

A conceptual framework for Afghanistan-Pakistan relationship:

BETTER ECONOMIC PARTNERS THAN POLITICAL ADVERSARIES

Dr. Lutfi R Rahimi and Hameedullah Hassani

June 2021

BIRUNI
INSTITUTE



کانون
البيروني

The Biruni Institute is an independent, non-partisan, and not-for-profit economic policy think-tank, based in Kabul, that aims to promote evidence-based and research-led policy making in Afghanistan, and help create an environment for open dialogue on key policy issues. The Institute strives to make meaningful contributions to the national debate on contemporary economic challenges in Afghanistan, and endeavors to institutionalize a scientific approach to policy design and economic thinking in the country.

Disclaimer:

The view and analyses expressed in Biruni Institute's Policy Papers are those of the author(s) and do not necessarily represent the views of the Institute, its Board of Directors, or the management.

About the Authors

Dr. Lutfi R Rahimi is Head of Research at Biruni Institute and Assistant Professor of Economics at the American University of Afghanistan (AUAF). He holds a PhD and master's in economics from the University of Exeter, UK. He has over five years of experience in working with international institutions including the World Bank, the Afghan government, and academia. Email: lutfira@biruni.af.

Hameedullah Hassani is a Fulbright student at the Old Dominion University, U.S., and a Research Intern at the Biruni Institute. He is a graduate of the Institute of Diplomacy and Politics of the Ministry of Foreign Affairs and holds a bachelor's degree in Political Science and Public Administration from the American University of Afghanistan (AUAF), where he also served as the President of Student Government Association (SGA). He has been involved in many international youth empowerment programs including International Youth Leadership Conferences (IYLC). E-mail: hhassani@biruni.af.

Table of Contents

ABBREVIATIONS	II
ABSTRACT	3
I. INTRODUCTION	4
II. REGIONAL COOPERATION IN THEORY	6
III. AFGHANISTAN-PAKISTAN: A HISTORICAL LENS	7
I. POLITICS	7
II. TRADE AND ECONOMICS	9
IV. MOVING FORWARD: ECONOMICS INSTEAD OF POLITICS	12
I. BILATERAL TRADE AGREEMENT (BTA)	13
II. JOINT PROJECTS/VENTURES	14
A. PROLIFERATION OF SMALL INITIATIVES	14
B. CHINA-PAKISTAN ECONOMIC CORRIDOR (CPEC)	15
C. RAIL NETWORK	16
III. APTTA REVISION	16
V. CONCLUSION	18
REFERENCES	19
APPENDIX	23

ABBREVIATIONS

ADB	Asian Development Bank
AEO	Afghanistan Economic Outlook
AfPak	Afghanistan-Pakistan
ANPDF	Afghanistan National Peace and Development Framework
ANRP	Afghanistan National Railway Plan
APPTCA	Afghanistan-Pakistan Transit Trade Coordination Authority
APTTA	Afghanistan-Pakistan Transit Trade Agreement
ATTA	Afghanistan Transit Trade Agreement
BRI	Belt and Road Initiative
BTA	Bilateral Trade Agreement
CASA 1000	Central and South Asia
CPEC	China-Pakistan Economic Corridor
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
HARAKAT	Afghanistan Investment Climate Program
JEC	Joint Economic Commission
MPCEPA	Malaysia Pakistan Closer Economic Partnership Agreement
PAJCC	Afghanistan-Pakistan Joint Chamber of Commerce
PTA	Preferential Trade Agreement
RECCA	Regional Economic Cooperation Conference on Afghanistan
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Agreement
TAP	Turkmenistan Afghanistan Pakistan
TIR	Transports Internationaux Routiers
UNCLOS	United Nations Convention on the Law of the Sea

A conceptual framework for Afghanistan and Pakistan's relations:

Better economic partners than political adversaries¹

ABSTRACT

In this article, we review the political and economic relationship between Afghanistan and Pakistan. We propose a conceptual reformulation of the existing institutions governing the bilateral relations between the two countries. The cost of non-cooperation and politically motivated strategies is too high for the people of the two countries. The zero-sum game has contributed to the conflict, instability and has created a trust deficit blackhole. To move forward, we propose changing the rules of the game by ending the power-centred dominance that has a monopoly over the bilateral and separating politics from economics interests to the extent possible. Our solutions presume existing of rule of law a priori. Of those we discuss three possibilities, the development of bilateral trade-investment agreement that institutionalizes the separation and defines the role of the market actors. Then attempts to proliferate of small joint initiatives, small transactions/projects. These are both possible and feasible given the resource constraints facing both countries. Finally, APTTA revision with the right regional vision that ties the interests of both parties.

JEL Code(s): R10, F42, F55, F53, P45, P48

Keywords: Regional Cooperation, New Regionalism, Afghanistan, Pakistan,

¹ We thank Dr Omar Joya and Nazir Kabiri for their invaluable feedback and comments. We thank the rest of the Biruni Institute staff for their support.

I. INTRODUCTION

To a large extent, political and economic conditions in Afghanistan depend to its south-eastern (Pakistan) and western (Iran) neighbours. Pakistan and Afghanistan have had a turbulent relationship since 1950s. The cost of non-cooperative attitude continues to have high economic costs for the inhabitants of both nations. High levels of unexploited trade potentials (Figure in Appendix), investment opportunities, and the disconnect between Central & South Asian countries attest to these costs. If fully realized, the dividends will directly impact the lives of inhabitants in both nations and those of over 1.89 billion people living in the region (Rahimi et al., 2021).

No country can be self-dependent in every aspect, nor should it be. Some products are produced better in some countries than others, specific skills are abundant in one place than others, and various products may be demanded. Therefore, to enhance welfare, to mutually benefit and to raise living standards, it is necessary to share resources, to trade with one another in areas we are less competitive or less skilled. There is a consensus among economists that economic cooperation and integration is essential to achieve development and prosperity (Kathuria et al., 2018; Looi Kee et al., 2009; Pitigala and Singh, 2020).

Afghanistan as the land-bridge between Central and South Asia, China, and the Middle East, has the geographical advantage with the right vision to bolster economic development in the region and beyond, while in doing so, achieve sustainable stability. More specifically, Afghanistan can capitalize on its geographic location as the bridge between energy-rich Central Asia and energy-deficient South Asia. The increasing level of population in South Asia entails the need for more energy as the region lack sufficient energy resources. It would not be far from the truth to claim, the key to this lock begins with good bilateral relationship between Afghanistan and Pakistan.

Two favourable circumstances have evolved that make the prospects of good economic cooperation between the two nations more viable. First, the ongoing peace efforts between the Afghan government and the Taliban puts Afghanistan yet in another critical juncture. Irrespective of whether the peace negotiations succeed or not, whoever is destined to rule Afghanistan next, will have to live next to Pakistan and other neighbours. Second, there are positive signs of regional cooperation and new regional initiatives such as CPEC making the connectivity more feasible.

We believe these unprecedented opportunities call for Afghanistan and Pakistan to capitalize upon and replace decades of turbulent relationship with long term stability and economic prosperity. Similar to the Franco-German relationship (see Box 1),

Afghanistan and Pakistan have the potential to initiate and strengthen the seed of regional cooperation and become the engine behind regional integration.

This article highlights the sources of trouble between the two countries and argues that separating political interests from economic interests, and by focusing on economic mechanisms will create interdependencies essential for the development of a stable relationship. It reviews political and economic relationship between the two countries with an emphasis on the latter.

The article argues that Afghanistan-Pakistan relationship has been dominated by old regionalism instruments which involves state-level monopoly. Afghan government halting Joint Economic Commission (JEC) in 2015 stands witness to this domination among many other instances where all lines of communication has broken between the two countries because one politician's remarks. We think the current trade discussions between the two countries are focused on problems relating to three topics: imports & export facilitation mechanisms, illegal trade due to lack of border controls, and transit trade procedures.

As partial solution to the above issues, we call for a hybrid approach "the so-called new regionalism" with a focus on the role of markets, businesses, and joint investments. We propose adopting new regional instruments by modifying the rules of the game and institutional arrangements to reduce the state-level monopoly through the following three mechanisms: 1) forming a bilateral trade agreement (BTA) which would fill the existing legal void. 2) Then the practical mechanism to initiate economic cooperation is to focus on opportunities for small-scale investments, access to finance and joint initiatives that are feasible between the two countries who oft struggle with fiscal crisis. Even continue to work on joint-projects/ventures such as BRI/CPEC, rail networks, and proliferation of track 2 dialogue platforms, and 3) revising Afghanistan-Pakistan Transit Trade Agreement (APTTA) with a goodwill. The ultimate objective is to create shared interests and eliminate the trust deficit which will result in sustainable stability and shared economic dividends. The way to do is to define

Box 1: Franco-German Relationship

Once hereditary adversaries, the Franco-German commitment is known as the "engine of Europe's integration". Decades of enmity and rivalry was replaced with friendship via economic cooperation and interdependency. The Schuman plan propagated by the likes of Monnet and others led to the establishment of the European Coal and Steel Community (ECSC), "out of which European Union (EU) would subsequently develop" (Mourlon-Druol, 2017). There is an essential lesson -to be friends, not foes- for other countries that may want to follow suit, especially

economic interests separate from political objectives (to the extent possible) and negotiate within those economic parameters.

II. REGIONAL COOPERATION IN THEORY

There is abundant economic evidence that greater openness and trade brings and promotes economic development and growth (World Bank, 2018; USTR, 2019). This is often achieved through lowering traditional barriers to trade, creating opportunities for joint investments, labour mobility, common markets, exchange of knowledge, and technology. Moving away from the traditional "import-export" trade discussions, there is much to be exchanged and gained from a comprehensive bilateral trade agreement, especially for a conflict/post-conflict country such as Afghanistan.

We draw on regional cooperation theories to argue that a "new regionalism" approach is needed to hedge the AfPak bilateral against political sways. Most state-centred approaches "old regionalism" heavily rely on government as the key actor in driving, shaping, and building relations (Keohane, 2005; Schirm, 2002; Baldwin, 2013). However, society-based approaches diversify by bringing other actors to the table too, of which include the role of markets, civil societies, and research community (Milward, 1992; Cowles, 1995; Milner, 1997; Cameron and Tomlin, 2002).

In the view of the above, economic cooperation and subsequently economic integration may take the following forms:

Bilateral Trade Agreement (BTA), or Preferential Trade Agreement (PTA), in the simplest form, are agreements between two countries to enhance trade, commerce and investments. Through which tariffs and quotas are mutually reduced, opportunities are created for joint-investments and expands markets. When Doha Rounds on multilateral trade talks stalled, Asia-Pacific countries have seen a surge in the number of preferential agreements signed, 262 (59% of the total). Preferences to sign bilateral agreements have also increased. Out of 155 agreements in Asia-Pacific, 124 of them are bilateral PTAs (UNESCAP, 2015). Examples include ASEAN-China PTA (2002).

Afghanistan already has a PTA with India (India-Afghan PTA, 2003). The Indo-Afghan PTA had significant impact on bilateral trade between two countries. Afghanistan's exports increased from around US\$ 19 million to US\$ 125 million in just six years. Similarly, imports from India rose from around US\$ 25 million in 2002, a year before the PTA, to US\$ 464 million in 2009 (Jha, 2013).

Free Trade Agreements (FTA), is an advanced form of a BTA/PTA. In the simplest form, it is a bilateral/multilateral agreement to form a free-trade area. Through such an agreement two nations agree to lower trade barriers (tariff and non-tariff) and expand

business opportunities. FTA is one of the most common form of economic cooperation that has significantly contributed to regional and international trade. It determines the tariff rates imposed on imports and exports. The second facet of an FTA is trade facilitation, decisions on areas such as investments, government procurement, phytosanitary and sanitary standards, certifications, and intellectual property. Most famous FTAs include NAFTA (1994-2020, now replaced with USMCA), US-Singapore FTA (2003-present), ASEAN-Japan Comprehensive Free Trade Agreement (2006), and China-Pakistan FTA (2007-present). Critics have called the surge the "Spaghetti bowl effect" and consider it counter-productive (Bhagwati, 1995).

Then, there is the Malaysia-Pakistan FTA also known as Malaysia Pakistan Closer Economic Partnership Agreement (MPCEPA) became operational in 2008. The agreement establishes promoting trade between two countries and ensure mutual tariff preferences. It includes agreements on trade in goods, services, investments, and economic cooperation. The MPCEPA also encompasses bilateral technical cooperation and capacity building in various areas. For trade in goods, Pakistan eliminated tariffs on 43.2% imports from Malaysia. In return, it was reciprocated by Kuala Lumpur in elimination of tariffs on 78% imported goods from Pakistan. For trade in services, the parties have offer market access each other. Additionally, Pakistan received 100% equity in areas such as insurance, Islamic Banking, and IT related services. As the result of the agreement, Pakistan-Malaysia trade volume has rose significantly, demonstrating an increase of 163% between years 2006-2012. The MPCEPA serves a best example for Afghanistan and Pakistan to move toward. We discuss this in section four.

In the same manner, more advanced forms economic cooperation and integration include *Customs Union (CU)*, *Common Markets (CM)*, and *Economic Union (EU)*. Member states follow uniform and identical external tariff schedules, includes free movement of capital, labour as well adopting common economic policies. Of these types include Gulf Cooperation Council (GCC), Common Market for Eastern and Southern Africa (COMESA), and the European Union (The EU).

III. AFGHANISTAN-PAKISTAN: A HISTORICAL LENS

i. Politics

Bitter Start, upon formation of Pakistan as an independent state, on 30 September 1947, Afghanistan was among the handful of countries who rejected its admission to the United Nations (UN). Later in the 1950s, Pakistan reciprocated by rejecting the UN proposal providing landlocked countries free access to the sea. Afghanistan being its

only landlocked neighbour. Political scientists argue that these were first signs of a turbulent start, antagonized further with the Afghan government's interventionist behaviour, especially with regards to Pashtunistan claim (Razvi, 1979; Qassem, 2007; Ahmed & Bhatnagar, 2007). This brought the two countries to the brink of war on several occasions and periodic border closures between 1950s to 1960s, and post-2001 (Rahim, 2018).

Durand line, the main bone of contention between Afghanistan and Pakistan rests on the dispute over the north-east and eastern borders. One argument is that upon the departure of British Empire from the subcontinent (1947), the then Afghan government was motivated to invalidate the Durand treaty by objecting to the formation of Pakistan as an independent state (Giunchi, 2013). This proved to be futile, as we know ex-post. The treaty determining the border was signed between Mortimer Durand and Emir Abdurrahman Khan in Kabul in 1893. In doing so, Amir relinquished his control over many regions, which mostly coincide with Pakhtunkhwa (formerly NWFP) region in Pakistan. The public perception among Afghan nationalists have always been that of non-acceptance (including non-Pashtun ethnic groups) as well as some historians (Kakar, 2006: 181-2; Ghubar, 1983: 687). The usual claim is that the Emir signed the agreement under coercion, threat of war and blockade, and think of it as a time-bound agreement that was valid for a century. Many political scientists deem these invalid (Qassem, 2007; Gregorian 1969: 227-31) Nonetheless, this remains as one controversial issue biting the bilateral relationship between the two countries at every corner.

Fear of foes encirclement, the hostile relationship between India and Pakistan, coupled with Afghanistan's geostrategic position, and the bitter relationship between Afghanistan and Pakistan provide favourable conditions for the subsequent Afghan governments to cosy up with that of India. Almost all Afghan governments except the Taliban (1994-2001) had a troubled relationship with its immediate neighbour. For example, with Daud Khan as the Prime Minister (1973-1978), AfPak relations deteriorated further (Razvi, 1979). Post-2001, the fledgling Karzai (2001-2014) and Ghani (2015-now) governments revived the cosy Indo-Afghan ties entailing increased Indian influence. This did not go unnoticed or without a response. Pakistan and India are inborn enemies, and the two countries remain at the state of war since 1947. It is the threat of war that devises Pakistan's foreign and defence policy. To that end, Pakistan has left no stone unturned trying to exert influence in the region, install and support its own "friendly government" (Ahmed and Bhatnagar, 2007).

Interventionism goes both ways, Afghan governments in the past have consistently supported Baluch and Pashtun nationalist on the other side of the Durand Line, particularly between 1947-1973. This put a heavy pressure on Pakistan from eastern

borders in addition to its pre-existing border conflict with India in the south. The interventions were considered a costly blow in Pakistan's rudimentary stages from a fellow Muslim-neighbouring country.

Post-Daud Khan regime collapse (1973-1978), the rise of communism that antagonized a majority Muslim country coupled with USSR military intervention (1979-1989), a religious resistance took shape in Afghanistan. Pakistan housed this resistance and supported Afghan refugees during this period. Doing that gave Pakistan direct access to leaders of the resistance against USSR and the then communist Afghan regime. The Afghan Cell was created within ISI with the mission of supporting this military resistance but of course enhancing Pakistan's influence during Zulfikar Ali Bhutto's government (Institute for the Study of War, n.d.; Narayanan, 2010). In addition, in the years of Cold War, the global divide and rivalry between the US and USSR, meant that it was in the interest of the US to support and fund Afghan resistance. This was also directly facilitated and controlled by Pakistan. These turn of events, turned the tables in favour of Pakistan having an upper hand in the interventions front.

The 9/11 incidents changed the global tide once more and put the Taliban-Al Qaida alliance (1994-2001) that enjoyed Pakistani's patronage at odds with the US. However, many experts argue that Pakistan's foreign strategy toward Afghanistan remained unchanged, while pretending to cooperate with the US in Afghanistan post-2001, Pakistan continued to provide sanctuary to Taliban and Al Qaida leaders (Institute for the Study of War, n.d.). The claim that Pakistani officials have always rejected.

ii. Trade and Economics

In the beginning there was the GATT, post-Allied victory in WWII attempts to smoothen and restore international trade led to the creation of several treaties and organization such as the World Bank, the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT) in 1947. This was succeeded later by World Trade Organization (WTO) in 1995. However, its provisions are still effective under WTO framework subject to modifications. It aimed to enhance global trade by lowering and decreasing tariff and non-tariff barriers. Articles of the GATT emphasizes on freedom of trade and transit between member states of WTO through routes that are most convenient for transnational transit. It contains provisions on equal treatment of transport means regardless of their origin and flag; banning delays and restriction that are not necessary; forbidding charges related to transit - except charges for transportation or those commensurate with administrative expenses entailed by transit or with the cost of services rendered; ensuring fairness in levied charges and providing most favoured nation status the WTO member states.

Afghanistan accession to WTO in 2015 provided further cooperation ground between Afghanistan-Pakistan. Thus far, little has been done to utilize the benefits of being WTO members due to political grievances. Combined with the United Nations Convention on the Law of the Sea (UNCLOS), especially articles 125 (1) and 125 (2), explicitly stating that the parties (landlocked countries in this case) must reach an agreement to form the "legal right" of access to and from the sea ensuring freedom of transit (UNCLOS, 1982).

Based on these Pakistan is only obliged to provide Afghanistan access to the sea as a landlocked country after the bilateral arrangements between the two countries. The aim of the UNCLOS and the GATT articles were to enhance global trade by encouraging the principles of lowering tariff and non-tariff barriers (Shaw, 2008).

The Afghanistan Transit Trade Agreement (ATTA) codified and regulated transit arrangements mentioned in the articles of the GATT between Afghanistan and Pakistan for the first time in 1965. Consequently, Afghanistan could use Torkham and Chaman as exit points and Port Qasim and Karachi for entrance. However, the internal crossing roads in both countries remained unspecified and Afghan trucks could not enter Pakistan soil and vice versa. All domestic transportations were carried by domestic mechanism/firms between the two states.

While ATTA was an important agreement of its time and signed before the 1982 UNCLOS, it could not efficiently respond to the development of twenty first century. With the dissolution of Soviet Union and emergence of new Central Asian countries along with the development in technology, transportation facilities and legal procedures, the connectivity context of the region changed. These new circumstances required a more comprehensive new transit agreement between the two neighbours. Thus, the negotiations for the new agreement, Afghanistan-Pakistan Transit and Trade Agreement (APTTA), started in 2008 and signed in 2010 becoming effective in 2011.

Then came Afghanistan-Pakistan Transit Trade Agreement (APTTA). The document contains provisions and discussions on rights/limits of transit trade, transport corridors, facilitation of transiting trade, requirements and conditions for road vehicles, customs & other controls including taxes, duties, and payment arrangements. This transit agreement also lays the foundation for establishment of APPTCA, the joint coordination authority to implement the terms of the agreement and resolve disputes.

There are five security levels under APTTA to ensure unauthorized transit is prevented. These include insurance guarantees, tracking services, bank guarantee for vehicles, bonded carrier licenses and container security deposits. While inhibiting cross-border smuggling, all of which limit the smooth flow of trade between the two countries. A

study by the Pakistan Business Council (2015) found that volume of Afghan transit trade declined through Pakistan between 2011 and 2014, post-APTTA period (Pakistan Business Council, 2015). However, the difference in transit trade reported by the two countries also fell from \$2.9 bn to \$1 bn in 2014 post-APTTA. The guarantee schemes seem to be curbing the illegal trade but also negatively affecting Afghan transit trade. The critics on both sides of the border aren't satisfied and consider impediments that come with APTTA are too high, especially for Afghan traders.

APTTA allows Afghanistan to access the sea, China, and India (although limited) via Pakistan, and in turn allows Pakistan to access five Central Asian Countries and Iran via Afghanistan. More specifically, Afghan merchants can use the following three ports in Pakistan for import and export: Qasim, Karachi and Gwadar. The routes are pre-specified in the agreement too, via Peshawar/Azakhel to Torkham and via Chaman to Spin Boldak. The consistent push by the Afghan merchants to have full access to Wagah – Pakistan India border crossing - has been a contentious issue.

Through Afghanistan, Pakistani merchants can access Ai Khanom and Sher Khan Bandar (to Tajikistan), Hairatan (with Uzbekistan), Aqina and Torghundi (to Turkmenistan), Islam Qala and Zaranj (to Iran). The specific entry points, and cities that trucks will have to go through to reach these exit points are also pre-determined. See annex 1 and four other protocols to APTTA-2010 for more details (APTTA, 2010). In this manner APTTA plays a key role in connecting the region, if fully operationalized and utilized.

On the other hand, a trade agreement is different from a trade transit agreement. Up until 2004, Afghanistan and Pakistan were part of no trade agreements. Only after signing the regional South Asian Free Trade Agreement (SAFTA) (became effective as of 2006) the two countries were in a trade agreement too.

SAFTA, the regional FTA was agreed upon at the 12th SAARC summit in Pakistan in 2004 which replaced SAARC Preferential Trading Agreement (SAPTA). Presently, it forms and regulates the basis of trade between 8 countries: Afghanistan, Bangladesh, Bhutan, India Maldives, Nepal, Pakistan, and Sri Lanka with a total population of over 1.6 billion inhabitants (ADB, 2018). The aim of SAFTA is to enhance trade, lower technical and non-technical barriers between members. It has provisions for trade liberalization schedule, divides members into developing (Pakistan, India, and Sri Lanka) and least developed economies (Nepal, Bhutan, Bangladesh, Maldives, and Afghanistan), asking them to gradually reduce tariffs on imported goods down to zero percent.

The negotiations between parties took place on product-by-product basis. Each member state has their sensitive/negative lists where tariff reductions would not apply, and a Ministerial Council would review the list every four years. Afghanistan has over 1000 items in its negative list (a list where foreign companies cannot invest), whereas Pakistan has over 900 items in theirs (Rumi, 2011). The sensitive list between Afghanistan and Pakistan is an impediment for further cooperation, especially in infrastructure, flow of capital, and opportunities for joint investments.

Other regional cooperation frameworks, Afghan-Pak economic cooperation extends to other international and regional platforms. Both are members and cooperate with important global economic institutions such as the World Trade Organization (WTO), the World Bank (WB), the Asian Development Bank (ADB), the International Monetary Fund (IMF) among others. Likewise, regional platforms include the South Asian Association for Regional Cooperation (SAARC) with the aim of promoting economic development and regional integration. The Economic Cooperation Organization (ECO), which is an important political and economic intergovernmental organization in Asia with the aim of providing a platform for enhancing regional trade, development, and investment opportunities. The Central Asia Regional Economic Cooperation Program (CAREC) established by Asian Development Bank, and Regional Economic Cooperation Conference on Afghanistan (RECCA) are other examples.

IV. MOVING FORWARD: ECONOMICS INSTEAD OF POLITICS

Trade between the Afghanistan-Pakistan have been a secondary issue, often affected by political swings. The relationship is dominated by a “power-centred” approach in which political factors dominated and determine the winds. Key political challenges are interventionism, blame rhetoric and bitter history, all emanating from state and security agencies within the governments.² The mistrust at the state level have always stalled negotiations, created further tensions and failed to deliver security, the very commodity often used to justify the ill-intentions on both sides.

A move away from the current approach allows the development of a multi-stake holder, hybrid-approach by bringing more non-political players and actors to the table. Those from the private sector, businesses, think-tanks, and research communities. This is only feasible by changing the rules of the games and institutional arrangement by giving these players a permanent seat at the table. Doing that, lowers

² Numerous recent examples exist: Afghan president’s remarks in the Central Asian Conference in July 2021, his chief security advisor’s remarks in June 2020, Pakistan’s former head of ISI known as the “godfather of the Taliban”, former Pakistani president Parviz Musharaf’s remarks on several occasions.

the governments' leverage and monopoly over the direction of the bilateral relationship between the two countries and the people.

As already mentioned, a comprehensive review of several studies reveals key challenges surrounding economic cooperation. It can be surmised into three themes: 1) illegal trade, 2) import-export facilitations and 3) transit procedures (Ahmed 2015; Shabir & Ahmed, 2015; Hussain & Elahi, 2015). A more detailed discussion is provided in the Appendix: Impediments in AfPak Trade.

We believe, a society-based approach that gives businesses, civil societies, non-government actors a voice about the future of the relationship between the two countries increases the probability of success. In addition, such a hybrid approach hedges against changes in the political atmosphere, lowering the risks of bilateral relations deteriorating further and all channels closing, should the state-level cooperation break down. We propose three mechanisms on the principles of a "new regionalism" to move away from political challenges and to create space for further economic cooperation.

This is already further alleviated by the fact that the two countries are members of World Customs Organisation (WCU), ratified TFA as members of WTO, and Afghanistan is in the process of joining Revised Kyoto Convention (RKC), while Pakistan is already a member. On the other hand, security is big challenge but can be solved (at least partially) through social capital and social-insurance through joint-ventures and shared interests. The problem is the government level rhetoric.

i. Bilateral Trade Agreement (BTA)

A comprehensive bilateral trade agreement emanating from the provisions of SAFTA which already lays the ground for AfPak economic cooperation. Given that it is a regional FTA with a broader scope, Afghanistan-Pakistan has a unique history and contentious relationship, as well as a very different economic base. Pakistan having a large industrial base and Afghanistan has not yet industrialised. Therefore it does not address the intricacies of the economic cooperation needed to normalise the relationship between the two countries. In lieu of that, we propose negotiating a BTA that encompasses and releases the full existing economic potentials. This will guarantee and formalize the extent of government's control and define the private sector's domain too.

There is empirical evidence that promoting trade with neighbouring countries reduces violence and conflict, as the higher volume of trade increases the cost of conflict on both countries (Rohner et al., 2013; Cali, 2014).

Traditionally trade talks between Afghanistan and Pakistan does not go beyond import and export facilitations such as visa issuance, documentations and so on. The new areas of focus should be creating more opportunities for joint investments, tapping into the financial sector, telecommunication, recognition of qualifications, transfer of technology, capital and labour movement, digital trade, among others. In light of the new BTA, institutional setup and arrangements should be put in place that limits the state monopoly and highlights the role of non-state players. The parliaments in both countries can ensure that these provisions are included in the new BTA, and international organisation can provide technical help to both countries.

The two countries will benefit greatly from explicitly discussing issues pertaining standard barriers (tariffs and quotas), technical barriers (commonly non-tariff barriers to do with product size, shape, design, functions, performance, packaging, labelling and in some cases mode of production) and sanitary & phytosanitary measures. The MPCEPA between Malaysia and Pakistan provides clear evidence that both Afghanistan and Pakistan can tap into the potential benefits awaiting at the two sides of the border.

ii. Joint Projects/Ventures

We propose a two-prong approach in creating and focusing on joint investments between the two countries. First, many small initiatives and high-impact small scale joint investments. Second, exploiting the current mega-projects that have a higher degree of feasibility.

a. Proliferation of Small Initiatives

There is strength in numbers. We propose the creation of many small initiatives, platforms, and educational exchange programs that connects people of Afghanistan to that of Pakistan. Little has been done on this front except the rotational Prime Minister Scholarship Scheme (PMSS) that allows Afghan students to study in Pakistan (HEC, 2020). Afghanistan has no cultural or educational program to allow the exchange of experiences. Most people in Afghanistan has many commonalities with the people of Pakistan than any other people on the planet, ethnicity, religion/sect, shared history, shared culture, language are some of those dimensions.

At the moment, there are no consortiums of think-tanks, minimal university-level cooperation, no annual summits for non-state actors and others such as joined business councils. There is an urgent need to proliferate these mediums, investing in the creation of business-to-business platforms, joint investment authorities, joint chambers and involving them in the bilateral negotiations at all levels. Establishing

research-to-research platforms and student exchange programmes to allow the two nations to visit and spend time on each side of the border will go a long way to address the trust deficit and end the long-standing political conflict.

Profusion of local knowledge and shared cultural elements make it less costly for Pakistani and Afghan businesses to get into joint-ventures, investments and cooperate with each other. Promoting this and replacing the animosity rhetoric will minimize or even eliminate the political trust deficit. One thing we have learned from past two decades is that mega projects while important are often risky, too costly to finance and technically cumbersome to implement. Therefore, we place more importance on the creation of quasi-official and non-official (track II) platforms. Currently there are two semi-operational quasi-official structures that is the Afghanistan-Pakistan Joint Chamber of Commerce (PAJCC) and Harakat. This is not what inclusivity means. Both states need to realise the importance of cooperation and reduce their monopoly in controlling the bilateral between the two nations.

b. China-Pakistan Economic Corridor (CPEC)

While China's BRI offers an unprecedented opportunity for Afghanistan and Pakistan to enhance bilateral and regional cooperation. The "One Built, One Road" project, later known as the BRI, is a multidimensional project aiming to connect different regions of the world having the concept of "greater connectivity leads to greater growth" as its guiding principle (Cowan, 2018).

As the BRI's flagship project, CPEC with an initial budget of around \$US 46-60 billion for 15 years exemplifies the aim and scope of BRI and has the potential to be extended to Afghanistan (Wolf, 2020). As a framework for regional connectivity, CPEC's impact goes beyond Pakistan benefiting (arguably) Afghanistan, Iran, Central Asia, and surrounding regions. For millennia Afghanistan was what historian Arnold Toynbee referred to as a "roundabout"- a place through which ideas, people, and goods flowed and from which they dispersed throughout the entire region" (Ghani, 2011). Centuries later, today's Afghanistan also has the potential to revitalize its ancient role as the commerce and exchange hub.

The CPEC and BRI projects are undoubtedly Chinese and serves their interests more than the recipient small economies such as Pakistan and Afghanistan (if connected). The sensitivities about these projects do exist. Afghanistan must treat steps toward CPEC or BRI cautiously. Multinational projects are difficult to achieve and have a low feasibility rate. CASA 1000, TAP and other examples projects have been ongoing for decades and none of them have borne fruit. Two major reasons behind the failure of the multination projects are the lack of technical and financial capability to undertake

these projects. The complexity involved in implementing cross-country projects, the legal aspects alone, require pre-requisites that Afghanistan simply does not have in place. This is the reason, why a move toward smaller initiatives that require small investments and are not too complicated is a better starting point.

c. Rail Network

Afghanistan must develop its domestic rail networks to connect to Pakistan and the region beyond. The Afghanistan-Pakistan connectivity via rail is stemmed from Afghanistan National Railway Plan (ANRP). It is considered an important pillar of Afghanistan's infrastructure development for increased regional cooperation, as stressed several times in ANPDF I & II. ANRP aims to address the transport needs of the country in movement of industrial and construction commodities, country's mineral and agricultural products to regional ports.

Domestically, the ANRP planned four corridors in different regions of the country. Afghanistan and Pakistan linkage through railways is designed in the South and East sections of railways network. In the South, a corridor is planned to connect Lashkargah (Helmand) to Kandahar and its border town, Spin Boldak, then to Chaman city of Baluchistan in Pakistan. This article stresses the importance of these plans and argue that the dividends go beyond mere economic. It will connect the interest of the businesses and people of the two countries even further.

As of December 2020, Pakistan announced plans to construct around 11km railway tracks connecting Spin Boldak-Chaman. Afghan government can further extend the tracks to Kandahar and other provinces in the future (Ariana News, 2020). Early 2020 again, Pakistan inaugurated the Goods in Transit to Afghanistan (GITA) train services that transport goods from the city of Karachi to Chaman, with completion of the above railway tracks the two countries will be linked via rail. In the East, plans are to construct a 75km Jalalabad-Torkham railway corridor (Tolo News, 2020). This is in coordination with wider regional railway connectivity that connects Central Asia with South Asia. In February 2021, Afghanistan, Uzbekistan and Pakistan signed an agreement on the roadmap for a multibillion-dollar 573km railway corridor that would link Tashkent to Kabul and Peshawar passing Jalalabad-Torkham (PriSec, 2021). Prioritizing domestic sections of these projects will yield unparalleled connectivity.

iii. APTTA Revision

APTTA has expired and the revision of the agreement is underway. The proposed 2021 APTTA contains modifications and suggestions to its current version seem promising, although the negotiations have seen some push back on a few technical differences in drafting the document. The current revisions include addition of the term "transport"

to the title of the agreement and substituting the phrase “all types of transport” with “transit” in Article 1(a) may widen areas of movements between two countries (APTTA 2, forthcoming).

Also, stating to “avoid unnecessary cost” in the same article helps prevent unnecessary charges by custom officials of two countries. Besides, large number of vehicles and drivers would be encouraged to work in transit between two countries as bureaucratic burdens of getting a permit would be addressed in the proposed changes “permit and quota” from Article 2 of the agreement, which require drivers to have permit documents. Other examples include the proposed changes in the Article 11(4) that states “the vehicles carrying the Transit/export Cargo will be allowed to carry the return transit cargo/ export cargo from the territory of the other Contracting Party and/ or the third country”, if approved, would ease further access to Afghan trucks (APTTA 2, forthcoming).

In the 2010 APTTA agreement, Pakistan has allowed Afghan trucks to access Wagah (Pakistan-India) and Tashkurgan (Sino-Pakistan) borders with the restriction that Indian goods could not be transported back to Afghanistan through Pakistan. This was often the contested bone between the delegations. What is needed from both parties (Afghanistan and Pakistan) in these negotiations is to consider the dividends achieved from other dimensions of this transit and the long-term impact that it will ensue, as is argued throughout this article.

A missing element so far in APTTA negotiations is the provisions of Transports Internationaux Routiers (TIR) that facilitates international transportation of goods from one to another customs office. The precautionary measure includes strict customs control and secure sealing at the point of departure. The International Road Union (IRU) manages the guaranteeing chain prints and distributes the TIR Carnet, which serves as customs document as well as proof of guarantee (IRU). Both Pakistan (2015) and Afghanistan (re-activated 2013) are part of the TIR convention, so many other countries in the region including Iran, Azerbaijan, Kazakhstan, Tajikistan, Turkmenistan, Armenia, Georgia, Mongolia, Turkey and China (as of 2019).

Lack of information and understanding was named as an issue among Afghan drivers about the TIR rules and regulations as an inhibitor to why Afghan trucks cannot go to TIR signatory members (TOLO, 2017). Accession to TIR is entirely different from creating the required systems to fully utilise the benefits of the system. The following five pillars of TIR are important: these are needed to improve trade:

- Proper vehicles and containers
- Internationally valid guarantee system to cover duties and tax risks

- Institutional systems to issuance of TIR Carnets as required and accepted internationally
- Custom control measures internationally acceptable

APTTA provisions and annexes could benefit greatly from the TIR provisions. Furthermore, the answer to removal of incentives for illegal trade is simplifying complex transit trade mechanisms and simplifying guarantee systems.

V. CONCLUSION

There has been a rise in the number of PTAs and FTAs/RTAs to promote regional trade, bolster economic prosperity and capacity by additional investments. The "old regionalism" had the states as the main actor. "New regionalism" approaches call for greater role played by markets, civil societies and non-traditional actors to bring about economic cooperation. Based in the principles of the new regional approaches, this article argues to move away from state-dominated relationship between the Afghanistan and Pakistan. The arch objective in this approach is to create economic interdependencies, shared security interests that will yield sustainable stability.

The conceptual macro framework outlined in this paper may not be the full solution to the crisis and trust deficits that dominates the relationship, however, it asks for a radical reformulation of the vision and of the relationship between the two countries. Separating economics and politics, to the extent possible. Then pursuing economics objectives for their own sake. One thing we have learned from the past 20 years (beginning 2001) of witnessing the relationship between the two countries is that it has been taken hostage by the two governments and within that, by specific populist circles who do not hesitate to sacrifice great potential economic benefits for their personal/group agenda.

REFERENCES

- ADB. (2018). South Asian Free Trade Agreement (SAFTA). Asia Regional Integration Center, Asian Development Bank (ADB). Retrieved from: <https://aric.adb.org/fta/south-asian-free-trade-area>
- Afghanistan-Pakistan Trade Transit Agreement (APTTA). (2010). Retrieved from: <https://www.commerce.gov.pk/wp-content/uploads/pdf/APTTA.pdf>
- Ahmed, V. (2015). Fiscal challenges and Response. In I.P. Institute, Roadmap for Economic Growth of Pakistan (pp.50-57). SDPI.
- Ahmed, Z. S., & Bhatnagar, S. (2007). Pakistan-Afghanistan relations and the Indian factor. *Pakistan Horizon*, 60(2), 159-174.
- Ariana News. (2020). Pakistan to build railway line between Chaman and Spin Boldak Retrieved from: <https://ariananews.af/pakistan-to-build-railway-line-between-chaman-and-spin-boldak/>
- Baldwin, D. A. (2016). Power and international relations: A conceptual approach. Princeton University Press.
- Bhagwati, J. N. (1995). US Trade Policy: The Infatuation with FTAs. Columbia University Libraries. Retrieved from: <https://academiccommons.columbia.edu/doi/10.7916/D8CN7BFM>
- Cameron, M. A., & Tomlin, B. W. (2001). The making of NAFTA: How the deal was done. Cornell University Press.
- Cowles, M. G. (1995). Setting the agenda for a new Europe: the ERT and EC 1992. *JCMS: Journal of Common Market Studies*, 33(4), 501-526.
- Ghani, A. (2011). A Framework for a New Silk Road in Asia. Retrieved 5 March 2021, from <http://effectivestates.org/wp-content/uploads/2015/10/A-Framework-for-the-New-Silk-Road-in-Asia-Report-I-Updated-10-152.pdf>
- Ghubar, G. M. (1983). *Afghanistan in the course of history*, Farsi version, volume 1, 3rd edn. Tehran: Enqilab Publications.
- Giunchi, E. (2013). The origins of the dispute over the Durand Line. *Internationales Asienforum*, 44(1-2), 25-46.
- Gregorian, V. (1969). *The emergence of modern Afghanistan: Politics of reform and modernization, 1880-1946*. Standard: University Press.
- Higher Education Commission (HEC). (2020). Allama Muhammad Iqbal Scholarships for Afghan students (Phase-II). Retrieved from: <https://www.hec.gov.pk/english/HECAnnouncements/Pages/AIASS-Phase-II.aspx>
- Hussian, I. & Elahi, M. A. (2015). The future of Afghanistan-Pakistan Trade Relations. United States Institute of Peace: Peace Brief (191).

Institute for the Study of War. Pakistan and Afghanistan. Retrieved from <http://www.understandingwar.org/pakistan-and-afghanistan>

Jha, S. (2013). Utility of regional trade agreements? Experience from India's regionalism. *Foreign Trade Review*, 48(2), 233-245.

Kakar, M. H. (2006). *A political and diplomatic history of Afghanistan, 1863-1901*. Leiden: Brill.

Kathuria, S. (2018). A glass half full: the promise of regional trade in South Asia. World Bank Publications.

Keohane, R. O. (2005). *After hegemony: Cooperation and discord in the world political economy*. Princeton university press.

Looi Kee, H., Nicita, A., & Olarreaga, M. (2009). Estimating trade restrictiveness indices. *The Economic Journal*, 119(534), 172-199.

Milner, H. V. (1997). *Interests, institutions, and information: Domestic politics and international relations*. Princeton University Press.

Milward, A. S., Brennan, G., & Romero, F. (2000). *The European rescue of the nation-state*. Psychology Press.

Mourlon-Druol, E. (2017). *Rethinking Franco-German relations: a historical perspective* (No. 2017/29). Bruegel Policy Contribution.

Narayanan, S. (2010). Pakistan & Afghanistan: Understanding Islamabad's Policies and Strategies. *IPCS Special Report*, 94.

Pakistan Business Council (2015). Transit Trade Pattern Pre and Post APTTA. Retrieved from: <https://www.pbc.org.pk/wp-content/uploads/AfghanistansTransitTradePatternsPrePostAPTTA.pdf>

Pitigala, N., & Singh, P. (2020). Impact of Para-tariffs in Sri Lanka: the case for improved transparency in border taxes. Available at SSRN 3648573.

Private Sector Development (PriSec). 2021. Pakistan, Afghanistan and Uzbekistan sign roadmap for rail project. Kabul, Afghanistan.

Qassem, A. S. (2007). Afghanistan-Pakistan relations: border controversies as counter-terrorism impediments. *Australian Journal of International Affairs*, 61:1, 65-80.

Rahimi, L., Joya, O., and Sahin, S. (2021). Cost of Non-Cooperation Between South and Central Asia. Biruni Institute, Kabul, Afghanistan.

Rahim, S. A. (2018). Afghanistan's dependence on Pakistan: Trade, transit, and the cost of being landlocked. *Management*, 1(4), 1-21.

Razvi, M. (1979). Pak-Afghan Relations Since 1947: An Analysis. *Pakistan Horizon*, 32(4), 34-50.

Rohner, D., M. Thoenig and F. Zilibotti (2013). War Signals: A Theory of Trade, Trust and Conflict. Review of Economic Studies.

Cali, M. (2014). Trading away from conflict: Using trade to increase resilience in fragile states. International Trade Unit, the World Bank Group.

Rumi, J. (2011). Pakistan cuts sensitive list from 1169 to 936 under SAFTA. Retrieved from: <https://archive.pakistantoday.com.pk/2011/10/13/pakistan-cuts-sensitive-list-from-1169-to-936-under-safta/>

Schrim, S. (2002). Globalization and the new regionalism: global markets, domestic politics and regional cooperation. Polity.

Shabir, S. & Ahmed, V. (2015). Welfare Impacts of Afghan Trade on the Pakistan Provinces of Baluchistan and Khyber Pakhtunkhwa. Stability: International Journal of Security & Development, 1-16.

Shaw. M. N. (2008). International Law. Cambridge University Press

TOLO News. (2017). TIR Membership has yet to Yield Results. Retrieved from: <https://tolonews.com/business/tir-membership-has-yet-yield-results>

Tolo News. (2020). New Pakistan-Afghanistan Train Transports Goods. Retrieved from: <https://tolonews.com/business/new-pakistan-afghanistan-train-transport-goods>.

UNCLOS. (1982). United Nations Convention on the Law of the Sea of 10 December 1982. Retrieved from: https://www.un.org/depts/los/convention_agreements/texts/unclos/unclose.pdf

USTR. (2019). Trade Policy Agenda and 2018 Annual Report of the President. Office of the United States Trade Representative (USTR).

Wolf, S. O. (2020). *The China-Pakistan Economic Corridor of the Belt and Road Initiative*. Springer International Publishing.

World Bank. (2018). Stronger Open Trade Policies Enable Economic Growth for All. The World Bank Group. Washington D.C.

World Bank. (2018). Stronger open trade policies enable economic growth for all. Retrieved from: <https://www.worldbank.org/en/results/2018/04/03/stronger-open-trade-policies-enables-economic-growth-for-all>

WTO. (2015). Ministers approve Afghanistan's WTO membership at MC10.

AEO. (2020). Afghanistan Economic Outlook, July 2020. Biruni Institute, Kabul, Afghanistan.

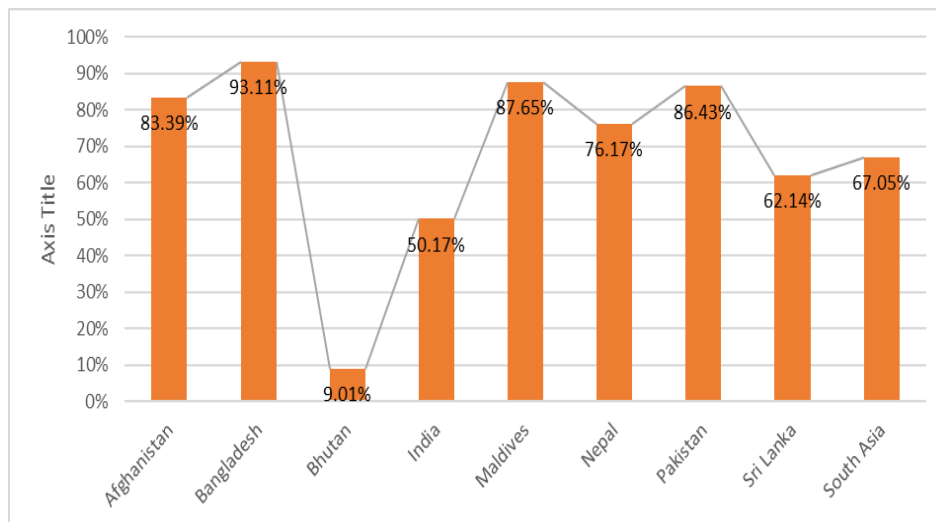
Cowan, A. (2018). Afghanistan Reconnected. Retrieved 5 March 2021, from <https://www.eastwest.ngo/sites/default/files/arp-challenges-and-opportunities-in-the-context-of-bri.pdf>

APPENDIX

a. Impediments Ahead of Afghanistan-Pakistan Trade

1	Trade Facilitation	<ul style="list-style-type: none">• Delays in clearance of goods• Lack of sufficient space for goods clearance and handling• Lack of risk management system
2	Transit and transport issue	<ul style="list-style-type: none">• Lack of reliable road and railway infrastructure• High transit cost comparing to other international roads
3	Security issue	<ul style="list-style-type: none">• 3 Border security check posts• Border tensions• Extra security checks by other internal agencies
4	Custom procedures	<ul style="list-style-type: none">• Up to 110% checks up and verification of goods, contrary to 11 times that 10% required by Customs Act 1969• Lack of constant functioning scanner Machines
5	Illegal Trade	<ul style="list-style-type: none">• Smuggling and Spill over• Illegal cross border movement
6	Tariff Issues	<ul style="list-style-type: none">• Irrational tariff-regime• No duty-free access
7	Banking and Payment issues	<ul style="list-style-type: none">• Limited banking cooperation and ties between two countries• No proper banking system at Torkham
8	Market Issues	<ul style="list-style-type: none">• Lack of mutual awareness

b. Figure: Unexploited Trade in South Asia



Source: UNESCAP, 2018