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Abstract

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Keywords: Pakistan, Afghanistan, Transit Trade, bilateral trade, New Economic Geographic Theory

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Abstract

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Introduction

Geography plays a vital role in promoting economic activities in a region. Geographic location plays a valuable role, especially for landlocked countries that lack direct access to the sea. Afghanistan is a landlocked country and has no direct access to the sea. It is situated in the hub of South Asia and Central Asia. Afghanistan has a border with Pakistan to the south and east; shares a border with Iran in the west, in the northern side it has borders with three central Asian countries - Turkmenistan, Uzbekistan, and Tajikistan, and shares a border with China in the far northeast (Masoom, 2021). Being a landlocked country, Afghanistan is mainly dependent on Pakistan for transit trade and access to global markets (Subarna, 2021). Geographically, Pakistan is a strategically significant country in the region. Pakistan has borders with India, China, Iran, and Afghanistan, and a coastline of over 1000 km (Hussain, 2022). Pakistan`s geographical location facilitates global connectivity and trade with regional countries.

The relationship between Pakistan and Afghanistan has served as a notable example of international trade due to their proximity, shared history, and economic necessity (Alvi, 2023). For seven decades, Pakistan and Afghanistan have been trading partners. Bilateral trade, transit trade to Afghanistan, and illegal trade are all part of the two countries' cross-border trade. However, the full potential of the transit facility has yet to be utilized. Despite international agreements and bilateral transit agreements emphasizing unrestricted transit, both countries have faced challenges in achieving smooth and efficient trade for economic development. Over the years, Pakistan has accused Afghanistan of misuse of transit trade as smuggling and illegal commercial activities are hindering the full potential of transit trade and resulting in loss of revenue especially for Pakistan. Recently, the government of Pakistan decided to tighten its policy on Afghan commercial goods imported in transit through Pakistan to prevent smuggling and in-transit inside Pakistan which is resulting in loss of revenue (The Express Tribune, 2023).

Previous studies have mainly covered bilateral trade between Pakistan and Afghanistan. Studies have also discussed Afghanistan`s transit via Pakistan and Pak-Afghan transit trade agreements. This research contributes to the existing literature by discussing the importance of Pakistan and Afghanistan`s geographical locations for transit trade and regional connectivity through the lens of the new economic geographic theory, which places a stronger emphasis on the spatial dimensions of economic activity, trade, and regional development. The research discusses the status of both bilateral and transit trade between the two countries and future opportunities.

Theoretical Framework

The New Economic Geography Theory was presented by Paul Krugman in the early 1990s. The theory highlights the significance of spatial effects, geographical developments, and historical occurrences in trade (Krugman, 1998). The geographical analysis of the trade became economically significant due to the emergence of this theory. The new economic geography theory has introduced region, location, and distance into economics along with traditional ideas about spatial economics like urban economics, regional science, and economic location theory. Besides, increasing returns to scale, external economy, imperfect competition, and spatial agglomeration have been used to elucidate the competitive advantages of national and regional economic development. According to this theory, institutional factors play a significant role in trade facilitation and overall potential (Schmutzler, 1999). This research discusses the significance of Pakistan and Afghanistan's geographical locations for transit trade and regional connectivity through the lens of the New Economic Geographic Theory emphasis on the spatial dimensions of economic activity, trade, and regional development.

Pak-Afghan Transit Trade

The landlocked developing countries are among the poorest countries in the world (UNHRLLS). Afghanistan is one of the ten land-locked Asian countries, including Uzbekistan, Kazakhstan, Turkmenistan, Tajikistan, Kyrgyzstan, Nepal, Bhutan, and Mongolia. Afghanistan shares its borders with three Central Asian Republics, Iran, China, and Pakistan. These borders have significant importance for the political economy of Afghanistan. Afghanistan shares a border with several countries. It has having 2600 km border with Pakistan, a 936 km border with Iran, 1206 km with Tajikistan, 744 Km with Turkmenistan, 137 km with Uzbekistan, and 76 km with China.

Historically, Afghanistan has relied primarily on Pakistan for international trade as a transit country and it has used the territory of Pakistan for trade and transportation with the rest of the world. Before the partition of the sub-continent, Afghanistan had been using the Trokham-Jalal Abad and Chaman-Spin Boldak routes for its trade with British India. On November 22, 1921, Afghanistan and the British government signed a treaty and the Anglo-Afghan Convention in 1923. Both treaties focused on freedom of transit rather than transit trade, as was the case with the League of Nations at the Barcelona Conference in 1921 (Chitrali, 2012). According to the terms of the treaties, Afghanistan continued to use Pakistan as a conduit for transit trade after the independence of Pakistan. On March 2, 1965, Pakistan and Afghanistan signed the Afghan Transit Trade Agreement (ATTA) to expand the trade between the two countries and provide Afghanistan access to Pakistani ports for trade purposes. By involving the impoverished tribal regions in trade and service-related economic activities, this agreement played a significant role in opening trade opportunities for both countries (Sultana, 2011). (See Table 1 for trade routes)

Table 1

The main trade routes of Afghanistan

Transit Country	Transit Port	Transit Route	Destination
Pakistan	Karachi	Peshawar via Torkham Quetta via Spin Boldak	• Kabul • Kandahar • Herat
Pakistan	Gwadar	Chaman Via Spin Boldak	• Herat • Kabul • Kandahar
Iran	Bandar Abbas	Islam Qala Via Herat	• Kabul • Kandahar
Iran	Chabahar	Zahedan via Zaranj	• Kabul • Herat

Source: World Bank

Under this agreement Torkham, Ghulam Khan, and Chaman were chosen as the three exit sites for the Afghan transit trade; however, Ghulam Khan has not yet been put into action. Afghan transit commodities were covered by ATTA by rail and National Logistics Corporation (NLC) by roads. While both countries made efforts to improve their trade sector by this agreement—and even Afghan commodities were transferred through Karachi port and were exempt from all Pakistani customs and taxes—over time, such efforts failed to yield more fruitful outcomes. Rail fares or other transit fees were maintained at the same level as those that were levied within Pakistan (Owais et al., 2018).

Afghanistan has a key geographical location that designates it as a doorway for Pakistan to reach the Central Asian Republics (CARs) (Rahim, 2017). Afghanistan-Pakistan Transit Trade Agreement (APTTA), a renegotiated transit trade agreement between the two countries, was signed in 2010 and went into effect in June 2011 to efficiently enhance the volume of transit trade and address prior issues during ATTA. The revised agreement now allows Afghan exports to transit through the route of Pakistan to India and provides access to Karachi and Gwadar seaports. In turn, trucks from Pakistan were permitted to transport goods throughout Afghanistan. The establishment of a combined chamber of commerce was also a result of this arrangement. Under the APTTA, exports from India to Afghanistan were prohibited (Ishrat, 2015).

Following the implementation of APTTA, numerous advancements were made in several industries, including transportation, where more open and heavy-duty trucks were added, communication was improved, a new and improved logistics methodology was introduced, customs agents were changed, and security conditions were enhanced. The Pakistani government had wished for the safe passage of its goods to the Central Asian States (PILDAT, 2011).

The ATTA-1965 did not include the mutually beneficial rights of Pakistan to export its goods across the Afghan transit route to Central Asia and other neighboring countries. The Quadrilateral Traffic in Transit Agreement (QTTA) enhanced Pakistani exporters' access to markets of Central Asia. In 2004, China, Pakistan, Kazakhstan, and Kyrgyzstan agreed to the QTTA. Due to its lengthy, dangerous path and shoddy road infrastructure, the QTTA was unable to produce results that were promising; however, the APTTA can successfully make up for these shortcomings. Table 2 shows the routes that Pakistan has access to under APTTA. The APTTA was amended in 2013 to encourage bilateral trade while reducing informal trade. However, the deal does not allow India to transit commodities via Pakistan to Afghanistan. Pakistan has proposed a

Pakistan-Afghanistan Tajikistan Transit Trade Agreement (PATTTA) to expand the APTTA to Tajikistan. Pakistani commodities might be brought closer to the Eurasian Economic Union (EAEU) under the proposed deal, but due to political tensions, this remained a proposition (Miankhail, 2015). For Pakistan, it serves as a gateway to energy-rich Central Asia Republics (CARs). It provides Afghanistan access to international markets including India and China via sea and land routes (Owais, 2018).

Table 2

Pakistan's Access to Central Asian Republics Under APTTA

Pakistan's Access to Country through APTTA	Route
Iran	Chaman to Islam Qila Chaman to Zaranji
Uzbekistan	Torkham to Hairatan
Tajikistan	Torkham to Ali Khanum, Torkham to Sher Khan Bandar
Turkmenistan	Aqina and Torghundi

Source: Pakistan Business Council

Volume of Transit Trade

Afghanistan`s exports to India through the Wahga land route and the Karachi/Qasim port have taken place through transit trade agreements. Also, Afghanistan has exclusively received goods through Pakistan's Karachi/Qasim port (Ahmed, 2010). Afghanistan's exports peaked in 2006 at 80 million dollars and peaked at 40 million dollars in 2009. From 475 million US dollars in 2000, Afghanistan's imports through Pakistan exceeded $1 billion in 2009. In 2005, Pakistan's share in Afghan transit trade through Pakistan was recorded as 28%, 30% in 2006, 21% in 2007, declined to a record-low 19% in 2008, 33% in 2009, and reached its greatest level in 2010—60% in the ATTA era (Amin et al., 2021). (See Table 3 for post-APTTA transit trade).

Table 3

The volume of Transit Trade Post APTTA

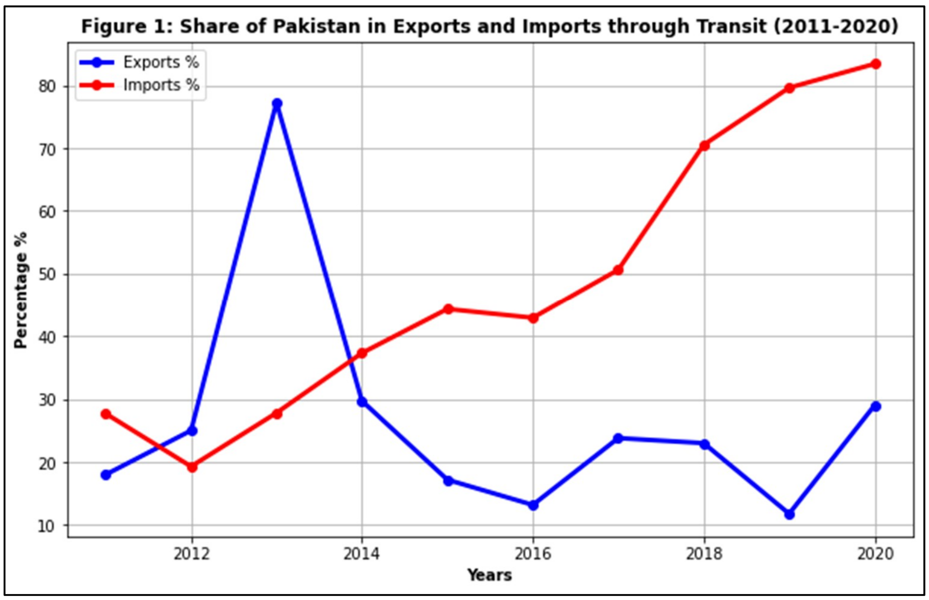
Years	Afghanistan's Exports to the World	Afghanistan's Imports to the World	Exports Via Pakistan	Imports Via Pakistan
	Billion $	Billion $	Billion $	Billion $
2011	0.5	6.13	0.09	1.7
2012	0.68	7.79	0.17	1.5
2013	0.8	7.55	0.62	2.1
2014	0.91	7.72	0.27	2.88
2015	0.87	7.72	0.15	3.42
2016	1.06	6.53	0.14	2.8
2017	1.05	7.79	0.25	3.94
2018	1.22	7.4	0.28	5.22
2019	2.29	6.77	0.27	5.39
202	1.24	5.31	0.36	4.43

Source: Pakistan Business Council. Author's compilation.

Exports increased noticeably over time, from 0.5 billion dollars in 2011 to 2.29 billion dollars in 2019 (See Table 3). These numbers imply that Afghanistan has been steadily increasing its market share abroad due to several developments like economic growth and rising consumer demand. This also portrays the total value of products and services that Afghanistan imports from the rest of the world, as opposed to exports. The imports reached their maximum value in 2018 which was $7.4 billion and remained low at $5.31 billion in 2020. The transit trade has fluctuated over time, highlighting the importance of Pakistan as a trade gateway for Afghanistan. This also shows Afghanistan's growing reliance on Pakistan for its transit trade.

The transit trade through Pakistan has seen a notable tendency of varying but significant reliance during the past ten years. Since 2011, Pakistan has played a crucial role in the transit of both exports and imports, with its exports representing 18% of Afghanistan's overall trade with the rest of the world through Pakistan's transit route and its imports accounting for 27.70% of Afghanistan's total imports. Until 2013, when the exports skyrocketed to a startling 77.25% of Afghanistan's trade, this trend persisted with only slight fluctuations, showing a considerable dependence of Afghan imports on the Pakistan transit route. While the proportion of exports changed throughout the following years, its imports remained significant and peaked in 2020 at 83.40%. This pattern highlights Pakistan's continued role as a potential stakeholder in Afghanistan's transit trade, particularly when it comes to imports and Afghanistan's persistent economic interdependence with Pakistan (See Figure 1).

Figure 1



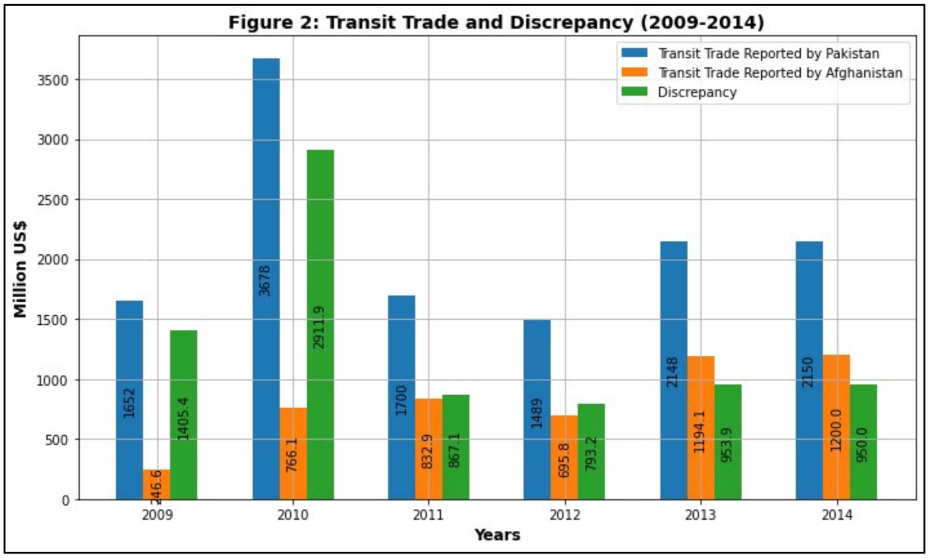
Source: *Trade Map. Author's Compilation.*

Afghan traders have accused Pakistan of collecting high customs taxes on goods of Afghan origin that were previously smuggled into Pakistan and selling them. There have been allegations of bribery from customs officials on both sides (Subtain & Shah, 2018). Pakistan has been hesitant to allow India a transit trade facility into Afghanistan mainly due to concerns that the exports will be smuggled back into Pakistan, harming local industry and tax streams. Tariffs were not imposed on transit trade to Afghanistan before 2002. Thus, these products were trafficked back into Pakistan with a 35 percent differential on tariffs that Pakistan collected on its imports. It is also important to highlight that due to this misuse of Afghan transit trade Pakistan has incurred an estimated loss of PKR 30 billion annually (Sultana, 2011). There is a discrepancy in data recorded by the authorities of both countries, which further reflects that this transit facility has been misused in the past. (See Figure 2)

In a report released in 2019 Federal Board of Revenue, the Directorate General of Trade FBR laid the blame for the establishment of an alternative "black economy" in Pakistan on Afghan transit trade. The Afghan government was purposefully providing international organizations with inaccurate information about transit trade. The Afghan government submitted to the UN's International Trade Center an estimate of 14.8 billion dollars for Afghan transit trade that passes through Pakistan. On the other hand, 44.4 billion dollars is worth according to the Pakistani framework for valuation

(Asif, 2019). This was carried out to disprove Pakistan's expressed worries over Afghanistan's smuggling (Yousaf, 2023).

Figure 2



Source: Pakistan Business Council, Authors' Compilation of Data

In September 2023, Pakistan accused Afghanistan of misusing the transit trade facility. The primary concern of Pakistan is that several goods that are meant to be imported to Afghanistan through transit trade are being smuggled into Pakistan illegally. This poses a significant threat to revenue through customs duties and taxes which are usually bypassed. Thus, hurting the economy of Pakistan. To curb this, the government recently announced a 10% processing charge in ad valorem to the original value of the items on commodities imported under the Afghan transit trade agreement(Mehsud, 2023). This must be paid in advance during the declaration procedure. This is considered a key step in reducing the unlawful entrance of goods into Pakistan (Sarfaraz, 2023).

APTTA expanded Afghanistan's access to Pakistani ports and added additional transit routes to the list to help Kabul's transit trade. Clauses such as the imports from Afghanistan's negative list were removed. But now this negative list is currently being revived again (Khan, 2023). This has a detrimental effect on Pakistan's standing among Afghan importers and consumers. People-to-people connections between the two countries are so affected by this. Pakistan should take into consideration several measures to regain confidence and establish itself as a trustworthy transit and trading partner in the area (Ahmed, 2023).

Members of the World Trade Organization (WTO) are permitted to implement safeguards for their sectors. Pakistan believes that to prevent smuggling into its domestic industry, its recent efforts are crucial. Members are prohibited under the WTO from enacting additional or higher taxes on imported products without first consulting the relevant members. Pakistan`s stance is that the processing fee it charges for some commodities coming from Afghanistan is not a tariff but rather a way to pay for the overhead associated with running the transit trade system (Ahmed, 2023).

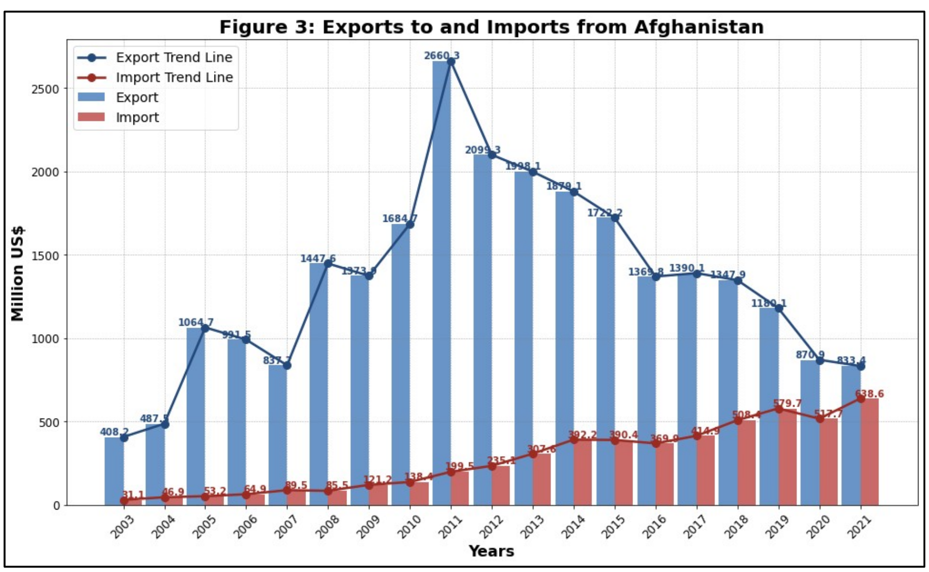
Pakistan-Afghanistan Bilateral Trade

The bilateral trade between Afghanistan and Pakistan has a considerable impact on both countries' economies as well as on the region. Several border crossing points between these countries are used for trade, these include Torkham, Chaman, Badini, Angor Ada, and Khalrchy. Pakistan is the largest trade partner of Afghanistan, accounting for 60% of its total exports (World Bank, 2023). In 2023, the growth in merchandized exports was 9%, mostly due to an increase in textile and coal exports by 38.5% and 16.5%, respectively.

Map

Bilateral trade has experienced a significant fluctuation due to several factors. These factors include political instability, the security situation in Afghanistan, customs delays, and many others. There was significant export growth between 2003 and 2011; during this time, exports nearly doubled, while import growth was slower. (see Figure 3) Due to border closures, strict border controls, and disagreements over the Afghan-Pakistan Trade Transit Agreement, bilateral trade between Afghanistan and Pakistan has decreased (Pakistan Economic Survey, 2023). With a 27.6 % decline, exports to Afghanistan have drastically dropped to $ 976 million. Since food makes up most of Pakistan's imports, the imports from Afghanistan increased by 30.77% amidst an increase in food exports (Pakistan Bureau of Statistics, 2023).

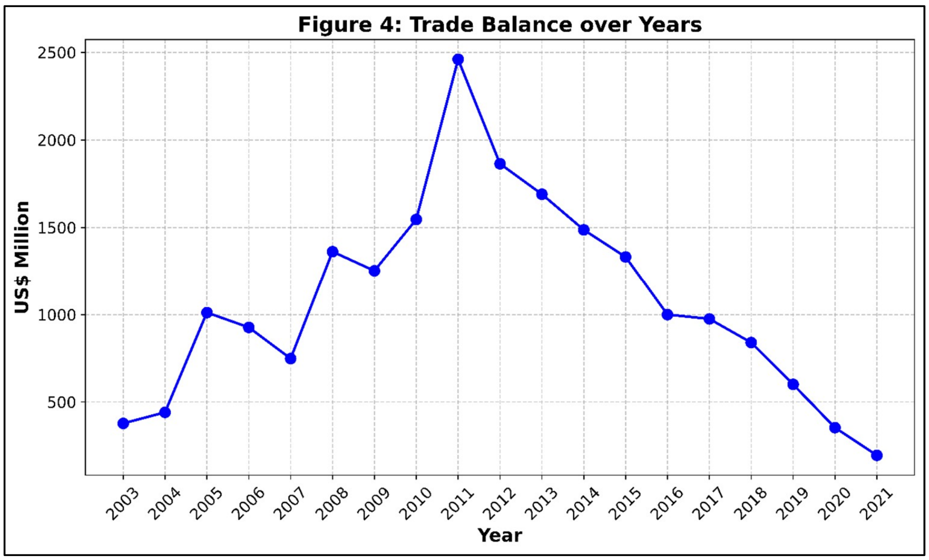
Figure 3



Source: World Integrated Trade Solutions. Author's compilation of data

Pakistan's trade relations with Afghanistan over a period of 19 years have undergone significant changes. Pakistan's exports to Afghanistan initially rose rapidly, from 408.2 million dollars in 2003 to a peak of 2660 million dollars in 2011, while imports also increased, but more slowly. However, exports declined between 2011 and 2021. This could be linked to elements like Afghanistan's political unrest and shifting economic situations. Due to the COVID-19 pandemic, both exports and imports decreased in 2020, with exports decreasing to 870.9 million dollars and imports falling to 517.7 million dollars. For Pakistan, the trade balance is significantly favorable because exports to and from Afghanistan outweigh imports. Like Iran, the reported trade between the two countries is lower than the actual volume of trade, primarily because of the pervasive smuggling of products into and out of Afghanistan (S.Amir & Saeed, 2019).

Figure 4

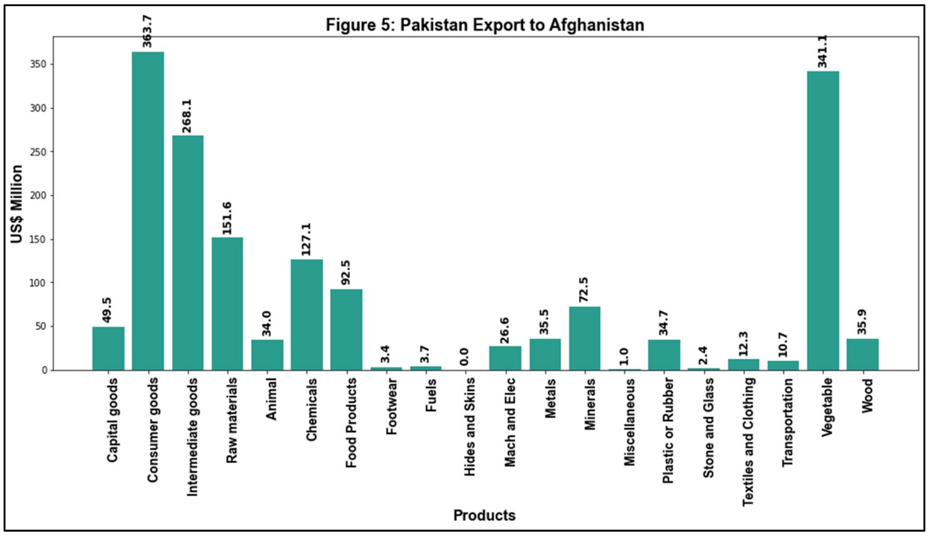


Source: *World Integrated Trade Solutions, Authors' compilation of data*

Over the years, Pakistan's trade balance has experienced huge swings that differ greatly from year to year. Pakistan exported more goods than it imported in years when its trade balance was positive i.e., from 2004 to 2013 (see figure 4), showing its economic strength and its ability to generate income from foreign markets. A downward trend after 2011 reflects that not only did the exports tend to decline but imports have also increased over these years which led to an overall decline in the trade balance. Different factors lead to such fluctuation that include, swings in the demand for Pakistan's exports, variations in the price of commodities, and geopolitical developments, which can be blamed for the volatility in Pakistan's trade balance between these neighboring countries. In August 2023, the bilateral trade remained exceptionally low. Pakistan has exported goods worth $76.40 million and imported goods of $58.90 million. The overall bilateral trade stood at $135.30 million (Paracha, 2023).

The trade balance has been significantly impacted by the regional environment and security situation in Afghanistan. In 2017, Pakistan`s exports to Afghanistan stood at $1.3 billion. With $369 million worth of imports, Pakistan is the largest importer of Afghan goods, while Afghanistan is Pakistan's fourth-largest export market. The level of bilateral trade between Pakistan and Afghanistan has been steadily declining since 2012 (Mazhar, 2018). (See Figure 5 for details of Pakistan`s exports to Afghanistan).

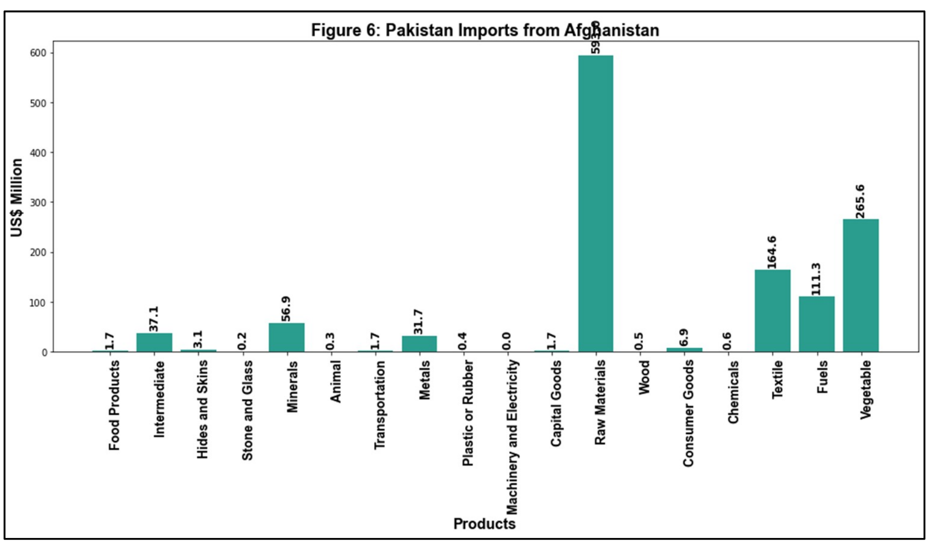
Figure 5



Source: World Integrated Trade Solutions, authors compilation of data

The main exports of Pakistan to Afghanistan are; tractors or semitrailers, pharmaceuticals, motorcycles, black tea, frozen cuts and edible offal of fowls, fresh eggs of domestic chickens, surgical instruments, synthetic fiber blankets, and traveling rugs, sanitary towels, parts of telephone sets for cellular networks, and so on. Afghanistan's top prospective imports include figs, grapes, almonds, onions, cumin seeds, apples, beans, and cotton, as well as unpolished gemstones. Given Afghans' current purchasing power and pressing requirements, Pakistani motorcycles might be massively sold in Afghanistan. Afghan gemstones, on the other hand, are in great demand in Pakistan. It would be beneficial for both Afghanistan and Pakistan if gemstones were allowed unrestricted access to Peshawar markets where they can be polished before being re-exported to other nations (Khan, 2023). In addition, fruits and vegetables make up most of Pakistan's imports from Afghanistan. In the past few years, Pakistan has imported significant amounts of various goods (Attarwala & Amir, 2016). (See Figure 6 for the total amount of imports in 2021)

Figure 6



Source: World Integrated Trade Solutions, authors' compilation of data

Opportunities for Pakistan in Accessing Central Asian Republics through Afghanistan

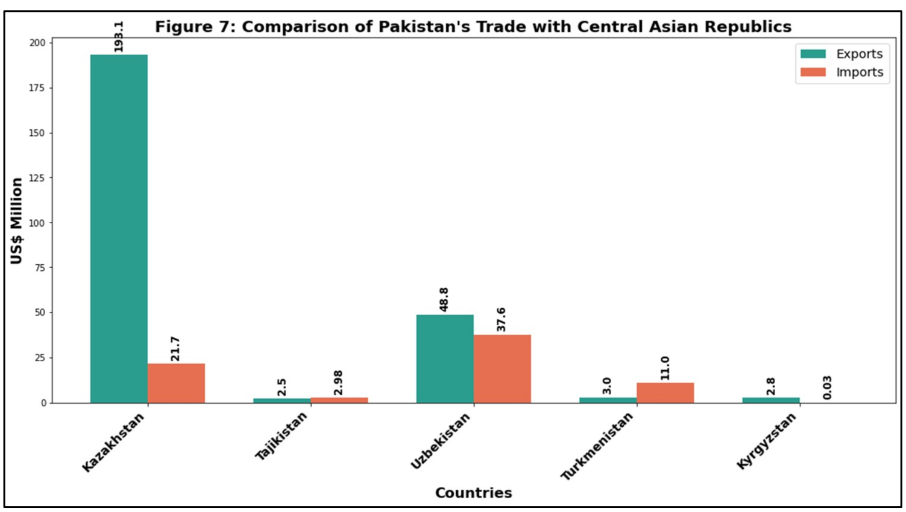
Central Asian Republics are energy-rich countries with limited trade prospects because of their landlocked location. These countries can trade with one another across the Caspian Sea, but they lack access to the world's ocean waterways and, consequently, to international markets. Geographically, Kazakhstan and Turkmenistan are the largest CAR countries, with the highest GDP per capita and purchasing power. The two countries make up the two cars with the greatest distance from each other. Kazakhstan and Turkmenistan each provide 18 million and 6 million individuals to the CARs' around 72 million combined populations (World Bank, 2023). It is also worth noting that Pakistan exported $87.7 million worth of goods to Kazakhstan and Turkmenistan together in 2018. As evidence of the enormous trade potential, Pakistan's exports of goods and services to war-torn Afghanistan were $1.3 billion which is fourteen times more than the exports of the two comparatively wealthy countries (WITS, 2023).

The fourth-largest natural gas reserves in the world are in Turkmenistan. It is challenging to sell gas to its close neighbors because Iran, Kazakhstan, Uzbekistan, Azerbaijan, and Kazakhstan all have sufficient gas reserves. Turkmenistan's neighbors are better positioned geographically for hydrocarbon exports than it is, and they are building their pipeline networks to export gas rather than helping Ashgabat to transship Turkmen gas to the same markets. Turkmenistan's main market for gas exports used to be Russia, but due to Russia's gas surplus, Turkmenistan's gas was sent through Russian pipelines to former Soviet bloc states that frequently missed payments, prompting the hunt for new markets (Asian Development Bank, 2017).

Bilateral Trade with Central Asian Republics

Trade with CARs is beneficial for Pakistan in several ways. In the aspects of agricultural and inexpensive manufactured goods, Pakistan can provide an alternative to the buyers, although its manufacturing ability and agricultural yield might not compare to countries like China and Russia. In 2018, the total value of traded goods between Pakistan and the region stood at $58. 4 million. Pakistan imported goods and services reaching $7. 718 million within the first eight months of 2018, and imported goods and services worth $50 to CARs. With exports to Kazakhstan totaling $36.8 million during the period, Tajikistan was Pakistan's second-largest commercial partner in the region after Turkmenistan (Altaf, 2018). (See Figure 7 for Bilateral Trade with CARs in 2021)

Figure 7



Source: World Integrated Trade Solutions. Author's compilation of data

With exports peaking at 193.1, Kazakhstan stands out as the player with the greatest exports, showing a strong export-oriented economy either propelled by significant resources or high-demand goods. With exports at 48.8 and imports at 37.6, Uzbekistan likewise exhibits a notable trade activity, indicating economic vitality and the possibility for increased international participation. Kyrgyzstan, on the other hand, shows the lowest numbers for both imports (0.03) and exports (2.8), highlighting its economy's relative size and lack of global integration. With Kyrgyzstan having little trade activity, Turkmenistan and Tajikistan having varying degrees of trade dynamics, and Kazakhstan and Uzbekistan showing significant export potential.

In recent years, several developments have taken place in relations between Pakistan and CARs. For instance, in May 2020, Pakistan, Afghanistan, and Uzbekistan signed a Memorandum of Understanding for the Joint Working Group that aims to increase bilateral trade to $1 billion (Sherani, 2022). In addition, a Transit Trade Agreement was signed in 2021 that aimed at shifting Uzbekistan's entire trade from Iran's port to Pakistani seaports using rail, road, and different customs procedures. In March 2022, a Preferential Trade agreement was signed that aims to reduce the tariffs and make them between 20 percent to 100 percent to facilitate trade and ease procedural requirements. In 2023 the trade between Pakistan and CARs has reached heights showing signs of strengthening regional integration (App, 2023). All these steps are signs of possibilities of potential trade between Pakistan and CARs.

Trade Opportunities

Lack of market diversification for exports, with the US and EU as Pakistan's main trading partners, has Pakistan facing poor prospects in the post-COVID-19 global economic crisis. Due to its lack of commercial diversification, Pakistan is entirely dependent on the politics and policies of those organizations that affect its geopolitical interests (Hanfer, 2005). Petroleum from the Arabian Peninsula accounts for the bulk of Pakistan's imports. By 2025–2027, Pakistan's diminishing domestic gas resources should be at approximately 1 BCFPD (Billion Cubic Feet Per Day), while domestic gas consumption should increase to about 8 BCFPD. This will leave a demand gap of 7 BCFPD, which will be covered by LNG imports and foreign gas (Mahmood et al., 2014).

Turkmenistan and Kazakhstan are now linked through gas (and oil) pipelines, especially Turkmenistan and Kazakhstan have enabled Pakistan to organize the buyer's market for oil and the cheapest fuel available for competition With OPEC and other countries. It would help Pakistan secure energy security and maintain investors' confidence in the country`s industrial sector to deliver even when regional concerns obstruct international trade, as the Persian Gulf is a possible flashpoint between Iran and GCC states. Pakistan has expertise in in areas of banking, pharmaceutical, irrigation, livestock, poultry, agricultural machinery, and light industrial goods sectors which presents trade opportunities for the country with CARs for the hydrocarbon resources (Adnan & Fatima, 2020).

The lack of direct borders with Turkmenistan and Kazakhstan restricts Pakistan's geo-economic plans. Only Afghanistan, Iran, and China provide access for Pakistan to these Countries. Pakistan's primary transit route to CARs has historically been through Afghanistan. Afghanistan can also be navigated using Iran and China. Under the Quadrilateral Transit Trade Agreement (QTTA) and the Afghan-Pakistan Transit Trade Agreement (APTTA 2010) Pakistan has access to CARs. Afghanistan does not currently have a strong industry, making it unable to compete with Pakistani goods in transit and trade with these countries, unlike China and Iran (Khan, 2022).

Pakistani products compete in the CARs market with those from China and Iran, both of which have strong industrial capacities. Relying on Iranian or Chinese transit runs the risk of introducing inadvertent trade intelligence sharing and, as a result, long-term market share loss for CARs. Due to Afghanistan's lack of industrial capacity, lack of competition, and viability as a transit country for Pakistan despite its internal unrest and political difficulties, Pakistan should help Afghanistan and find some measure of stability if it hopes to profit from trade with CARs and Pakistan is having access to route of CARs through transit route of Afghanistan under APPTA (Asif, 2011).

The China-Pakistan Economic Corridor is expected to change the fate of the whole region. It opens a gateway to the Indian Ocean through Gwadar Port. Being landlocked countries, the CARs are likely to derive benefits from the extension of CPEC by getting access to global markets through Gwadar. On the other hand, Pakistan's economy can get a boost to its economy in getting access to these countries rich in resources that have no proximity to the Indian Ocean. This extension also promises economic growth through increased opportunities for investment in infrastructure, trade, and connectivity. However, the shortest possible and cost-efficient way to access these states is through Afghanistan (Khetran & Khalid, 2019).

Impediments in Pakistan Afghanistan Trade

Throughout history, Pakistan-Afghan trade ties have been erratic. Following are some impediments in realizing the full potential of trade between these two neighboring countries.

Smuggling

The smuggling of various goods has significantly contributed to the informal economy in Pakistan which fuels tax evasion, deals in contraband, and other criminal activities. the size of the informal economy comprised 30% of the economy in 2010 (Farooq et al., 2010). The illegal economy increases the cost of conducting legal economic activities, threatens development opportunities, and undermines the potential of a country by trapping it in the cycle of poverty and instability. In this context, Pakistan is uniquely challenged by illegal activities due to its geographical location. Evidence has shown that illicit trade has increased under the cover of Afghan transit trade which is happening in two ways. Firstly, the transit diversion is in practice in which goods meant for Afghanistan do not reach their destination and are diverted for sale in Pakistan's markets. Secondly, goods are illegally re-exported from Afghanistan to Pakistan (Federal Tax Ombudsman Pakistan, 2011, Rehan et al., 2024).

The incentive for illegal trade comes from the price differentials between the price in the domestic economy and that of across the borders. Pakistan's tariff rates are generally higher, specifically for types of goods that are being smuggled substantially. The average tariff rate in Pakistan is 11.65, which is two times greater than in Afghanistan i.e. 5.63% (WITS, 2021). Whatever the size of this illegal trade is, it causes a significant loss to the government in the form of loss of tax revenues and duties. It impedes legal business involved in formal trade. Therefore, there is a dire need for both countries to take steps for better border management without restricting the transit trade.

Border Mismanagement

Border clashes, mismanagement, and other obstacles have long plagued Pakistan-Afghan trade relations. Mismanagement at the Torkham border occurs regularly, which is why cargo transit through this important trade crossing has slowed dramatically. The majority of officials blame the border mismanagement on the Taliban control. Pakistani exporters are hesitant to trade over the Torkham border due to security worries and uncertainty (Shinwari, 2021). Kabul's delay in developing and executing trade and customs procedures at the Torkham border has driven away more Pakistani exporters. Traders on both sides estimate that ineffective border restrictions by the two countries have resulted in the inability to realize the potential of $10 billion in trade (Hussain, 2019).

Delays in clearance procedures have resulted from inadequacies in border administration and protocols, limiting trade efficiency. Pakistan sought to establish a border commercial terminal under the National Logistic Cell to improve commerce via Torkham, however, dealers and business communities across the borders who are unfamiliar with such management rules believe they are just interfering with their trade-related operations.

Conclusion

The geographical locations of Pakistan and Afghanistan make them important regional players. Utilizing their locations, the two countries can emerge as regional players by promoting bilateral trade, transit trade, and regional connectivity. However, the full potential of the geographical locations of the two countries has not been utilized. Despite the important geographical locations of both countries and the existence of transit trade agreements that allow unrestricted transit, both countries are facing challenges in achieving economic goals through bilateral trade and transit trade. Illegal commercial activities across the Pakistan-Afghan border have been impeding documented trade, thus resulting in a loss of revenue. Transit facilities have emerged as a burden on Pakistan\`s economy as they are misused. Despite the existence of a proper mechanism, Afghan commercial goods imported in transit through Pakistan are illegally dispersed in Pakistani markets, thus affecting revenue generation and the potential of transit facilities for Afghanistan and Pakistan. In the same way, bilateral trade between the two countries is affected by illegal commercial activities across the Pakistan-Afghan borders. Smuggling on both sides is impeding the formal trade between the two countries. It is high time that both sides take steps to ensure a smooth flow of bilateral and transit trade and utilize their geographical locations for economic development on both sides. Steps should be taken for border management and preventing illegal trade activities across the Pak-Afghan border. For this, the Afghan side should cooperate with Pakistan

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