

PILdAT

Discussion Paper

Pak-Afghan Trade

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Abbreviations and Acronyms

APTTA	Afghanistan-Pakistan Transit Trade Agreement
APTTCA	Afghanistan-Pakistan Transit Trade Coordination Authority
FBR	Federal Board of Revenue
GATT	General Agreement on Trade and Tariffs
ISAF	International Security Assistance Force
JWG	Joint Working Group
KP	Khyber Pakhtunkhwa
MOU	Memorandum of Understanding
NWFP	North West Frontier Province
USSR	Union of Soviet Socialist Republics

FOREWORD

Pakistan and Afghanistan have a long history of being trade partner. Pakistan represents Afghanistan's' main access to a seaport for its foreign trade. Afghanistan, at the same time, has the potential for becoming a land linked country providing Pakistan with direct routes to the Central Asia. Transit to Afghanistan through Pakistan is governed by the Afghanistan-Pakistan Transit Trade Agreement (APTTA) which specifies the port, route, transport modes and customs transit procedures. With the passage of time, trade conditions for the transit of goods to/from Afghanistan through Pakistan have changed significantly. Both Afghanistan and Pakistan have agreed on not only to continue to provide Afghanistan with access to the sea through Pakistan but also to provide Pakistan with direct routes to the Central Asia.

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Pakistan–Afghanistan Transit Trade

Pakistan and Afghanistan are two neighbouring countries and have a number of commonalities. Both are predominantly Muslim countries and Islamic Republics. They mostly enjoy brotherly relations. They share similar cultural values and civilizations. A substantial part of Pakistan also shares topography and geographical conditions as well. Pakistan has always valued its relationships with Afghanistan.

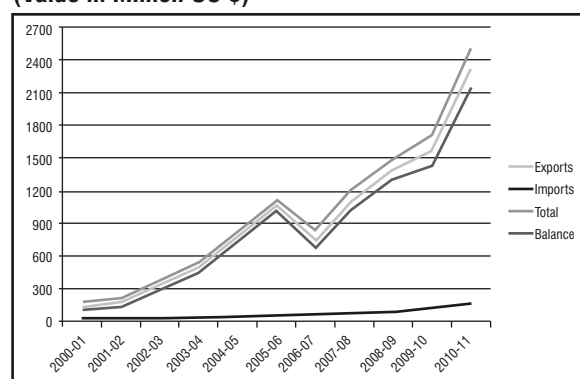
Trade Relations between Pakistan and Afghanistan

Pakistan and Afghanistan have a long history of being trade partner. In the present days, in view of peculiar status of development in Afghanistan, it has been a good market of Pakistani products ranging from food items to light machinery and engineering goods. The mutual trade has demonstrated an encouraging and rising trend in the recent past.

Table 1: Pakistan-Afghanistan Bilateral Trade (Value in Million US \$)

Year	Exports	Imports	Total	Balance
2000-01	140	29.5	170	110.9
2001-02	169.2	22.9	192.1	146.4
2002-03	315.7	34.8	350.5	280.8
2003-04	492.9	47.4	540.3	445.4
2004-05	747.722	38.9	786.7	708.7
2005-06	1063.4	47.5	1110.9	1015.9
2006-07	753.9	76.2	830.2	677.6
2007-08	1143.6	91.3	1235?	1052.3
2008-09	1398	93	1491	1305
2009-10	1572	139	1711	1433
2010-11	2336.7	172	2508.7	2164.7

Figure 1: Pakistan-Afghanistan Bilateral Trade (Value in Million US \$)



1. www.afghanistans.com/information/economy/foreigntrade.htm

The trade data for the last one decade since the year 2000-2001 to-date shows that trade has seen an increasing trend with the exception of one year, i.e., 2006-2007. Table 1 provides the trade figures over the years.

It is observed that incremental effect in trade from a year to another ranges from 7.1 % to 82 %. During the year 2006-2007, a decline has been registered which can be attributed to the strict measure taken immediately to the emergence of the information that a huge amount of smuggling and illegal trade was rampant under the cover of the provision of the facility of the transit trade. It appeared that some elements were taking undue advantage of the facilities under the Pakistan-Afghanistan Transit Trade Agreement.

Table 1 also reflects that the balance of trade has always been in the favour of Pakistan. Over the years, the bilateral trade has risen up to US \$ 2509 million in the year 2010-2011 with a positive balance of trade of US \$ 2164.7 million in favour of Pakistan.

The major exports of Pakistan to Afghanistan¹ have been:

- i. Rice (of all varieties)
- ii. Petroleum products
- iii. Cement
- iv. Pharmaceutical products
- v. Vegetables
- vi. Fruits
- vii. Plastic Articles
- viii. Chemical products
- ix. Electrical and other machinery
- x. House hold equipment
- xi. Juices of fruits and vegetables
- xii. Transport equipment
- xiii. Food stuff for animals
- xiv. Electric fans
- xv. Rubber manufactured products
- xvi. Tents and canvas goods
- xvii. Footwear
- xviii. Leather products
- xix. Wheat
- xx. Paper and paper board
- xxi. Textile made-ups
- xxii. Fish and fish preparations
- xxiii. Oil seeds
- xxiv. Yarn and many other products

Afghanistan's other imports are food items, motor vehicles, petroleum products and textiles. Most of the Afghanistan's international trade is controlled by the government or by the government controlled organisations having monopoly over that particular segment of the trade. The major exports of Afghanistan are dried fruit and carpets. The other exports are fresh fruits, natural gas, wool and cotton.

Afghanistan-Pakistan Transit Trade Agreement (APTTA)

Under the provisions of the United Nation's Conventions and Article 5 of the General Agreement on Trade and Tariffs (GATT), Pakistan has been providing to Afghanistan the facilities of the transit trade since its existence in 1947. After many years of extending such facilities by Pakistan and availing the same by Afghanistan, and in order to formalize the arrangements, both the countries, entered into an Agreement in 1965 called as the Afghanistan-Pakistan Transit Trade Agreement (APTTA). According to the APTTA, the entry points for the Afghan trade cargo into Pakistan were Karachi Port and Port Qasim (also at Karachi). The exit points were Torkhum in the Province of North West Frontier Province (NWFP) since re-named as Khyber Pakhtunkhwa (KP) and Chamman in the Province of Balochistan.

Subsequent to the finalization of the 1965 APTTA, a number of developments have taken place in various fields, i.e., modes of transportation have been changed to more sophisticated and heavy duty open trucks were introduced, a revolution has taken place in the field of communications, logistics have been advanced over the years, customs procedures have been modified many times since 1965, security environment has become altogether different and a lot many advancements have been made in the equipment. There have been many changes in various international trade practices and more so, in respect of the changed commercial and trade environment in the region. Another reason to consider an altogether revision for the APTTA was that the said agreement did not have any provision for facilitation for Pakistan for its exports to the Central Asian republics.

The 1965 Agreement was renegotiated to provide for the containerized cargo and to suggest effective measures for eliminating or at least minimizing the pilferage of articles of the cargo. Pakistan also wanted to have safe movements for its own export materials to central Asian republics through Afghanistan. This was, in fact, necessitated as a

result of the dismemberment of the former USSR. In early 2006, Pakistan started the process of negotiations for signing the APTTA afresh. For this purpose, officials of both the governments of Pakistan and Afghanistan had initiated discussions to arrive at a consensus that the Agreement needs an altogether revision.

Challenges, Bottlenecks, Impediments and Opportunities

After having some initial rounds of discussions and reaching upon agreement on certain issues, the Foreign Ministers of Pakistan and Afghanistan signed an Memorandum of Understanding (MOU) on May 6, 2009 and resolved that they will conclude the new version of APTTA by the year end, i.e., December 31, 2009.

Subsequent to the signing of the MOU, a Joint Working Group (JWG) was constituted comprising senior officials of relevant Ministries and departments of both the governments and representatives of the private sector organizations functioning in the trade and commerce sector in Pakistan and Afghanistan. The Group had its seven meetings during the period from May 2009 to July, 2010 and tried to thrash out various issues involved in the transit trade. In the same time frame, the Group also worked out various measures to remove the bottlenecks earlier experienced in the smooth operation of the transit trade.

The major issues involved in transit trade discussed by the JWG and the Ministerial meetings included the following:

1. Delay in Clearance: There have been delays and problems in getting customs clearance at ports of entry at Karachi or Wagha border for the goods to be traded under the APTTA.

2. Exchange of data: The custom to custom exchange of information used to be a problem and it was necessary to ensure operation of a system for exchange of information and requisite data between the Customs departments of two countries.

3. Transportation: it was agreed that Afghan truck could be used as a carrier of the goods. It was also resolved that tracking devices will be installed into the trucks and other means of transport used in the trade under this agreement. These arrangements might have caused apprehensions amongst Pakistani transporters that they will suffer losses

as they might be deprived from transporting goods under the new Agreement. These reservations have no grounds as Article 9 of the APTTA read with Article 1 of the Protocol Two attached to the said Agreement don't debar for their hiring by the contracting party. It appears that they will have to offer competitive rates for their engagement in transportation of the goods under these arrangements. The other concern is related to the condition of the road from Peshawar to Torkhum which requires improvement and the Provincial Government of KP requires to bring improvements. Another point concerned with the apprehension of engagement of the Afghan Trucks is the inland transportation of goods while moving in Pakistan. This very point has since been dealt with in the recently finalized APTTA and inland transportation of goods by Pakistani trucks in Afghanistan and likewise by Afghan trucks in Pakistan has been prohibited.

4. Transit Trade Policy: A transit trade policy will be worked out by both countries so that issues involved could be decided upon at an appropriate time and well in advance and that too on a long term basis. The target was to remove any element of uncertainty for a long time to come.

5. Security: biometric devices will be required to be installed at entry points of the goods. Moreover, scanning of the cargo will also be introduced.

6. Visa Facility: Visa for two persons per truck i.e. one driver and one cleaner associated with the truck will be allowed.

7. Pending Cargo: Unclaimed consignments lying at Karachi Port will be cleared within an agreed time frame and thereafter, those will be disposed off by the port authorities as per their standard operational procedures.

8. Illegal Trade: Unauthorized trade will be checked on a regular basis and that will not be allowed under any circumstances and no exception could be created.

9. Banned Chemicals: There will be effective measures in force for controlling precursors and banned chemical substances.

10. Indian Exports: Exports from India meant for Afghanistan through Wagha border will not be allowed by Pakistan under any situation.

11. Afghan Exports: Afghan exports to India through the

Wagha border will be allowed by Pakistan.

12. Smuggling: Effective measures will be taken by Pakistan for curbing smuggling under the garb of the transit trade of the cargo meant to undergo the transit trade.

13. Air Transit: Pakistan will facilitate the air transit of goods under the Agreement.

14. Pakistan Railways: Use of Pakistan Railways for the transit cargo will be encouraged and Pakistan will make appropriate arrangements for the facilitation of transportation under the agreement. Arrangements for availability of the required number of engines and bogies will be made well in time by the Pakistani authorities.

15. Use of Containers: Containerization of the cargo will be ensured. The sealed containers will however, be acceptable under the new agreement as an interim measure to avoid any dislocation in the flow of Afghan trade.

As an outcome of the continuous process of dialogue at officials' level as well as at the Ministerial level, following decisions were taken:

1. Visa: Only two persons per truck, i.e., one driver and the other cleaner will be granted permission for entry and exit in respect of the two countries. This would be verifiable by the biometric devices installed at appropriate points particularly at the entry and the exit points at the borders.

2. Afghan Trucks: Afghan trucks will be allowed to carry Afghan transit exports cargo on designated routes to and from Pakistan sea ports at Karachi and Wagha border.

3. Containerized Cargo: All Afghan transit goods shall be transported in containers of international specifications under the revised transit trade agreement. As an interim measure however, for an interim period of three years, the cargo will be allowed to be transported in internationally acceptable and verifiable standards of sealable trucks. The oversize and bulk cargo only could be transported in open trucks or other similar transport units.

4. Perishable Goods: Export of perishable goods in transit will be allowed for transportation in open trucks or similar means of transport.

5. Indian Exports: No Indian exports to Afghanistan will be

allowed through Wagha border at least at this stage. Pakistan however, expressed its willingness to consider this point some time later and some appropriate arrangements will be worked out with mutual consent.

6. Afghan Exports to India: Pakistan will facilitate Afghan exports to India through Wagha border. Afghan trucks will however be required to follow the prescribed routes to Wagha. Afghan goods will be transferred, back to back, at Wagha border.

7. Unauthorized Trade: The unauthorized trade would be checked by taking the following steps:

- i. Only sealed containerized cargo will be allowed. During the initial three years period and as an interim measure, the cargo could be transported in sealable trucks which are internationally acceptable and possess the verifiable standards.
- ii. Biometric devices will be installed at all the entry points for an effective checking of any unauthorized trade.
- iii. The required equipment will be installed at all the entry and exit points for scanning and weighing of cargo.
- iv. In case of doubt and suspicion, consignments could be examined en route by custom authorities.
- v. Transit consignments will be allowed for transportation on prescribed routes only.
- vi. Oversize and bulk cargo could be transported in open trucks.
- vii. The perishable goods will be exported in open trucks and similar other transport units.

8. Financial Guarantee: in order to check the unauthorized transit trade, financial guarantee equal to the amount of import levies of Pakistan will be deposited. This amount will be released after the goods had exited the country. In case goods do not exit the country within the specified time, the guarantee will be encashed by the customs authorities.

9. Tribunal for Arbitration: An Arbitral Tribunal will be constituted mutually by both the countries. Pakistan and Afghanistan both will nominate one arbitrator each to be a member of the Arbitral Tribunal. In respect of nominating the third name, both the countries will agree upon one name. In case of failure to agree on a common name of a third arbitrator, two names of non-nationals and non residents will be proposed by each side. The third arbitrator

will be selected by drawing lots from the four proposed names.

As a consequence to the consensus arrived at various issues through the dialogue process, a Memorandum of Understanding between Afghanistan and Pakistan was signed in July 2010 at Islamabad which was witnessed by US Secretary of State. As a further follow up and after sorting out various issues, the formal agreement i.e., the Afghanistan - Pakistan Transit Trade Agreement (APTTA) was signed by both the parties on October 28, 2010 at Kabul. This ceremony was attended by Mr. Richard Halbrook, the US Special Representative on Afghanistan and Pakistan.

A constant interest was demonstrated by US in the process of finalization of the agreement probably due to the reason that one of the provision was to enable Afghanistan to trade its goods to India under the transit facilities provided by the Agreement. In this respect, it may, however, be mentioned that Pakistan got transit routes for its exports to Central Asian republics and had not agreed to provide the transit facilities to Indian exports, through its soil, to Afghanistan. Another reason for US interest could have been that in some unforeseen eventuality, they could make use of the APTTA arrangements for supplies for their Forces in Afghanistan. In order to operate the provisions of the APTTA, an authority namely Afghanistan-Pakistan Transit Trade Coordination Authority (APTTCA) was established. The APTTA was supposed to be effective from January 12, 2011 but with mutual consent and after fulfilling certain procedural requirements but with a delay of about five months, it became effective from June 12, 2011.

In September, 2011, Afghan Minister for Commerce visited Pakistan and held discussions with his counterpart in Pakistan. As a follow up of the Minister's visit, the officials of both the countries had a round of meetings and succeeded in resolving various issues then facing the transit trade. The salient issues resolved at that stage are briefly as under:

1. Pakistan and Afghanistan reached an agreement on reducing the amount of bank guarantee to provide facility to smaller importers and exporters from Afghanistan. The matter was discussed in consultation with the Insurance Companies which ultimately gave their agreement to consider the risk premium and other charges for Afghan transit cargo.

2. Pakistan agreed to allow transloading of Afghan cargo pending with Pakistan Railways so that the issue outstanding since long could be resolved at an early date as the decision in principle was taken.

3. Afghan exports to India through Wagha border will not be subjected to financial security by Pakistan. This measure will help a long way to facilitate the Afghan exports even to India.

4. Pakistan's exports to Central Asian republics through Afghan land, will not be charged to any financial security/guarantee. This was in fact, an indication of reciprocity to Pakistan's willingness not to charge any levy on Afghan exports to India through its land via Wagha border.

In order to have smooth implementation and operation of the transit trade, customs delegation from Afghanistan visited Pakistan in September 2011. The Afghan officials met their Pakistani counterparts and resolved quite a few procedural issues in this regard.

Issues in Transit Trade

At times the transit trade facility established between the two countries has been abused by some of the elements involved in the whole process of the trading and resulted into a number of otherwise avoidable problems. Some of such issues emerged out of the transit trade arrangements are outlined in the following:-

1. Sometimes the importers from Afghanistan have imported a product much more than their actual domestic need and the quantities have been way above their actual or a reasonable level of consumption or demand. In this manner, the surplus quantities used to be pushed back to Pakistan as smuggling or as a measure of illegal trade practice. The examples of such cases are the import of black tea and electronics goods which could be cited. In fact, in Afghanistan, green tea is the preferred hot drink instead of black tea. Similarly, the electrical goods particularly the house-hold equipment have been imported by Afghanistan under the said facility much more than their actual demand only to send it back to Pakistan through informal routes of trade.

2. The facility had therefore resulted in to a sort of semi-legal trade or smuggling. At times, the goods imported under the facility used to be imported not really to reach

Afghanistan rather to direct the commodities for pouring in to the markets of the major towns of Pakistan and particularly in the towns of the Province of KP.

3. The misuse of the facility thus resulted into resentment amongst the manufacturers in Pakistan as it had badly affected their businesses and per force they suffered huge losses.

4. Similarly, it had adversely affected the investment process in the country both domestic investment by Pakistani entrepreneurs and also the foreign investment had also shown decline as they could not compete with the low price structure of the products poured in to the market through smuggling and other illegal means of trade.

5. The facility has also adversely affected the legal imports into Pakistan, e.g., importers of tyres and tubes were the worst hit because of this malpractice. Their imports saw sharp decline in those years when smuggling through the unfair usage of the transit trade facilities was on the rise.

6. These malpractices resulted into substantial loss in terms of the corporate taxes and duties.

7. In the past it had been hard to keep track of movement of the cargo meant for Afghanistan starting from Karachi which would never reach Torkhum in KP and Chamman in Balochistan instead diverted to various cities of Pakistan

8. The facilities provided under the Transit Trade have been a continuous cause for corrupt practices in economic officials and the political circles.

9. At one stage, when the Government of Pakistan prepared a negative list, first in 1996 and then in 2000 in respect of this facility and those listed items were not to be traded under the transit trade facility, there was a lot of resentment amongst the Afghan traders and businessmen. Such a list included items which did not have much consumption in Afghanistan. The list included black tea, tyres, tubes, air conditioners, television sets, VCRs, refrigerators, etc.

10. At a later stage, on the instance of the Afghan Chambers of Commerce, the Government of Afghanistan also formally protested against the negative list embargo imposed by Pakistan. On the other side, the list provided a relief to Pakistani manufacturers and they started producing in relatively much larger quantities to meet the domestic demands.

11. After 9/11, when US-led forces started action in the region and deployed forces across the Pakistan - Afghan border areas even these operations could not make any noticeable dent in the level of smuggling.

In the recent past, an inquiry carried out by the Federal Board of Revenue into the misuse of the facilities of the transit trade and trade meant for the International Security Assistance Force (ISAF), revealed in July 2011 that 28900 commercial Afghan Transit Trade containers² were missing causing an estimated loss of Rs. 55 billion in revenue to the Government of Pakistan.

These findings led to some subsequent remedial measures initiated by the Pakistani authorities, i.e., strict vigilance by the Customs authorities at the ports of entry at Karachi and the Customs Intelligence during the movement of the vehicles in transit that resulted introduction of various items of imports by Afghanistan. In the event of these steps taken, during the period from January 2007 to December 2010, the import of Polyester Fabric has fallen from 2803 to 737 containers, i.e., by 74%, tyres and tubes fallen from 392 to 84 containers, i.e., by 79 %, black tea fallen from 2350 to 1390 containers, i.e., by 41 %, electric consumer goods fallen from 1206 to 445, i.e., by 63 %, blanket fallen from 262 to 93 i.e. by 65 %. Similarly, the products were also reduced, i.e., crockery by 47 %, Toiletries by 53 %, refrigerators and air conditioners by 63 %, oil and lubricants by 41%, sugar by 76 %, computer monitors by 45%, ball bearings by 69 % and so on³ If the number of containers imported under the APTTA before and after these measures are taken into account, there is a fall of 54 % in the level of imports by Afghanistan.

Due to these developments some of the illegal trade got diverted to the trade under regular channels which has resulted into an additional earning of Rs. 3.6 billion as revenue to the Government of Pakistan⁴.

Key Steps in Augmenting Bilateral and Transit Trade

In November 2011, rules for facilitating the implementation of the APTTA have been framed by the Federal Board of Revenue and enforced by the Government of Pakistan. These rules are meant to regulate the trade under the APTTA. These rules mainly provide for:

- i. Transportation of the transit cargo in the Customs licensed bonded carriers only
- ii. En-route monitoring of the transit vehicles and cargo containers through Customs check posts located at different stations throughout the country
- iii. Movement of the vehicles to border stations of Torkhum or Chamman to be regulated and monitored
- iv. Restriction imposed upon stuffing on designated vehicles
- v. Partial shipment of vehicle or the container has been forbidden
- vi. A system audit of One-Customs by one of the private parties to be introduced, and
- vii. Establishment of One stand only, i.e., the Collectorate of Customs dealing exclusively with all the transit and trans-shipment cargo.

These rules also provide for the strengthening of the department of the Customs and the Customs Intelligence, etc. in terms of manpower as well as the equipment for an effective and smooth implementation of the APTTA.

Since these rules have been finalized in consultation with the relevant authorities in the Government of Afghanistan, it is therefore expected that there will be no serious bottleneck in the smooth implementation of these and the operationalization of the transit trade.

One hopes that the APTTA and the rules framed for regulating the Afghan transit trade will help in eliminating or at least minimizing the malpractices including smuggling. The effective and efficient application of the provisions made under the APTTA and the rules may however create some problems for some of the people from Afghanistan and even from Pakistan. It might be a little difficult to issue visas efficiently in respect of the driver and cleaner in the context of present security environments both in Afghanistan and Pakistan. The installation of tracking system and biometric devices may create apprehensions amongst potential smugglers in both the countries. The financial security now levied for the goods in each container may create problems for Afghan businesspersons. Such issues are likely to come up for discussion during forthcoming meeting of the Pakistan-Afghanistan Parliamentarians.

2.Exchequer suffers Rs 55 billion loss: 28,900 ATT containers go missing: FBR, September 30, 2011, Link:

<<http://www.brecorder.com/market-data/stocks-a-bonds/single/636/0/1236338/>>

3. Business Recorder.com/market data/stocks-a-bond

4. www.Business Recorder.com/market-data/stocks



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