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The Pakistan Afghanistan Bilateral trade has grown manifold since 2000; it reached $0.5 billion in 2004–05, $1.5 billion in 2009–10, and the highest $2.52 billion in 2011-12 and then has decreased to $1.58 billion in 2017-18. It is estimated that bilateral trade potential between two countries amounted for US $5 Billion. However this potential is limited by poor development of physical infrastructure, lack of banking facilities from each side of the border, inadequate trade facilitation and strained political relation, wars and security situations.

Pakistan has the largest share of Afghan imports at 23.7 percent in the fiscal year 2018. Whereas Pakistan remains the largest export market for Afghanistan with 47% of its exports are destined for Pakistan. The exports of Afghanistan to Pakistan are fresh fruits, dry fruits, and nuts, carpets and rugs, wool and rugs, gemstones and saffron, whereas the main imports from Pakistan are dairy products, cereal, and wheat, pharmaceuticals, textiles, and petroleum products.

Trade between both countries can be improved by arranging more exhibitions that aim to facilitate exporters, the concept of Border Bazars should be introduced on both sides of borders to support rural SMEs and micro-enterprises on both sides of the borders and also renegotiating improved terms for the APTTA and narrowing trust deficit. Therefore both Afghanistan and Pakistan should strive jointly for export-led economic growth, with a seamless flow of bilateral and transit trade, joint ventures, industrial complementarities and cooperation that will enhance the quality of life, generate economic activity and employment and trigger economic development.

The objective of this report is to highlight the trade and investment potential between Afghanistan and Pakistan and to inform the academia, policymakers and relevant stakeholders about ways and means to increase the bilateral trade between both countries, the report also highlights trade-related procedural hindrances and processes that could be streamlined for reducing the cost of doing trade and business between the two countries.

This report is an outcome of the workshop on leveraging SAFTA: Pakistan – Afghanistan Cross Border Trade Dialogue” held on 29th and 30th April 2019 in Peshawar, Pakistan organized by SAARC Chamber of Commerce and Industry.

The workshop was attended by various businessmen & traders who are engaged in cross border trade from both sides, various business houses, the Chamber of commerce experts and trade bodies.

The participants of the workshop meeting were engaged in meaningful dialogue and held in-depth deliberations on trade and investment opportunities between the two countries.
INTRODUCTION
Pakistan and Afghanistan are neighbours that besides located on a long border, share religion, geography, history, culture and language. The economic relations of Pakistan and Afghanistan primarily are the exchange of ideas, capital, goods and services. Limited by poor development of physical infrastructure and inadequate trade facilitation the trade is still below potential. Bilateral trade has grown manifold since 2000; it reached $ 0.5 billion in 2004–05, $1.5 billion in 2009–10, and highest $ 2.52 billion in 2011-12 and then has decreased to $1.58 billion in 2017-18 against an estimated bilateral trade potential of US $ 5 Billion due to a number of factors that includes but not confined to inadequate trade facilitation, custom delays, non-cooperative behaviour of government officials and most importantly political instability.

Afghan economy may be a fraction of that of Pakistan, at least ten times small as Pakistan, however Pakistan has the largest share of Afghan imports at 23.7 percent in fiscal year 2018. Whereas Pakistan remain the largest export market for Afghanistan with 47% of its exports are destined to Pakistan. The licit exports of Afghanistan to Pakistan are fresh fruits, dry fruits and nuts, carpets and rugs, wool and rugs, gemstones and saffron, where as the main imports from Pakistan are dairy products, cereal, wheat, pharmaceuticals, textiles and petroleum products.

Trade between Afghanistan and Pakistan carry multi-dimensional importance for both of the neighbouring countries. Being a land locked country, Afghanistan is reliant on Pakistan for transit and bilateral trade. For Pakistan, trade links with Afghanistan has regional importance and significance. Afghanistan is gateway for the Central Asian Republics and trade relation between the two countries have much scope in context of CAREC program, and access to the global and Central Asian Markets. Trade relations between Afghanistan and Pakistan are far below the optimal potential and have been victim of strained political relation, wars and security situations.

The Pak-Afghan trade has been conceded and restrained by issues of poor infrastructure, irrational Tariffs, illegal trade, stringent security and custom regimes, goods declarations, non-tariff measures and barriers, absence of banking and payments channels and competitiveness.

Improved trade and transit facilities, peaceful economic cooperation between Afghanistan and Pakistan could connect two emerging sub-regions of SAARC and Central Asia. The two countries should strive jointly for export led economic growth, with seamless flow of bilateral and transit trade, joint ventures, industrial complementarities and cooperation that will enhance the
quality of life, generate economic activity and employment and trigger economic development.

This paper is an outcome of Pakistan – Afghanistan Cross Border Trade Dialogue held on 29th and 30th April 2019 in Peshawar, organized by SAARC Chamber of Commerce and Industry. Various business houses and Trade bodies were engaged in a meaningful dialogue and held in depth deliberations on trade and investment opportunities between the two countries.
TRADE & INVESTMENT POTENTIALS BETWEEN AFGHANISTAN & PAKISTAN
Geographical proximity, cultural and topographic assimilation pose a great opportunity for the industrial and investment cooperation. With higher number of potential trade and industrial complementarities both countries can enhance their export capacity with each other.

Local production in Afghanistan of many products may compete with the imports on even less cost of production due to minimal controls on imports and easier movement of capital. The Afghan tariff is structured to promote trade and is relatively low as compared to other partners due to poor quality of infrastructure and security situations.

With having heavy imbalanced international trade directions, Afghan economy has certain light industries like shoes, and plastics manufacturing that have seen tremendous growth in the last decade. Reforms are underway to make Afghanistan a competitive economy in the region by opening itself to its regional neighbors with a resolve to ultimately convert the war economy into a vibrant market economy.

Notwithstanding with the challenges and problems faced by the business sector to investment in Afghanistan, there is immense potential for the private sector of Pakistani firms to establish themselves and lead business operations. Now with improved governance, security and infrastructure, Afghanistan offers commercial and industrial niche’s that could be filled by the private sector. The following sectors in Afghanistan have potential avenues for the investors and business especially for joint ventures for industrial cooperation between Pakistani and Afghan private sector.

**MINERALS**

Afghanistan is endowed with abundant natural resources that remain largely untapped. Estimated deposits of minerals and metals in Afghanistan are more than of a trillion dollar worth. Investment in mining and extraction of mineral and metals in Afghanistan has remained very low, and until recently very limited projects have been implemented.

Bulk metals, such as iron ore, copper, aluminum, tin, lead and zinc, are located in multiple areas of the country. And, gemstones, rare earth metals, sulfur, talc, gypsum and chromite, are predominant across Central Afghanistan, Baghlan, Kunduz, Logar, Khost, among other places. Afghanistan’s mineral deposits include more than 2.2 billion metric tons (MTs) of iron ore, 1.3 billion MTs of marble, almost 30 million MTs of copper, 1.4 million MTs of rare-earth minerals, and 2,700 kg of gold.
The High Economic Council and the cabinet of Islamic Republic of Afghanistan have approved 38 new small- and large-scale mining areas, which are now available for tendering. These mining areas have been chosen, taking into consideration the quality of infrastructure, and availability of power and industrial parks that are pre-requisite for processing the marble, talc, travertine, and precious and semiprecious stones.

CONSTRUCTION

Construction and construction material sector in Afghanistan has experienced exceptional growth in past two decades and holds highest amount of foreign and private sector investments. There is huge demand for houses and housing and residential projects in capital and other provinces.

1 Based on United States Geological Survey https://mrdata.usgs.gov/general/map-global.html#home
Afghanistan has a huge demand for improved modernized housing and commercial construction. Majority of the population in Afghanistan dwell in substandard housing facilities. Current economic growth and expansion of economic activities in Afghanistan are driving growth in demand for housing and commercial construction industries, and there are profitable prospects for the vibrant construction industry of Pakistan for partnerships, joint ventures and investments in construction sector of Afghanistan.

Other construction materials that have potential for private investment and has enough local demand include gypsum, doors and windows, tiles, asphalt, electric cables, paints, and joints and fixtures.
Despite progress in the health sector, access to quality secondary and tertiary healthcare is still limited in Afghanistan. As a result, many Afghans seek healthcare abroad, spending an estimated $285 million annually. Therefore the Government of Afghanistan is encouraging regional and international investment to expand healthcare inside the country and to alleviate the need for people to go abroad. Through the support of the international community over the last decade, numerous hospitals have been constructed across Afghanistan.

Pakistan is one of the top destinations for Afghan medical tourist due to cheaper treatment, easy access and common culture and language. Pakistan has some of the best globally renowned physicians and surgeons that have been attracting Afghan patients for years. A 200 bed Pakistan funded, Muhammad Ali Jinnah Hospital in Kabul was handed over to the Afghan government in April 20, 2019. There is a room for the private sector of Pakistan to invest in medical sector of Afghanistan due to huge demand and supply gap of medical facilities and allied services.

Instruments, and appliances used in medical, surgical or veterinary sciences have a high potential. The existing market share of Pakistan is only 7.5%. Pakistan’s Export to the world for the product is more than USD 326 Million. Afghanistan is importing value of merely $10 million from Pakistan. There is high demand of $137 million in Afghanistan for this product. Japan and China are the top suppliers of the medical instruments to Afghanistan as they are technology efficient countries. Pakistan is at number three. Pakistan is exporting less than one percent of its total export of medical instruments to Afghanistan. There is a vast unutilized capacity to ship medical instruments to Afghanistan.

Efficient and reliable transport facilities reduce the transaction cost of doing trade with simple procedures with modern technology, especially in case of transit trade. Currently all the Pak-Afghan trade is being done on truck. And the trucking sector with an aged fleet, that doesn’t conforms to the Transport International Routier has increased not only cost of doing trade, but risks the freight.
Transport supply chain system in both countries, has not been able to provide value added services and there exist a huge demand for rapid, efficient and safe transport services. Fruits, meat, vegetable, dairy products another perishable goods, due to non-availability proper pack houses, cold storages and reefer yards and containers are subjected to losses or depreciation. Opportunities lie in transport and infrastructure services development. Investment in logistics and storages services shall have a natural strategic advantage for a Pakistani investor.

**AFGHAN-PAK TRADE AND THE EXISTENCE OF NTMS/NTBS**

Pak-Afghan trade is complex and inconvenient, custom procedures, regulations, security measures are neither adequate nor transparent. As of World Bank’s Trading across Border Index, that measure the time and cost associated with the logistical process of exporting and importing goods Afghanistan is ranked 177 whereas Pakistan is ranked 142.²

The Pak Afghan Transit Trade Agreement is not being properly implemented, and the parties blame each other for not implementing and honoring the terms of the agreement. However the two countries have agreed on either revising or negotiating a new Transit Trade agreement, in a Technical Meeting on Economic Cooperation on June 28th 2019.

Trade between the two neighbors becomes cumbersome due to non-existence of banking channels, a sound banking mechanism is much needed to give the bilateral trade a boom. Conditions like 100% requirement of advance payments is also hindering the vast trade potential of the two countries to be unleashed.

Intensive inspection of the trucks containing traded goods at borders in the name of security inspections is incurring exorbitant costs and time delays. Most of the inspection is done manually and take time and labor costs. Moreover trucks with perishable and expensive goods are kept stranded on the roads with very long ques, awaiting for being inspected and allowed to cross the borders.

There is requirement of permits, licenses and approvals for the import of cosmetics, biological materials, telecommunications equipment, medicines, veterinary medical instruments, veterinary drugs, medical equipment, pharmacy tools, pesticides, ozone-depleting substances, brochures, printed

CUSTOM PROCEDURES

In Afghanistan, Customs procedures are ambiguous and inconsistent. Record keeping is conducted using an automatic system of customs data which do not cover all entry and exit points. Furthermore, due to weak legal framework, regulatory enforcement, and dispute resolution mechanism, it is very challenging to resolve business disagreements in Afghanistan. Lack of electricity at border crossing points also hinders the process of automatic system. Due to unclear procedures at the border, extra-legal duties and bureaucratic obstacles cost too much to a trader while doing trade.

CERTIFICATION COST HIGH

Medical Instrument has a high potential for export in Afghanistan. But due to Class 2B certificate, consignments get reject at border point, the major issue which industry faces is to obtain Class 2B certification for electrosurgical instruments which is very expensive.

If the agreement with the certification providing companies can be made to provide certification at low rates, or exporters can be given subsidy on certification then exports of medical instrument to Afghanistan can be increased.

QUARANTINE CERTIFICATES

The SRO issued by the Food and Security department to present health standard certificates for Pest Risk Analysis and assessing potential phyto-sanitary risks (Quarantine Certificate, Aflatoxine test, Form A, Import permit, etc.) on the Agriculture products (820 types of items) being imported to Pakistan has significantly affected the Afghan exporters by causing heavy losses because thousands of tons of cotton, fresh fruits and vegetables are stranded at the border.

The concerned tests and certificates are not applicable in the region and also getting the import permit for Afghan businessmen would be challenging due to Quarantine office being located in Karachi only.
A quarantine certificate is required for food items, it is exceedingly time-consuming for the traders to get quarantine certificates all the way from Karachi for the food items; and fresh fruit in particular goes rotten.

**INFRASTRUCTURE ISSUES**

Lack of infrastructure at border area makes it difficult for the traders while doing trade, such as Lack of storage and wearing house facility. Plus there is only one scanner at the border point which makes it difficult to scan all truck timely. Plus, there is only one entry and exist point at the border which creates congestion at the border area. These entire infrastructure related issues add cost to the trade.

At both sides of the border, appropriate space and parking lots for the containers/trucks are not sufficient that creates congestion leading to time delays. The vehicles remain stuck in queue whether loaded or unloaded due to unavailability of space and improper management.

**REGULATORY DUTIES**

Imposition of the regulatory duties on all import items to Pakistan disturbed the export of Afghanistan. In the past, Afghanistan was exempted from these duties, but now more than 22 items of Afghanistan come under these regulatory duties policy which are the key export items.

Similarly, the export of raw materials from Pakistan to other countries except Afghanistan is tax free that discourages the investment and internal production in Afghanistan.

**HIGH TARIFFS**

Afghanistan has imposed high tariffs on Pakistan dominant products like juices, cement, pharmaceuticals, and PVC pipes and have raised duties/taxes on plastic & plastic made materials, medicinal drugs, safety matches etc. which has affected Pakistan exports. However, these changes have not been implemented on imports from Iran, India and Turkey. Similarly, there is great potential for pharmaceutical exports to Afghanistan, but ad hoc rules controlling drug prices are an impediment to trade flow of these items with Afghanistan.

**CURRENCY ISSUE**

The traders who export fresh fruits and fresh vegetables from Afghanistan to Pakistan, in return also buys Pakistani fresh fruits and vegetables. The currency utilized in this case is Pakistan Rupee but sometimes Pakistan customs charges custom duties in US Dollars.
UNNECESSARY DELAYS

Trade with Afghanistan is complicated and inconvenient as customs regulations and procedures are neither transparent nor reliable. Sometimes delay in the clearance process by Afghan authorities, especially at the Torkham side of the border, return of an empty container takes abnormal time (approx.. 15 to 20 days) that causes shortage of vehicles in the market and creates an incline in general freights up to normal ranges price.

Trade Authorities at border create many delays in trade. For example, due to security risk, all the trucks are inspected on the border, and they are also required to have trackers which carry an additional cost.

INSUFFICIENT BANKING SYSTEM

Banking systems are not well developed which create hurdles for a smooth transaction between the traders from both sides. A sound banking system is much needed for the bilateral trade between these two countries. Unfortunately and specifically in Afghanistan, there is no appropriate banking system which can facilitate trade.
CONCLUSION

The volume of bilateral trade between Afghanistan and Pakistan could be enhanced and the dimensions of trade between the two countries could be broadened by addressing the issues pertinent to the trade facilitation. Both countries should put efforts to capitalize the existing trade arguments, the two economies should revise or negotiate the Afghanistan Pakistan Transit Trade Agreement (APTTA), and honor and implement APPTA and address issue pertinent to APPTA with improved border management, better risk management systems, reduction of smuggling and illegal re-export of goods.

The two neighbors need to introduce trade friendly policy reforms not just in bilateral context but in regional context, since no single agreement provides for integration between Afghanistan, Central Asia and South Asia, the two nations could explore opportunities of connecting South Asia to Central Asian economies which would help realize the potential of the cross-Afghanistan transit routes.

The two countries need to improve the general business and investment climate, and open up for the private sector of each other. Policies must promote and give preference to reform the investment laws to encourage mutual industry venture, cross border business establishment and investment and should give policy solutions for streamlining border controls and reducing entry barriers for private investors across the borders.

The two countries, due to restrictive trade policies have been considering irrational alternative that are more costly and burdensome, rather than striving together for the potential gains from bilateral trade. Uninterrupted trade and investment relation between the two countries would enable them to reap immense economic and commercial gains, not only bilateral but regional and could ensure shared prosperity among the other member countries in the region.

Business friendly visa regimes, people to people connectivity, facilitating the businessmen for seamless interaction with their respective counterpart have become the need of hour to unleash the bilateral trade potential. Efforts must be made to facilitate and boost role of women entrepreneurs, SMEs and startups for cross border bilateral joint ventures and partnerships.

The cross border trade dialogue proposed the following set of recommendations for the government of Afghanistan and Pakistan to improve
the bilateral trade arrangement for mutually beneficial trade and commercial relations for the two countries.

- The two countries need to enter into a preferential trade agreement, to give more market access to each other, sketching a route map for tariff rationalization in purview of SAARC Free Trade Agreement. Afghanistan and Pakistan should sign treaties for double tax avoidance and investment facilitation, to ensure cross border movement of capital and investment

- Issues pertinent to implementation of APPTA should be resolved on priority basis, for Afghanistan being a land locked country, the Afghan markets and industry are highly dependent and could not operate without a hassle-free transit route.

- People to people interaction is the prerequisite of sustained economic and commercial relations. The governments need to address reports of business visas being sullied in the name of security checks. The two governments need to work on more business and investment friendly visa regime

- Banking and financial mechanism are indispensable for trade and cross border investments. The two countries need to work on establishing banking channels and facilitate commercial bank to operate across the borders, and work on establishing a trade and investment focused banking or financial institution, for trade settlement in different currencies, freight insurance and other cross border banking facilitations

- The border crossings, custom check points and security measures at both sides’ needs intensive policy and operational level reforms to enable them to facilitate trade. The prevailing high scale intensity of NTM’s needs to be reduced, by improving security conditions, risk prevention mechanisms, easing out checking and testing consignments of the goods

- There are no direct banking channels between Afghanistan and Pakistan. The trade now is subject to 100% advance payment which strains the liquidity of the businessmen. Operational issues like this are hampering trade done by SME’s and needs to be solved on priority basis.

- The two governments need to work on establishment of a joint accreditation council that would provide Phytosanitary Certificates, Provision of fumigation facilities at the Border crossing at Torkham and Chaman, Simplification of Quarantine procedures and refinement of procedures to facilitate fast track clearance of perishable items
• In order to promote bilateral trade, free trade zones to be established to improve the interface of the businesses

  The trade Zones may also have warehousing facilities, display centers and stakeholder facilitation counters to assist the traders and businessmen. Moreover Pakistan Railway’s capacity be enhanced to lift the transit Trade Cargo and bilateral trade consignments

• A pool of licensed / authorized Truckers be authorized as Bonded Carriers to directly carry the Bonded Containerized Cargo. The current Bonded Carriers are currently working as commission agents and adding to the cost of business

• Regular holding of “Multi-Stakeholder Consultation Dialogues” to discuss the current challenges and workout a doable set of policy suggestions for the policy makers, from the stakeholders in particular private sector representatives, specifically from the trade bodies located in the bordering areas of the two countries.

• Broadening the base of Pakistan Afghanistan Joint Chamber of Commerce and Industry (PAJCCI) and Afghanistan-Pakistan Transit Trade Coordination Authority (APTTCA) to make these organizations even more effective. These organizations can be made more representative by involving private sector stakeholders of Afghan-Pakistan trade, particularly from industrial regions in Pakistan that actually conduct trade with Afghanistan, and from industry that has been hurt by illegal trade, and from transporter associations whose jobs are at stake by the concessions demanded by Afghanistan

• Developing a formalized exchanged of trade delegations would help identify business opportunities, and holding the Trade Fairs and Exhibitions on Biannual basis either by the Governments of the two nations or through SAARC CCI to address the trust deficit on both sides.

• Border Bazars should be introduced on both sides of borders to support rural SMEs and micro enterprises on both sides of the borders