

Pak-Afghan economic ties

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SEVERAL significant developments have taken place in Afghanistan in the past few months that require fresh thinking and a review of the relationship between Pakistan and Afghanistan.

First, most of the Nato forces have withdrawn from Afghanistan while the presence of US forces has been considerably reduced and largely limited to support and training of the Afghan National Army.

Second, the general elections in Afghanistan were successfully conducted with a large turnout and the majority of the population participated in this peaceful democratic transition.

Third, the newly elected President Ashraf Ghani enjoys excellent credentials and is committed to the economic development of his country. He has therefore formed a national unity government with his opponent Abdullah Abdullah as chief executive.

Fourth, the new leadership has engaged in a highly constructive, candid and mutually rewarding dialogue with Pakistan setting at rest the confrontational role of the previous government.

Fifth, Pakistan's civil and military leadership have demonstrated not only through words but actions that they are fully committed to a peaceful and stable Afghanistan. Pakistan did not show any preference for any political party, ethnic group or presidential candidates at the time of the general elections.

Sixth, Afghanistan and Pakistan have agreed to work together to eliminate militant groups responsible for terrorist activities and that have been using the 'other' country as a safe haven for their activities.

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These developments are both significant and propitious for turning a new leaf in the chapter of Pak-Afghan relations. The focus of these relations should move to build strong foundations for the revival of Afghanistan's economy. During the last decade, the Afghan economy has become too dependent on external assistance and Isaf-related economic activities. The 'withdrawal' shock to the economy would be destabilising if alternative measures are not put in place to absorb this shock gradually.

It may sound odd that we are proposing at this juncture to increase our financial aid to Afghanistan when Pakistan itself is facing economic difficulties, but this is a critical confidence-building step along with increased trade and investment.

Pakistan is one of the largest trading partners of Afghanistan as it exports goods and services worth approximately \$3 billion annually and is also the main conduit of imports from elsewhere through the Karachi port. Tariff rates should be reduced on essential commodities, non-tariff barriers lowered

and trade facilitation eased to remove the obstacles faced by Afghan businesses and lower the cost of transactions. Concessionary export refinancing facilities should be made available to Pakistani exporters for incremental flows of goods to Afghanistan beyond the present threshold.

Pakistan provides Afghanistan with the shortest access to the sea but rail and road freight services have not been fully developed to leverage this locational advantage. Liberalisation of the transportation sector by allowing the entry of newcomers and promoting competition among the carriers, expanding the existing highways and rehauling the railway subsector would go a long way in facilitating both bilateral and transit trade.

Exports of the mining sector from Afghanistan would require that the transport corridors be functioning by 2017 at the latest. Afghanistan can also earn substantial revenues from transit trade and energy to and from the Central Asian Republics.

President Ghani has announced the establishment of industrial zones for Pakistani investment. As Afghanistan has an LDC status Pakistani private investors can set up export-oriented industries in these zones attracting preferential lower tariffs in the advanced countries. This act of liberalisation by Afghanistan is not so widely known to Pakistan's business community. Pakistani chambers and business councils should collect and disseminate detailed information widely among their members.

These zones would bring foreign exchange earnings badly needed by Afghanistan substituting over time the volume of foreign aid that will substantially decline. Pakistani investors, to be successful, would require better infrastructure in the form of highways, railways, integrated border crossings etc. Several other border posts should be opened and the missing infrastructure put in place.

A tripartite agreement between China, Afghanistan and Pakistan should assign the responsibilities for execution of this plan. China can take the lead in building the necessary infrastructure; Pakistani private investors can set up the industries and bring skilled manpower and Afghanistan can set up a one-stop shop to facilitate investment flows and resolution of problems.

In addition to industrial zones, Afghanistan offers investment opportunities in construction, food processing and retail. Pakistani investors should take first-mover advantage as their transportation costs would be low and they understand the consumer tastes and preferences better.

The government here has to expedite the formation of the Ex-Im Bank which was announced in the 2014-15 budget. The bank will be the ideal vehicle for scrutinising investment proposals and furnish a range of funding and non-funding instruments (eg guarantees) to those whose proposals are found to be feasible.

In the area of trade in services, Pakistan has earned a good reputation in banking and insurance, telecommunications, IT enabled services, engineering consultancy, architecture and accountancy. Afghanistan would need expertise in these areas both for current operations and 'on the job' training of their own young professionals.

Well-reputed hospitals, medical laboratories, clinics, nursing training institutes, general and specialised universities and colleges, vocational and technical training institutes from Pakistan can enter into partnerships and agreements with their Afghan counterparts. After all, the youth bulge has to be gainfully employed for which quality education is a pre-requisite. The affordability to this kind of education would be a major consideration for which the Pakistani experience would come in handy.

In the coming years, Pakistan should negotiate free trade and bilateral investment agreements with Afghanistan. The trade agreement can have sensitive lists that protect vulnerable items and these lists can be gradually phased out over a given period. In the medium term, the two countries should

form a common customs union with the external tariffs at ports of entry and thereafter the goods can move freely between the two countries.

This will mitigate the curse of illegal imports into Pakistan through the diversion of the present Afghan transit trade, generate tax revenues to be shared by the two and reduce the transaction cost of doing business.

Our Afghan brethren have suffered and made huge sacrifices during the last 35 years or so. It is time that Pakistan and the international community work together to give them a chance to live a peaceful life and make economic progress just like other countries in the region.

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