both countries have access to each other's territory for the purpose of transit trade. Under this agreement, Afghanistan is granted transit access from three major ports of Pakistan: Karachi, Gwadar, and Qasim ports. This access allows Afghanistan to connect with two other countries, namely China via Sost/Tashqarghan and India via the Wagah border. It's worth noting that Afghan trucks (large vehicles) are required to be offloaded at the Wagah border and then transported to India using Indian containers and trucks. Additionally, Afghan roads are not permitted to transport Indian goods from that side; Indian goods must arrive empty from the Afghan side.

Pakistan can also establish connections with Iran through Afghanistan's Islam Qala and Zaranj, with Uzbekistan through Haritan Port, with Tajikistan through Sher Khan Port, and with Turkmenistan through Aqeena and Turghondai for transit purposes.[3]

There are some obstacles hindering transit trade between the two countries, which we will briefly mention here:

1. **Border closure between Pakistan and Islamic Emirate:** In 2021, after the Islamic Emirate took control in August, issues arose multiple times between Pakistan and the Islamic Emirate at the Torkham and Spin Boldak borders. The border was closed on several occasions, impacting trade and the movement of people, resulting in financial losses for traders on both sides. In February 2023, the Torkham gate was closed by the Islamic Emirate for all types of travel and business, causing a three-day standstill in trade between the two countries and negatively affecting their economic relations. According to Syed Zia-ul-Haq Sardi, the head of the Pakistan-Afghanistan Joint Chamber of Commerce and Industry, approximately 6,000 trucks and heavy vehicles were stranded in both directions during the Torkham gate closure, resulting in the loss of millions of dollars for both sides. The Islamic Emirate authorities stated that the closure was due to Pakistan's failure to fulfill its transit and patient release promises. [4] To address these border and commercial disputes, the Foreign Minister of the Islamic Emirate, Amir Khan Muttaqi, and Pakistan's Foreign Minister, Bilawal Bhutto Zardari, met in May 2023 in Islamabad. Both sides reached an agreement to expand bilateral trade, collaborate in counterterrorism efforts, and resolve border concerns.[5]
2. **Barriers to transit trade with India:** The first obstacle lies within the APTA agreement itself, which prohibits Afghan containers and roads from crossing the border to reach India. Afghan roads must return empty from the Indian side, resulting in significant losses for Afghan businesses. The second obstacle is the strained relationship between India and the Islamic Emirate. Currently, India has not transferred control of the Afghan embassy

in Delhi to the Islamic Emirate. Moreover, over the past two years, India has ceased issuing visas to Afghan students, patients, and ordinary Afghans, which has had a detrimental impact on transit business.

3. **Detention of Afghan containers at Karachi and Gwadar ports and unfair delay fees:** Afghan businessmen are required to complete tax and other paperwork at Karachi and Gwadar ports and retrieve their goods within 12 days. If this process exceeds the 12-day limit, the Pakistani government imposes additional charges of $60 and $80 per day on Afghan businessmen, with the fine increasing after every 20 days. To collect these additional fees, Pakistan introduces certain obstacles, intentionally causing delays in Afghan container shipments in order to generate more revenue. This practice constitutes an obstacle in the transit trade of both countries.

New restrictions on Afghanistan's transit trade: Currently, the most pressing issue involves recent trade and transit policies implemented by Pakistan, which are believed to significantly harm bilateral economic relations. For instance, Pakistan's Ministry of Commerce has recently imposed bans on the export of 212 items to Afghanistan, including 17 types of clothing, various plastic products, vehicles, tea, luxury items, and numerous medical accessories. Furthermore, exports of fresh and dried fruits, household appliances such as refrigerators, etc., to Afghanistan have been prohibited. Just two days ago, Pakistan levied a 10 percent customs tariff on several imported goods from Afghanistan.

Bilateral Trade

Overall, the past two years have seen an increase in bilateral trade between Afghanistan and Pakistan. In 2021, the total bilateral trade between the two countries amounted to $1,668.44 million, and in 2022, this figure rose to $1,861.64 million. Thus, in comparison to 2021, bilateral trade between the two countries increased by 12 percent in 2022. In 2021, Afghanistan imported goods worth $867.03 million from Pakistan, and in 2022, this figure increased to $968.43 million. Additionally, in 2021, goods worth $801 million were exported from Afghanistan to Pakistan, and this figure increased to $893 million in 2022.[6]

Pakistan exports medical supplies, rice, vegetable oils, plastics, nutrients, cement, chewing gum, aluminum, fresh fruits, and vegetables to Afghanistan at a substantial level. In return, Afghanistan exports coal, grapes, mulberries, apples, and other fresh fruits, cotton, tomatoes, onions, iron, cucumbers, dried fruits, and various other goods to Pakistan.[7]

If we analyze recent policies, it is anticipated that by the end of 2023, the level of bilateral trade will reach two billion dollars. This expectation is based on data from 2023, which indicates a significant monthly increase in bilateral trade. For instance, in July 2023, the bilateral trade between the two countries amounted to 99.98 million dollars, but in August of the same year, bilateral trade surged to 135.30 million dollars. In August, Afghanistan imported goods worth 76.40 million dollars from Pakistan and exported goods worth 58.90 million dollars to Pakistan.[8]

If monthly bilateral trade continues to increase at this rate, it is expected that it will reach up to two billion dollars.

REGIONAL TRADE

Another crucial matter in the economic relations between Pakistan and the Islamic Emirate is the China-Pakistan Economic Corridor (CPEC). China is keen on involving Afghanistan in this corridor and has engaged in multiple discussions with Pakistani authorities about this. China intends to bolster Pakistan's economic and diplomatic influence in Afghanistan, and through this, it aims to expand the bilateral economic corridor with Pakistan (CPEC) into a multilateral economic corridor referred to as CAICAP (China, Afghanistan, Iran, Central Asia, and Pakistan).[9] It is evident from this Chinese plan that they desire Afghanistan to be a part of the One Belt One Road project, of which CPEC is already a component. If Afghanistan joins CPEC, it implies that economic relations between Afghanistan and Pakistan will be reinforced, enhancing trade between the two countries.

In May 2023, Chinese Foreign Minister Qin Geng visited Pakistan and held meetings with Pakistan's Foreign Minister Bilawal Bhutto Zardari, President Arif Alvi, and Army Chief General Asif Munir. During these discussions, they had an in-depth conversation about CPEC, during which the Chinese Foreign Minister urged the Pakistani side to establish security measures. He emphasized that without security, the implementation of CPEC and similar projects would be impossible. Additionally, the Chinese Foreign Minister requested that Pakistan ensure the safety of Chinese individuals working in Chinese companies within Pakistan who are contributing to the economic development of the country.[10]

Furthermore, in the realm of regional trade, several projects have been signed with Central Asia in which both Pakistan and Afghanistan are participating, and both sides stand to benefit from these initiatives, which we will discuss here:

1. **TAPI project:** This project was signed on December 13, 2015, involving Turkmenistan, Afghanistan, Pakistan, and India. The project aims to transfer 33 billion cubic meters of gas to member countries annually. Under this initiative, the gas will originate from Daulatabad, Turkmenistan, and traverse a 1,800 km route through Herat-Kandahar in Afghanistan, reaching Pakistan's Quetta and Multan, and finally Fazilka in India. The original plan was for this project to be completed and operational by 2010, with operations starting in 2015. However, as of now, this project remains unfinished.[11]
2. **CASA-1000 Project:** This power project was signed in 2016, involving Kyrgyzstan, Tajikistan, Afghanistan, and Pakistan. The estimated total budget for this project was $1.2 billion, and it was anticipated to be completed by 2019. Electricity transmission was slated to commence by the year's end. The project aims to transfer electricity from Kyrgyzstan to Tajikistan, from Tajikistan to Afghanistan, and finally through Afghanistan to Peshawar in Pakistan. As a result of this project, Afghanistan was set to receive 300 megawatts of electricity, and Pakistan 1000 megawatts. However, as of now, the project remains incomplete.[12]
3. **TAP 500 Project:** In December 2015, Turkmenistan, Afghanistan, and Pakistan signed this electricity project. It aims to transfer 2000 megawatts of electricity from Turkmenistan to Afghanistan and further to Pakistan. The project has a budget of $150 million, with the Asian Development Bank committed to funding it through a loan. The

project was initially expected to commence work in the first quarter of 2018, but as of now, it remains incomplete.[13]

BARRIERS TO BILATERAL ECONOMIC RELATIONS

1. **Lack of Recognition of the Islamic Emirate Officials**: In the context of transit, regional, and bilateral trade, the non-recognition of the Islamic Emirate presents a significant obstacle, impeding the development of such trade.
2. **Economic Sanctions Imposed on the Islamic Emirate by the United States of America and Its Allies:** Economic sanctions serve as a substantial barrier to various forms of commerce. Under the rule of the Islamic Emirate, certain banking activities in Afghanistan are restricted, limiting traders' ability to conduct business openly.
3. **Deterioration of Political Relations:** Recently, there has been an increase in security incidents in Pakistan, with Tehreek-e-Taliban Pakistan claiming responsibility for many of them. According to official figures, in 2023 alone, there were 300 attacks in Khyber Pakhtunkhwa, a significant portion of which were attributed to Tehreek-e-Taliban Pakistan. The most recent incident occurred last month in Bajaur, resulting in the loss of over 54 lives. Senior Pakistani officials blamed the Islamic Emirate for this incident. The Pakistani government, particularly Army Chief General Asim Munir, asserted that Afghan nationals were involved and had crossed over from Afghanista. [14] The Islamic Emirate denied these allegations, and Zabihullah Mujahid, the spokesperson for the Islamic Emirate, took to Twitter to state, "Instead of tightening its security, Pakistan once again blamed Afghanistan for the recent security incident. The Islamic Emirate insists that it does not support such incidents but condemns them. However, it is not the responsibility of the Islamic Emirate to prevent attacks in Pakistan; rather, Pakistan should enhance its own security."

The deteriorating political relations between Pakistan and the Islamic Emirate have a negative impact on the economic relations between the two countries and pose an obstacle to their growth.

CONCLUSION

Economic relations between the Islamic Emirate and Pakistan are observed in three areas: transit, bilateral trade, and regional trade. Bilateral trade between the two countries is on the rise, and a positive aspect is that the balance between exports and imports in the Emirate has improved compared to the Republic era. The primary reason for this improvement is the extraction and export of minerals from Afghanistan. Additionally, there are opportunities in regional trade that the Islamic Emirate can leverage to advance projects initiated during the Republic era and bolster Afghanistan's economy. This presents a promising opportunity.

Despite all of this, the strain in political relations between the two countries has consistently had a detrimental effect on economic dealings. This strain is the root cause of Pakistan's recent stringent policies in its economic relations with Afghanistan. Hence, it appears that the development of economic relations between the two countries may prove challenging without the restoration of political relations.

SUGGESTIONS

1. As an important neighbor of Afghanistan, it is imperative to establish political relations with Pakistan to bolster economic ties between the two nations. The deterioration of political relations has had an adverse impact on economic relations.
2. The APTA agreement between both countries presents a valuable opportunity in terms of transit, and both sides should work towards removing obstacles hindering its comprehensive implementation.
3. The Islamic Emirate should engage in substantial negotiations with Pakistan in both political and economic aspects to resolve existing misunderstandings. In the event of unfavorable negotiation outcomes, it should seriously consider alternative approaches.
4. The Islamic Emirate has initiated comprehensive efforts to execute regional projects that have been signed. With peace prevailing in Afghanistan, there is a better opportunity than ever to bring these projects to fruition. **The End**

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Contact Us:
Email: info@csrskabul.com - csrskabul@gmail.com
Website: www.csrskabul.com - www.csrskabul.net

Phone & WhatsApp: +93780618000