

## **Pakistan Report**

### **Pakistan-Afghanistan Bilateral Trade Perception Survey**

#### **Introduction**

This section contains the views, perceptions and opinions expressed by business community members based in Karachi, Chaman and Peshawar. These businessmen have been involved in trade and transit services with Afghanistan for many years in wide range of commodities and services and thus their views are based on their experiences. 35 respondents were interviewed over phone for this purpose<sup>1</sup>. An open-ended interview style was used on a semi-structured questionnaire to gauge the opinions and perceptions of the stakeholders. This section also contains the views of Ministry of Commerce, Government of Pakistan based on an official interview and published minutes of meetings. This section contains views from Pakistan on: problems in bilateral trade, APTTA's role and implementation, issues faced by Pakistani exporters, challenges faced by Pakistani exporters, measures to improve bilateral trade and investment and conclusions and recommendations.

#### **Problems in Pakistan-Afghanistan Bilateral Trade**

According to business perception survey, business representatives think that Pak-Afghan bilateral trade and transit trade is declining and they pointed out many reasons for the decline which are almost same as mentioned by business community last year.

- Insecurity is one of the major problems mentioned by the respondents.
- Market demand of Pakistani products is reportedly decreasing and the respondents mentioned that the market has moved from Iranian products due to easy access and facilitation at Iran's border. Furthermore, Afghan buyers are giving special treatment to Iranian products as procedural formalities from Iran are simpler than Pakistan.
- Other reasons why Iran is capturing Afghan's market are corruption, restrictions on movement, unrest and law and order situation on both sides of Pak-Afghan borders.
- Afghanistan is protecting its local industries that is why it has increased duty slabs for products from Pakistan.

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<sup>1</sup> In previous survey reports, in-person interviews were conducted which allowed greater interaction and in-depth discussion. Telephonic interviews reduced the probability of cross-examination of responses.

- One of the greatest factors is the return of NATO forces from Afghanistan which is creating uncertainty among the traders and businessmen involved in construction businesses.
- Access from Bandar Abbas port has increased over the time and Afghan traders are using that port instead of Karachi port also due to increased cost, poor facilities and difficulties at Karachi port.
- Respondents mentioned that facilities at Karachi port are very poor due to which time and cost for the traders have increased but according to the Government of Pakistan, 14 days demurrage free has been now ensured except for KICT in order to decrease the cost.
- Traders reported that they have to pay high cost and under-table costs and illegal fee at many points which adds in to overall cost.
- A few respondents blamed authorities of both the countries for being unaware of the problems faced by traders.

According to the official from the Ministry of Commerce, Government of Pakistan, the trade and transit seems to decline and the reasons are mainly the internal affairs of Afghanistan. Also that construction activities are phasing out as international donors are moving out of that region which is decreasing purchasing power of the people and hence demand. Internal industries of Afghanistan are also growing. Also the figures show that cement is one of the major export item to Afghanistan, falling demand of which will definitely decrease overall trade ratio.

### **APTTCA's Role and Implementation**

Some respondents maintain that exports to Afghanistan transited through Pakistan have been severely affected due to a specific rule of APTTA which does not permit trans-loading & cross-loading at Peshawar.

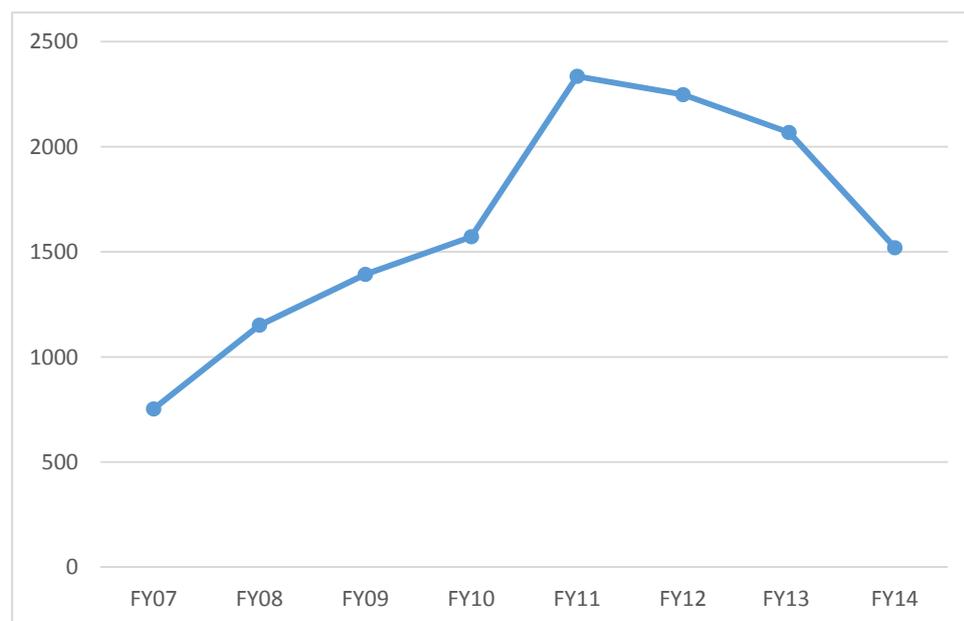
Traders also add that international shipping companies allow only a limited number of weeks during which the Afghan traders can keep their containers. Upon expiration of that period, a heavy detention charge is payable with the passage of every week.

Although APTTA is designed to help increase bilateral trade and transit, yet business community has concerns regarding its implementation and they fear that the responsible officials are not competent. Respondents said that increased security measures have only

added cost and time of trade and transit. APTTA framework needs comprehensive improvement and it must include free trade agreements like with China.

### **Pakistan's Exports to Afghanistan**

Export share to Afghanistan is declining from the past two years due to many reasons and problems. After a substantial increase in FY11, the current share of Afghanistan in Pakistani exports has dropped down to the level of 2010 as shown in the following table.



*Source: Pakistan Bureau Statistics (Originally in PKR; converted to mn\$ at average forex data released by SBP)*

### **Challenges Faced by Pakistani Exporters**

To assess the bottlenecks, issues and challenges in exports to Afghanistan, traders were asked for the problems they face in exporting to Afghanistan. Exporters seem to face many difficulties in trading with Afghanistan and insecurity is one of the biggest challenges they come across along with poor infrastructure and means of transportation. It was also reported that the documentation and registration process is too complicated and time consuming which discourages Pakistani traders to trade with Afghanistan. Moreover, a few traders mentioned that the custom authorities in Afghanistan are highly in-competent and uncooperative. Respondents said that policies for Iran are relatively friendly as compared to Pakistan which is further shifting away the market from Pakistan.

## **Measures to Improve Bilateral Trade and Investment**

Respondents were asked to prioritise the facilities and measures to improve Pak-Afghan bilateral trade pointed out in the last year's survey and report which were: holding exhibition and trade fairs, visa facilitation, B2B meetings, advocating and lobbying for reforms in business regulations, and presenting business problems and concerns to Afghan/Pakistan authorities.

Most of the respondents feel that holding exhibitions and improving visa facilitations are important but only when other major issues are resolved first. The traders believe that although PAJCCI is one of the platforms which provide an opportunity to meet higher officials at both ends, still the real time problems and issues are not properly conveyed to Afghan/Pakistan authorities after which proper reforms on business and trade could take place. The traders of Peshawar opined that no reforms would be fruitful unless traders of Peshawar will not be engaged in meetings and conferences which are previously held mostly in Karachi making it difficult for them to participate.

## **Conclusion and Recommendations**

Pak-Afghan trade and transit is decreasing since past three years for many reasons like insecurity, customs procedures, high and illegal costs etc. which point an immediate need to resolve those issues.

Infrastructure issues and insecurity is one of the major hindrances faced by the traders but according to business community representatives, Afghan decreasing transit trade through Pakistan is attributed to failure of APTTA dispute resolution mechanisms and 'security overkill' factors. There is a widely held perception that the increased complications may have, by design, led to decrease transit traffic due to its association with smuggling. The strict security regulations enforced through APTTA are only discouraging trade instead of insecurity. Decreasing the high regulatory duties and strict security measures will not only increase the trade but it will decrease smuggling across border.

Pakistan traders demand that duties and restrictions on Pakistani products must be decreased by presenting the issue in front of Afghan authorities so that Pakistani business community will be provided with equal opportunities.

Excess and delays in inspection of transit goods by customs is also a discouraging factor; inspection must be only in accordance to APTTA rules; which is one time 5% inspection of the container.

Although trade and transit from Iran is expensive and less competitive, yet Iran has become priority choice for Afghan importers which will significantly affect trade and transit from Pakistan. A secure, reliable and cost-effective transit arrangement will not only help bringing back some business to Pakistani ports but will also help the formal trade, especially if the physical infrastructure is improved.