

regarded as stronghold of the Haqqani network. Moreover, the damage of property and infrastructure has further hit Pakistan's already slow economic development and has given Islamic charity organisations new room for their activities.

## 5. Prospects

The present situation in Pakistan is the unintended outcome of a foreign and security policy of the armed forces that has used non-state actors as strategic assets over years and has linked Afghanistan's conflict with India with the conflict over Kashmir. The regional power play that was successful in the 1990s has backfired to the detriment of Pakistan. But Pakistan's foreign policy discourse remains dominated by the geo-strategic

perspectives of the military so that Afghanistan is only seen in the context of the relations with India. An alternative civilian approach would be to promote closer economic cooperation between Afghanistan, Pakistan and India in the framework of the South Asia Free Trade Agreement (SAFTA). The new Afghanistan-Pakistan Transit Trade Agreement (APTTA) was only a half-hearted reform that again illustrated the resistance from sections within the Pakistani establishment, to increase economic relations with India and to transform Afghanistan into a region of cooperation rather than confrontation with India.<sup>29</sup>

<sup>29</sup> See Ahmad Hassan, *Cabinet approves Afghan transit trade agreement*, in: Dawn, 7 October 2010.

# Pakistan's Afghanistan Policy, Blockades, and Strategic Trade

Julian Schofield\*

**Abstract:** NATO's long-term goal of the socio-economic development of Afghanistan sufficient for it to sustain a national army is imperiled by the conditions of impediments to trade imposed on it by Pakistan. Specifically, since partition of the subcontinent in 1947, disputes over the status of the Pashtun population in the Northwest Frontier Province (NWFP) have led Pakistan to inhibit Indo-Afghan trade, the historical route for Afghan goods. While Pakistan has made concessions in permitting transshipped Afghan exports to India, it has left in place serious impediments to Indian exports to Afghanistan.

**Keywords:** Pakistan, Afghanistan, India, transit trade  
Pakistan, Afghanistan, Indien, Transithandel

## 1. Introduction

NATO's long-term goal of the socio-economic development of Afghanistan sufficient for it to sustain a national army is imperiled by the conditions of impediments to trade imposed on it by Pakistan. Specifically, since partition of the subcontinent in 1947, disputes over the status of the Pashtun population in the Northwest Frontier Province (NWFP) have led Pakistan to inhibit Indo-Afghan trade, the historical route for Afghan goods. These blockades were imposed in 1947, 1955, 1961, and to a lesser extent, 1965, and persisted until 2009. They were extended to all transit through the Khyber Pass and Karachi, Pakistan's principal

port.<sup>1</sup> More broadly, Pakistan's exercise of strategic trade with Afghanistan is a component of its regional policy in its rivalry with India and Afghanistan's traditional alignment with New Delhi. While Pakistan has made concessions in permitting transshipped Afghan exports to India, it has left in place serious impediments to Indian exports to Afghanistan. This article will examine the causes of Pakistan's strategic trade policy with Afghanistan, its manifestation, and prospects for change.

In retaliation against Afghan refusals to diplomatically recognize Pakistan in 1947, and repudiation of earlier Afghan-British treaties, Pakistan imposed an unofficial trade embargo that has been in effect since, denying Afghan access to its natural markets in India, with all its concomitant drag effects on socio-economic development. Though Pakistan accepts

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<sup>1</sup> Hasan Ali Shah Jafri, *Indo-Afghan Relations 1947-67*, New Delhi, Sterling Publishers Private Limited, 1976, pp. 42-43, 119-120; Frederic Grare, *Pakistan and The Afghan Conflict, 1970-1985*, Oxford, Oxford University Press, 2003, pp. 2-9.

Afghan imports, it continues to inhibit the transshipment of goods to their markets in India, which was the historical trade route from Mughal times. Furthermore, in December 1947, Pakistan denied Afghan requests for sea access to the Indian Ocean.<sup>2</sup> Afghanistan's re-orientation of trade through Central Asia with the Soviet Union was the default rather than optimal trading relationship. Relations worsened considerably over the next two decades, during which Pashtun nationalist agitation from within Afghanistan led to the adoption of policies that further disrupted prospects for stable long-term trade.

Current development efforts in Afghanistan are focused on generating self-sufficiency in food, fertilizer and some construction inputs, with most Western aid going to mid-sized firms.<sup>3</sup> Afghanistan's resulting trade deficit is almost entirely sustained by foreign aid, because of lags in exports.<sup>4</sup> Whereas exports increased from 200 million to 300 million Euros between 2006 and 2008, imports have jumped from 3 billion to 3.6 billion Euros in the same period.<sup>5</sup> In 2008, Afghanistan's main exports were to India (21.1% at 60.3 million Euros), Pakistan (20.1%), U.S. (18.8%), EU (16.8%), Tajikistan (6.7%), and Russia (2.9%).<sup>6</sup> Afghanistan's main imports are from Pakistan (35.8% or 1.4 billion Euro), EU (17.9%), Central Asia (10.7%), India (4.8%), Russia (3.4%), China (3%), and Turkey (2.6%).<sup>7</sup>

The medium-term solution to weaning Afghanistan off foreign aid is boosting its exports, which, however, have historically not exceeded 10% of the economy.<sup>8</sup> The Afghan mineral sector is underdeveloped, and is estimated by the World Bank to grow by 500% to US\$253 million (to 5% of GDP). Key resources include natural gas, copper, iron, chromium, marble, salt, gold, silver, and gems.<sup>9</sup> Many of Afghanistan's export industries show promise of rebounding to their earlier levels: lambskin exports are just 10% of their 1970 levels, with projected increases also in horticulture and regional demand for Afghan fruits.<sup>10</sup> To boost its exports, in 2003 Afghanistan entered into a Preferential Trade Agreement with India.<sup>11</sup> However, some exports, such as carpets, have 90% of their profits diverted to Pakistan, because of Pakistan's control of inputs and middlemen.<sup>12</sup> Although

Pakistan signed an Afghan Trade Transit Agreement (ATTA) in May of 2009, it remains to be seen whether it will act further to remove the structural impediments to Indo-Afghan trade.

## 2. The Origins of Pakistan's Strategic Trade Policy

The British had traditionally exercised their control over Afghanistan's access to the British-Indian ports to influence political developments in Kabul, although the level of trade was low.<sup>13</sup> The British inherited the Punjab and frontier mechanisms for taxing trade from the Sikhs in the areas of Hazara, Peshawar, Kohat, Bannu, Dera Ismail Khan and Dera Ghazi Khan.<sup>14</sup> After 1839, Kabul was usually compliant with British interests because of its dependence on subsidies, and the punitive consequences of non-compliance.<sup>15</sup> Often this control of commerce was an extension of laws permitting local trade blockades within the frontier area itself, such as the Frontier Crimes Regulations of 1901.<sup>16</sup> The 1893 Durand Line treaty formally compelled Kabul to relinquish trade and tax relations between Kabul and the tribal areas, although it still retained a customs official to tax items leaving India.<sup>17</sup>

## 3. The Pashtunistan Issue

Though the British subsequently adopted a policy of non-interference in tribal affairs, this was reversed by London, provoking the ethnic-Pashtun Afghan leader, Amir Habibullah, to attack British India in May 1919, in the Third Anglo-Afghan War. Peace was restored with the Anglo-Afghan Treaty of 1921. It re-affirmed Afghan special interests east of the Durand line, which was not at that time, and until Partition, conceived of as an international boundary (Pakistan rejects these special interests). The tribal Pashtun leaders agitated against the new rulers, Nadir Khan and his son, Zahir Shah, because of their neutrality on the issue of Pashtunistan. The Afghan Pashtun tribes were largely supportive of periodic raids and revolts led by the Faqir of Ipi throughout the 1930s and 1940s against British rule, despite Kabul's official policy of suppressing agitation in favor of economic development and trade.<sup>18</sup> The British incorporation of Pashtunistan into Pakistan was determined on the basis of a plebiscite held in July of 1947, and was boycotted by nearly half of the electorate because it offered no third choice besides joining India or Pakistan. Afghanistan, which had pressed the British as early as 1942 to re-consider the plebiscite, was subsequently the only country to vote not

2 Ludwig Adamec, *Afghanistan's Foreign Affairs to the Mid-twentieth Century*, Tucson, The University of Arizona Press, 1974), p. 264.

3 Amina Khan, 2007; <http://www.imf.org/external/pubs/ft/scr/2006/cr06114.pdf>; <http://www2.parl.gc.ca/content/LOP/ResearchPublications/prb0729-e.htm>.

4 <http://www.imf.org/external/pubs/ft/scr/2006/cr06114.pdf>.

5 [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_114134.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_114134.pdf).

6 Ibid; <http://www.cso.gov.af/economics/services/trade.html>.

7 [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_114134.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_114134.pdf).

8 Maxwell J. Fry. *The Afghan Economy*, Leiden, Netherlands, E.J. Brill, 1974, p. 11.

9 <http://www.imf.org/external/pubs/ft/scr/2006/cr06114.pdf>; <http://www2.parl.gc.ca/content/LOP/ResearchPublications/prb0729-e.htm>; McKechnie, p. 104.

10 Drought, Lack of Investment Hit Lambskin Trade, in »IRIN« June 8, 2009, at <http://www.irinnews.org/report.aspx?ReportID=84747>; Low Almond Prices Hit Farmers, in »IRIN«, August 26, 2009, at <http://www.afghanistannewscenter.com/news/2009/august/aug262009.html#30>; Fry, p. 230; Phil Hazlewood, *Afghanistan Looks to Squeeze New Markets from Pomegranates*, in »AFP«, October 18, 2009.

11 Mariam Nawabi *Afghanistan's Trade Routes; Kabul, Afghanistan, India open strategic road to Iran*, January 22, 2009, at <http://www.dawn.com/2009/01/23/top2.htm>; Mohammad Ali Khan, *The shift in Afghan transit trade*, February 2, 2009, at <http://www.dawn.com/2009/02/02/eb8.htm>; <http://www.understandingwar.org/node/647>.

12 Hashim Qiam, *Carpets - Made in Afghanistan for Pakistan's Profit*, in »IPS«, August 12, 2009, at <http://www.afghanistannewscenter.com/news/2009/august/aug122009.html#15>.

13 George Montagno, *The Pak-Afghan Détente*, in »Asian Survey«, vol. 3, No. 12, December, 1963, pp. 616-624, 491.

14 Sara Haroon, *Frontier of Faith*, New York, Columbia University Press, 2008, p. 8; B.D. Hopkins, *The Making of Modern Afghanistan*, London, Palgrave Macmillan, 2008, p. 180.

15 Haroon p. 14-15, 17-18.

16 --, Report of a Conference *The Durand Line: History, Consequences, and Future*, Organized in July 2007 by the »American Institute of Afghanistan Studies and the Hollings Center« in Istanbul, Turkey.

17 Haroon pp. 20-21.

18 Vartan Gregorian, *The Emergence of Modern Afghanistan*, Stanford, Stanford University Press, 1969, p. 375.

to admit Pakistan into the United Nations.<sup>19</sup> However, this non-recognition has often fed the insecurity in Islamabad that Afghanistan is seeking, in conjunction with India and Pashtun nationalists, to fragment Pakistan.

Afghan agitation against Pakistan's possession of the Northwest Frontier is based in part on centuries-old memories of Afghanistan as a greater Pashtun homeland.<sup>20</sup> In 1854, when the British incorporated the Baloch Khan of Kalat in 1854, the Afghans lost their Indian Ocean ports and consequent maritime trade revenue.<sup>21</sup> Consequently, most Pashtun support Kabul's refusal to recognize the Afghan-Pakistan border because the Durand Line upon which it is based is widely viewed as an arbitrary colonial frontier that splits the approximately 30 million Pashtun between Afghanistan and Pakistan.<sup>22</sup>

#### 4. Trade Embargoes

It has been the policy of stable governments in Kabul, beginning with a proclamation by the Afghan King in 1934, to focus on economic development rather than irredentism.<sup>23</sup> However, domestic politics in Kabul is not always stable enough to permit restraint. Pakistan's first embargo on Afghan trade in 1947 was in retaliation against its refusal to diplomatically recognize Pakistan, and Kabul's repudiation of earlier Afghan-British treaties. The result has been an unofficial trade embargo that was in effect since, denying Afghan access to its markets in India, with all its concomitant drag effects on socio-economic development. Though Pakistan accepted Afghan imports, it inhibited the transshipment of goods to their markets in India. Furthermore, in December 1947, Pakistan denied Afghan requests for sea access to the Indian Ocean.<sup>24</sup> With the departure of the British and the poverty of Pakistan, Afghanistan fell back on Soviet and Western aid to obtain the financing without which it could not sustain its army or institutions of government.<sup>25</sup>

A second major incentive to cut transshipment of goods from Afghanistan to India was Pakistan's own self-imposed trade embargo on India. This had its origins in the first Indo-Pakistan war scare in the years 1949 and 1950 that started over a dispute over currency devaluation, which escalated into ethnic rioting and military mobilization, before a draw down was arranged.<sup>26</sup> A consequence was that Indo-Pakistani trade went into

decline, and despite a number of public promises and free trade agreements by leaders on both sides to revive trade, there has been little attempt to reverse the situation. One of the goals, for example, of SAARC (South Asian Association for Regional Cooperation) was to encourage regional free trade, a goal which has never been seriously pursued. India and Pakistan are at a trade standstill with illicit smuggling and trade through third parties greater than state-to-state trading, at least in West Pakistan. Pakistan is to some extent concerned that India's much larger economic base would lead to a domination of the Pakistani market, undermine infant industries, and have potential for use as a strategic weapon in times of crisis (as happened to Bangladesh in its relationship with India).<sup>27</sup> Indo-Pakistan trade is estimated to be worth about U.S. \$900 million, or 2% of Pakistan's total GDP, whereas informal trade, passing mostly through Gulf intermediaries, is assessed at U.S.\$3 billion, or 6% of Pakistan's total GDP.<sup>28</sup> The Indo-Pakistan trade standoff affected the transshipment of goods from Afghanistan to India, and so in 1950 Kabul sought and obtained aid from the Soviet Union.<sup>29</sup>

Afghanistan was involved in a series of military infiltrations and harassment of Pakistani interests in the NWFP, beginning first in 1951.<sup>30</sup> In 1955, Afghanistan Prime Minister Mohamad Daoud obtained military assistance from the Soviet Union and explicit recognition for Afghanistan's demands in Pashtunistan, and this had perhaps emboldened him to risk the consequences of a blockade. Daoud began by supporting the Pakistan Pashtun in their protest in March 1955 against a Pakistani plan to incorporate the NWFP into a single electoral unit, as part of the One Unit Plan. Though the tribal agencies were not included, it was believed that they would ultimately be denied their autonomy. Following violent protests on both sides of the Durand Line, and a demand by the Afghan Loya Jirgah for a plebiscite on the future of the Pashtun in Pakistan (in both the tribal and the settled areas), Afghanistan called up 70,000 reserves, and a standoff ensued until Egyptian and Saudi mediation deescalated the confrontation in September of 1955. During the mobilization of Afghan reserves, Pakistan imposed a brief trade blockade, which it never fully reversed.<sup>31</sup> The embargo nevertheless caused severe disruption to trade with the West which had only begun two decades earlier.<sup>32</sup> Pakistan was at this time rearming with U.S. assistance against India and was not willing to be distracted by developments in the NWFP, though it did threaten to occupy Kabul by force.<sup>33</sup> With Western encouragement, Pakistan and Afghanistan concluded a Transit and Trade Agreement in 1958, though it was never

19 Grare pp. 2-9; Anees Jillani, *Pak-Afghan Relations, 1958-1988*, in Mehruunnisa Ali, ed. *Readings in Pakistan Foreign Policy 1971-1998*, Oxford, Oxford University Press, 2001, pp. 374-385.

20 Ahmed Rashid, *Descent Into Chaos*, London, Viking, 2008, p. 7.

21 Kalim Bahadur, *Pakistan's Policy Towards Afghanistan*, in (ed.) K.P. Misra, *Afghanistan In Crisis*, New Delhi, Jawaharlal Nehru University, 1981, pp. 84-100, p. 88.

22 Pervez Musharraf, *In the Line of Fire*, New York, Free Press, 2006, p. 264; Robert Wirsing, *The Baluchis and Pathans - Report No.48*, London, The Minority Rights Group, 1987, p. 6.

23 Gregorian p. 375.

24 Adamec p. 264; Grare, pp. 2-9; Afghanistan's Daoud Mohamad had asked for help from Axis agents during the Second World War about support for securing ports to the Indian Ocean. See Jeffrey Roberts, *The Origins of Conflict in Afghanistan*, Westport, Praeger, 2003, p. 183.

25 Rizwan Hussain, *Pakistan and the Emergence of Islamic Militancy in Afghanistan*, Aldershot, Ashgate, 2005, p. 70.

26 R. Lambert, *Religion, Economics and Violence in Bengal*, »Middle East Journal«, Washington, July, 1950, cited in Michael Brecher, *The Struggle for Kashmir*, New York, Oxford University Press, 1953, pp. 179-180.

27 There are instances in which non-trade is more likely to keep the peace by reducing the insecurities associated with interdependence. There is evidence that while medium levels of symmetric interdependence can lead to peace, extremes in symmetric and asymmetric trade interdependence lead to increased disputes. Katherine Barbieri, *Economic Interdependence: A Path to Peace or Source of Interstate Conflict?* in »Journal of Peace Research« vol. 33, February 1996: pp. 29-49. This can be argued to be the case between India and Pakistan.

28 Muhammad Yasir Khan, *India-Pakistan Trade*, in »The International New«s, July 10, 2010, at [http://www.thenews.com.pk/daily\\_detail.asp?id=249957](http://www.thenews.com.pk/daily_detail.asp?id=249957) accessed July 12, 2010.

29 Roberts, p. 194.

30 Grare, pp. 2-9.

31 Roberts p. 205.

32 Montagno pp. 623-24.

33 Hussain p. 72.

fully implemented.<sup>34</sup> Pakistan refused an offer of a joint customs union with Iran and Afghanistan that same year.<sup>35</sup>

In September 1960 over a thousand Afghan soldiers infiltrated into the Bajaur District of Pakistan.<sup>36</sup> A larger infiltration of Afghan troops was made in May of 1961 and again in fall. This, in conjunction with constant harassment of Pakistani consular officials, led the Government of Pakistan to close down its consulates in Qandahar and Jalalabad after they were attacked in August 1961, and to request the Afghan Government to do the same for its consulates and trade agencies in Pakistan.<sup>37</sup> The Afghan Government retaliated against Pakistan's closure of its embassy by also breaking off diplomatic relations, and, paradoxically, closing the Pak-Afghan border to trade on September 6, 1961.<sup>38</sup> This cut revenue to Kabul's government by 40%, as its budget was largely dependent on customs duties from goods passing through Karachi.<sup>39</sup> Exports destined to India had instead to be flown by Afghan airlines to India at great expense through Iran.<sup>40</sup> This had an immediate severe impact on the urban and produce export economy of Afghanistan, but the domestic political conditions were such that Daoud Mohamad could rely on the tribal Pashtun to sustain the embargo, who may have benefited from frontier smuggling operations.<sup>41</sup> The blockade also adversely affected U.S. assistance, pushing Afghanistan to deepen its dependence on Soviet aid, whose aid and market access was insufficient to compensate for the disruption to Afghanistan's economy.<sup>42</sup> Iran's offer of alternate trade routes to the Persian Gulf and Arabian Sea did not help because of Afghanistan's underdeveloped infrastructure.<sup>43</sup> After two years of embargo, the debt service to the Soviet Union exceeded the total value of Afghan exports, and Afghanistan's King Zahir Shah consequently compelled Daoud to resign in March of 1963.<sup>44</sup> Iran then facilitated negotiations that restored diplomatic and nominal trade relations in May of 1963.<sup>45</sup> Afghanistan refused, however, to recognize the Durand Line.<sup>46</sup>

The result was ten years of tranquility from 1963 until the overthrow of the Afghan monarchy in 1973, during which Afghanistan proved a helpful ally in Pakistan's wars against India in 1965 and 1971, providing airbases and transit flights

for military re-supply. Afghanistan's goal was to attempt to foster economic growth, during a period of significant social liberalization. Kabul resisted attempts by India and the Soviet Union to reopen the Pashtunistan issue in 1965 following a minor trade dispute with Pakistan in 1965.<sup>47</sup> This may have had a positive influence in Pakistan in the re-incorporation of the NWFP in 1970.<sup>48</sup> A further consequence was the signing by Afghanistan and Pakistan in 1965 of the Afghan Trade Transit Agreement (ATTA). Under the ATTA, goods transiting through the Pakistani port of Karachi for import or export to Afghanistan were exempt from Pakistani duties or customs tariffs, and transport charges were legislated to be the same as for domestic Pakistan goods.<sup>49</sup> Pakistan later amended the ATTA with a restriction against direct transit trade with India.<sup>50</sup> The ATTA was ultimately only partially implemented because smuggling compelled Pakistan to establish a revised tariff structure and to exclude twenty-four goods, including, cigarettes, cooking oil, automobile parts, television, telephone and tires.<sup>51</sup>

Daoud Mohamad's coup in 1973 and subsequent agitation against Pakistan, did not produce any trade embargoes, but reinforced the restricted level of trade imposed on Afghanistan by Islamabad. Subsequent events, including the failed Saur Revolution, Islamist uprisings, Soviet intervention and the ensuing civil war and Taliban takeover had to such an extent reduced Afghanistan's productive economic base that transit trade through Pakistan to India lost its saliency.<sup>52</sup> Pakistan further restricted the number of items that Afghanistan could export in 1994. The main consequence of the period between Daoud's 1973 coup and the defeat of the Taliban in 2001 was the structural distortion in Afghan-Pakistan trade. Trade was balanced in 1961, and Afghanistan actually exported twice as much as it imported from Pakistan until the mid-1980s, when the Soviets escalated the war in Afghanistan and as a result of the effects of the subsequent civil war. Pakistan thereafter exported 200% of the goods Afghanistan exported, and this problem has persisted since as Pakistani goods dominate Afghan imports.<sup>53</sup>

34 Montagno pp. 616-624, p. 623.

35 W. Gordon East, *The Geography of Land-Locked States: Presidential Address, Transactions and Papers* »Institute of British Geographers«, no. 28, 1960, pp. 1-22, p. 20.

36 Roberts pp. 205-206; Louis Dupree, *Afghanistan*, Princeton, Princeton University Press, 1973, pp. 538-542.

37 Khurshid Hasan, *Pakistan-Afghanistan Relations*, »Asian Survey«, vol. 2, no. 7, September, 1962, pp. 14-24, p. 16.

38 Hasan p. 16.

39 Angelo Rasanaygam, *Afghanistan – A Modern History*, London, I.B Tauris, 2003, p. 36; Montagno p. 616

40 Rasanaygam p. 36.

41 Barnett Rubin and Abubakar Siddique, *Resolving the Pakistan- Afghanistan Stalemate*, Special Report 176, The United States Institute of Peace, October 2006, p. 7; Roberts p. 169.

42 Milan Hauner, *Afghanistan between the Great Powers, 1938 – 1945*, »International Journal of Middle East Studies«, Vol. 14, No. 4, November, 1982, pp. 481-499, p. 491; Montagno p. 616.

43 Montagno p. 623.

44 Rasanaygam p. 37.

45 Montagno p. 616.

46 Frank Trager, *The United States and Pakistan: A Failure of Diplomacy*, »Orbis«, vol. 9, no.3, Fall 1965, pp. 613-629, p. 624.

47 Kalim Bahadur, *Pakistan's Policy Towards Afghanistan* in (ed.) K.P. Misra, *Afghanistan In Crisis*, New Delhi, Jawaharlal Nehru University, 1981, pp. 84-100, p. 87; Ralph Magnus and Eden Naby, *Afghanistan, Mullah, Marx, and Mujahid*, Boulder, Westview Press, 1998, p. 117; Adamec, p. 262.

48 Richard Newell, *The Politics of Afghanistan*, Ithaca, Cornell University Press, 1972, p. 190.

49 Mariam Nawabi, *Afghanistan's Trade Routes* at [http://trade.developmentgateway.org/uploads/media/trade/mariam\\_nawabi.pdf](http://trade.developmentgateway.org/uploads/media/trade/mariam_nawabi.pdf).

50 *India-Afghan Transit Trade Issue for Composite Dialogue*, December 4, 2009, at <http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/news/business/09-india-afghan-transit-trade-issue-for-composite-dialogue--szh-07>.

51 Shamsheer Khan, »Famine Early Warning Systems Network, FEWS NET«, *Pakistan Wheat Subsector and Afghan Food Security* »Chemonics International«, May 2007, 27; »Islamabad Real Estate, Pakistan Real Estate News«, *Afghanistan offered use of Gwadar, Port Qasim*, May 17 2009, at <http://www.eproperty.pk/news/2009/05/17/afghanistan-offered-use-of-gwadar-port-qasim/>; Mariam Nawabi, *Afghanistan's Trade Routes* at [http://trade.developmentgateway.org/uploads/media/trade/mariam\\_nawabi.pdf](http://trade.developmentgateway.org/uploads/media/trade/mariam_nawabi.pdf).

52 David Edwards, *Before the Taliban Genealogies of the Afghan Jihad*, Berkeley, University of California Press, 2002, p. 76; Mary Anne Weaver, *Pakistan In the Shadow of Jihad and Afghanistan*, New York, Farrar, Straus and Giroux, 2002, pp. 60-61; Christophe Jaffrelot ed. *A History of Pakistan and Its Origins*, London, Anthem, 2002, p. 139.

53 <http://fisher.lib.virginia.edu/cgi-local/dotbin/dot.cgi>.

## 5. Current Situation

Under U.S. and Western pressure, Pakistan signed a new ATTA with Afghanistan on May 6, 2009. In exchange for Pakistani transit trade access to Central Asia, Afghanistan was granted the use of the ports of Karachi as well as Gwadar and Bin Qasim.<sup>54</sup> This agreement had its origins in a progressive opening up of trade beginning in 2003, and culminating in a reduction in the goods exemptions list to four items, and a significant improvement in the facilitation of trade at the frontier checkpoints.<sup>55</sup> Pakistan is the recipient of considerable incentives to cooperate. U.S. changes in legislation have recently facilitated the U.S. becoming the largest creditor and market for Pakistani exports, especially in textiles, increasing from U.S.\$2.6 billion in 2001 to U.S.\$5.6 billion in 2009.<sup>56</sup> Butressing this is 7.2 billion Euro in trade with the EU in 2007, which is also exploring a preferential tariff regime with Pakistan in exchange for cooperation over Afghanistan.<sup>57</sup> In October 2009, U.S. President Obama also signed a U.S.\$7.5 billion foreign aid bill for Pakistan for 2010-2015. Pakistan has become more open to trade negotiations with India as a consequence.<sup>58</sup>

However, problems remain with the new 2009 ATTA. First, a number of strategic analysts see it as strengthening India's influence in Afghanistan, and the business community along the Wagah-Khyber corridor see it as eventual and unwanted competition, especially in the emerging automotive industry.<sup>59</sup> All of the Chief of the Army Staff, General Ashfaq Kayani, the Inter Services Intelligence agency and the Ministry of Foreign Affairs have advised against the agreement, especially if there is no quid pro quo over the Kashmir issue.<sup>60</sup> Indian access is widely believed to undermine Pakistan's U.S.\$2.5 billion in trade with Afghanistan and U.S.\$200 million in trade with Central Asia, affecting half a million jobs.<sup>61</sup> Indian goods could end up competing with Pakistani goods in Central Asia. India's US\$1.5 billion in aid to Afghanistan has preferences for Indian goods. Consequently, Pakistan reiterated in May that it did not grant India any transit trade rights, to the disappointment of both Afghanistan and the U.S.<sup>62</sup> The current arrangement is that

Afghan merchants may ship goods duty free through Pakistan to India, but Afghan truckers may not then load up with Indian goods on the return trip, but can instead only purchase goods in Pakistan. This facilitates Pakistan's continued domination of the lucrative Afghan import market. The ATTA also grants Pakistan transshipment rights along Afghan roads to Central Asia, while Indian goods must use more costly routes through Iran to access Central Asia. Finally, Pakistan has maintained an approximately 35% duty on Afghan goods destined for Pakistan.<sup>63</sup>

Second, Afghanistan's commercial system, especially for shipping and insurance, is cumbersome and expensive to administer for Pakistan.<sup>64</sup> Semi-public stakeholders, such as various syndicates, see a loss of profit in the transport industry, including trucks and trains.<sup>65</sup> Third, Pakistan continues to suffer from smuggling problems from goods that supposedly are meant to be exported through rather than into Pakistan.<sup>66</sup> Of the US\$ 4 billion in Afghan-Pakistan trade in 2009, only an estimated US\$ 1.45 billion is official – the rest is smuggled.<sup>67</sup> This perennial concern with smuggling and its impact on Pakistan's domestic market and employment is not an insignificant reason for Pakistan's reluctance to further its trade with Afghanistan. The scale of smuggling, especially in narcotics, is an indicator of the limits if the effectiveness of Pakistan's strategic trade instrument. Rather, smuggling has empowered local transport syndicates to the point that Pakistan's granting of local trade licenses strengthens local strongmen rather than producing a clear-cut policy influence on Afghanistan.<sup>68</sup>

Given the long-term reluctance of Afghanistan to address the issue of the recognition of the Durand line, Pakistan is unlikely to surrender its remaining influence on Afghan trade. When Pakistan was most financially and militarily dependent on U.S. foreign and military aid, in the period from 1954 to 1962, four successive U.S. attempts at brokering peace between Afghanistan and Pakistan, including by then Vice President Richard Nixon, were rebuffed in 1953, 1954, 1955, and 1961. A fifth attempt, by U.S. Secretary of State Henry Kissinger in 1974, was also rejected.<sup>69</sup> While there has been considerable short-term legislative progress in encouraging Indo-Afghan transit trade through Pakistan, considerable challenges remain.

54 *Afghanistan offered use of Gwadar, Port Qasim*, in »Islamabad Real Estate, Pakistan Real Estate News«, May 17, 2009, at <http://www.eproperty.pk/news/2009/05/17/afghanistan-offered-use-of-gwadar-port-qasim/>.

55 Nawabi pp. 5-7; Amina Khan, *Trans-National Trade with Focus on Afghanistan, 2007* at [http://www.issi.org.pk/journal/2007\\_files/no\\_4/article/a4.htm](http://www.issi.org.pk/journal/2007_files/no_4/article/a4.htm).

56 *Make Trade Part of Pakistan Strategy: US Business*, in »AFP«, March 24, 2009, at <http://www.google.com/hostednews/afp/article/ALeqM5hbha99ffWwimoYctlbsaz--julgQ>.

57 *EU to Do More for Mitigating Effects of Financial Crisis on Pakistan*, in »APP (Associated Press of Pakistan)«, March 24, 2009.

58 Chidanand Rajghatta, *US Thumbs-up for Indian Work in Afghanistan*, »TNN (Times of India)«, October 20, 2009; Smita Prakash, *Now, Pakistan Invites India to Work Together in Afghanistan*, October 2, 2009, at »<http://www.afghanistannewscenter.com>«; Ayesha Siddiqi, *Indian Stakes in Pakistan*, June 5, 2009, at <http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/the-newspaper/columnists/ayesha-siddiqi-indian-stakes-in-pakistan-569>.

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## 6. Conclusion

NATO will not achieve its medium-term goal of weaning Afghanistan off foreign aid if Pakistan does not remove all impediments to Indo-Afghan trade. Afghan shipment of exports to India will remain less than optimally economical until shippers can return with sellable commodities. Pakistan is unlikely to concede significant trade access without a broader discussion of Indo-Afghan economic and strategic collusion, resolving the status of the Durand Line, and measures to address smuggling. U.S. trade concessions and military assistance to Pakistan are unlikely to be sufficient given Pakistan's priority to protect its infant industries. In fact, departure of NATO or the U.S. is likely to lead to a reversion to the status quo ante

in regards to Pakistan's Afghan policy. While blockades as an instrument of its strategic trade policy are unlikely, Pakistan may still raise serious non-tariff barriers and impediments to Afghan and third party exports.

Afghanistan's domestic production levels, for both domestic consumption and exports, are likely to grow slowly over the next decade, so there may not be an immediate opportunity cost resulting from Pakistani reluctance to approve of further trade with India. By the end of the next decade, Afghanistan's domestic self-sufficiency in food and fertilizer, and construction material, will reduce Pakistan's stake in Afghan imports, and upgraded infrastructure through Central Asia and Iran is likely to create a bypass around Pakistan if it persists with its strategic trade policy.

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