

Pakistan and Afghanistan: Strategic Pathways for Economic Stabilisation and Growth in the Wake of Taliban Rule

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Introduction

Since the Taliban's takeover of Afghanistan, the country's already fragile economy has been experiencing a further decline. Pakistan, the immediate neighbour and the largest trading partner of Afghanistan, can play a prominent role in reversing this economic decline. However, bilateral relations between the two countries are influenced by territorial disputes, security concerns, and the ongoing socio-political enigma in Afghanistan.¹ The existing complicated bilateral ties between the two countries have worsened after the Taliban takeover of Afghanistan. Despite strained relations, bilateral trade links have remained largely intact, although there has been a notable decrease in volume. This study explores how Pakistan could assist Afghanistan in reversing its economic decline amidst significant challenges.

An Overview of Afghanistan's Economic Situation Post-Taliban Takeover

Afghanistan Development Update April 2024 prepared by the World Bank reveals that the country's economy has been following a negative trajectory for the past two years.² The country's economy has faced a staggering 26 per cent contraction in real GDP, with a significant 20.7 per cent decline in 2022, followed by an additional 6.2 per cent contraction in 2023.³ Political challenges, a ban on opium cultivation, a decline in international aid, the forced repatriation of Afghans from neighbouring countries, and natural disasters like floods and earthquakes in parts of the country are key factors behind this decline.

Since 2022, Afghanistan consistently has been going through a significant trade deficit, with imports far exceeding exports. Both imports and the trade deficit have been increasing over time, without a corresponding rise in exports. The following table contains the figures until May 2024 of the imports, exports and trade deficit of Afghanistan:

Table 1

Duration	Imports	Exports	Trade Deficit
2022	\$6.3 billion	US\$1.7 billion	\$4.4 billion
2023	\$7.8 billion	\$1.9 billion	\$5.9 billion
Jan-April 2024	\$ 2.3 billion	\$419.4 million	\$1.9 billion

Source: Compiled by author from Afghanistan Economic Monitor⁴

The unemployment rate in Afghanistan has also increased from 14.10 per cent in 2022 to 15.40 per cent in 2023.⁵ The unemployment rate in the country has averaged 8.95 per cent from 1991 until 2023, reaching an all-time high of 15.40 per cent in 2023.⁶ In addition, the ban on opium cultivation incurred an estimated \$1.3 billion loss in farmers' incomes, equivalent to approximately 8 per cent of GDP.⁷ The value of the opiate economy has contracted by 90 per cent and the area under cultivation decreased by 95 per cent.⁸ Afghans have lost 450,000 jobs at the farm level alone and experienced high economic losses downstream, as revealed by a report by the United Nations Office on Drug and Crime.⁹ Furthermore, there is downward pressure on domestic food prices as 200,000 hectares of land previously dedicated to illicit crops have now been repurposed for food production.

Importance of Pakistan's Involvement in Stabilising Afghanistan's Economy

Pakistan, as the largest trading partner of Afghanistan, accounts for 60 per cent of its total exports¹⁰ with bilateral trade between the two neighbours reaching \$1.86 billion in the fiscal year 2023. The following table shows the magnitude of bilateral trade between the two countries in the past 12 years:

Table 2

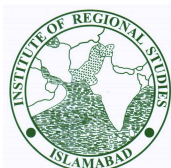
Pakistan's Trade with Afghanistan in US\$

Year	Exports to Afghanistan	Imports from Afghanistan
2012	\$2,099,282,307	\$235,091,022
2013	\$1,998,110,368	\$307,597,654
2014	\$1,879,142,731	\$392,166,292
2015	\$1,722,215,727	\$390,400,903
2016	\$1,369,768,441	\$369,897,732
2017	\$1,390,081,390	\$414,872,247
2018	\$1,347,933,663	\$508,360,995
2019	\$1,180,107,082	\$579,719,421
2020	\$870,861,253	\$517,711,383
2021	\$833,417,603	\$638,600,795
2022	\$976,017,287	\$945,490,194
2023	\$969,036,016	\$691,432,130

Source: UN Comtrade Database¹¹

However, frequent border skirmishes and the closure of vital crossing points along the Pak-Afghan border have significantly worsened the trade ties in recent

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months.¹² Not only diplomatic relations between the two countries have been impacted, but the blockades have also inflicted substantial economic losses on both sides, especially impacting communities and industries reliant on trade.¹³ Pakistan's recent airstrikes on suspected militant hideouts in Afghanistan have further added fuel to the fire with the expulsion of Afghan refugees from Pakistan making the prospects of peace more unimaginable.

A Comparison of Pakistan and Afghanistan

The following table provides a glimpse of the general economic situation of Pakistan and Afghanistan which helps in understanding where both the nations stand in terms of economic development. The figures demonstrate that Pakistan is in a better standing as compared to Afghanistan and can play a potential role in reversing the latter's economic decline. Pakistan should pursue the **'trade for development approach'** vis-a-vis its relations with Afghanistan. This combines the 'trade for security' approach and the 'security for trade' approach to bring the best results. It does not diminish the importance of security issues and vice versa, but reframes them as challenges to overcome. Most importantly, it is in line with **Pakistan's National Security Policy 2022-26**, which underscores the role of geo-economics in the country's national policy. Here is how Pakistan can implement this approach:

Table 3

Indicator	Pakistan	Afghanistan	Year
GNI (current US\$ billion)	332.6	14.5	2023
GNI per capita growth (annual %)	-2.3	-8.9	2023
Net trade in goods and services (BoP, current US\$ billion)	-21.36	-5.51	2023
GDP (current US\$) (billion)	338.4	14.5	2023
GDP per capita (current US\$)	1,407.0	352.6	2023
GDP growth (annual %)	0.0	-6.2	2023
Unemployment, total (% of the total labour force) (modelled ILO estimate)	5.5	14.4	2023
Inflation, consumer prices (annual %)	30.8	2.3	2023
Personal remittances received (% of GDP)	7.8	2.6	2023
Foreign direct investment, net inflows (% of GDP)	0.4	0.1	2022

Source: compiled by the author from WB REPORTS

a. Shifting Focus: From South Asia to Central Asia for Strategic Connectivity

In the evolving landscape of geo-economics, regional connectivity is a crucial driver of national development and international influence. Unfortunately, Pakistan has faced significant setbacks in this regard, particularly in South Asia. India has effectively cornered Pakistan in South Asia. South Asian Association for Regional Cooperation (SAARC), once a potential platform for regional cooperation, has been rendered largely ineffective due to persistent tensions between the member countries. India has created alternative regional blocs like Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the Colombo Process, which exclude Pakistan. Since Pakistan has lost its potential influence in South Asia, it needs to pivot its focus to Central Asia with Afghanistan as the main area of interest. This region offers several advantages that align with Pakistan's strategic and economic interests.

Table 4

Major Export Products of Pakistan to Afghanistan	Potential exports products	Major Import Products from Afghanistan to Pakistan	Potential imports from Afghanistan
<ul style="list-style-type: none"> • Cane or beet sugar • Wheat or meslin flour • Portland cement • Medium oils and preparations • Rice 	<ul style="list-style-type: none"> • Road tractors for semitrailers • Medicaments • Motorcycles • Black tea • Frozen cuts and edible offal of fowl • Fresh eggs of domestic fowl • Surgical instruments • Blankets and travelling rugs of synthetic fibres • Sanitary towels • Parts of telephone sets and cellular networks 	<ul style="list-style-type: none"> • Fresh grapes • Cotton • Coal • Fruits • Vegetables 	<ul style="list-style-type: none"> • Figs • Grapes • Almonds • Onions • Cumin seeds • Apples • Beans • Cotton

Compiled by the author from TDAP

There are no territorial disputes, no power competition and above all there are no hegemonic interests of great powers in the region so far. Moreover, Central Asia is rich in natural resources and holds significant economic potential. By strengthening ties with Central Asian countries, Pakistan can improve its tense ties with Afghanistan, access new markets, diversify its trade routes, and enhance its energy security through projects like the



Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline.

b. Expanding Trade Opportunities and Export Prospects

According to the senior president of the Sarhad Chamber of Commerce and Industry, Manzoor Elahi, Pakistan-Afghanistan bilateral trade has the potential of \$8-\$10 billion annually.¹⁴ Similarly, a report by the Trade and Development Authority of Pakistan (TDAP) reveals that Afghanistan is an untapped market with a value of more than US\$ 4 billion for Pakistani exports.¹⁵ The same study identified 97 export potential products with a value of more than US\$ 1 billion given in table 4.¹⁶

c. Bilateral trade agreements and border trade facilitation

Peaceful economic cooperation between Afghanistan and Pakistan, along with enhanced trade and transit facilities, could transform the economies on both sides and serve as a bridge connecting South Asia with Central Asia. In this connection, talks should be initiated to draft a new treaty to replace the Afghanistan-Pakistan Transit Trade Agreement (APTTA), which expired in February 2021 as it was meant for ten years only. The goal of APTTA 2010 was to make it easier for the two countries to move goods between them. After the first extension of the APTTA, which expired on May 11, 2022, Pakistan was granted a second extension till the signing of the revised APTTA.¹⁷ Although APTTA has been extended multiple times, a more realistic and comprehensive treaty should be chalked out to facilitate traders and investors. For trade facilitation to improve, Pakistan and Afghanistan must focus on streamlining payment settlement and improved insurance mechanisms, the use of bonded carriers, visa issuance, trade financing, tax collection, and documentation.¹⁸ Most Afghan traders prefer to maintain trade ties with Pakistan over India and Iran due to shared cultural and traditional connections. Pakistan should leverage these ties to strengthen its trade relations with Afghanistan. Regarding narcotics and illegal arms trade, Pakistan must enhance its law and order situation and address the root causes of the opium trade and other illicit activities. The issue of cross-border terrorism can also only be effectively addressed from Pakistan's side. Once Pakistan successfully eradicates terrorism within its borders, it will be in a stronger position to expect and encourage Afghanistan to take similar actions against terrorism on its side. Addressing these issues would significantly improve bilateral trade facilitation and strengthen trade links between Pakistan and its neighbours.

d. Expanding Diplomatic Foothold in Afghanistan

Pakistan should expand its diplomatic foothold in Afghanistan, a country whose religious and cultural

ties are already aligned with those of Pakistan. No matter how tense state-to-state relations have been between both countries, the cordial ties between populations on both sides remained intact. This can serve as a potential point for Pakistan.

Pakistan should follow the suit of India and China regarding their approaches towards Afghanistan. When the Taliban seized power in Afghanistan on 15 August 2021, most countries closed their diplomatic missions and evacuated citizens, but China was one of the few exceptions. It quickly established diplomatic ties with the Taliban and expressed readiness for a 'friendly and cooperative' relationship.¹⁹ Similarly, India has expanded its engagements with the Taliban's government despite not recognising the Taliban regime as the legitimate government of Afghanistan. India has been strategic in its goals vis-a-vis Afghanistan with a focus on long-term goals. Pakistan should also consider a similar approach. Pakistan should invest in strengthening the people-to-people ties between the two countries. By winning the trust and friendship of the Afghan populace, Pakistan can ensure that every future Afghan regime will view it favourably.

e. Afghanistan's Inclusion into CPEC

The two countries have great potential to enhance their bilateral trade manifold. They should create a friendly atmosphere for trade and investment by reducing the ratio of taxes and avoiding double taxation. About 2,500 Afghan traders have moved their business to the UAE, Turkey, Uzbekistan, Tajikistan, and other Central Asian states due to instability in their country.²⁰ They are keen to shift their business to Pakistan, provided a healthy environment is provided. In this regard, one aspect could be easing border restrictions based on the European model, i.e., opening up borders in a phased manner. Afghanistan can join the China-Pakistan Economic Corridor (CPEC), a pilot project of the Belt and Road Initiative (BRI), which is aimed at international cooperation and developing infrastructure to connect different regions of the world. It is hoped that this will also positively impact the Afghan economy.

Conclusion

In conclusion, Pakistan and Afghanistan need to manage their bilateral relations at all costs. The mere stability of Afghanistan is very important for Pakistan let alone friendly relations. Since the new National Security Policy of Pakistan aims at shifting from traditional geo-strategics to geo-economics, Islamabad cannot keep Kabul out of this changing equation. Islamabad must keep a respectable distance from Kabul and let them have a sense of a sovereign state, not an extension of Pakistan. In international relations, it is said, "you can change your friends but not your neighbours". Therefore, a realist approach is necessary, keeping a friendly but respectful

distance from Afghanistan to ensure long-term stability and cooperation.

Notes and References

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