PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

PAK-AFGHAN TRADE

Policy Proposals and Confidence-Building Measures for Institutional Arrangements

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Executive Summary

Key Insights

I. This study is designed to examine pre- and post-Taliban Pak-Afghan bilateral and transit trade trends, review the share of neighboring and regional countries in the Afghan market, identify potential trade avenues, and suggest policy proposals and Confidence-Building Measures (CBMs) to restore and augment sustainable bilateral and transit trade.

II. Pakistan has boundaries with Afghanistan, Iran, China and India. However, its largest border on the western side with Afghanistan, is around 2600 km long. In Balochistan, out of 36 districts, 9 districts have physical border with Afghanistan. In KPK out of 38 districts, 10 districts have physical border with Afghanistan.

III. Overall volume of Pak-Afghan trade has declined since 2011, reducing from the peak of USD 1766 million in 2012 to USD 1085 million in 2019. When Taliban took over Kabul in August 2021, Pakistan's export to Afghanistan stood at USD 1025.5 million and Imports were 612.4 million. However, in the last two years, exports have declined to USD $976.6 million whereas, imports have augmented to USD 886.8 million.

IV. On the one hand, Pakistan's share of exports in Afghanistan's market has steadily declined. On the other hand, the volume of Pakistan's imports from Afghanistan has increased. This trend persist even after Taliban takeover. This reveals that Pakistan's dominance in bilateral trade is weakening, with imports catching up to exports. Whereas, other neighboring countries, particularly Iran's share of export to Afghanistan has increase over the time.

V. In addition to this, the volume of Afghanistan's imports from other regional countries (India, China, Kazakhstan and Turkmenistan) has increased. This indicates that Pakistan is losing presence in Afghanistan's Market.

VI. Furthermore, this study reports that the size of Afghanistan's transit trade through Pakistan has been reduced, due to the development and operationalization of Iranian ports. Subsequently, Afghanistan has diverted most of transit trade from Pakistan to Iran.

VII. Finally, this study reports the prominent stumbling block in Pak-Afghan trade includes but not limited to political instability, and frequent border closures, privatization of taxation (Rent-seeking by multiple agencies), strict visa policies, inadequate infrastructure (roads networks and banking facilities), expiry of APTTA, underutilization of potential trade and gateways, informal trade, excessive and overlapping checking by various agencies. Interprovincial products movement restrictions and market accessibility (in the context of Balochistan).

Proposed Policy proposals and Confidence Building Measures (CBMs)

This study recommends the following actionable policy proposals and Confidence Building Measures to foster sustainable Pak-Afghan, bilateral and transit trade;

I. Propose to engage with Taliban government to establish, notify and operationalize new trade hotspots in major bordering districts of Balochistan and Khyber Pakhtunkhwa.
II. Engagement with Afghan government for the establishment of Pak-Afghan joint border markets in major bordering towns of Balochistan and Khyber Pakhtunkhwa.
III. Both countries governments needs to sign a Preferential Trade Agreement (PTA) to improve the market access and bilateral trade. As a part of the agreement, the governments should agree on the utilization of potential products and tariff rationalization (for details see table 2 and 3).
IV. The government need to revise the Afghanistan Pakistan Transit Trade Agreement (APTTA) as a part of the revised agreement, both nations should commit to facilitate the transit trade of Pakistan's export through Afghanistan to Central Asia and Afghanistan's import transit from India and other trade partners.

Policy Implications

If effectively implemented, these policy proposals and CBMs will have the following implications.

I. Reductions in size of informal trade.
II. Encourage Pak-Afghan bilateral trade.
III. Reduction in political tensions between Pakistan and Afghanistan.
IV. Encourage Afghanistan's transit trade through Pakistan and vice versa.
V. Creation of job opportunities for the local population in general and bordering regions in particular.
VI. Additionally, this will help address youth unrest and promote national integration primarily in Balochistan and Khyber Pakhtunkhwa.

Introduction

Pakistan has Physical boundaries with Afghanistan, Iran, China and India. However, its largest border on the western side with Afghanistan, is around 2600 km long. Balochistan shares around 2377km long border with Afghanistan (1468 km) and Iran (909 km). Khyber Pakhtunkhwa (KPK) shares around 1172km long border with neighboring country Afghanistan. Out of the 36 districts of Balochistan, 13 districts are located along the international border. Among these 13 districts, 9 districts (Quetta, Pishin, Chaman, Killa Abdullah, Zhob, Sherani, Killa Saifullah, Nushki, and Chaghi) have a border with Afghanistan. Similarly, out of 38 districts of Khyber Pakhtunkhwa (KPK) ten districts have physical boundary with Afghanistan. Including Bajaur, Upper Dir, lower Dir, Uper Chitral, Lower Chitral, Mohmand, Khyber, Kurram, North Waziristan and Lower South Waziristan. Most of cross-border movement, bilateral trade and transit trade with Afghanistan takes place through the borders the Balochistan and KPK shares with the Afghanistan. Torkham, Chaman, Ghulam Khan, Kharlachy, Badini and Angor Ada serve as major border crossing points for Pak-Afghan bilateral trade. Whereas, Torkham, Chaman and Ghulam Khan serve as major border crossing points for Pak-Afghan transit trade.[3]

People living on both sides of the border share a common language, culture, values and history. Moreover, the population residing in the bordering districts on both sides of the border are primarily dependent on the border trade and trade-related activities. The PIDE (Pakistan Institute of Development Studies) recent study on border trade reports more than 25 trade hotspots (informal) in Balochistan (Pak Afghan and Pak-Iran). Chaman and Badihni are the only borders with Afghanistan that are officially notified and functional. In fact, Pakistan has traditionally been one of the largest trading partners of Afghanistan. Various nature of trade take place between two countries; two main forms of trade include bilateral and transit trade. In addition to these two, there is also undocumented and illegal trade, widely known as smuggling (informal trade). Informal trade makes up a large share of cross-border trade and is a major source of livelihood for the population of border towns.

Historically, Pakistan was one of the largest importers of Afghan products and Afghanistan was among the top-five major destinations for Pakistani exports. At its peak in 2010-11, Pakistan's exports to Afghanistan reached USD 2.6 billion and is also the main conduit of imports for Afghanistan from elsewhere through the Karachi port. Studies anticipated that, with full operationalization of Gwadar Port in Balochistan and improved connectivity of the province, exports to Afghanistan and other Central Asian Republics can be exponentially increased in the medium to long term[4]. However, the volume of Pak-Afghan trade has declined since 2011. When Taliban took over Kabul in August 2021, Pakistan's export to Afghanistan stood at USD 1025.5 million and Imports were 612.4 million. However, in the last two years, exports have declined to USD $976.6 million whereas, imports have augmented to USD 886.8 million.

3. Ministry of Foreign Affairs, Pakistan. (2024). Kabul bilateral trade. https://mofa.gov.pk/kabul-bilateral-trade

4. Muhammad, S., et al. (2022). Border trade economic corridor (BTEC) report Balochistan. https://doi.org/10.13140/RG.2.2.18577.30564

On the one hand, Pakistan's share of exports in Afghanistan's market has steadily declined. On the other hand, the volume of Pakistan's imports from Afghanistan has increased. And, this trend persist even after Taliban takeover. Furthermore, the share of other neighboring and regional countries in export to Afghanistan has increase over the time. Likewise, the volume of Afghanistan's transit trade is declining.

Therefore, the primary objective of this study is to examine the pre- and post-Taliban takeover Pak-Afghan bilateral and transit trade trends, to review the share of neighboring and regional countries in the Afghan market, to identify potential trade avenues between Pakistan and Afghanistan, and finally, to suggest policy proposals and Confidence-Building Measures (CBMs) to augment and restore Pak-Afghan bilateral and transit trade.

Pak-Afghan Major Imports and Exports

Pakistan's Major Exports: Pakistan's major export to Afghanistan includes but not limited to sugar & confectionary, cereals, wheat, rice edible vegetables, milling products, mineral fuels, oils, distillation products, salt, sulphur, earth stone, plaster, lime, cement and pharmaceutical products[5]. Additionally, PIDE's recent study reports the informal exports of major goods include pharmaceutical products, cement, construction materials, wheat, rice, cereals, fresh fruits and edible vegetables, petroleum products, oil, salt, stationery goods, fertilizer, plastic goods, distillation products, sugar, and confectionery).[6]

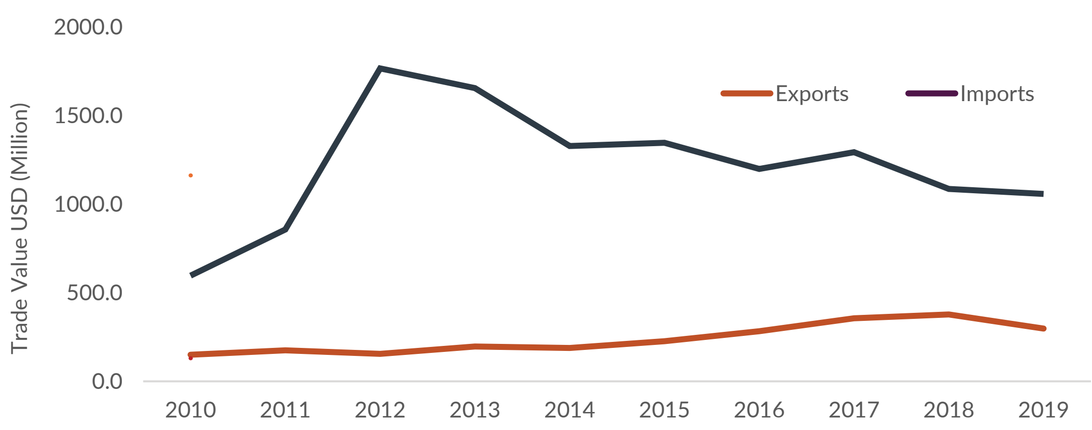
Pakistan's Major Imports: Pakistan major imports from Afghanistan includes, fruit and nuts, handwoven carpets, wool, cotton, hides and pelts and precious and semi-precious gems .Furthermore, PIDE's recent study reports the import of products from Afghanistan through informal channels include but not limited to automobile spare parts, automobile tyres, vehicles, fruit and nuts, handwoven carpets, wool, clothes, cotton, hides and pelts, livestock, solar panels, submersible, precious and semi-precious gems, ghee, cosmetic products, electronic products, chaliya, gutka, and cigarettes.

Pak-Afghan Trade Volume: The trade volume between Pakistan and Afghanistan has reduced significantly. According to trade statistics TDAP (Trade Development Authority of Pakistan), the total trade volume of Pak-Afghan trade declined from USD 2.6 billion in 2010-11 to USD 1.3 billion in 2019-20.[7] Additionally, Pakistan's exports to Afghanistan have persistently reduced over the past decade. In 2010-11, Afghanistan was the 2nd largest destination of Pakistani exports (next to the United States) as almost 9.4% of Pakistan's total exports went to Afghanistan. However, since 2010-11, Pakistan's exports to Afghanistan have witnessed a continuous decline. During the fiscal year of 2019-20, Pakistan's exports dropped to USD 855 million only, and Afghanistan's ranking as Pakistan's export market dropped to number 7.

5. Muhammad, S., et al. (2022). Border trade economic corridor (BTEC) report Balochistan. https://doi.org/10.13140/RG.2.2.18577.30564
6. Kakar, Ajmal (2024). Border crossings and economic nexus: Examining Pak-Afghan and Pak-Iran border trade dynamics in Balochistan (RASTA-PIDE) (not published yet)
7. Trade Development Authority of Pakistan (TDAP), https://tdap.gov.pk/

On the other hand, the imports from Afghanistan, however, have increased during the last decade[8]. In the 2023-24, the size of bilateral trade declined by 12%[9].Figure 1 illustrates the trend of Afghanistan's imports and exports from Pakistan between 2010-19. In fact, overall, Afghanistan's Imports from Pakistan have reduced over time. Whereas, exports have increased for the last decade. In other words, this indicates that Pakistan's exports to Afghanistan have decreased, whereas imports from Afghanistan have increased.

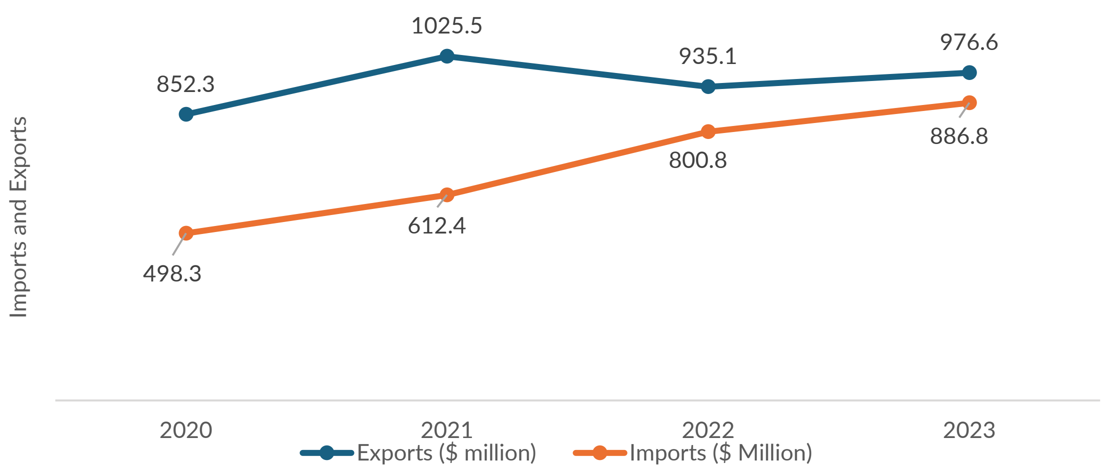
Figure 1. Afghanistan's Export and Imports from Pakistan



Source: Authors calculations using, Trade Map ITC

Similarly, figure 2 shows the volume of Pak-Afghan bilateral trade for the fiscal years 2020-23. Overall, the findings indicate that Pakistan's export exceeds than it imports, however the trade surplus is declining owing to rapid growth in Pakistan's import from Afghanistan. This reveals that Pakistan's dominance in bilateral trade is weakening, with imports catching up to exports.

Figure 2. Pak-Afghan Exports and Imports (in USD Million)



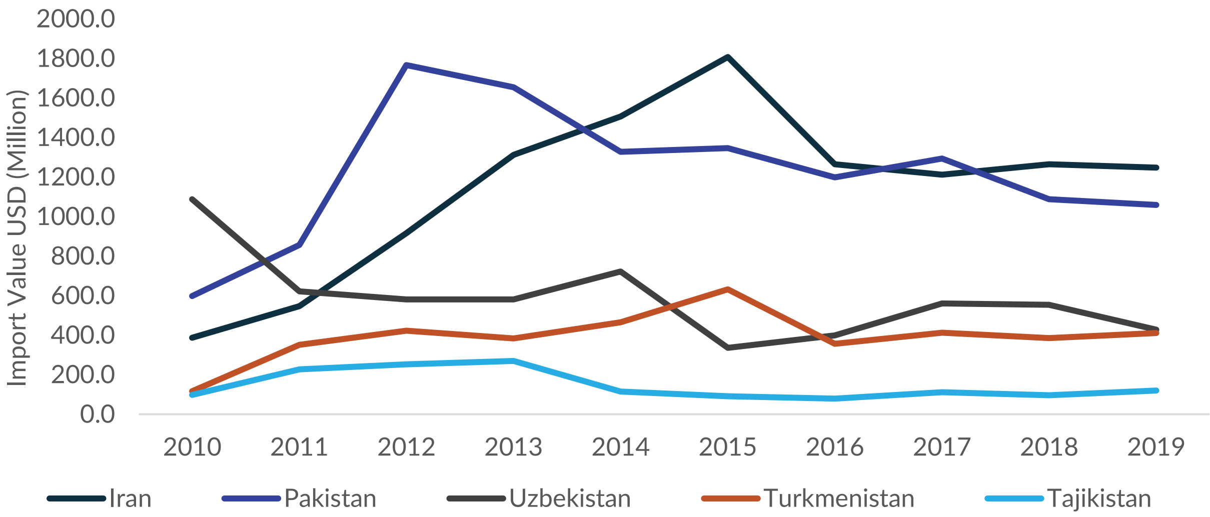
Source: Authors calculations using, Pakistan Bureau of Statistics data set

8. Trade Development Authority of Pakistan. (2021). Potential of Preferential Trade Agreement (PTA) between Pakistan and Afghanistan. https://tdap.gov.pk/wp-content/uploads/2022/03/Potential-of-Preferential-Trade-Agreement-PTA.pdf
9. Yousafzai, F. (2024). Afghan transit trade falls 84pc amid anti-smuggling efforts, import restrictions. The Nation. https://www.nation.com.pk/23-Sep-2024/afghan-transit-trade-falls-84pc-amid-anti-smuggling-efforts-import-restrictions

Neighboring Countries Share in Afghanistan (Import /Export) Market

According to trade map data developed by the International Trade Centre (ITC), Pakistan's share of exports to Afghanistan's market has persistently declined since 2012 and has dropped from the peak of USD 1766 million in 2012 to USD 1085 million in 2019. On the other hand, Iran's export volume has increased during this decade and reached a peak in 2015 with exports worth USD 1808 million (See figure-3).

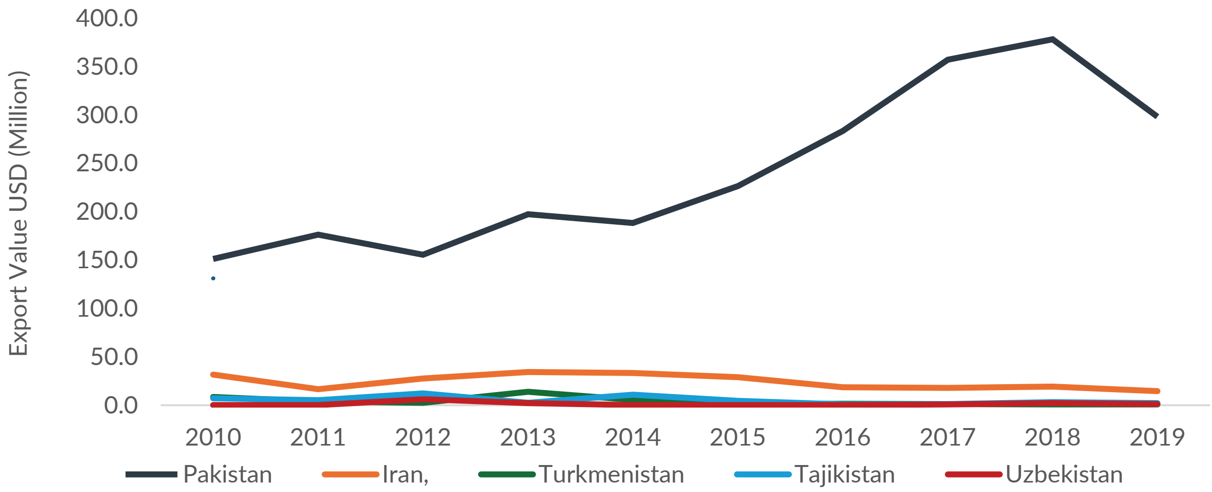
Figure 3. Neighboring Countries Share in Afghanistan Imports Market



Source: Authors calculations using Trade Map ITC

On the other hand, according to the data to trade map data developed by the International Trade Centre (ITC) on Afghanistan's exports to neighboring countries (See Figure 4.) Pakistan is the largest import partner among the neighboring countries. For the last decade (2010-1019), Afghanistan's exports to Pakistan have continuously increased and reached its peak in 2018 at USD 387 million. And, this trend persists even after the Taliban takeover Kabul from USD 612 million to USD 886.8 million between 2021-2023.

Figure 4. Neighboring Countries Share in Afghanistan Export Market



Source: Authors calculations using Trade Map ITC data

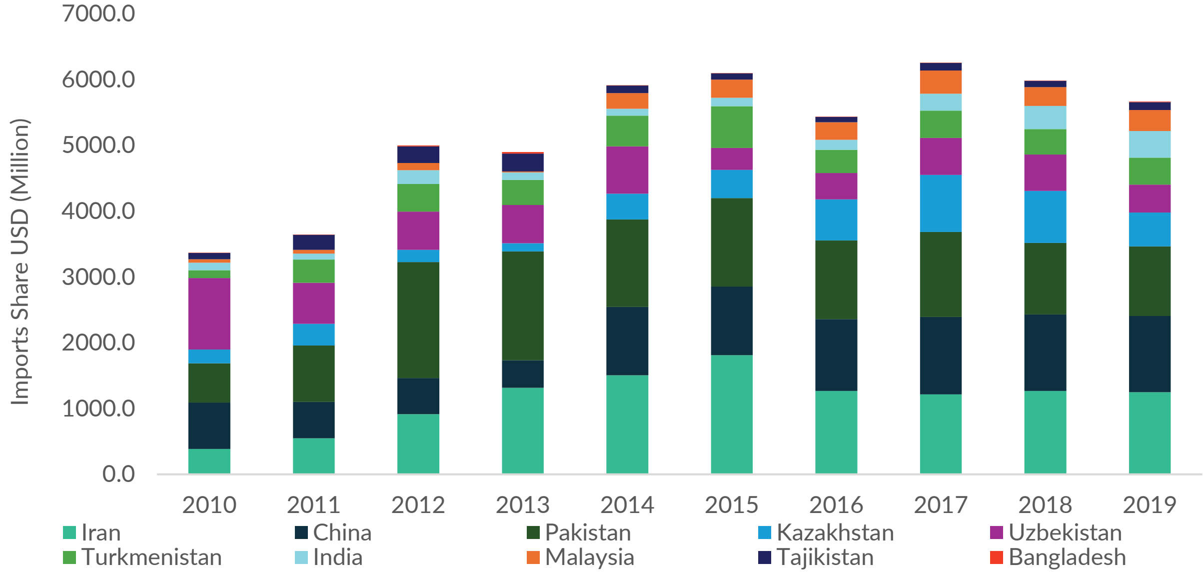
Regional Countries Share in Afghanistan's Imports:

Comparative analysis of Pakistan's performance with other regional trading partners in Afghanistan reveals that Pakistan is losing its share of the Afghan market to partners such as Iran, China, India, Malaysia, Kazakhstan, and Uzbekistan. This is happening despite easy access to Afghan markets and similarities in needs, language, and culture. As presented in Figure 5, the presence of Pakistan has declined over time.

If the current trend persists along with frequent closure of border crossing points such as Chaman Border and others which are not functional for one year (See the cost of closing border crossing point[10]) other regional competitors will replace Pakistan's share. This will have adverse repercussions not only on the economic growth but on the residents in bordering settlements.

10. Based on the information of local residents of Chaman, we have estimated the cost of Chaman border closure (of exclusively lagaryan/ daily wagers). In fact, the local residents reported that the number of daily wagers/ lagaryan is approximately 12,000 males, along with 80–100 elderly women and about 700 children. Based on their daily earning we estimated financial loss of daily workers over the past nine months stands at an astonishing 13.3 billion PKR. On a monthly basis, the loss faced by these daily wage earners is approximately Rs 115,211. However, the complete cost of closing the border is many times higher than the loss to Lagaryan/daily wagers.

Figure 5 Regional Countries Share in Afghanistan's Imports



Source: Authors calculations using Trade Map ITC

Pak-Afghan Transit Trade Overview:

Afghanistan is a landlocked country, needing transit agreements with neighboring countries such as Pakistan and Iran. The inland state is primarily relying on Pakistan followed by Iran for its international trade[11].Currently, Afghanistan's transit trade through Pakistan is based on the Afghanistan-Pakistan Transit Trade Agreement (APTTA) which was signed by the government of Pakistan and Afghanistan on 2nd October 2010 in Kabul. This treaty was signed for a period of 10 years which expired on February 11, 2021. Later the agreement was extended with additional protocols[12] .APTTA is a replacement to the Afghanistan Transit Trade Agreement (ATTA) signed in 1965 between Pakistan and Afghanistan to facilitate the transit of goods exported from and imported to Afghanistan using the Pakistani ports in Karachi. However, the existing agreement (APTTA) provide the use of additional port (including Gwadar Port) and allow more carriers along with the increase in number of trade gateways. As shown in the table 1, with the APTTA agreement the volume of transit trade on average increased. In 2010, 59% of Afghanistan's imports from countries with which it did not share a border transited through Pakistan. In 2015, 54% of Afghanistan's imports from non-neighboring countries transited through Pakistan indicating the importance of Pakistan as a transit route for Afghanistan. Afghanistan's transit trade through Pakistan increased from \$2.48 billion in 2014 to \$3.18 billion in 2015, a 28% increase.

11. Rlung, A. S., & Rasa, M. M. (2021). Impact of Afghanistan-Pakistan Transit Trade Agreement on Afghanistan Trade: An Empirical Exploration.

12. Bhutta, Z. (2022). Revised transit trade deal remains elusive. The Express Tribune. https://tribune.com.pk/story/2357393/revised-transit-trade-deal-remains-elusive

However, transit trade through Pakistan as a percentage of total exports to Afghanistan from non-neighboring countries declined from 58% to 54%. This shows that Pakistan remains to be the preferred transit route for Afghanistan's imports as compared to alternative Iran route.

Table 1. Afghanistan's Transit Trade Volume through Pakistan (2006-2015)

Year	Total Reported Exports To Afghanistan US $ Billion	Reported Exports to Afghanistan by non-neighboring Countries US $ Billion	Transit Trade Reported by Pakistan Customs US $ Billion	Transit Trade as % of total Reported Exports	Transit Trade Agreement
2006	3.51	2.02	0.59	29%	ATTA
2007	3.77	2.93	0.75	26%	ATTA
2008	5.67	4.22	1.25	30%	ATTA
2009	6.50	5.13	2.38	46%	ATTA
2010	9.19	6.19	3.68	59%	ATTA
2011	12.43	7.89	1.70	22%	ATTA/APTTA
2012	11.00	6.30	1.49	24%	APTTA
2013	10.12	5.00	2.15	43%	APTTA
2014	8.54	4.30	2.48	58%	APTTA
2015	7.66	5.94	3.18	54%	APTTA

Source: Afghan Transit Trade through Pakistan & Pakistan Afghanistan Bilateral Trade 2016, The Pakistan Business Council[13]

Table 2. Afghanistan's Transit Trade Volume through Pakistan (2017-2024)

Year	Transit Trade Reported by Ministry of Foreign Affairs Pakistan US $ Billion	TEU Reported by Ministry of Foreign Affairs Pakistan	Transit Trade Agreement
2017-18	3.07	79,805	APTTA
2018-19	5.23	121,577	APTTA
2019-20	5.40	129,072	APTTA
2020-21	4.41	116,997	APTTA
2021-22	4.02	101,701	APTTA
2022-23	6.70	153,480	APTTA
2023-24	2.40	73,974	APTTA

Source: Ministry of Foreign Affairs Pakistan, Embassy of Pakistan[14]

13. The Pakistan Business Council (2016). Afghan Transit Trade through Pakistan & Pakistan Afghanistan Bilateral Trade Pakistan Business Council.

14. Ministry of Foreign Affairs, Pakistan. (2024). Kabul bilateral trade. Ministry of Foreign Affairs, Pakistan. https://mofa.gov.pk/kabul-bilateral-trade

Additionally, the table 2 shows the volume of Afghanistan's transit trade through Pakistan for the years 2018-2024. During this time, volume of transit trade through Pakistan was high in fiscal year 2022-23. However, in fiscal year 2024-24, Afghan transit trade has been reduced significantly from $7.095 billion to $2.887 billion. This decline is mainly due to anti-smuggling measures and imports restrictions by Pakistan. Additionally, Central Vice President of Pakistan Business Forum (PBF), (according to business recorder[15]) stated political reason behind the fall in transit trade and Afghan government, including Taliban's reliance on Iran's Chahbahar Seaport in order to curtail dependency on Pakistan. He stated "*flow of Afghan transit trade and Pakistani exports to Afghanistan saw a steep drop after the Taliban seized control of Kabul in August 2021 in the wake of the withdrawal of United States and allied forces." And added that, "Afghanistan for its own strategic security and political reasons tried to increase its reliance upon Iran in order to curtail dependence on Pakistan, On the other hand, Iran for its own economic and political reasons offered its territory and seaports to Afghanistan so as to increase its own exports to Afghanistan and through its political influence in Kabul, facilitated by India*".

And, the president of Sarhad Chamber of Commerce and Industry (SCCI) reported that *"the fall in Afghanistan's transit trade through Pakistan is due to the expiration of the Afghanistan-Pakistan Transit Trade Agreement (APTTA) and subsequent failure Pakistan and Afghanistan to renew APTTA[16]".*

This reflect that, the volume of transit trade has been reduced and in future Afghanistan will primarily rely on Iran instead of Pakistan as a transit trade route.

Afghanistan's Engagements with India and Iran:

Chabahar Agreement: India, Iran and Afghanistan

Chabahar[17] the three-nation transport and transit corridor agreement between India, Iran and Afghanistan was signed in Tehran on 23 May, 2016. The agreement provides an alternative (Gwadar) trade route for Afghanistan. Research and Information System for Developing Countries (RIS) explain that Chabahar Port cuts the distance to Kabul by 700 km than Karachi and creating a huge potential savings of US$1,000 per container[18] .In contrast to Karachi and Gwadar ports, Chabahar has many opportunities for Afghanistan[19]:

15. 77g Zuberi, N. H. (2024). Pak-Afghan trade declining since Taliban's return to power. Business Recorder. https://www.brecorder.com/news/40309491
16. The Friday Times. (2024). Amidst frosty ties with Pakistan, Afghanistan turns to Iran for transit trade. The Friday Times.https://thefridaytimes.com/30-May-2024/amidst-frosty-ties-with-pakistan-afghanistan-turns-to-iran-for-transit-trade
17. Ministry of External Affairs, India. (2016). Chabahar Agreement. Ministry of External Affairs, India. https://www.mea.gov.in/Portal/LegalTreatiesDoc/016P2941.
18. Bhattacharjee S. (2018). Chabahar Port and India. New Delhi, India: Research and Information System for Developing Countries (RIS)
19. Kakar, A. (2020). Afghanistan Towards Independent Transit Trade: A Decay of Affiliation to Pakistan. Global Business Review, 0972150920906993.

- Chabahar Port is 90 km closer to Kabul than Bandar Abbas, it is also 70 km closer to Afghanistan comparing to Karachi Port.
- Reduction of sea transportation costs by 50 per cent for Afghan traders.
- Chabahar Port can provide the ground for construction of transportation infrastructures inside the Afghanistan territory through India's investment.
- Utilization of Chabahar Port turns Afghanistan into a transit bridge that connects the region to landlocked countries.
- Lower costs and taking shorter time to import goods to Afghanistan which result in thriving trade in Afghanistan.
- Dedication of 54 hectares of land to Afghan traders and industrialists in Chabahar free trade zone.

India and Afghanistan Air Corridor:

The government of India and Afghanistan have signed its first Air Corridor in 2017 to increase the volume of trade between two countries. Air corridor not only provides Afghanistan with direct transit facilities but also provides economic and strategic benefits[20].Other Trade agreements with India available on Ministry of Commerce Afghanistan are as follows;

- India, 2003, Preferential Trade Agreement
- Motor Vehicle Agreement Between Afghanistan & India, 2017
- India, 2005, MoU on Textiles
- MoU of Trilateral Joint Commission of Iran, Afghanistan and India[21]

Iran and Afghanistan Khaf-Herat Railway Project

Khaf-Herat railway project is a 225km-long cross-border railway linking eastern Iran to western Afghanistan. Iran and Afghanistan were agreed upon in 2007 International North-South Transport Corridor (INSTC) the project worth 28 trillion rials ($700 million) consists of four sections. Three sections of the route were funded by Tehran and the fourth section by Kabul[22]. The railway officially initiated operations in 2020, with the completion of a significant portion of the railway. In July 2023, Tehran and the Taliban inaugurated a railway connecting Iran's Khaf city with Herat in western Afghanistan, capable of carrying 5 million tons of goods and one million passengers annually. During a four-day Afghan and Iranian trade exhibition that ended in Kabul on March 10 2024, the two countries signed 30 contracts to enhance collaboration in transport and infrastructure projects, including connecting Iran to Afghanistan's northern city of Mazar-e-Sharif and ultimately to Central Asia and China[23].

20. Chakravorty, P. (2019). Connectivity with ASEAN, defence cooperation and fight against terrorism. Scholar Warrior, 118–119.
21. Ministry of Commerce and Industries, Afghanistan. https://moci.gov.af/en/agreements
22. Anadolu Agency. (2020). Iran, Afghanistan inaugurate crucial rail project. Anadolu Agency. https://www.aa.com.tr/en/asia-pacific/iran-afghanistan-inaugurate-crucial-rail-project/2072159
23. Caspian News. (2024). Iran, Afghanistan discuss expansion of trade and economic ties. Caspian News. https://caspiannews.com/news-detail/iran-afghanistan-discuss-expansion-of-trade-and-economic-ties-2024-3-15-0/

Causes of Pak-Afghan Low Trade Volume

Based on the literature, news reports and PIDE, recent study on border trade in Balochistan, this study identify the following as major stumbling blocks in Pak-Afghan trade. Including but not limited to

- Political tension and frequent border closures
- Privatization of taxation (rent-seeking by multiple agencies)
- Implementation of strict visa policies
- Lack of infrastructure
- Inadequate banking facilities
- Excessive and overlapping checking by various agencies
- Interprovincial restrictions and market accessibility (in the context of Balochistan)
- Excessive tariff
- Expiry and failure to revise the APTTA

Potential Exports to Afghanistan and Imports from Afghanistan

A study conducted by Trade Development Authority of Pakistan (TDA) in 2020, analyzed a total of 4855 products to identify potential export products for Pakistan. The study identifies those 97 products as potential export products, among them 25 were analyzed on priority basis. The top 25 potential export products to Afghanistan (see table 3) include road tractors for semi-trailers, medicaments, motorcycles, black tea, frozen cuts and edible offal of fowls, fresh eggs of domestic fowls, surgical instruments, blankets and travelling rugs of synthetic fibers, sanitary towels and tampons, parts of telephone sets and for cellular networks, part of gas turbines, insecticides, onions and shallots, articles of plastic, jewelry, hair use preparations, machines and mechanical appliances, bakery products, frozen edible bovine offal, gas turbines of a power > 5.000 KW, gloves, transmission apparatus, frozen meat alcohol and full-length or knee-length stockings, socks and other hosiery.

Table 3. Top 25 Potential Export Products to Afghanistan

S. No	Potential Products	Afghanistan's imports from world (Million US$)	Pakistan's exports to world (Million US$)	Potential Export (Million US$)	Share in Afghanistan's Imports	Imported Value (in million US$)
1	Road tractors	37.8	7.24	37.8	0%	2.9
2	Medicaments	24.77	16.4	23.9	3.30%	1.01
3	Motorcycles	24.04	1.59	22.53	6.30%	1.52
4	Black fermented tea and partly fermented tea	26.41	5.61	22.47	14.90%	3.94
5	Frozen cuts and edible offal of fowls	20.6	2.49	20.59	0.00%	0.006
6	Fresh eggs of domestic fowls	14.5	1.3	14.4	1%	0.075
7	Surgical Instruments.	10.3	361.2	10.3	0%	0.002
8	Blankets and travelling rugs of synthetic fibres	10.7	10.04	10.08	6%	0.635
9	Sanitary towels and tampons	10.7	4.08	9.9	7.20%	0.773
10	Parts of telephone sets and for cellular networks	9.62	3.55	9.62	0%	0
11	Parts of gas turbines	9.35	10.7	9.3	0	
12	Insecticides	4.5	3.2	4.49	1%	0.061
13	Fresh or chilled onions and shallots	3.85	124.02	3.83	0.60%	0.025
14	Articles of plastic	4304	4.13	3.82	11.20%	0.482
15	Jewellery	3.13	4.1	3.1	0%	0
16	hair use preparations	2.5	9.9	2.4	5.70%	0.146
17	Machines and mechanical appliances	2.31	1.29	2.27	1.70%	0.04
18	bakery products	2.8	20.28	2.07	26.10%	0.731
19	Frozen edible bovine offal	2.1	10.07	2.06	1.90%	0.04
20	Gas turbines of a power > 5.000 kW	1.7	9.32	1.7	0	0
21	Gloves	1.84	7.04	1.66	9.80%	0.181
22	Transmission apparatus	1.65	12.6	1.65	0%	0
23	Frozen meat	1.4	6.34	1.4	0%	0
24	Undenatured ethyl alcohol	1.28	303.6	1.28	0%	0
25	Full-length or knee-length stockings, socks and other hosiery.	1.1	29.05	1.1	0%	0

Source: Potential of Preferential Trade Agreement (PTA) between Pakistan and Afghanistan, Trade Development Authority of Pakistan ,2021

On the other hand, there are potential import products for Pakistan. The top potential imports from Afghanistan includes Figs, grapes, almonds, onions, cumin seeds, apples, beans and cotton (See table 4). The potential tread volume between Pakistan and Afghanistan would be USD 5.2 billion of which USD 4.44 billion is Pakistan's export to Afghanistan volume and USD 724.6 million were potential imports from Afghanistan.

Table 4. Potential Import Products from Afghanistan

Sr. No	Products	Importer Countries	Afghanistan's Exported value (000 US$)	Quantity (in Kg)	Cost US$ Per Kg	Tariff applied on Afghanistan	Preference margin
1	Fresh or dried figs	India	132,228,489	17,600,180	7.5	0%	**30%**
		Pakistan	1,039,571	444,738	2.3	5%	**15%**
		USA	460,083	271,940	1.7	0.31%	**1.5%**
		Canada	411,548	57,997	7.1	0%	**0%**
		China	152,215	74,817	2.0	0%	**30%**
2	Dried grapes	India	100,081,251	27,550,725	3.6	0%	**0%**
		Turkey	3,391,439	2,188,509	1.5	54.9%	**0%**
		Pakistan	3,290,718	2,573,050	1.3	5%	**15%**
		UK	1,989,005	618,604	3.2	0%	**2%**
		USA	1,408,271	366,864	3.8	0%	**2.5%**
3	Fresh or dried almonds, shelled	India	18,953,540	2,344,942	8.1	0%	**18.8%**
		Turkey	3,816,826	663,680	5.8	15%	**0%**
		Germany	2,041,727	373,923	5.5	0%	**1.75%**
		Pakistan	364,013	154,114	2.4	5%	**15%**
		Italy	109,421	21,000	5.2	0%	**1.75%**
4	Fresh or chilled onions and shallots	Pakistan	28,618,949	163,744,322	0.2	0%	**3%**
		India	21,309,060	48,742,360	0.4	0%	**0%**
5	Cumin seeds, neither crushed nor ground	Turkey	9,784,035	4,864,580	2.0	30%	**0%**
		Pakistan	1,725,166	1,309,925	1.3	3%	**0%**
		India	1,230,329	579,008	2.1	0%	**30%**
		Spain	343,700	125,000	2.7	0%	**0%**
		Uzbekistan	187,425	144,230	1.3	5%	**0%**
6	Fresh apples	Pakistan	36,421,878	51,431,620	0.7	3%	**0%**
		India	9,665,405	10,810,485	0.9	0%	**30%**
		Senegal	256,402	368,780	0.7	20%	**0%**
7	Dried, shelled beans "Vigna and Phaseolus", whether or not skinned or split (excluding beans ...	Pakistan	10,818,636	22,877,727	0.5	3%	**0%**
		India	2,791,375	2,900,000	1.0	0%	**0%**
		Canada	197	550	0.4	0%	**0%**
8	**Cotton, neither carded nor combed**	**Pakistan**	**117,134,850**	**65,566,000**	**1.8**	**0%**	**0%**

Source: Potential of Preferential Trade Agreement (PTA) between Pakistan and Afghanistan, Trade Development Authority of Pakistan ,2021

Policy Proposal

- Reduce political tensions through negotiations and both countries should not use the border crossing points as a political war tool.Therefore, they should ensure the border trade as usual.
- Both countries should provide better and adequate facilities for the traders. Including smooth cross border movement of the people, banking facilities, overcome bureaucratic hurdles, and others.
- Introduce tariff parity under APTTA.
- Upgradation of existing road networks and building of new roads is indispensable for both bilateral and transit trade along with proposed economic gateways.
- Development of new economic corridors in each bordering districts of Balochistan and Khyber Pakhtunkhwa (KPK) in different phase.
- Establishment and development of Pak-Afghan Joints Border Markets (JBM) in each bordering town.
- Both countries must meet semi-annually, biannually and annually to address the challenges raised over the year.
- APTTA was signed for a period of 10 years which expired on February 11, 2021. Latter the agreement was extended with additional protocols without revision, therefore we suggest to revise the APTTA with additional facilities.
- Both countries governments need to sign a Preferential Trade Agreement (PTA) to improve the market access and bilateral trade. As a part of the agreement, the governments should agree on the utilization of potential products and tariff rationalization.

Proposed Immediate Agreement

Establishment of New Trade Gateways in each Bordering Town:

Pakistan has boundaries with Afghanistan, Iran, China and India. However, its largest border on the western side with Afghanistan, is around 2600 km long. Balochistan shares around 2377-km long border with Afghanistan (1468 km) and Iran (909 km). Out of the 36 districts of Balochistan, 13 districts are located along the international border. Among these 13 districts, 9 districts (Quetta, Pishin, Chaman, Killa Abdullah, Zhob, Sherani, Killa Saifullah, Nushki, and Chaghi) have a border with Afghanistan. Currently, there are only two formal trade hotspots in Balochistan i.e. Chaman (district Chaman) and Badini (District Kila Saifullah). However, Badini border is not functional. Developing new cross border points will stimulate formal trade (bilateral and transit trade) and livelihood opportunities for the local population in the bordering town. Therefore, the government of Pakistan should engage with Taliban government to establish new gateways and joint border markets as a business hub in the bordering settlements. The proposed junction points for Balochistan are given in the table 5.

Table 5. Proposed Trade Hotspots and Joint Border Markets in Balochistan

Sr.No	Bordering Towns	Recommended Border Crossing Points and Joint Border Markets
1	Quetta	Panjpai
2	Pishin	Maruf
3	Zhob	Kamar Din Karaz/
4	Killa Abdullah	Spina Theza
5	Noshki	Gaaz Naali
6	Chagi	Karwan Rah

Similarly, out of 38 districts of Khyber Pakhtunkhwa (KPK) ten districts have physical boundary with Afghanistan. Including Bajaur, Upper Dir, lower Dir, Uper Chitral, Lower Chitral, Mohmand, Khyber, Kurram, North Waziristan and Lower South Waziristan. Currently, there are four formal and operational border crossing points (Torkham, Kharlachi, Angoor Ada and Ghulam Khan). Thus, based on the policy proposal of PIDE, a recent study on Border trade in Balochistan[24], we recommend establishing border crossing points and joint border markets in major bordering districts as depicted in table 6. Additional cross-border points will augment the volume of bilateral trade, which will have spillover effects.

Table 6. Proposed Trade Hotspots and Joint Border Markets in Khyber Pakhtunkhwa

Sr.No	Districts	Recommended Border Crossing Points and Joint Border Markets
1	Bajaur	-
2	Upper Dir	-
3	lower Dir	-
4	Uper Chiteral and lower Chitral	-
5	Mohmand	-

In fact, developing new gateways and joint border markets simultaneously would be a difficult decision, as establishing multiple gateways requires significant financial resources for the necessary infrastructure. Additionally, initiating with a pilot project would help guide the development of others. Therefore, its proposed to initiate in different phase based on the population in the bordering districts and the access to major cities in both countries. The proposed engagements are based on remarks of various chambers of commerce and traders engaged in cross-border trade in Balochistan, during our field visit for PIDE study on border trade in Balochistan.

24. Kakar, Ajmal (2024). Border crossings and economic nexus: Examining Pak-Afghan and Pak-Iran border trade dynamics in Balochistan (RASTA-PIDE) (not published yet)

Figure 6. Proposed Joint Border Market (JBM) Structure

Source: Designed by Authors

Appendix

Annex 1 Afghan Transit Trade

	2019-20				2020-21				2021-22				2022-23				2023-24			
	No. of Containers	TEUs	Value (US$ in million)	Security Amount Involved (Rs in million)	No. of Containers	TEUs	Value (US$ in million)	Security Amount Involved (Rs in million)	No. of Containers	TEUs	Value (US$ in million)	Security Amount Involved (Rs in million)	No. of Containers	TEUs	Value (US$ in million)	Security Amount Involved (Rs in million)	No. of Containers	TEUs	Value (US$ in million)	**Security Amount Involved (Rs in million)**
July	8,235	11,917	480.81	42,451	4,236	6,059	252.54	21,351	6,394	9,057	366.56	28,836	8,582	12,155	485.26	49,407	7,850	12,588	563.18	**77,056**
August	7,509	11,096	498.50	44,443	5,177	6,976	319.16	27,818	4,633	6,756	272.92	20,110	9,905	14,580	644.86	67,719	11,054	15,853	579.94	**77,426**
September	8,568	12,607	552.97	46,795	9,159	12,074	444.36	38,897	4,859	6,434	334.56	18,746	7,732	11,261	537.32	58,339	9,993	14,301	529.14	**72,252**
October	9,120	12,815	531.96	45,778	8,533	11,198	394.16	33,043	3,787	5,223	192.81	14,332	6,618	9,760	472.07	50,825	4,467	6,376	240.49	**28,833**
November	9,733	14,215	600.90	49,198	7,079	9,537	341.44	29,411	4,187	5,553	199.00	16,189	7,948	11,626	549.14	58,605	1,406	1,957	43	**4,245**
December	8,870	13,445	576.10	49,422	6,068	8,566	317.80	27,207	4,865	6,691	246.78	20,726	10,852	16,168	756.03	82,378	2,643	3,523	85	**10,619**
January	9,918	14,825	633.55	57,542	6,078	8,389	347.25	28,735	6,210	8,768	367.47	30,205	8,773	13,141	571.40	63,206	1,821	2,319	45	**5,008**
February	11,736	16,442	647.88	59,807	6,976	9,392	377.45	32,563	4,289	6,458	302.80	25,015	7,723	11,881	437.84	55,276	3,139	3,950	76	**8,554**
March	2,196	3,054	105.90	9,065	8,633	11,282	349.42	28,311	7,906	10,210	359.06	29,063	8,152	12,271	494.55	65,311	3,401	4,229	79	**8,611**
April	3,265	4,650	187.98	16,587	9,354	12,209	424.63	34,931	6,774	9,514	393.18	33,593	8,262	12,741	552.15	76,947	2,193	2,929	53.65	**5,498**
May	3,539	5,334	228.76	19,570	7,224	10,240	411.78	33,739	8,683	11,393	403.52	37,741	11,048	16,585	723.00	101,528	3,039	4,010	69.79	**7,378**
June	6,296	8,672	357.74	30,166	8,320	11,075	427.48	35,667	11,729	15,644	577.63	56,336	7,291	11,311	477.02	67,935	3,108	4,097	68.44	**7,305**
Total	**88,985**	**129,072**	**5,403**	**470,823**	**86,837**	**116,997**	**4,407**	**371,673**	**74,316**	**101,701**	**4,016**	**330,892**	**102,886**	**153,480**	**6,701**	**797,477**	**54,114**	**76,132**	**2432.63**	**312,784**

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