

## THE PROSPECTS OF ECONOMIC COOPERATION BETWEEN PAKISTAN AND AFGHANISTAN: CHALLENGES AND OPPORTUNITIES

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### Abstract

*The paper analyzes the prospects of economic cooperation between Pakistan and Afghanistan, which have so far failed to establish normal trade relations with each other. The main argument of the paper is that Islamabad's insecurities vis-à-vis New Delhi have overshadowed the prospects of economic cooperation and good neighborly relations between Pakistan and Afghanistan. Pakistan's "long-term obsession with the quest for 'strategic depth' against India"<sup>1</sup> compelled the former to increase its influence in Afghanistan by installing a friendly government there with the twin objectives of securing its western borders in order to liquefy nationalist-separatist sentiments in the Pakhtun belt, as well as to counter the growing role and influence of India in Afghanistan. This quest of Pakistan has had negative impact not only on the inter-state relations between the two proximate western neighboring countries, but also on their economic cooperation. Although there are several opportunities available in the form of strengthening South Asian Association for Regional Cooperation (SAARC) and Economic Cooperation Organization (ECO) by applying regional approach; promoting regional energy projects; and enhancing bilateral trade and transit facilities in the region; the future of Pakistan-Afghanistan economic cooperation depends upon India-Pakistan normalization of relations.*

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<sup>1</sup> Sumit Ganguly and Nicholas Howenstein, "India-Pakistan Rivalry in Afghanistan", Journal of International Affairs, Vol. 63, No. 1 (Fall/Winter 2009), p.34.

## Introduction

The present relations between Pakistan and Afghanistan have been marked by a state of continuous tensions and conflicts. Sharing religious, historical, and geographical proximity, the two countries have failed to establish normal neighborly relations with each other. Being a landlocked state, Afghanistan has been heavily dependent on Pakistan for trade with the outside world. The two countries signed Afghan Transit Trade Agreement (ATTA) in 1965. Under the Agreement, Pakistan provided its sea-outlet to Afghanistan for the foreign trade. However, the two neighboring countries have rarely enjoyed, except during the Taliban rule, cordial and friendly relations with each other. As a result of their strained relations, the two neighboring countries, which also enjoy the dual membership of the South Asian Association for Regional Cooperation (SAARC) and Economic Cooperation Organization (ECO), have failed to enhance economic cooperation with each other.

It is a fact that Pakistan has been an active actor in the politics and security of Afghanistan for the last three decades or so. Pakistan's insecurities vis-à-vis its eastern neighbor, India, have a lot to do with its role and influence in its western neighbor, Afghanistan. It is rightly argued that until Pakistan and India mend their fences, the normalization of relations and enhanced economic cooperation between Pakistan and Afghanistan will remain a pipedream. Nonetheless, amid several challenges, there are numerous opportunities, which, if rightly used, may lead to economic cooperation and peace-building between Pakistan and Afghanistan.

Against this background, the paper will analyze the prospects of economic cooperation between Pakistan and Afghanistan by critically examining the challenges faced by the two countries in order to build strong economic relations with each other. Moreover, the paper will also analyze various opportunities, which if utilized properly, can bring Pakistan and Afghanistan closer to each other, and as a result, they would be able to reap the benefits of economic cooperation. The main argument of the paper is that unless India and Pakistan normalize their relations, the dream of economic cooperation between Pakistan and Afghanistan will not be materialized. The paper is divided into two segments. The first segment looks at the historical background of Pakistan-Afghanistan relations through the lens of India by arguing that the history of tense relations between Pakistan and Afghanistan can be traced to the India-Pakistan rivalry since August 1947. Moreover, this segment also argues that the India-Pakistan rivalry is the major challenge to the economic cooperation between Pakistan and Afghanistan. Besides this, the other challenges, which this segment highlights, are: Pakistan's image problem, which has been severely damaged because of its Afghan policy over the last sixty years or so; continuous political turmoil in Afghanistan because of the domestic, regional and extra-regional power rivalries; the growing Taliban insurgency particularly in the Pakistan-Afghanistan border areas; and Pakistan's geo-strategic interests in the post US-withdrawal Afghanistan scenario. In the second segment, an attempt has been made to identify and analyze the potential opportunities for economic cooperation between not only the two proximate neighbors – Pakistan and Afghanistan, but also among the other regional countries of the SAARC and ECO.

## I

**Pakistan-Afghanistan Relations through the Lens of India**

The history of tense relations between Pakistan and Afghanistan can be traced to the initial years of the former's independence when the latter rejected the Durand Line<sup>2</sup> and raised the issue of Pakhtunistan. According to Khurshid Hasan, "The essence of this demand [was] that Pathans and Pushto-speaking tribes in northwestern Pakistan should be accorded the privilege to "opt out" of Pakistan and set up an autonomous state."<sup>3</sup> The new state "would come into being by detaching parts from West Pakistan: the frontier states of Dir, Swat, Chitral, and Amb; Baluchistan and Baluchistan states of Kalat, Kharan, Makran and Las Bela."<sup>4</sup> It must be noted that "the part of Baluchistan south of Quetta and the northernmost areas of Kashmir State are not inhabited by Pathans."<sup>5</sup> Afghanistan also voted against Pakistan's entry into the UN.<sup>6</sup>

There are three major assumptions regarding Afghanistan's irredentist claim over the territories, to be constituted as Pakhtunistan. First, during the initial years of Pakistan's independence, the Afghan government assumed that a newly born country with weak defence and economy as well as enmity with India would not survive long. Anticipating such a happening, Afghanistan established its claim over those areas, which were the part of Pakistan. Second, another reason which compelled Afghanistan to put forward such a claim was to have an access to the sea. The landlocked nature of the Afghan territory has made it dependent on other neighboring countries for a sea-outlet to establish trade links with outside world. According to Khurshid Hasan, "The inclusion of Baluchistan in the Afghan concept of Pakhtunistan supports this assumption."<sup>7</sup> Lastly, some experts perceive that the demand for Pakhtunistan might be related to the internal demographic factors of Afghanistan. The main ethnic groups living in Afghanistan are: the Pakhtuns, the Tajiks, the Hazaras and the Uzbeks. "Demographically, the Pakhtuns comprise 41 per cent, Tajiks 34 per cent, Hazaras 12 per cent, and Uzbeks 8 per cent of the total population of the country."<sup>8</sup> The Pakhtuns have been traditionally ruling Afghanistan for the last two hundred years or so. Therefore, it may be logical for the Pakhtun rulers to advocate an independent Pakhtunistan or merging it with Afghanistan would serve to intact their identity.

Whatever the assumptions are, it is ascertained that Afghanistan's demand for Pakhtunistan and questioning the validity of Durand Line enhanced the security problems of Pakistan, which was already facing a security threat from India on its

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<sup>2</sup> Established in 1893 under an agreement between the British India and the Amir of Afghanistan, Abdul Rehman Khan, the Durand Line is a porous international border between Pakistan and Afghanistan.

<sup>3</sup> Khurshid Hasan, "Pakistan-Afghanistan Relations", *Asian Survey* (Berkeley), Vol. 2, No. 7 (September 1962), p.14.

<sup>4</sup> S.M. Burke, *Pakistan's Foreign Policy: An Historical Analysis* (Karachi: Oxford University Press, 1973), p. 69.

<sup>5</sup> Khurshid Hasan, *op.cit.*

<sup>6</sup> Afghanistan was the only country which cast negative vote against Pakistan.

<sup>7</sup> Khurshid Hasan, *op.cit.*

<sup>8</sup> Quoted in Muhammad Nawaz Khan and Aftab Hussain, "Reconciling the Afghan Insurgents", *IPRI Journal*, Vol. XII, No. 1 (Winter 2012), p. 141.

eastern borders. For Pakistan, securing its eastern and western borders to maintain the territorial integrity was the major foreign and security policy issue.

It is noted that India's relations with most of the Afghan governments, except the Taliban regime, have traditionally remained cordial. Pakistan, which has had the history of tense relations with India, has always seen Kabul-Delhi relations with suspicion and against its territorial and ideological integration.<sup>9</sup> This was evidenced when the Khudai Khidmatgar Movement (Servants of God)<sup>10</sup> in NWFP (Now Khyber Pakhtunkhwa), led by Dr. Khan Sahib, "advocated the idea of an independent and sovereign 'Pashtunistan' with the support of the Congress Party."<sup>11</sup>

It is argued that India is the main factor in the formulation of Pakistan's Afghan policy. According to Ahmed Rashid, "Islamabad views its Afghan policy through the prism of denying India any advantage in Kabul."<sup>12</sup> In doing so, Pakistan has always embarked upon the policy of installing a friendly government in Afghanistan. In Pakistan's view, a friendly government in Afghanistan would fulfill twin tasks of its foreign and security policies. First, a friendly Afghanistan will help mitigate Pakistan's security threats vis-à-vis India by providing 'strategic depth' in case a war with India. Second, a friendly government in Kabul may not raise the issues of Durand Line and Pakhtunistan, thus, will help secure Pakistan's western borders. Moreover, after the disintegration of the Soviet Union in December 1991, an economic aspect also added to Pakistan's foreign and security policy. In Pakistan's view, a friendly Afghanistan would also provide an easy, short and safe access to the Central Asia, a region rich of oil and gas reserves.

To achieve these objectives, Pakistan adopted a two-pronged strategy. One prong of the strategy was to be actively involved in the internal affairs of Afghanistan by supporting Pakhtun Mujahideen (Holy Warriors) groups, particularly Gulbadin Hikmatyar's Hizb-e-Islami, against the Northern Alliance of Ahmed Shah Masood. As a result, a fierce civil war started in Afghanistan. Once failed to install a friendly government in Kabul, Islamabad then fielded a new force on the Afghan soil. This force, known as the Taliban, was nurtured in the Pakistani madrassahs, mainly run by the two factions of Jamiat Ulema-i-Islam's Fazl-ur-Rehman and Sami-ul-Haq Group (JUI-F and JUI-S). The second aspect of the strategy was to engage India in a low-intensity conflict in Kashmir by using militant Jihadi groups.

<sup>9</sup> Since Pakistan was created in the name of ideology, any kind of ethno-nationalistic bonds were considered against the very foundations and essence of the country.

<sup>10</sup> The Khudai Khidmatgar Movement was the official designation of members of the Red Shirt Movement, which was started by Abdul Ghaffar Khan, the elder brother of Dr Khan Sahib and popularly known as Bacha Khan, in 1920 against the new legal reforms introduced by the British Government in the Indian Sub-Continent. Later on, the Red Shirts joined hands with the Congress against the British.

<sup>11</sup> Shibil Siddiqi, "Afghanistan-Pakistan Relations: History and Geopolitics in a Regional and International Context: Implications for Canadian Foreign Policy", pp. 9-10. Available at: [http://www.gordonfn.org/resfiles/siddiqi\\_afghan-pak%20final2.pdf](http://www.gordonfn.org/resfiles/siddiqi_afghan-pak%20final2.pdf) (accessed: June 5, 2012).

<sup>12</sup> Ahmed Rashid, *Descent into chaos: The US and the Disaster in Pakistan, Afghanistan and Central Asia* (New York: Viking Penguin, 2008), p. 110. Quoted in Ann Wilkens, "Relations between Pakistan and Afghanistan", in Kristina Zetterlund (ed.), *Pakistan – Consequences of Deteriorating Security in Afghanistan* (Stockholm: Swedish Defence Research Agency, 2009), p. 104.

The Taliban took over the control of Afghanistan in 1996. The government was immediately recognized by Pakistan, Saudi Arabia and United Arab Emirates (UAE). Afghanistan, under the Taliban rule, had good relations with Pakistan, as the former never raised the Durand Line issue, thus the latter's western borders were secured. However, the political landscape of the South-Central Asia region began to change after the 9/11 incident, and as a result, the US' launching of the Global War on Terror (GWOT) against the Al-Qaeda militants, who had taken shelter in the Taliban-ruled Afghanistan. Pakistan was pressured to sever its ties with the Taliban and helped the US launch military operations inside Afghanistan. Pakistan, though reluctantly, withdrew its recognition to the Taliban regime and assured its support to crackdown on the Al-Qaeda militants as well as home-grown militant Jihadi/sectarian groups, which had links with the Taliban and Al-Qaeda.

Although India kept itself away from the "political dynamics of Afghanistan"<sup>13</sup> during the Soviet invasion of Afghanistan and later during the Taliban regime, its role and influence in Afghan affairs never diminished. The launching of US-led GWOT in the wake of the 9/11 incident, and as a result, the end of Taliban rule in Afghanistan, provided India an opportunity to establish a strong foothold in Afghanistan. India's foreign policy objectives towards Afghanistan are two-fold: first, India seeks to prevent the re-coming of Taliban regime in Afghanistan so that Pakistan could not once again get foothold over there. Second, India does not want a hostile regime in Afghanistan. In order to prevent any hostile regime emerging on the political horizon of Afghanistan, New Delhi also seeks to develop long-term economic and diplomatic ties with Kabul to reach energy-rich Central Asian region as well.

Pakistan believes that the growing Indian influence in Afghanistan may jeopardize its strategic and economic interests not only in Afghanistan, but also in Central Asia. The signing of 'Strategic Partnership Pact' between India and Afghanistan in October 2011 has actually enhanced Pakistan's vulnerabilities. The Pact is Afghanistan's first with any country.<sup>14</sup> The October Pact outlined areas of common concern including trade, economic expansion, education, security and politics.<sup>15</sup> Moreover, under the Pact, India will also train the Afghan National Force (ANF). During his visit to India, the Afghan Foreign Minister, Zalmay Rassoul, said that Afghanistan would take responsibility for its own security after the 2014 withdrawal of foreign troops from the country, and that it would discuss the training and equipping of its forces with India.<sup>16</sup> Moreover, Pakistan also blames the Indian consulates in Afghanistan aid Baloch insurgency, thus, threatening the very integrity of Pakistan.<sup>17</sup>

Although Pakistan has been the major ally of the US in the GWOT, the latter has sought an alternate in the form of India particularly after the recent stalemate between Washington and Islamabad in the wake of the November 2011 Salala incident in which

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<sup>13</sup> Zahid Shahab Ahmed and Stuti Bhatnagar, "Pakistan-Afghanistan Relations and the Indian Factor", *Pakistan Horizon* (Karachi), Vol. 60, No. 2 (April 2007), p. 165.

<sup>14</sup> "Afghan foreign minister in India", *Dawn*, May 2, 2012.

<sup>15</sup> *Ibid.*

<sup>16</sup> *Ibid.*

<sup>17</sup> "Protecting our sovereignty", *Dawn*, February 24, 2012.

24 Pakistani soldiers were killed. As a consequence, Pakistan's decision to close the NATO supply routes to Afghanistan stalled Islamabad-Washington relations. Although Pakistan has re-opened the supply lines in July 2012, the major fissures in relations between the two major allies in the GWOT have still not narrowed down. Pakistan's reluctance to oblige American demand to launch crackdown on the Haqqani Network in North Waziristan is the main underlying cause of confrontation between the two major allies in the GWOT. The convergence of India-US strategic interests in Afghanistan has compelled Washington to give a major role to New Delhi in the post-US withdrawal Afghanistan. For this, in June 2012, the US and India signed an agreement to bring political stability in Afghanistan. The fact of the matter is that the US, which has already signed a strategic partnership accord with Afghanistan in May 2012,<sup>18</sup> "wants India to fill up the post-withdrawal vacuum in Afghanistan."<sup>19</sup> The Indo-US Agreement on Afghanistan would "allow a three-way consultation process to help Kabul strengthen its grip on power."<sup>20</sup> Moreover, during his visit to India in June 2012, the US Defence Secretary, Leon Panetta, called on New Delhi "to take an active role in Afghanistan"<sup>21</sup> and "provide additional support to Afghanistan's fledgling security forces."<sup>22</sup>

The India-Afghanistan-US nexus has increased Pakistan's insecurities in the region. Consequently, Pakistan has been less committed to discontinue its links with the Haqqani Network and other associated groups, whom Islamabad considers its strategic assets.<sup>23</sup> Therefore, in present circumstances it is unlikely that Pakistan ceases its traditional Cold War strategy of supporting and using militant Jihadi groups to promote its strategic interests in Kashmir and Afghanistan. If such a situation prevails, the dream of regional peace and economic cooperation between Pakistan and Afghanistan may not be materialized in the foreseeable future.

Besides the Islamabad-New Delhi rivalry, there are some more challenges faced by both Pakistan and Afghanistan in the promotion of economic cooperation between them.

### **Pakistan's Image Problem**

The major challenge in economic cooperation between Pakistan and Afghanistan is the former's tarnished image in the eyes of the common Afghans, who still see Islamabad as the strong supporter of the Taliban. Pakistan's interventionist approach in Afghanistan is one of the reasons which have impeded the economic cooperation between the two neighboring countries. In recent polls conducted in Afghanistan, Pakistan is shown up as one of the most disliked countries.<sup>24</sup> The Northern Alliance, which is the dominant and

<sup>18</sup> Related to the American exit strategy, the Accord ensures American financial and military assistance to Afghanistan till 2024.

<sup>19</sup> Anwar Iqbal, "US, India sign pact on Afghanistan", Dawn, June 15, 2012.

<sup>20</sup> "US, India sign pact on Afghanistan", Dawn, June 15, 2012.

<sup>21</sup> "Panetta tells India to Play more Active Role in Afghanistan", Voice of America, June 5, 2012. Available at: <http://www.voanews.com/content/us-panetta-india-afghanistan/1178703.html> (accessed: July 5, 2012).

<sup>22</sup> Huma Yusuf, "Through an Economic Lens", Dawn, June 11, 2012.

<sup>23</sup> Quoted by Ayesha Siddiq, the former ISI Chief Lt. General Shuja Pasha "once declared Taliban leaders such as Fazlullah and Baitullah Mehsud as patriots and nationalists." [Ayesha Siddiq, "Pakistan's Counterterrorism Strategy: Separating Friends from Enemies", *The Washington Quarterly*, Vol. 34, No. 1(Winter 2011), p. 156].

<sup>24</sup> Moeed Yusuf, "Afghan Complaints", Dawn, March 26, 2012.

influential group in the Karzai's government, has been very hostile towards Pakistan. It considers Pakistan responsible for all the problems they have been suffering from since 1980s. The deep animosity has sown the seeds of hatred and mistrust, and also caused tremendous outrage.

### **Political Turmoil in Afghanistan**

The prolonged political turmoil in Afghanistan is also a major hurdle in the Pak-Afghan economic cooperation. The continuous war or war-like situation in Afghanistan has not only shattered the political and socio-economic structures of the Afghan society, but also invited the other regional and international state actors and non-state actors to pursue their interests either in the name of strategic compulsions or religion. Pakistan, which has been an active actor in Afghan politics since the Soviet invasion of Afghanistan in 1979, supported the Mujahideen groups against the then Afghan government and the Soviet forces, amid the fear of Soviet advancement towards Pakistan and then the Gulf States. With the withdrawal of Soviet troops from Afghanistan under the Geneva Accords in 1988, the interests of the West, particularly the US, left the region without taking into consideration the political and economic problems the country might have faced after the Soviet withdrawal. To fill the power vacuum, the Mujahideen groups, which jointly struggled against the Soviet troops, started fighting with each other. Here, one may not rule the role of regional countries in fueling the inter-group fighting. While Pakistan favored Gulbadin Hikmatyar; India, along with Russia and Iran, supported the government of Professor Burhanuddin Rabbani. Consequently, Afghanistan experienced the worst type of violence and destruction during the civil war. Failing to achieve its strategic objectives, Pakistan then created Taliban, who captured the Afghan state apparatus in 1996 and ruled there till the US' launched military operations against the Al-Qaeda militants in Afghanistan after the 9/11 incident. The toppling up of the Taliban regime and the massive military, political and economic support by the US and other coalition forces, Afghanistan is still far from being a normal and stable state.

It is a fact that the intervention of two super powers in modern times and internal political struggle among various Afghan groups in the form of civil wars, have not only disrupted the natural evolution of Afghanistan as a modern nation state, but also severely impacted its relations with the neighboring countries, including Pakistan. Therefore, the major challenge for the Afghan government is how to bring political stability in Afghanistan in order to ensure peace, which could lead to economic cooperation in the region.

### **The Growing Taliban Insurgency**

The ouster of Taliban from the power corridors in 2001 did not weaken them. According to Frédéric Grare, "Regrouped and reorganized, better equipped and financed, and more sophisticated tactically, [Taliban] are threatening both the reconstruction process and the U.S.-led coalition forces on the ground."<sup>25</sup> Therefore, the growing Taliban insurgency in Afghanistan's eastern and southern parts, which also border with Pakistan, is the real

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<sup>25</sup> Frédéric Grare, "Pakistan-Afghanistan relations in the post-9/11 era", Carnegie Papers, Carnegie Endowment for International Peace, (Washington), October 2006, p. 3.

challenge faced by Afghanistan and Pakistan to develop normal economic relations between them. Over time, the insurgents have emerged as strong force with the capability to challenge the writ of the central government as well as the foreign troops, deployed on the Afghan soil.

The resurgence of the Taliban is because of the failure of policies by all the major external players in Afghanistan – the US and Pakistan – and the Afghan government itself. There are several factors which caused the resurgence of Taliban. First, the US' deviation from Afghanistan to Iraq gave Taliban an opportunity to take the advantage of this distraction and regroup themselves. Second, the US-led coalition forces were never deployed in southern Afghanistan in sufficient numbers, even though this was the Taliban heartland and needed to be secure. Apart from a U.S. base for 3,000 troops in Kandahar and a couple of fire bases, for four years there was virtually no military presence in three of the four provinces. The US forces failed to secure even the major cities and highways in the south. The growing security vacuum in the south was steadily filled by the Taliban.<sup>26</sup> Third, since the 9/11 tragedy, the US has been focusing on capturing Al-Qaeda terrorists with the help of Pakistan. It has completely ignored the Taliban activities across the border. This has helped the Taliban to regroup and strengthen its position. Fourth, the promised funding under the Bonn Agreement has never reached, and the people of Afghanistan have not felt any positive change in their lives. The failure to reconstruct has caused massive disappointment among the people, which led to increasing sympathy for the Taliban and anger at the Afghan government. Fifth, the MMA government (2002-2007) in Pakistan's two provinces – Khyber Pakhtunkhwa and Baluchistan – which border with Afghanistan also provided safe havens to the Taliban. This helped the Taliban to establish training camps and raise funds for their activities in Afghanistan. Finally, the alienation of the Pakhtuns in the new political setup in Afghanistan and the failure of the Karzai government to integrate the disillusioned Pakhtuns helped to increase sympathies for the Taliban.

The growing power of the Taliban is also evident from the fact that the Pakistan government had to sign a peace deal with the local Taliban militants in North and South Waziristan. Under those agreements, “the government released militants, returned their weapons, disbanded security check posts and agreed to allow foreign terrorists to stay if they gave up violence. This accommodation facilitates the growth of militancy and attacks in Afghanistan by giving pro-Taliban elements a free hand to recruit, train and arm.”<sup>27</sup> This ambivalent approach of Pakistan “allowed local militants to establish parallel, Taliban-style policing and court systems in the Waziristans, while Talibanization also spreads into other FATA agencies and even the [Khyber Pakhtunkhwa's] settled districts.”<sup>28</sup>

### **The post-US withdrawal scenario and Pakistan's Geo-strategic Interests**

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<sup>26</sup> Ahmed Rashid, “Taliban's second coming”, Daily Times, June 1, 2006.

<sup>27</sup> International Crisis Group Report on “Pakistan's Tribal Areas: Appeasing the Militants”, Asia Report No. 125 (December 11, 2006), p. i.

<sup>28</sup> Ibid.

Another challenge for Pak-Afghan economic cooperation is the proposed withdrawal of the NATO/ISAF forces by 2014. Currently, the American interests and presence in Afghanistan have, for the time-being, neutralized Afghanistan's neighbors, including Pakistan, "which have for long exploited the internal fragmentation and inter-group rivalry to advance their own strategic interests."<sup>29</sup> Pakistan fears that once the GWOT ends, the US would not only leave Pakistan unattended, but also handover the responsibility of the Afghan security to India. The signing of India-Afghanistan security pact in 2011 is a case in point. Moreover, the signing of an agreement between Washington and New Delhi in June 2012 on holding regular trilateral talks with Kabul has further strengthened Pakistan's doubts.

Furthermore, the signing of Strategic Partnership Agreement (SPA) between the US and Afghanistan in May 2012 would have dire consequences for Pakistan. The Agreement would not only guarantee the security of Afghanistan, but also further squeeze Pakistan's role and influence in the future regional settings. Under the SPA, Afghanistan has been designated as a major non-NATO ally of the US, where the latter would "help provide a long-term framework for mutual security and defence cooperation" to the former. The most frightful implication for Pakistan lies in the clause 9 of the article 3, which says that the US "shall regard with grave concern any external aggression against Afghanistan. Were this to occur, American and Afghanistan will hold consultations on an urgent basis to develop an appropriate response, including...political, diplomatic, economic, or military measures..."<sup>30</sup>

Amid the presence of above-mentioned challenges, there are several opportunities which may lead to economic cooperation between Pakistan and Afghanistan.

## II

### Exploring Opportunities

It is a fact that both Pakistan and Afghanistan have been passing through very difficult times. Although the promulgation of a new constitution in December 2003, and the holding of presidential elections in 2004 and then in 2009, may have considered some positive developments in Afghanistan, it is still struggling for a long-term political and economic stability. Similarly, Pakistan, which is currently experiencing democracy, has been facing the political chaos, economic fragility, rising level of poverty and acute level of corruption. The incessant political instability has not only further increased the interference of regional and extra-regional powers in the internal affairs of Afghanistan, but also diminished the prospects of economic cooperation among the neighboring countries, particularly between Pakistan and Afghanistan. Since both the countries have been facing the same problems, there is a need to make concerted efforts towards the regional economic integration in order to tap potential opportunities.

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<sup>29</sup> Rasul Bukhsh Rais, "Pakistan's Relations with post-Taliban Afghanistan", in Moonis Ahmar (ed.), *The Challenge of Rebuilding Afghanistan* (Karachi: Program on Peace Studies and Conflict Resolution, University of Karachi, 2005), p. 209.

<sup>30</sup> Quoted in Muhammad Ali Siddiqi, "Hamid Karzai is not an idiot", *Dawn*, May 11, 2012.

There are three key areas, which if explored properly, may help promote economic cooperation not only between Pakistan and Afghanistan, but also create several economic opportunities for the whole region – South and Central Asia – and the world at large. First, both Pakistan and Afghanistan need to integrate their economies through regional approach. Enjoying the twin membership of SAARC and ECO, both Pakistan and Afghanistan can play the role of a bridge to bring South and Central Asian regions together. A mechanism of regional trade and economic cooperation has already been devised by the SAARC member countries in January 2004 when they agreed to establish South Asian Free Trade Area (SAFTA) during the 12<sup>th</sup> SAARC Summit in Islamabad. The objective was to begin free trade among the SAARC member countries by reducing the tariff rates and bringing them down to the zero level in a phased structure. Moreover, the ECO, which touches Europe on the one hand and Russia on the other hand, and having a population of around 400 million with a combined gross domestic product (GDP) of around \$6,000 billion, gives the member states an unparalleled socio-economic potential.<sup>31</sup> Formed in 1985 after replacing the Regional Cooperation for Development (RCD)<sup>32</sup>, the ECO consists of ten members,<sup>33</sup> of which seven are landlocked. Pakistan is the only country which provides a sea-outlet to six of these states.

Second, another key area to be explored by Pakistan and Afghanistan for enhancing their economic cooperation is to promote regional energy projects. Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline, backed by the Asian Development Bank (ADB), is a good start. Signed in 2002 by Turkmenistan, Afghanistan and Pakistan, the pipeline project, using Afghan territory as a ‘transportation corridor’, would fulfill the dire need of the energy-deficit South Asian region. India joined the project in 2006. In May 2012, Turkmenistan signed the first contract with Pakistan and India to deliver the gas through new pipeline, transiting Afghanistan.<sup>34</sup> The 1,700-kilometre TAPI gas pipeline aims to transport more than 30 billion cubic meters of gas annually from Turkmenistan to energy-hungry consumers in Pakistan and India via Afghanistan.<sup>35</sup>

Similarly, in January 2012, Pakistan, Afghanistan, **Tajikistan and the Kyrgyz Republic signed a protocol for the early completion of a regional electricity transmission project.** Under the project, an electricity transmission link between the Central Asian and South Asian countries will be established. In the first phase, the link will provide 1000MW to Pakistan. In the subsequent phases, 5,000MW to 6,000MW could be supplied from the Central Asian countries to Pakistan. Uzbekistan and Turkmenistan have also offered to export their surplus power to Pakistan via Afghanistan.<sup>36</sup>

<sup>31</sup> “ECO provides opportunity of trade development”, Daily Times, April 18, 2012.

<sup>32</sup> RCD was established in 1964 with the initial members of Turkey, Iran and Pakistan.

<sup>33</sup> ECO members include: Turkey, Iran, Pakistan, Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

<sup>34</sup> “TAPI pipeline: Turkmenistan signs first contracts with India, Pakistan”, The Express Tribune, May 23, 2012.

<sup>35</sup> Ibid.

<sup>36</sup> “Pakistan signs regional power supply agreement”, Dawn, May 18, 2012.

Lastly, Pakistan and Afghanistan need to promote bilateral trade between them. The bilateral trade between the countries reportedly increased from USD 850 million to approximately USD 2.5 billion over the past four years, and, it is hoped that this figure could reach USD 5 billion by 2015.<sup>37</sup> Being a landlocked state, Afghanistan has been dependent on Pakistan for an access to outside world. Although both Pakistan and Afghanistan had signed the ATTA in 1965, the facility has been massively misused and caused a huge economic loss to both the countries, particularly Pakistan.<sup>38</sup>

Therefore, in order to take into account the drawbacks of the ATTA, Pakistan and Afghanistan signed Afghanistan-Pakistan Transit Trade Agreement (APTTA) in October 2010. The Agreement would give Afghan export consignments for India access up to the Wagah border. Afghan trucks with export items for India will be allowed to drive through the country to Karachi. The deal, however, does not allow India a trade corridor through Pakistan to Afghanistan.<sup>39</sup> In return of allowing India-Afghan trade, Pakistan would have an access to Central Asian Republics (CARs) through Afghanistan.<sup>40</sup> Moreover, in June 2011, both Pakistan and Afghanistan reached an accord on the implementation of the APTTA. In order to prevent smuggling back into Pakistan, Afghanistan agreed to provide bank guarantees from Afghan importers that their consignments would not be re-routed to Pakistan.<sup>41</sup>

Besides this, under the APTTA, Pakistan has also offered Afghanistan to use Gwadar and Bin Qasim ports for trading activities. The Gwadar Port, in particular, would extremely benefit Afghanistan in order to develop deeper trade relations with Pakistan, China, Iran, India and Middle Eastern countries.

It is a fact that the above-mentioned economic opportunities, which may lead to regional economic integration and cooperation in South and Central Asia, can only be materialized if India-Pakistan-Afghanistan trio establish normal and friendly relations with each other. For this, three important and inter-related developments need to take place simultaneously: First, Pakistan and India resolve their conflicts and build trust;

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<sup>37</sup> Steven A. Zyc, "Economic Development", *Afghanistan Review*, Civil-Military Fusion Centre, (January 25, 2012), p. 1.

<sup>38</sup> The ATTA proved damaging for Pakistan's local industries as well legal imports, causing a huge loss to the country's exchequer. The goods transported to Afghanistan under the ATTA had been again pushed back into Pakistan. For instance, the production of televisions in Pakistan quadrupled in four years after inclusion of the item in the negative list for Afghan transit trade in 1996. The Agreement also resulted in massive smuggling of black tea, tyres, electronic goods, kitchen items, home appliances and other such goods into Pakistan. It is interesting to note that Afghans prefer green tea, but black tea in huge quantity was imported only to make money by misusing the facility. ["Pakistan to revisit terms for Afghan Transit Trade", *Dawn*, December 11, 2011]. Moreover, the ATTA allowed Afghan cargo movement only through Karachi Port, and then transported to the landlocked country either through Landi Kotal in NWFP or Chaman, Balochistan. Moreover, the ATTA also did not contain any provision for transit trade to Central Asian Republics (CARs) through Afghanistan, which was an impediment to Pakistan's efforts to become a gateway to Central Asia. ["Afghanistan offered use of Gwadar, Port Qasim", <http://www.defence.pk/forums/economy-development/26793-afghanistan-offered-use-gwadar-port-qasim.html>] (accessed: June 2, 2012).

<sup>39</sup> "Pak-Afghan trade deal signed", *The Express Tribune*, October 28, 2010.

<sup>40</sup> *Ibid.*

<sup>41</sup> "Implementation details of Pak-Afghan transit trade deal finalised: FO", *Dawn*, June 3, 2011.

second, Pakistan recognizes Afghanistan as a sovereign and independent state; and third, Pakistan tackles its domestic security problems by reining in the militant Jihadi groups.

As far as Pakistan-India relations are concerned, both need to change their attitude towards each other, from competitor to collaborator. It is fact that SAARC has been hijacked and proved ineffective because of the inter-state rivalry between India and Pakistan. The resolution of Kashmir conflict and formation of good trade relations between them will have an spillover effect on the neighboring countries, including Afghanistan.

In case of Afghanistan, Pakistan needs to abandon its parochial and single-track approach of considering the Afghan territory as its 'sphere of influence'. Pakistan needs to treat Afghanistan as an independent and sovereign neighboring country, which is the only link for the former to the energy-rich Central Asia. At the same time, Kabul needs to understand Islamabad's security concerns, which are mainly related to New Delhi's active role in Afghanistan. Therefore, the Afghan government needs not to allow its territory to be used for anti-Pakistan activities. Moreover, Afghanistan's perpetual geographical problem of a landlocked state and its historical links with Pakistan has made the former dependent upon the latter. Afghanistan needs to believe that Pakistan is the only regional country which could provide the shortest and cheapest transit route to the outside world for its exports. It must be noted that Afghanistan today is in a transitional phase as far as the twin processes of state-building and nation-building are concerned. Its success in achieving these two milestones will determine the dynamics of politics, which will largely shape the economic relations as well, in the region.

It is a fact that the regional security concerns compelled Pakistan to support and use militant Jihadi groups to pursue its strategic interests both in Afghanistan and Kashmir. However, such a strategy not only proved counter-productive, but also has blowback impact on Pakistan's domestic politics. Consequently, the role and influence of religious-political parties and militant Jihadi and sectarian groups have increased in the Pakistani politics and society, which has become more radicalized and resultantly facing the menace of terrorism. The home-grown terrorism has not only diverted the attention of Pakistan's law-enforcing agencies, but also consumed its meager resources to effectively tackle the monster of terrorism, which is equally affecting Islamabad's relations with other countries, including India and Afghanistan. Therefore, Pakistan needs to tackle its internal security problems by squeezing the space for the militant Jihadi and sectarian groups, and their patrons, the religious-political parties.

### **Conclusion**

It is a fact that the economic cooperation among the regional countries is the need of the day because of the changing dynamics of regional and international politics after the disintegration of the Soviet Union, which also resulted in the end of an era of geo-politics. Unfortunately, Pakistan and Afghanistan have failed to promote economic cooperation and build good neighborly relations with each other. The fact of the matter is that Pakistan considers Afghanistan a security threat for two reasons: First Afghanistan's policy of supporting the Pakhtun nationalists for the 'Greater

Pakhtunistan' by discarding Durand Line, and second, its growing cooperation with those countries which have been antagonistic towards Pakistan, particularly India.

In order to address its security concerns, Pakistan adopted the policy of 'interventionism' in Afghanistan's internal affairs to install a friendly government, which could help counter the idea of Pakhtunistan by curbing the nationalist-separatist sentiments in Pakistan's Pakhtun belt, as well as providing 'strategic depth' against India. This short-sighted policy of Pakistan proved ineffective and counter-productive. The major victim of this narrow policy is the development of normal neighborly relations between Pakistan and Afghanistan. The two neighboring countries, whose economies are closely tied with each other and simultaneously enjoy the membership of SAARC and ECO, have not only failed to enhance bilateral trade relations, but also achieving the regional economic integration.

Although there are several potential opportunities available for exploitation by both Pakistan and Afghanistan, the matter of the fact is that unless Pakistan and India establish normal relations with each other, Pakistan-Afghanistan economic cooperation will remain in doldrums. In other words, the success of Pak-Afghan economic cooperation depends upon how much Pakistan's security concerns are being addressed. These concerns are mainly related to India's policy towards Pakistan and its active role in Afghanistan. India needs to believe that a weak Pakistan is not in its interest. Being a big regional power, India has to play a leadership role and at the same time de-emphasizing upon being a hegemonic power of the region. If India wants long-lasting peace in the region, it has to alter its attitude towards its smaller neighbors, particularly Pakistan. This is a fact that a nuclear Pakistan cannot accept bullying from India, and New Delhi needs not to outstare Islamabad.

At the same time, Pakistan needs to abandon its policy of supporting the militant Jihadi groups to pursue its strategic interests in the region. Alarmingly, Pakistan is still pursuing the same strategy of installing a friendly government in Kabul by supporting, directly or indirectly, the Haqqani network once the NATO/ISAF forces leave Afghanistan. Pakistan must understand that in the changing regional and international political scenario, India-Afghanistan nexus suits the world powers, particularly the US. This is evidenced from the fact that the US is eager to give a bigger role to India in the post-NATO/ISAF withdrawal Afghanistan. The signing of India-Afghanistan, US-Afghanistan and US-India strategic pacts are cases in point.

In such a changing scenario, Pakistan cannot afford further isolation in the regional and international politics. It needs to adopt a pragmatic approach, based on peaceful coexistence with the regional and international players, whose interests will determine the future course of Afghan politics. For this, Pakistan also needs to treat Afghanistan as a normal, independent and sovereign state, which has been facing the problems of weak economy and political instability because of its long involvement in various wars in the last thirty years or so. Focusing on reconstruction and development projects in Afghanistan may help build Pakistan's positive image in the eyes of a common Afghan, but also counter the growing influence of other regional powers, particularly India, in Afghanistan.