



## Cross-Border Commerce: Exploring Trade Dynamics Pakistan with China and Afghanistan.

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### Abstract

Cross-border trade serves as a crucial driver of economic growth in fragile and conflict-affected states, facilitating access to essential goods and services for vulnerable populations and contributing to social and economic recovery. Pakistan and China have a long-standing history of trade relations, with a significant upturn observed following the signing of the China-Pakistan Free Trade Agreement (CPFTA) on November 24, 2006. Moreover, Pakistan and Afghanistan are key trading partners, although the implementation of agreements aimed at enhancing trade, particularly transit trade through Pakistan, has faced challenges. China is advocating for the opening of five major border crossings between Pakistan and Afghanistan to facilitate bilateral and transit trade, including the resumption of Afghan exports to India. Utilizing a qualitative research approach, this study underscores the importance of further efforts by the governments of Pakistan and Afghanistan to strengthen mutually beneficial trade relations. The CPFTA stands as a pivotal strategic link between China and Pakistan, poised to bolster bilateral ties and foster economic cooperation between the two nations.

**Keywords:** Trade, Pakistan, China, Afghanistan, Cross-Border

### Introduction

Despite the fact that China and Pakistan have long engaged in commercial exchanges, things began to shift after the two countries signed the China-Pakistan Free Commerce Agreement (CPFTA) on November 24, 2006, and it entered into force in July of the following year. The primary purpose of this agreement was to encourage commerce between the two countries and to provide both parties with increased market access to their respective products. During the first three years of Phase-I implementation, both parties committed to removing tariffs from more than 36 percent of all tariff lines that fall under the Tariff Reduction Modalities (TRM). The second round of discussions regarding the Comprehensive and Progressive Agreement for Trans-



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Pacific Partnership (CPFTA), which started in 2013, with the objective of normalizing trade procedures and considerably reducing tariffs. Despite this, the negotiations on the trade concessions are still going on, and this stage is not yet complete. Despite the fact that China and Pakistan have long engaged in commercial exchanges, things began to shift after the two countries signed the China-Pakistan Free Commerce Agreement (CPFTA) on November 24, 2006, and it entered into force in July of the following year. The primary purpose of this agreement was to encourage commerce between the two countries and to provide both parties with increased market access to their respective products. During the first three years of Phase-I implementation, both parties committed to removing tariffs from more than 36 percent of all tariff lines that fall under the Tariff Reduction Modalities (TRM). The second round of discussions regarding the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPFTA), which started in 2013, with the objective of normalizing trade procedures and considerably reducing tariffs. Despite this, the negotiations on the trade concessions are still going on, and this stage is not yet complete. Both China and Pakistan had great expectations for the Comprehensive and Progressive Agreement for commercial (CPFTA), which would open up a wide range of new commercial opportunities for them. In particular, it was anticipated that Pakistan's trade dynamics would shift more toward regional trade in order to take advantage of Chinese markets. This was due to the fact that the CPFTA was anticipated to address tariff and non-tariff trade barriers, increase the relative value of exports, and increase production capacity through collaboration and technical assistance. As a result of this, the objective of this article is to analyze the results of the CPFTA, primarily by determining the degree to which it has benefited the conduct of business between the two countries. The relationship between Pakistan and Afghanistan has always been fraught with hostility. Relations have worsened as a result of a profound lack of trust, which has been compounded by a number of factors, including infiltration across the border, refugees, drug trafficking, militant groups, conflicts over counter-terrorism measures, and communication with terrorist organizations. The relationship between Pakistan and Afghanistan has always been fraught with hostility. Relations have worsened as a result of a profound lack of trust, which has been compounded by a number of factors, including infiltration across the border, refugees, drug trafficking, militant groups, conflicts over counter-terrorism measures, and communication with terrorist organizations. Afghan and Pakistani relations have been fraught with tension for a very long time. Deep-seated mistrust has been the main cause of the decline in relations, and it has been made worse by cross-border infiltration, refugees, drug trafficking, militant groups, conflicts over counterterrorism tactics, and contact with terrorist groups challenges present obstacles to the establishment of stronger commercial and economic ties, as their repercussions extend beyond the realm of security. Afghanistan now considers



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Pakistan to be its most important trading partner, while Pakistan considers Afghanistan to be its second-most important trading partner. This is despite the tensions that exist between the two countries. As a result of decreased aid and other forms of foreign currency inflows, projections show that there is a possibility that aggregate demand within Afghanistan will drop in the years to come. As a consequence of this, Pakistan is need to develop policies in order to mitigate the negative effects that this economic crisis is having on its own economy. As long as Afghanistan remains landlocked, Pakistan and Iran will continue to be the primary trading partners for the country's international trade. In order to dramatically boost the amount of trade that takes place between Afghanistan and the United States, the stakeholders in Afghanistan wanted to establish a cooperative economic zone. There is a possibility that Pakistani investors would discover substantial opportunities in Afghanistan; nevertheless, these opportunities will not materialize unless the banking procedures are expedited, infrastructure growth is ensured, and individual safety is protected. In order to facilitate transit and bilateral business, as well as the resumption of Afghan exports to India, China is exerting pressure on Pakistan to open its five primary border crossings with Afghanistan. Because Afghanistan is a landlocked nation, its ability to engage in international trade is contingent upon Pakistan's seaports and land connections. Two of the most often used crossing points between the two countries are located in Torkham, which is located in the northwest of Pakistan, and Chaman, which is located in the southwest of Pakistan. At the beginning of March, Pakistan closed all of its border crossings in an effort to prevent the spread of the coronavirus. In anticipation of the Comprehensive and Progressive Agreement for Commercial Trade (CPFTA), which would provide them with a wide variety of new commercial prospects, China and Pakistan had high expectations for the agreement. Specifically, it was predicted that Pakistan's trade dynamics would shift more toward regional commerce in order to take advantage of Chinese markets. This, in turn, would allow Pakistan to better compete with China. Due to the fact that it was anticipated that the CPFTA would remove both tariff and non-tariff trade obstacles, raise the relative value of exports, and increase production capacity through collaboration and technical support, this was the reason why this occurred. As a consequence of this, the purpose of this article is to undertake an analysis of the outcomes of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPFTA), primarily by analyzing the extent to which it has facilitated the conduct of commerce between the two nations. At the beginning of their partnership, Pakistan and Afghanistan have had a contentious and antagonistic relationship. There is a significant lack of trust between the two countries, which has been aggravated by a number of issues, such as infiltration across the border, refugees, drug trafficking, militant groups, confrontations over counter-terrorism efforts, and communication



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with terrorist organizations. As a result, relations have deteriorated. At the beginning of their partnership, Pakistan and Afghanistan have had a contentious and antagonistic relationship. There is a significant lack of trust between the two countries, which has been aggravated by a number of issues, such as infiltration across the border, refugees, drug trafficking, militant groups, confrontations over counter-terrorism efforts, and communication with terrorist organizations. As a result, relations have deteriorated. Throughout a very long period of time, relations between Afghanistan and Pakistan have been riddled with hostility. A profound lack of trust has been the primary factor in the deterioration of ties, and it has been exacerbated by a number of factors, including infiltration over international borders, refugees, drug trafficking, militant groups, disagreements regarding counterterrorism strategies, and contact with terrorist organizations. difficulties to overcome provide impediments to the formation of stronger commercial and economic relations, as the ramifications of these factors reach beyond the sphere of security. Afghanistan today believes Pakistan to be its most significant trading partner, while Pakistan considers Afghanistan to be its second-most important trading partner. Afghanistan's perception of Pakistan's importance grows over time. Despite the fact that differences of opinion exist between the two nations, this is the case. In the years to come, there is a likelihood that aggregate demand inside Afghanistan will decrease. This is due to the fact that aid and other kinds of foreign currency inflows have reduced, and predictions show that this change is likely to occur. This is a consequence of the fact that Pakistan is need to formulate policies in order to alleviate the adverse consequences that this economic crisis is having on its own economy. As long as Afghanistan continues to be a landlocked country, Pakistan and Iran will continue to be the most important trading partners for the country's international trade. A cooperative economic zone was something that the many players in Afghanistan sought to develop in order to significantly increase the amount of trade that takes place between Afghanistan and the United States. Pakistani investors may find large prospects in Afghanistan; however, these opportunities will not materialize until the banking procedures are accelerated, infrastructure growth is ensured, and individual safety is preserved. There is a probability that Pakistani investors will explore Afghanistan. In order to enable transit and bilateral business, as well as the resumption of Afghan exports to India, China is increasing pressure on Pakistan to open its five key border crossings with Afghanistan. This is being done in order to facilitate international trade. Therefore, Pakistan's seaports and land links are necessary for Afghanistan to be able to participate in international trade. This is due to the fact that Afghanistan is a landlocked nation. Torkham, which is situated in the northwest of Pakistan, and Chaman, which is situated in the southwest of Pakistan, are the two locations that are home to two of the most often utilized crossing points between the two countries. In an effort to stop the spread of the coronavirus,



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Pakistan initiated the closure of all of its border crossings at the beginning of the month of March.

## Literature Review:

This study by Khan and Zhang (2020) provides a detailed overview of the historical evolution of trade relations between Pakistan and China. While it offers insights into the trajectory of bilateral trade, including key agreements and milestones, there is a gap in the analysis regarding the contemporary challenges and opportunities in cross-border commerce between the two countries.

This comprehensive review by Ahmad and Rahimi (2019) examines the trade relations between Afghanistan and Pakistan, highlighting the historical context, bilateral agreements, and trade dynamics. However, the analysis lacks a focus on the current challenges facing cross-border commerce, such as security concerns and regulatory barriers.

In this paper, Li and Khan (2018) discuss the implications of the China-Pakistan Economic Corridor (CPEC) for cross-border trade dynamics between Pakistan and China. While it offers insights into the potential economic benefits of the CPEC, there is a gap in the analysis regarding its impact on trade relations with Afghanistan and the broader regional dynamics.

This study by Safi and Ahmed (2020) examines the challenges and opportunities in transit trade between Afghanistan and Pakistan. While it identifies key obstacles such as infrastructure limitations and security concerns, there is a gap in proposing practical solutions and policy recommendations to address these issues and enhance cross-border commerce.

In this policy-oriented paper, Rahman and Singh (2017) analyze the policy perspectives for enhancing cross-border commerce in South Asia, with a focus on trade relations between Pakistan, China, and Afghanistan. However, there is a gap in the analysis regarding the specific institutional mechanisms and regulatory frameworks needed to facilitate trade integration among these countries.

By addressing these gaps in the existing literature, this study aims to provide a more comprehensive understanding of cross-border commerce dynamics between Pakistan, China, and Afghanistan.

## Research methodology.

The research paper employs qualitative methods to gather and analyze data, focusing on textual information rather than numerical data. Specifically, qualitative methods emphasize the use of words and textual analysis in data collection and analysis. In this study, qualitative methods were utilized to collect data, particularly in examining the international standards for customs harmonization. For secondary data, the researcher accessed the Revised Kyoto Convention (RKC) document from the website of the World Customs Organization. Through content analysis of this international convention, the study scrutinized the standards that have been adopted and those that remain unimplemented. This approach allowed for a comprehensive examination of the customs harmonization standards, shedding light on both implemented and pending measures.



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## Cross-border Trade

Borders between nations serve as significant demarcations, delineating changes in laws, regulations, practices, and often, cultural and philosophical differences. These boundaries inevitably become sources of contention and, at times, hostility. Movement across international borders necessitates decision-making and overcoming obstacles not encountered within a single nation (Higginson). Cross-border trade refers to the movement of products and services across international land boundaries within a defined region. It encompasses both formal and informal trade. Formal trade involves legally registered traders complying with all legal requirements, while informal trade may involve unrecorded or unrecognized trading activities bypassing formal institutions (Habtmu et al., 2016).

Cross-border commerce between nations encompasses various aspects, including transit trade, bilateral trade, illicit trade, regional trade, and transit trade with other doubly landlocked nations. These multifaceted trade dynamics have been the subject of bilateral agreements, political discussions, and negotiations, often leading to tensions among neighboring nations. Disentangling concerns related to different aspects of trade has made debates and negotiations complex and protracted, hindering efforts to overcome obstacles and strengthen commercial ties between nations (Khan, 2016).

Each aspect of cross-border commerce is typically regulated by separate agreements. Bilateral trade is governed by its own agreement, as is transit trade. Afghanistan and Pakistan are primary commercial partners, excluding transit commerce. Afghanistan's exports to Pakistan have steadily increased from 29.9 million US dollars in 2003 to 492 million US dollars in 2020, encompassing items like grapes, dry legumes, and raw cotton. Conversely, Pakistan's exports to Afghanistan also saw growth from 408 million US dollars in 2003 to 870 million US dollars in 2020. However, political and security challenges in Afghanistan impede trade between the two nations. Political divides and lack of trust hinder bilateral and transit commerce, preventing the realization of the full potential of trade between Afghanistan and Pakistan. This thesis aims to examine the challenges faced by areas like Ghulam Khan, assess the barriers imposed on cross-border commercial operations by relevant stakeholders, and evaluate them against global best practices and guidelines adopted by industrialized nations ("World Trade Organization," 2022).

### "Evolution of Pak-China Trade Relations: A Historical Perspective"

China and Pakistan initiated trade in the 1950s, culminating in the signing of their first official bilateral trade agreement in 1963. The establishment of the Pakistan-China Joint Committee in 1982 aimed to foster technological and trade advancements. However, the dawn of the new millennium marked a significant milestone in their trading relationship with the signing of multiple Memorandums of Understanding (MOUs) and agreements. Collaborations such as the development of the Gwadar seaport in May 2002 and the signing of six MOUs on commerce in May 2001 illustrated a renewed commitment to bilateral cooperation. In December 2004, seven agreements spanning commerce, communications, and energy sectors were inked, setting the stage for expanded collaboration.



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Further strengthening their ties, both nations signed 21 agreements and MOUs in April 2005, focusing on defense, energy, infrastructure, and social sectors. This period they have witnessed a substantial increase in bilateral trade, soaring from US\$1.07 billion in 1997 to US\$4.26 billion in 2005. Implementing the Early Harvest Program (EHP) agreement in January 2006 marked another milestone, boosting commercial links between China and Pakistan. The EHP facilitated improved market access for both countries' goods, laying the groundwork for the establishment of a free trade area.

The China-Pakistan Economic Corridor (CPEC) emerged as a transformative initiative, heralding significant regional benefits beyond the confines of China and Pakistan. Conceived as a network of energy, railroad, and road projects, CPEC aims to address Pakistan's supply-side constraints and connect China's Xinjiang region with Pakistan's Gwadar port. This strategic corridor provides China with an alternative route to the maritime pathway through the Straits of Malacca. Both nations are actively leveraging CPEC to enhance trade relations with the global community, underscoring its pivotal role in reshaping regional trade dynamics (Malik, 2017).

### **Main Exports to China:**

China is Pakistan's second-biggest export destination, accounting for 7.7% of the country's total exports. The United States is Pakistan's largest export destination, accounting for 16.7% of Pakistan's total exports. The majority of Pakistan's exports to China are comprised of rice and cotton, which together account for nearly 75% of the country's total exports. Particularly remarkable is the substantial increase in Pakistan's cotton exports to China, which increased from \$358 million in 2006 to \$968 million in 2016. This gain is particularly noteworthy because it occurred in India. Furthermore, China and Bangladesh have emerged as the primary importers of cotton yarn from Pakistan.

Pakistan is a significant supplier of rice to China, which further demonstrates that the trade relationship encompasses more than just cotton. Pakistani rice was able to capitalize on the spike in China's rice imports in 2012, which was driven by favorable international pricing and domestic demand. This allowed Pakistani rice to acquire traction in the Chinese agricultural market. As a consequence of this, the proportion of rice that Pakistan exports to China increased from 1.3% in 2011 to an astounding 24.4% in 2012, surpassing even the proportion of rice that Thailand supplies to China.

Pakistan sells a wide variety of goods to China, including fish and other aquatic invertebrates, raw hides and skin, ores, slag, ash, and a variety of other commodities. Rice and cotton are two of the most important products that Pakistan exports to China. There are prospects for additional expansion and diversification in bilateral commerce, which are shown in this diverse trade connection between Pakistan and China (Ali et al., 2022). This relationship highlights the developing economic linkages between Pakistan and China.

### **Main Imports from China:**

China holds the largest share of Pakistan's total imports, amounting to 29%, with the UAE following closely at 13%. Iron and steel, electrical equipment, high-tech machinery, nuclear reactors, organic compounds, and artificial filaments constitute the bulk of Pakistan's imports



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from China. Particularly noteworthy is China's significant contribution to Pakistan's imports of machinery and electrical equipment, accounting for more than half of the total imports in these categories.

A deeper analysis of the top Chinese imports can be obtained by examining the HS-2 import level data, which reveals a substantial increase in these products following the implementation of the Free Trade Agreement in 2007. This underscores the importance of the trade relationship between Pakistan and China and highlights China's role as a key supplier of essential goods and equipment to Pakistan's economy (Gale et al., 2016).

### **Salient Features of CPFTA:**

The China-Pakistan Free Trade Agreement (CPFTA), established in 2006, aimed to strengthen mutual friendships, expand and diversify trade, remove trade barriers, facilitate cross-border goods movement, ensure fair competition conditions, and promote additional bilateral economic cooperation within the guidelines of the World Trade Organization (WTO). It was anticipated that the agreement would elevate the standard of living, create new employment opportunities, and promote sustainable development while ensuring environmental preservation and protection. Key components of the CPFTA include:

a) Focus on Trade in Products: The CPFTA primarily focuses on trade in products. b) National Treatment: In accordance with Article III of the General Agreement on Tariffs and Trade (GATT) 1994, both nations provide their respective goods with the same level of national treatment. A commitment has been made by both countries to gradually abolish import customs charges on imported goods, with some exclusions defined in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPFTA). d) The Elimination of Import Taxes: Both countries are working toward the elimination of import customs taxes on goods, with some exceptions that are outlined in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPFTA). e) Prohibition on the Use of Fees and Charges: Neither nation is allowed to use fees or charges relating to the import or export of goods in order to support domestic products or to tax imports or exports for the purpose of budgetary considerations. Any fees, charges, and revisions that have been agreed upon are made available to the general public over the internet or other computer-based telecommunications networks. (Chin & Yusof, 2017).

### **Overview of Pakistan-Afghanistan Trade Relations:**

Trade between Pakistan and Afghanistan experienced significant growth from FY06 to FY13, increasing from \$0.83 billion to \$2.1 billion. However, Pakistan's share of Afghanistan's imports declined to 24.3% by FY13 due to various issues such as political unrest, customs delays, NATO supply suspensions, and other challenges. Meanwhile, Iran's transit trade share has been increasing steadily. Recently, a draft transit trade agreement involving India, Iran, and Afghanistan was finalized, aiming to establish a land route connecting Afghanistan to the Persian Gulf via Iran's Chabahar port. Despite lacking direct transit access, India remains the second-largest destination for Afghan exports at 27%, while Pakistan accounts for 32.2% of all Afghan exports (Husain & Elahi, 2015).



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## Transit Agreements:

Given Afghanistan's landlocked status, its neighbors play a crucial role in facilitating its trade with the global economy. With the inaugural signing of the Afghanistan Pakistan Transit Trade Agreement (APTTA) in 1965, both countries participated in the agreement. During the year 2010, the Afghanistan Pakistan Trade Agreement (APTA) underwent considerable amendments in order to facilitate the movement of Afghan products through Pakistan to coastal locations such as Karachi and Gwadar, as well as the Wagah border with India. As a direct result of this, all regions of Afghanistan were accessible to receive commodities from Pakistan via trucks. A joint chamber of commerce was also established as a result of the agreement, which was another positive outcome. Afghanistan and Pakistan reached an agreement in July 2012 to expand the APTTA to Tajikistan. This was the first step towards constructing a commercial corridor that runs from north to south Afghanistan to Tajikistan. In accordance with the terms of this proposed agreement, Pakistan would participate in commercial activities with Tajikistan under conditions that are comparable to those of his transit arrangement with Afghanistan. In return, Tajikistan will be able to access the ports of Gwadar and Karachi in Pakistan for the purpose of importing and exporting goods respectively. During their visit to Pakistan, a ministerial team from Tajikistan was interested in investigating potential trade prospects across a variety of manufacturing sectors. During his trip to Pakistan in November 2014, the newly elected President of Afghanistan, Ashraf Ghani, emphasized the potential of Afghanistan to serve as a land bridge between Pakistan and Central Asia. He also suggested that Pakistan provide similar facilities for commerce with India. Pakistan committed to lowering taxes and fees for port and storage facilities and ensuring the clearance of 95% of Afghan commodities imported under the transit trade agreement within twenty-four hours. President Ghani's goal was to increase the amount of bilateral trade between Afghanistan and Pakistan to \$5 billion by the year 2017. (Husain & Elahi, 2015).

## Points of Tension:

The fact that persistent hostilities have prevented Afghanistan and Pakistan from fully realizing their potential for bilateral commerce, despite the fact that earlier agreements have been made, highlights the importance of achieving the goals that were established during President Ghani's subsequent visit. The problem of overflow and smuggling is one of the key challenges that needs to be addressed. The suggestions made by Afghanistan to permit imports from India to travel through Pakistan have been met with opposition. This opposition is partially attributable to Pakistani concerns regarding the possibility of dumping items that could be detrimental to local firms there. There have been allegations that indicate the trafficking of high-tariff commodities such as electronic equipment, automobiles, and cigarettes from Afghanistan into Pakistan. Pakistan has been experiencing difficulties for a long time due to the illegal commerce that occurs between Afghanistan and Pakistan. Based on official figures, it is estimated that seventy-five percent of commodities that are smuggled into Pakistan are able to avoid paying customs duties by traveling through the Afghanistan Pakistan Transit Trade Agreement (APTTA). It is also a source of frustration for Afghan merchants as the costs of Afghan-made goods that are



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resold in Pakistan have increased, which means that Afghans have to pay customs taxes on their own goods. The fact that Afghan merchants have accused Pakistani customs officials of demanding bribes in exchange for border transit, visas, and documentation is another factor that has contributed to the escalation of tensions.

The restrictions placed on trade provide yet another obstacle, as merchants on both sides of the border have voiced their dissatisfaction with the measures taken to combat smuggling and the misuse of transit trade arrangements. The limited working capital of truck drivers is put under strain by requirements such as the requirement to obtain certified documentation for customs clearance and the imposition of limits on partial shipments. Traders in Afghanistan and Pakistan are forced to resort to illicit transfers and struggle with unpredictable currency values since there are insufficient formal banking connections between the two countries. Infrastructure problems, such as those pertaining to highways and customs clearance, further impede the efficiency of trade. On the other hand, on his trip to Kabul in April 2015, Pakistan's Minister of Trade, Khurram Dastagir, made a remarkable announcement regarding the progress that has been made. Some of these include allowing for the partial transfer of transit items based on the system, lowering the percentage of Afghan cargo that is scanned, and working toward the goal of clearing Afghan cargo more quickly without employing scanning. Furthermore, in April of 2015, restrictions on shipping were lifted, which made it possible for Afghan trucks to pass the Wagah border in order to engage in trade with India. Additionally, Pakistani goods could be transported into Afghanistan on their way back because of this change. It is anticipated that these measures will have the effect of streamlining trade procedures and increasing Pakistan's revenue from customs. Additionally, they will provide possibilities for Afghan trucking companies to invest in transportation infrastructure and benefit from a reduction in trade restrictions. (Husain & Elahi, 2015).

## Regional Transportation Impacts

The withdrawal of foreign forces from Afghanistan will have a significant impact on regional security and stability going forward. Law and order improvements and strong, capable leadership that can uphold national stability are eventually necessary for the new national unity administration to realize its goals of reviving the economy and luring foreign investment. In addition to the possibility of cross-border militancy or refugee displacement in the event that the security situation in Afghanistan deteriorates, Pakistan will experience direct economic effects from the NATO drawdown as the military stimulus to both nations' economies declines. For instance, NATO forces in Afghanistan drank the majority of Pakistan's exported bottled water. Significant declines in bilateral trade will also have an impact on Pakistan's transit, warehousing, and construction industries, which would disproportionately affect the less fortunate workers in these industries in the provinces of Balochistan and Khyber Pakhtunkhwa. Increased commerce between Afghanistan and Pakistan has allowed many people in this lowest-quintile group to escape from periods of chronic and sporadic poverty, highlighting the need of preserving and



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growing the benefits of bilateral and regional integration (Husain, and Elahi,. 2015).

## **"China Advocates for Opening Trade Routes between Pakistan and Afghanistan"**

China is exerting pressure on Pakistan to reopen its five main border crossings with Afghanistan in order to promote transit and bilateral trade as well as the restoration of Afghan exports to India. This is happening as the peace talks between the Taliban and the Afghan government continue to progress. Afghanistan is a landlocked nation, hence its international trade is carried through Pakistani seaports and land routes. Pakistan is the country that provides the land routes. Two of the most often utilized crossing points between the two countries are located in Torkham, which is located in the northwest of Pakistan, and Chaman, which is located in the southwest of Pakistan. March was the month that Pakistan closed its border crossings in an effort to prevent the spread of the coronavirus. A number of other border crossings have also been shut down at various times since 2014 as a result of the tense relations that exist between the two countries, as each government has accused the other of providing support to Islamist and separatist rebels who are engaged in fighting. Experts and government officials have come to the conclusion that Pakistan's recent actions to open five significant borders are a direct result of China's ongoing efforts to extend the China-Pakistan Economic Corridor, which is a central program of the Belt and Road program, to Afghanistan. Pakistan has opened three additional crossings in the past two months, in addition to reopening the crossings at Torkham and Chaman after they had been closed for some time. The cities of Ghulam Khan, Angoor Adda, and Kharlachi, which are located in the northwest of Pakistan, are now open twenty-four hours a day, seven days a week, in an effort to facilitate commercial transactions and increase the amount of trade that occurs between the two countries (Rehman, 2020). China is exerting pressure on Pakistan to reopen its five main border crossings with Afghanistan in order to promote transit and bilateral trade as well as the restoration of Afghan exports to India. This is happening as the peace talks between the Taliban and the Afghan government continue to progress. Afghanistan is a landlocked nation, hence its international trade is carried through Pakistani seaports and land routes. Pakistan is the country that provides the land routes. Two of the most often utilized crossing points between the two countries are located in Torkham, which is located in the northwest of Pakistan, and Chaman, which is located in the southwest of Pakistan. March was the month that Pakistan closed its border crossings in an effort to prevent the spread of the coronavirus. A number of other border crossings have also been shut down at various times since 2014 as a result of the tense relations that exist between the two countries, as each government has accused the other of providing support to Islamist and separatist rebels who are engaged in fighting. Experts and government officials have come to the conclusion that Pakistan's recent actions to open five significant borders are a direct result of China's ongoing efforts to extend the China-Pakistan



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Economic Corridor, which is a central program of the Belt and Road program, to Afghanistan. Pakistan has opened three additional crossings in the past two months, in addition to reopening the crossings at Torkham and Chaman after they had been closed for some time. The cities of Ghulam Khan, Angoor Adda, and Kharlachi, which are located in the northwest of Pakistan, are now open twenty-four hours a day, seven days a week, in an effort to facilitate commercial transactions and increase the amount of trade that occurs between the two countries (Rehman, 2020).



Zalmay Khalilzad, the U.S. special representative for Afghanistan, has requested that Pakistan open the borders at Torkham and Chaman in recent meetings. On the other hand, Pakistani authorities have admitted that the decision to open the three other crossings was made during the China-Afghanistan-Pakistan Trilateral Vice Foreign Ministers' Strategic Dialogue. This dialogue was held in Beijing with the purpose of defusing tensions between Kabul and Islamabad. Senior representatives from three different countries met digitally in July to discuss the current situation in Afghanistan and to make decisions about how to proceed. Following their conclusion, they came to the conclusion that they should look into "new ways of deepening cooperation," which would include advancing connectivity through the Belt and Road Initiative as well as other regional economic initiatives. In July, Pakistan also announced that it will resume sending Afghan goods to India through the eastern Wagah border crossing. This decision was made in order to "facilitate Afghanistan's transit trade," despite the fact that tensions with India have been



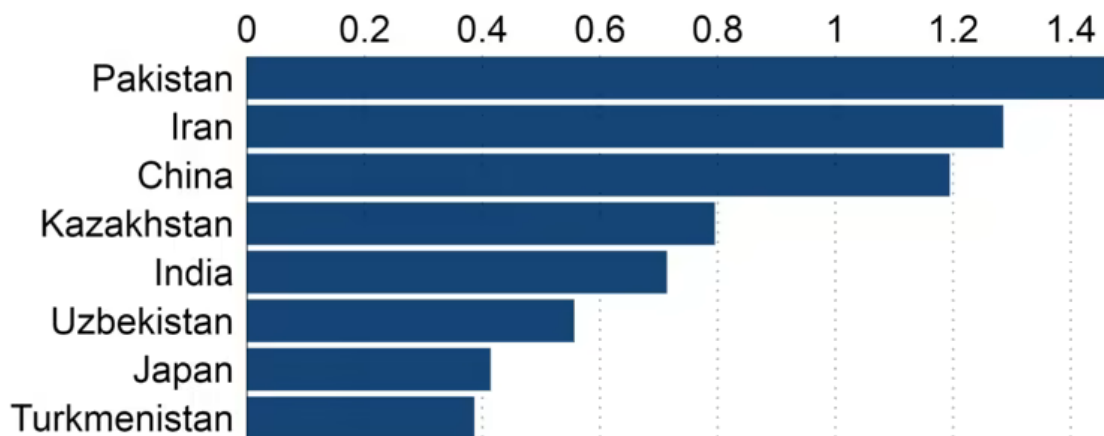
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growing. "With this step, Pakistan has fulfilled its commitments under Pakistan-Afghanistan Transit Trade Agreement," the Pakistani Ministry of Foreign Affairs said in a statement. The statement was a reference to a bilateral agreement that was initially signed in 1965 and allows for the transit of Afghan exports through Pakistan to the Wagah border with India. On both sides of the border, businesspeople are expressing their satisfaction with the reforms. Daru Khan Achakzai, the leader of the Pakistan-Afghanistan Joint Chamber of Commerce and Industry, is one of the individuals who anticipate that the project will assist to the improvement of commerce between the two countries ("World Trade: Economic and Social Implications", 2020).

## Afghanistan's major trading partners in 2018

(In billions of dollars)



*Source: United Nations*

"According to Achakzai, the volume of bilateral trade during the year 2011 was approximately three billion dollars, and we anticipated that it would increase to five billion dollars in the year 2015. "But for several reasons, mainly the tense relationship between the two countries, the overall volume of trade declined to around \$2 billion, which is worrisome." Assistance from the international community is being provided for the purpose of establishing new trade routes. An economic corridor known as the Khyber Pass Economic Corridor was approved by Islamabad in the month of July. This project is comprised of a four-lane freeway that spans a distance of 48 kilometers between Peshawar and the Torkham border crossing. The World Bank is providing financial support in the amount of \$460.6 million. Pakistan's decision to open its borders to Afghanistan has been met with satisfaction by China. "China is in favor of the CPEC's expansion to Afghanistan in order to enable the Afghan people to reap the benefits of the Belt and Road Initiative," Hua Chunying, a spokesperson for the Chinese Ministry of Foreign Affairs, announced in July at her routine briefing. The ambitions of China to extend the Belt and Road to



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Afghanistan, on the other hand, have led to an increase in economic, political, and security concerns, while leaving India with few options. Due to the fact that a component of the Belt and Road route passes through Kashmir, which is under the jurisdiction of Pakistan and over which New Delhi maintains sovereignty, India has formally declared its opposition to all projects that are referred to as the Belt and Road. Afghanistan was mostly disregarded by the Belt and Road Initiative, which was initially presented by Chinese President Xi Jinping in 2013. This initiative will eventually consist of an extended network of infrastructure projects that would connect more than sixty nations. Instead of traveling through Pakistan, it traveled across Central Asia. On the other hand, Beijing went in a different direction and began to regard Afghanistan as the primary conduit between the Central Asian republics and the China-Pakistan Economic Corridor (CPEC) ("Belt and Road Plan May Include Afghanistan" 2023). This occurred when the majority of NATO forces left Afghanistan in 2014.



## "China's Efforts to Bolster Stability in Afghanistan and Improve Trade Relations with Pakistan"

Beijing's intensified involvement in Afghanistan is partly driven by the region's stability. A senior official from Pakistan's Foreign Ministry, speaking on condition of anonymity, revealed that China aims to prevent any potential collaboration between the Afghan Taliban and Uyghur Muslim separatist groups, notably the East Turkistan Islamic Movement (ETIM), which seeks independence from China. Following a trilateral dialogue in July, China, Pakistan, and Afghanistan affirmed their commitment to enhancing counter-terrorism efforts and security cooperation, particularly in combating the ETIM and other terrorist entities, as outlined in a statement by Pakistan's Foreign Office.



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However, despite the reopening of borders, challenges persist. Afghan traders are increasingly opting for alternative routes such as Iran's Chabahar port due to Pakistan's cumbersome regulations and lengthy customs clearance procedures. Ziaul Haq Sarhadi, head of a customs clearing agents association at the Pakistan-Afghan borders, highlighted delays in customs clearance, leading to significant disruptions in trade flow. Afghan traders are burdened with hefty detention fees imposed by shipping companies, exacerbating the situation.

Without immediate policy reforms, the nascent trade momentum between Pakistan and Afghanistan faces the risk of collapse, underscoring the urgency for addressing existing challenges ("Joint Press Statement: Pakistan-China-Afghanistan", 2023).

### Key Findings:

- **Strategic Significance of CPFTA:** The China-Pakistan Free Trade Agreement (CPFTA) represents a significant strategic alliance aimed at strengthening bilateral ties and promoting economic cooperation between China and Pakistan.
- **Trade Imbalance and Opportunities:** Despite the current trade imbalance in favor of China, Pakistan stands to benefit from increased access to the vast Chinese market, potentially mitigating this disparity by redirecting trade from traditional markets.
- **Private Sector Transformation:** The successful implementation of CPFTA requires transformative measures within Pakistan's private sector, including upgrading business processes, investing in research and development, and meeting international quality standards to enhance competitiveness in the Chinese market.
- **Infrastructure and Connectivity:** Enhancing commerce and transit infrastructure is crucial for connecting South Asia with Central Asia and fostering peaceful economic cooperation between Afghanistan and Pakistan, thus unlocking the full potential of regional trade.
- **Policy Recommendations:** To address challenges and foster sustainable commercial relations, policy recommendations include relaxing business visa regulations, implementing preferential trade agreements, simplifying regional tariffs, improving border customs checks, and prioritizing infrastructure development to facilitate seamless trade flows.

Overall, the successful implementation of CPFTA and the adoption of supportive policies are essential for realizing the economic benefits and fostering closer economic ties between China, Pakistan, Afghanistan, and other regional stakeholders.

### Recommendations:

- **Streamline Customs Procedures:** Both Pakistan and Afghanistan should prioritize efforts to streamline customs procedures at border crossings to reduce delays and facilitate smoother trade flows. This includes implementing efficient clearance processes and minimizing bureaucratic hurdles for traders.
- **Enhance Infrastructure Investment:** Invest in upgrading infrastructure, including roads, railways, and ports, to improve connectivity between Pakistan, Afghanistan, and China. Improved infrastructure will lower transportation costs and enhance the efficiency of cross-border trade.



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- **Promote People-to-People Interaction:** Ease business visa regulations to encourage more people-to-people interaction between Pakistan and Afghanistan. This will foster greater trust and understanding, facilitating smoother business operations and trade relations.
- **Implement Preferential Trade Agreements:** Both countries should work towards implementing preferential trade agreements that increase market access for Afghan goods in Pakistan and vice versa. Addressing issues such as smuggling and double taxation will be essential components of these agreements.
- **Establish Financial Mechanisms:** Set up institutional frameworks for freight insurance, trade payments in multiple currencies, and an EXIM bank to facilitate trade financing. These financial mechanisms will provide greater security and certainty for traders engaging in cross-border transactions. By implementing these recommendations, Pakistan and Afghanistan can enhance their trade relations, capitalize on the opportunities presented by initiatives like CPFTA, and promote sustainable economic development in the region.

## Conclusion

In conclusion, the China-Pakistan Free Trade Agreement (CPFTA) stands as a pivotal strategic alliance aimed at further fortifying bilateral ties between the two nations. By eliminating tariff and non-tariff barriers and enhancing the value of exports, Pakistan stands to benefit significantly from access to the vast Chinese market. Despite the current trade imbalance favoring China, Pakistan can leverage its exports to China to mitigate this disparity by redirecting trade from traditional markets.

To capitalize on the opportunities presented by the CPFTA, Pakistan's private sector must undergo transformative measures such as upgrading business processes, investing in research and development, bolstering human resources, obtaining international certifications, and meeting customer demands for quality. Additionally, Pakistan stands to gain from the reduction of supply-side constraints, improved macroeconomic conditions, the establishment of Special Economic Zones under the China-Pakistan Economic Corridor (CPEC), and the potential relocation of labor-intensive industries from China.

Enhancing commerce and transit infrastructure is crucial for connecting South Asia with Central Asia and fostering peaceful economic cooperation between Afghanistan and Pakistan. Economic development driven by exports is anticipated to create employment opportunities and generate foreign exchange, benefiting both countries. However, challenges persist in achieving seamless commercial connectivity between Afghanistan, Pakistan, and India.

To address these challenges and foster sustainable commercial relations, several recommendations are proposed. These include relaxing business visa regulations to facilitate people-to-people interactions, implementing preferential trade agreements to increase market access and combat smuggling, simplifying regional tariffs, improving border customs checks, prioritizing infrastructure development, and establishing institutional frameworks for freight insurance and trade payments.

Ultimately, the successful implementation of these measures will be instrumental in realizing the full potential of the CPFTA and advancing economic cooperation among China, Pakistan, Afghanistan, and other regional stakeholders.



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