Pakistan-Afghanistan Transit Trade: Pre & Post APTTA Scenario

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Abstract

The paper attempts to compare the Pak- Afghan transit trade pre and post Afghanistan-Pakistan Transit Trade Agreement (APTTA) and argues that the conversion of Afghanistan's transit trade towards Iran during the last 3-4 years is not the after effects of APTTA alone but other factors are involved like lack of sufficient infrastructure, deteriorating law and order situation in Pakistan, the worsening relations between US/NATO due to Salala and Abbottabad incidents , high transit costs, un-necessary delay, decline in Afghanistan's imports etc. The paper also attempts to suggest recommendations for catching afghan transit trade and controlling the smuggling of transit goods at the end.

Keywords: APTTA, Pakistan, Afghanistan, Iran, Transit trade, smuggling

Introduction

The land locked Afghanistan has been using the territory of current day Pakistan for access to sea lanes of communication since ancient times. Prior to the creation of Pakistan trade took place between British India and Afghanistan via Torkham-Jalal Abad and Chaman-Spin Boldak routes. There were treaties between Afghan Government and British Government dated November 22, 1921 and Anglo-Afghan Convention of 1923. Neither of these treaties talked of transit trade, however, emphasized on freedom of transit as mentioned in the League of Nations at Barcelona Conference of 1921. After the creation of Pakistan, Afghanistan continued to use Pakistan as conduit for transit trade under the provisions of mentioned treaties. In the beginning Pak-Afghan relations deteriorated and remained tensed due to Pakhtunkhwa issue, however talks initiated between the two neighbors during 1963 and a bilateral Pak-Afghan Transit Trade (ATTA henceforth) agreement was signed in March 1965. Three exit points were identified for Afghan

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transit trade i.e. Torkham, Ghulam Khan and Chaman, however Ghulam Khan has not been so far operationalized. ATTA covered the Afghan transit goods movement by Rail and National Logistics Corporation (NLC henceforth) by roads. Pakistan and Afghanistan agreed to revise the bilateral transit trade agreement in order to cater the increasing volume of transit trade efficiently and also to address the issue of smuggling. A re-negotiated transit trade agreement known as Afghanistan-Pakistan Transit Trade Agreement (APTTA henceforth) signed between Afghanistan and Pakistan in 2010 and became operational in June 2011. APTTA provides the recent operational framework and describes the procedures to be followed by the contracting parties for regulating and facilitating transit trade. The agreement has a five years term after which mutually agreed upon provisions can be added or deleted to it. The agreement renews automatically after five years term until either party has terminated it. Another body known as Afghan-Pakistan Transit Trade Coordination Authority (APTTCA) has been formed to coordinate, regulate and monitor transit trade activities and for smooth implementation of APTTA under its article 34. APTTA also provides an opportunity to Pakistan for access to Central Asian markets provided that the Central Asian Republics become signatories of the agreement. Currently Tajikistan has been invited to sign the agreement to form APTTA +1. In 2013, Federal Board of Revenue (FBR), Islamabad has established a separate Directorate known as Directorate General based in Karachi for facilitating transit trade. The Directorate General has regional Directorates working at Quetta, Peshawar and Karachi.

APTTA (2010) has removed the ‘negative list’, allows Afghan trucks to carry Afghan export consignments to Pakistani ports and up to Wagah border which were not allowed previously. Likewise tracking devices have to be fixed in vehicles taking transit goods to Afghanistan as safety measure and ended NLC monopoly over Afghan transit trade transportation as under APTTA bonded carriers were allowed to carry transit trade goods to Afghanistan. The new treaty also prohibits transshipment or trans-loading of transit goods en-route due to the fear of goods’ pilferage into Pakistan’s domestic market (Memon, 2015). However, APTTA does not allow land access to India for exporting goods to Afghanistan. Pakistan, though generates revenue and economic activity by acting as transit route for Afghanistan, the re-entering of transit goods i.e. smuggling from Afghanistan has worse consequences for Pakistan’s domestic industry as well as in form of losses to national exchequer almost vanishing the benefits of Afghan transit trade. According to an estimated figure around 40 percent of transit goods did not cross Pak-Afghan border in past or re-enter Pakistan. To discourage this trend a provision in APTTA was included under which Afghan importers are required to submit guarantees equivalent to taxes liable to be paid by Pakistani importers. There is a general impression in both the countries that this and other conditions and terms of APTTA are acting as disincentives for Afghan importers to use Pakistan's ports for Afghan imports and the relative decline in Afghan transit trade via Pakistan is a result of these terms and conditions. This particular paper discusses and analyses pre and post APTTA transit trade via Pakistan and Iran to find out the factors responsible for diversion of transit trade to Iran, if there is any, during the last 3-4 years. It also attempts to suggest recommendations for catching afghan transit trade and controlling the menace of smuggling of transit goods.

Afghan Transit Trade during Pre and Post-APTTA Period

The following table 1.1 shows percentage of Afghan transit trade through Pakistan for the last decade.

Table 1

Year	Reported Exports to Afghanistan US $ Billion	Pakistan's Exports to Afghanistan US $ Billion	Afghanistan's GDP US $ Billion	Transit Trade Reported by Pakistan Customs US$ Billion	Transit Trade as % of total Reported Exports (%)	Transit Agreement
2006	2.0	0.99	7.1	0.6	30%	ATTA
2007	2.9	0.84	9.8	0.6	21%	ATTA
2008	4.2	1.45	10.2	0.8	19%	ATTA
2009	5.1	1.37	12.5	1.7	33%	ATTA
2010	6.2	1.68	15.9	3.7	60%	ATTA
2011	7.9	2.66	17.9	1.7	22%	ATTA/ APTTA
2012	6.3	2.10	20.5	1.5	24%	APTTA
2013	5.0	2.0	20.3	2.1	42%	APTTA
2014	4.3	1.88	20.6	2.5	58%	APTTA

According to the above table the share of Afghan transit trade through Pakistan in the year 2006 was 30%, in 2007 declined to 21% and recorded lowest in 2008 i.e. 19% in pre APTTA period or under ATTA. Share of Afghan transit trade via Pakistan under APTTA was 22% in 2011, increased to 42% in 2013 and recorded highest in post APTTA period for the year 2014 i.e. 58%. Despite the fact that exports to Afghanistan by countries sharing no border with Afghanistan have fallen from $7.9 billion in 2011 to $4.3 billion in 2014, Pakistan's share in Afghan transit trade has increased from 22% in 2011 to 58% in 2014 (Samir and Attarwala, 2015). It reflects that the decline in Pakistan's share in Afghan transit trade during the immediate post APTTA period was not entirely due to terms and conditions of APTTA. One can argue that in the face of deteriorating law and order situation in Pakistan plus the worsening relations between US/NATO due to Salala and Abbottabad incidents, the share of Afghan transit trade via Pakistan declined during the years 2011-12-13.

However, different reasons responsible for a decline in Afghan transit trade through Pakistan during the immediate post APTTA period can be summarized as following:

i). In addition to the law and order situation in Pakistan and deteriorated relations between Pakistan and US/NATO as mentioned above, it seems that Afghanistan's imports also dropped during 2011 to 2014 which is the cause of fall in transit trade via Pakistan.

ii). According to Afghan traders, transit trade via Pakistan costs a single container \$5000 while through Iran \$3500. The cost of doing business might be increased due to the condition of providing insurance guarantee equal to livable taxes, duties on Pakistani imports as insurance companies charge a premium of 0.5 to 0.7 percent of the amount. Insurance Guarantee through Banks is even more expensive. Financial guarantee plus the tracking device on bonded carriers to avoid any diversion from designated routes have increased the cost of transition by 25 percent. While in Iran no such condition has been included in their bilateral transit trade agreement with Afghanistan.

iii). Underpowered and outdated trucks, poor connectivity infrastructure and unnecessary delay at customs due to problems in scanning devices causing demurrage to Afghan importers.

iv). FBR might have diverted its focus from Afghan transit trade as it does not yield any customs duty and therefore unnecessary delay follows which results in avoidable demurrage charges.

v). According to one source, port handling and other charges for Afghan transit traders are almost double i.e. Rs. 291400 in comparison to that for Pakistani traders which are just around Rs. 14268.

vi). It is also reported that the transportation cost through Pakistan has increased in the range of Rs. 50000 to Rs. 80000. The reason might be that bonded carriers have to fulfill certain criteria including the financial bond/agreement of Rs. 25 million to Rs. 50million as financial guarantee or security.

vii). The deterioration in the capacity of Pakistan Railways for freight transport has also undermined Pakistan competitiveness for transit trade. At present, the major portion of the transit goods is being transported through the roads network which is also in vanishing form

Smuggling Issue in Afghan Transit Trade for Pakistan

Afghan transit trade has been a major source of smuggling i.e. illegal re-entry of transit goods into Pakistan. The formal Pak-Afghan trade i.e. $2.5 billion is equal to the informal bilateral trade of around $2.5 billion (Zaidi, 2015). Pakistan is really fearful of smuggling which causing revenue losses to national exchequer as well as putting domestic industry at a clear disadvantageous position. It is estimated that smuggling of transit goods causing $2 billion to $3 billion revenue loss to the national exchequer while according to a World Bank report as quoted by Lahore Chamber of Commerce, during the years 2001-2009, smuggling has caused $35 billion revenue loss (The Nation, 2015). It is because Pakistan has imposed 17 percent General Sales Tax (GST), 10 percent import duty, 6 percent withholding tax plus 2 percent custom clearance charges for imports into Pakistani markets while transit goods imported for Afghanistan are duty free which increases its smuggling due to least effective border control and corrupt practices on Pak-Afghan border. According to the Directorate of Afghan Transit Trade, Peshawar, around 40% of transit goods find their way into Pakistan. Smugglers have also been using Iranian ports for importing goods under Afghan transit trade which find their way to Pakistan. So Pakistan must not discourage Afghan transit trade on the pretext of smuggling rather it has to strengthen border control and vigilance by discouraging any state institution’s involvement in smuggling. Difference in value of transit trade reported by Pakistan and Afghanistan is also disturbing as in 2014 a discrepancy of $1 billion was found which was almost $3 billion during 2010, the last year under ATTA (Sabir, 2010).

Afghan Transit Trade via Iran

Iran and Afghanistan signed first bilateral transit trade agreement in 1973 and revised it in 2005 (Khan, M. Z.2015). Recently Iran, India and Afghanistan have finalized a trilateral trade agreement which may further boost transit trade via Iran. Development of Iranian port of Chabahar, just 72 km west to the port of Gwadar (Bokhari, 2015) with the financial assistance of India and the consequent road infrastructure development to link Chabahar port with Afghanistan has made it attractive option for Afghan importers. Chabahar port Iran is already operational and currently (mid 2015) it handles 2 million tons cargo yearly which will be increased to handle 82 million cargo yearly by 2020. India desires to marginalize Pakistan in its access to Afghanistan and Central Asia and has provided financial assistance for the development of Chabahar and connectivity infrastructure in Iran as well as in Afghanistan. Chabahar, according to Indian official, is even more important to India than it is for Iran. India has already completed a 218 km Zaranj-Delaram road in Nimroz province of Afghanistan connecting it to the Chabahar via

Zahidan-Mealak-Kandahar-Herat Ring road. Iran has also started work on railway line from Chabahar to Zahidan where it will be connected to Iranian rail network and to Central Asia. Though Iran is less prone to smuggling as compare to Pakistan due to its long porous border, Iran due to less corrupt border controlling forces has a total control on its border with Afghanistan and therefore full control over the smuggling issue. A steady increase has been noticed in Afghan transit trade via Iran during the years 2005-2012 which can be judged from the following table.

Table 2: Volume of Afghanistan's Transit Trade through IranIran's Chabahar Port and the Strategic Turf Wars (Weight in 000 Metric Tons)

S. No	Type of cargo	Iranian Year (Iranian year start on 21st March and end on 20th March)						
		1385	1386	1387	1388	1389	1390	1391
		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1	Imports	786	888	704	664	1237	1703	1602
2	Exports	55	41	23	39	71	125	72

(Source: irica.ir)

In order to convert the said volume in number of containers, we presume that average weight of a 40 feet container was 22 M. tons. as it is maximum weight allowed for a 40 feet container on Highways/Motorways by Iranian authorities and thus, the above volumes can be converted into No. of containers as under:

Table 3: Volume of Afghanistan's Transit Trade through Iran (No. of Containers)

S. No	Type of cargo	Iranian Year (Iranian year start on 21st March and end on 20th March)						
		1385	1386	1387	1388	1389	1390	1391
		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1	Imports	35,727	40,364	32,000	30,182	56,227	77,409	72,818
2	Exports	2,500	1,864	1,045	1,773	3,227	5,682	3,273

The above tables (2 & 3) clearly indicates diversion of Afghan transit trade from Pakistan to Iran during the mentioned 7 years as the volume of Afghan transit trade via Iran reached to 77409 containers during 2012 from 35724 in 2005.

Recommendations

i). Transit time i.e. the time lapses during transportation of goods from departure point to destination, plays an important role for goods' owners in deciding the transit country and route. So if the connectivity infrastructures like roads/highways and railways are well developed not only the transit time reduces significantly but the transportation cost also reduces. Infrastructure gap plus energy shortages place Pakistan's domestic industry at a disadvantageous position vis-à-vis regional states. A national policy on transit related issues plus the development of connectivity infrastructure domestically and with the regional states are pre-requisite to serve as a transit trade hub. In this connection CPEC's western route efficiently connects Pakistan with Afghanistan and western route's development would add regional connectivity to CPEC ultimately catching more Afghan transit trade.

ii). Avoiding cumbersome transit procedures and simplifying these procedures would attract more transit trade. In this regard border customs stations' infrastructure and installation of scanning machines for physical examination at exit points i.e. Torkham and Chaman, will help in eliminating unnecessary delays. Improved and efficient port facilities and services will also avoid demurrage cost to the consignee.

iii). Tariff must be used to protect domestic industry and not for revenue generation. Therefore tariff measures need to be assessed for discouraging smuggling of Afghan transit goods to Pakistan.

iv). Afghan market in terms of need and size genuinely be assessed and therefore quantitative limits be agreed upon bilaterally and provision be provided in APTTA.

v). Harmonizing duty and tax rates with Pakistan customs and establishing a basis of collecting this at entry points in Pakistan on behalf of Afghan government. Pakistan and Afghanistan need to be agreed upon bilaterally.

vi). Whether transit goods come via Pakistan or Iran, Pak-Afghan border is prone to smuggling. It seems that officials of both these two institutions working on border are making money on the expense of national exchequer. Therefore proper border management by the state institutions like F.C and Customs in this case is imperative.

vii). Pakistan has not signed the TIR (International Road Transport) Convention which is a multilateral treaty for international transportation of goods. TIR covers duties and taxes leviable on goods in transit and thus all transportation is secured. So it is advisable for Pakistan to sign the TIR which may have positive impact on Afghan transit trade.

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