

AFGHANISTAN-PAKISTAN TRANS-BORDER ECONOMIC ACTIVITIES AND THEIR CHALLENGES

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ABSTRACT

With respect to a long borderline between Afghanistan and Pakistan, there are some regions in the east of Afghanistan which have been recognized as a free zone for most legal and illegal economic activities. This paper attempts to shed light on those economic activities and their benefits through descriptive statistics. There are some economic activities which take place in that region such as free tax re-export, narcotic traffic, and so on. These economic activities have advantages and disadvantages for both sides of the line. Consumers of the both sides are gaining from these activities, but informal and illegal economic activities along the Durand line have harmed economy of Afghanistan. The narcotic business and rapid changes in its price from the field to the border line and destination country are the examples of serious challenges for Afghanistan, as well as for the region. Although poppy (raw material of the narcotic) is cultivated in Afghanistan, east border line is the main corridor for exporting narcotics to the world. Formal import and informal re-export (unregistered) increase the gap between export and import's statistics and affect official statistics. This paper has focused on the informal and illegal economic activities that take place on the Torkham, Shalman and Sasobai markets, which are the main crossing points between Afghanistan and Pakistan.

Key words: crossing point, informal, illegal, re-export.

Introduction

Afghanistan is a mountainous and landlocked country, which is surrounded by the countries of China, Tajikistan, Uzbekistan, Iran and Pakistan. Afghanistan and Pakistan share a long border with 2430 km along the southern and eastern provinces of Afghanistan. The major official crossing points from Afghanistan

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to Pakistan are Spinboldak in the south and Torkham with rugged mountain in the east. People of Afghanistan know this border as “Durand Line” and it is functioning as a de-facto border. Therefore, the Durand Line means the border between Afghanistan and Pakistan in this paper.

Afghanistan and Pakistan had trade cycle more than US\$ one billion in average in the last decade. Import from Pakistan was increased from US\$ 326 million in 2004 to US\$ 1.712 billion in 2013. On the other hand, export to Pakistan was reduced from US\$ 250 million in 2004 to US\$ 198 million in 2013, CSO (2014). The aim of this paper is to highlight those trans-border economic activities that were occurring informally and illegally across the Durand Line by using descriptive statistics. As majority of the trans-border economic activities are informal and illegal, as well as the region where the activities occur is mostly insecure, therefore it was very difficult to find data and information in this subject. Despite these difficulties and challenges, researchers were able to design a research, train the observers, sending them to the field for data collection. Therefore, most of the data used in this paper are primary and the paper is an original study in this subject.

This paper focuses on four major points of trans-border economic activities: 1) the areas of trans-border economic activities, 2) the type of trans-border economic activities, 3) impact of these type of activities on the economy and official statistics of Afghanistan, 4) the major challenges of Afghanistan-Pakistan trans-border economic activities.

1. Areas of trans-border economic activities

There are extensively informal and illegal economic activities in major areas along the Durand Line. These areas are located mostly in the east, southeast and southern border of Afghanistan. Although there are 11 provinces, namely Badakhshan, Nurestan, Konar, Nangarhar, Paktiya, Khost, Paktika, Zabul, Kandahar, Helmand and Nimruz, there are only two legal crossing points covered by the custom authorities in Spinboldak district in the south and Torkham in the east. Spinboldak is located in Kandahar province. Torkham is a legal crossing point as well, but this is a mountainous area. Figure 1. shows the Torkham crossing point and custom (Institute for the Study of War).



Figure 1. Torkham Crossing Point, Two Sides of the Durand Line

Source: Google Earth, April 2015

There are some informal crossing points in this region, which is insecure and local player have authority there. The commodities are usually transported by camel or mule to the other side of the Durand Line.

These are some small markets and illegal crossing points that are called Shalman and Sasobai. This study is focused on the abovementioned markets and crossing points.

2. Type of trans-border economic activities

Trans-border economic activities in Afghanistan are divided into two segments of informal economic activities and illegal economic activities.

2.1. Informal trans-border economic activities

Informal trans-border economic activities has two aspects. First, it is the use of the markets along the border as a free zone. Supplier and demander of both sides of the line can purchase and sell their commodities duty-free. Spinboldak in the south has a legal crossing point but there are some markets in the region where supplier and demander of the both sides of the border can get access and exchange their productions and goods. Some of these commodities are produced in Afghanistan, Pakistan and Iran, and some others are second hands made in Japan, Korea and other countries.

Some of Afghanistan's production, such as raw materials, is exported to Pakistan informally, which affect Afghanistan revenue, as well as trade data. For instance, 35.4 million \$ of sheep skin was exported to Pakistan informally in 2014.

2.1.1. Re-export

Afghanistan has a substantial deficit of trade balance which is more than 90% in average during last 10 years. Some imported goods and services are re-exported informally and illegally to Pakistan. Most of these commodities are transported through mountainous roads by animals or pickup cars.

These goods include black and green tea, toilet paper, rugs, textile, oil, soap, motor oil, etc. The main items of the re-export are textile and car parts. Figure 2 shows the value of annual re-exports in million dollars.

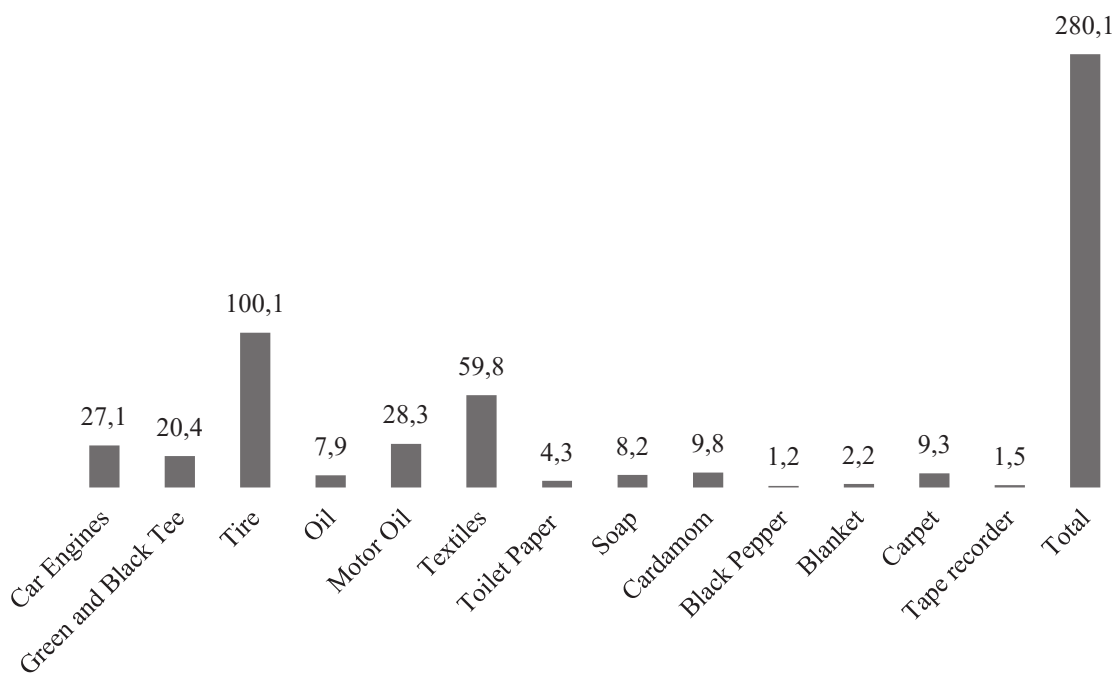


Figure 2. Re-export from East border of Afghanistan, 2014 (US\$ million)

In addition to the abovementioned items, some other items such as body of cars, used computer, machinery, are also re-exported. There is no value data available in this regard. Our estimates indicates that roughly more than 55000 tons of these items have been re-exported annually. If we consider re-export by crossing points, most of these items are passed through Torkham. There is a custom in this crossing point and items' duty should be paid before transferring to the other side of line. Due to high corruption, most of these commodities are

transferred informally. Figure 3 shows re-export items by markets and crossing points.

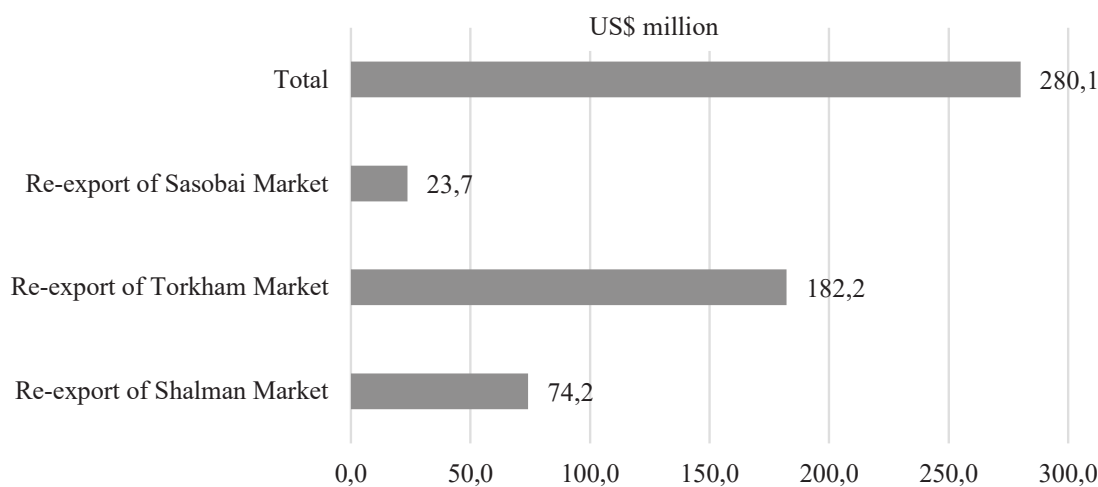


Figure 3. Re-export by Markets in Eastern Region, Afghanistan 2014

If we compare Sasobai and Shalman to Torkham crossing points, they are less restricted by government, but impassible, therefore the value of re-export in Torkham is about 2.5 times higher than Shalman and about 7 times higher than Sasobai. The main factor for traders to re-export their commodities is high corruption in Torkham crossing point.

2.2. Illegal trans-border economic activities

Another challenges of trans-border economic activities in Afghanistan are illegal economic activities. These activities include illegal trade of domestic products and narcotic business.

2.2.1. Illegal trade of raw material

The commodities that are exported through the eastern border to Pakistan illegally are mostly minerals, which are produced unprofessionally. If these could be used to produce final goods in Afghanistan, it could have substantial impact on the economy of the country.

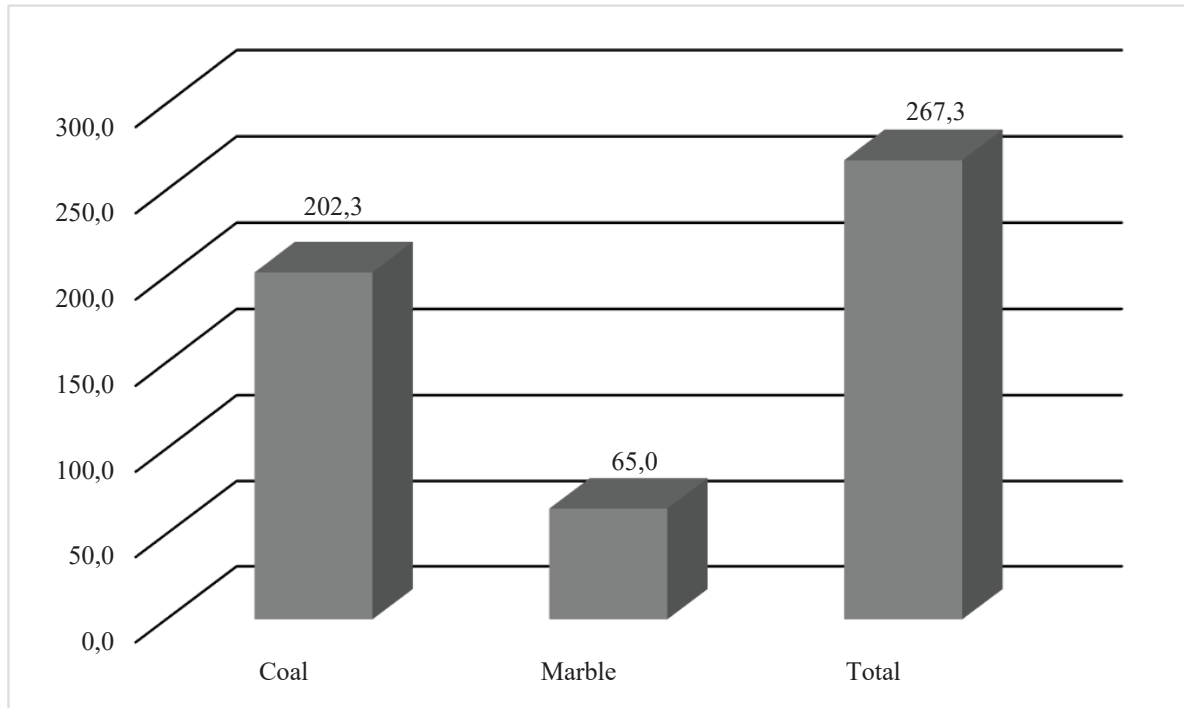


Figure 4. Illegal Export of Minerals from Torkham Region in 2014

Coal and marble are the major items that are transferred to Pakistan. The annual illegal export of marble is about UD\$ 65 million. Each ton of stone is sold UD\$ 120 at the price of a construction stone. But its value is probably much higher than the mentioned price.

2.2.2. Narcotic business

Cultivation and narcotic business are a big challenge to Afghanistan's trans-border economic activities. The total area under opium poppy cultivation in Afghanistan is estimated to be 224000 hectares in 2014. The contribution of opium to Afghanistan's economy is considerable where the farm-gate value is about UD\$ 0.95 billion, which could be equivalent to UD\$ 4.75 billion at the border level. UNODC (2014). The opium production in 2013/2014 is estimated to be 3% of total GDP and 12% of total agricultural production of the country. CSO (2014). Due to high level unemployment and poverty at rural areas of Afghanistan farmers are producing opium to mitigate their necessities. The traders are also encouraging the farmers and in some cases forcing them to produce opium since high benefit is generated from the trade. A vicious circle of the trade has been very active in this business for a long time in the history of Afghanistan.

3. Challenges of Afghanistan-Pakistan trans-border economic activities

Trans-border economic activities along the Durand Line are big challenges for economy of Afghanistan because majority of these activities are informal and illegal. Local people are engaged in these types of activities to survive and cope with poverty and hunger, but foreign traders and businessmen are making high profit from it. The cross-border price of opium is 5 times higher than farm-gate price and cross-border price will be increased to 6 times in the destination country. It means that the farmers and workers in the farm will survive at the minimum standard. UNODC (2014). Narcotic business affects the redistribution of income, and on the other hand, it creates considerable social problems and difficulties. According to the last survey of narcotic addicts, more than 1.3 million people of Afghanistan are addicted to narcotics, therefore they are economically inactive. Azadi Radio (2015).

Informal and illegal activities are big challenges for official statistics. Re-export and illegal export affect annual trade balance. Table 1 shows the impact of re-export and illegal export on the trade balance.

Table 1. Impact of Re-export and Illegal export on the Trade Balance of Afghanistan, 2014 (Million UD\$)

Export		Import	Formal Trade Balance Deficit	Adjusted Trade Balance Deficit
Formal Export	571	7729	92.6%	85.1%
Re-export	280.1			
Illegal Export	303.7			
Total Export	1153.8			

As Table 1 indicates, Afghanistan trade balance had a deficit of 92.6 percent in 2014 CSO (2014), based on official data. But by adding the re-export and illegal export, the deficit of trade balance will be changed to 85.1 percent.

High corruption in customs of Afghanistan is a serious challenge for Afghanistan. The majority of re-export and illegal export are carried out from the legal crossing points without duties.

4. Conclusion

There are extensive economic activities along the border of Afghanistan and Pakistan, the majority of which is informal and illegal. These activities are the

cause of serious problem of Afghanistan's economy. Although the poppy cultivation and narcotic processes take place in Afghanistan, foreign traders benefit mostly from them. The major concluding points are as follows:

- 1) Majority of the minerals and semi-precious stones are sold at the minimum price. The government does not have control over the border.
- 2) High corruption, especially in the borders and customs, has significant impact on trans-border economic activities.
- 3) Re-export and illegal export affect official statistics. Exclusion of big portion of data from official statistics is reflected in an inaccurate picture of economy and society, and, accordingly, policies will be made based on the unreliable data.
- 4) Security is one of the essential factors for trans-border economic activities. Most of the areas along the border between Afghanistan and Pakistan are insecure. Government cannot control the border and it is an opportunity for those who want to be benefited from illegal trades. On the other hand, illegal trans-border economic activities have an impact on the security situation. Players create unrest in the region to maximize their benefit. Some conflict along the Durand Line have an economic reason.

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