THE IMPACT OF AFGHAN TRANSIT TRADE ON THE ECONOMY OF N-W.F.P (1990-2000)

BY

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CENTRAL ASIA, RUSSIA AND CHINA
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April, 2004

THE IMPACT OF AFGHAN TRANSIT TRADE ON THE ECONOMY OF N-W.F.P (1990-2000)

A DISSERTATION PREPARED

BY

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SUBMITTED TO AREA STUDY CENTRE:
RUSSIA, CHINA AND CENTRAL ASIA,
UNIVERSITY OF PESHAWAR
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE AWARD OF DEGREE OF

DOCTORATE OF PHILOSOPHY (PhD)

April 2004

AREA STUDY CENTRE:
CENTRAL ASIA, RUSSIA AND CHINA
UNIVERSITY OF PESHAWAR
2004

To

The prays of my mother

And

Sweat of my father

DECLARATION

I hereby declare that this dissertation is the result of my individual research, and it has not been submitted to any other university for any other degree.

SAYED WAQAR HUSSAIN

April, 10, 2004

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2004

A Thesis titled
"The impact of Afghan Transit Trade on the economy of NWFP (1990 to 2000)" be

accepted as fulfilling this part of the requirement for the degree of

Doctorate of Philosophy in Applied Economics

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ACKNOWLEDGEMENT

The researcher work in hand owes a lot to the contribution of my beloved parents, teacher, relatives, friends, officers and officials of the Govt and private organizations. I am deeply indebted for their cooperation and assistance.

The urge, desire and constant persuasion of my parents to improve my qualifications provided the required stimulation to initiate this work. Dr. M. Anwar Khan's, an illustrious teacher and former Vice Chancellor, University of Peshawar, advice; "attempt a study which may add to human knowledge; while writing thesis follow and establish a natural link between words, sentences, paragraphs and chapters, so that the study appear as a cohesive whole"; formed the core guidelines for my study. The criticisms made by Dr. Azamat Hayat, Dr. Sarfraz Khan, Dr. Perveze Iqbal Tareen and Professor Abduallah Jan Khalil in various seminars, left a firm impression on my understanding that research studies ought to be presented in the most refined form.

For the format, structure and organization of this study I feel immensely indebted to my supervisor Dr. Jehanzeb, who not withstanding his physical odds and heavy research load, supervised my thesis. I am grateful to Mr. Shafiqullah, Assistant Professor, Department of Economics who extended a lot of support in finding input for my study. I also can't ignore the cooperation extended by the staff of Department of Economics and Area Study Center, University of Peshawar, Institute of Development Studies, Agriculture University Peshawar, British Council, ACBAR, University Town Peshawar, the morgue of the Frontier Post and UN Islamabad, in providing necessary material for this research.

I am particularly thankful to the personnel of Customs, Police and Excise Department who despite professional constraints provided valuable

information and shared their field experiences to complete the study. I am also grateful to Mr. Ghulam Rasool, Manager, Torwal Plaza, Behrain, Swat who provided excellent environment for writing.

Last but not the least, I am obliged to my sister Fancy Gul, my niece Natasha and my wife Noor Jehan for their prays, my elder brothers Dr. S. Tassaduq Hussain, who provided financial support & Sayed Nayyar Hussian for constant encouragement and my friends Ansarullah, Assistant Director Information, for good wishes and Mohammad Saeed, who took personal interest in completion and organization of this work.

Sayed Waqar Hussain

ABSTRACT

The Afghan Transit Trade (ATT), facilitated by Pakistan since 1965, and formally by other ECO countries after ECO Transit Trade Agreement was signed in 1997, transformed gradually into what, in the contemporary literature has been assessed as the biggest smuggling racket of the world. The activities of this racket, a case of 'crass-consumerism' and a major source of black or underground economy, particularly in NWFP, over the period, has assumed such intensive and extensive proportions as are sufficient to absorb the potential of legal trade. It not only prevented the legal currents of trade to take its natural course but stimulated the illegal currents to penetrate in the social and economic spheres of life in Pakistan, particularly in the province of NWFP. In the past twenty years, this ATT-garbed-smuggling appeared to have caused a chain-reaction as it spread its tentacles to transporters, financiers, law enforcing agencies, Customs' authorities, guards of border check posts and industrialists not only in NWFP but to all the regional economies. The horizontal and vertical proliferation is still on the rise.

But the worst victim of this smuggling bonanza has been the province of NWFP. Here the proximity of the tribal belt and the prevalent customs therein, greatly facilitated the 'stock and flow' of the goods-in-smuggling. Today, the Afghans, tribals and traders from settled areas of the province, have made such a nexus, that any outside intervention prove ineffective to cause any dent in the process and gradually found it more convenient to cooperate rather than to confront the nexus. As a natural consequence, people of the province have given up the idea of honorable living, rather found smuggling as legitimate source of earning a livelihood. But still more devastating in the province has been the people's attitude to resort to counterfeiting and adulteration in the popular brands of consumer goods.

These issues discussed provided ample justification for a thorough probe in the genesis of the ATT and so this research work has been carried out, the distribution of which is as follows:

Chapter-1: describes the evolution of modern trade as characterized by the Mercantilists, Physiocrates, Classical Economists' (Adam Smith David Ricardo in particular), the Industrial Revolution and the need for transit facilities to the landlocked countries regarding their trade flows and the inking of Afghan Transit Trade Agreement (ATTA) between Pakistan and Afghanistan in 1965.

Chapter-2: highlights the available literature on the issue of the negative fall-out of ATTA on the economy of Pakistan and the province of NWFP in particular.

Chapter-3: reveals the procedural formalities adopted in the study, which has been termed as research methodology.

This chapter shows that for a more rational presentation, assessment and analysis of both the primary and secondary data, statistical instruments viz measures of Central Tendency, Dispersion, Index Number and Time Series have been applied. The interview guides designed for the collection of primary data has also been shown in this chapter.

Chapter-4: describes Afghanistan and its economy. Main geographic features, social setup, rural and urban settlements and the main economic indicators viz agricultural production, foreign trade and national accounts have been analyzed to have recorded a declining trend over the period of the study so that it may be compared with the increased value and volume of ATT through Pakistan and other routes during the same period.

Chapter-5: makes a probe in the dynamics of cross-border smuggling in locally produced goods, as proportion of transit goods imported through Pakistan and other ECO countries, the routes followed in the smuggling and the main items smuggled through various routes.

Chapter-6: makes a thorough and in-depth analysis of the various modes of transportation, their areas of operation, freight charges, strength and weaknesses and bargaining influence. This chapter also gives a summary of the formal and details of the informal means of finance of the cross border illegal transactions.

Chapter-7: investigates the causes of ATT bound illegal transactions and determines them to have roots in all the cross-sections of the society in Pakistan; which also have well over-lapped to other regional countries which demonstrates it to have regional scope rather than national or local.

Chapter-8: addresses the title of the thesis. In this chapter a detailed account of the fall out of ATT related re-exports on the economy of NWFP has been made. The network of Bara-markets, its strength and flow of goods have been assessed to determine its ill-effects on the behaviour, efficiency and productivity of the factors of production and hence the entire manufacturing sector of the province with national and regional dimensions.

Chapter-9: diagnoses the causes of the low-level of intra-regional trade, highlights areas identified for cooperation and regional integration and explore the potential for cementing trade ties in the region and overcoming the flow of cross-border smuggling.

Chapter-10: identifies the main findings of the study that trade links ought to be beneficial to all the partners and that it require a regional will

and efforts rather than local to help overcome the problems of informal trade and augment it in the formal sector. Hypothesis set in the 3rd chapter have also been tested in this chapter and suggestions have been thereby made as how to tackle the problems of illegal transactions, capitalize on the areas of economic integration in the region already identified and promote industry of the province on the basis of natural resource endowments in the province.

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GLOSSARY

Battai	Warehouses in tribal areas, which also serves as wholesale centers.
Badmashaan	Plural of Badmash in Pastho, meaning miscreants, known mostly for illegal exactions.
Chelnoki	A term used for shuttle traders in Central Asia.
Commission kar	Agents who facilitate transportation and carriage of smuggled goods across the country by hiring careers and who also help realize proceeds from such sales.
Gundamaar	From *Gunda* means small consignment. Gundamaar are therefore small consignment careers.
Hujra	An apartment meant for formal and informal meetings of the pathans.
Kabar	Scrap. In the context of the study it means used or second hand spare parts.
Kabuli	From Kabul
Lokhey	It means pot in Pashto. The instrument of pot is said to be executed/exchanged when two influential tribesmen slaughter sheep at each other's hujra, which in turn implies that both of them will safeguard the interests of the other in their respective territories.
Mahwari	A monthly retainer paid by smugglers to the officers of various law enforcing agencies.
Mushtabah	Suspected. The term is mostly applied by the policemen to cover their illegal search of a person, vehicle or place.
Munshi	Incharge of transport vehicles who looks after all the affairs of the vehicles inside the stand or in local area.
Pilot	Leader of the bicycle careers, who is responsible for providing safe passage to the followers by making on the spot dealing with the police personnel.
Peeple mandi	Wholesale market in the heart of Peshawar where hundreds of both original and counterfeited products are offered for sale.
Shabashi	Overt expression for praise in Pashto. In the context of the study it means nominal monetary rewards paid by smugglers to low ranked personnel of the law enforcing agencies.

LIST OF ABBREVIATIONS

APC	Average Propensity to Consume
APS	Average Propensity to Consume
ASEAN	Association of the Southeast Asian Nations
ATT	Afghan Transit Trade
ATTA	Afghan Transit Trade Agreement
CAFs	Civil Armed Forces
CARs	Central Asian Republics
CBR	Central Board of Revenue
CD	Computer Disc
CIA	Central Intelligence Agency
CIS	Commonwealth of Independent States
ECO	Economic Cooperation Organization
ECO-CCI	Economic Cooperation Organization Chamber of Commerce and Industry
EU	European Union
FASB	Federal Anti Smuggling Board
FATA	Federally Administered Tribal Areas
FCQ	Frontier Constabulary Quetta
FECs	Foreign Exchange Companies
FPCE	Final Private Consumption Expenditure
GATT	General Agreement on Trade and Tariff
GDP	Gross Domestic Product
GNP	Gross National Product
HIE	Hayatabad Industrial Estate
ICRC	International Committee of the Red Cross
IDBP	Industrial Development Bank of Pakistan
ISI	Inter Services Intelligence
KKH	Kara Korum Highway
LAC	Long Average Cost
LC	Letter of Credit
MFN	Most Favored Nation
MNA	Member of National Assembly
MNCs	Multi National Companies
MRTC	Marginal Rate of Technical Substitution
MRW	Motor Registration Authority

NHA	National Highway Authority
NLC	National Logistic Cell
NWFP	North-West Frontier Province
PICIC	Pakistan Industrial Credit and Investment Corporation
PRS	Pakistan Revenue Services
QCCI	Quetta Chamber of Commerce and Industry
RASCC	Regional Anti Smuggling Coordination Committee
SAARC	South Asian Association for Regional Cooperation
SHO	Station House Officer
SIDB	Small Industrial Developmental Board
SRO	Statuary Regulation Order
TH	Thousand Hectares
UNCTAD	United Nation Conference on Trade and Development
UNDCP	United Nation Drug Control Programme
UNDP	United Nation Development Programme
USSR	Union of the Soviet Socialist Republic
WAPDA	Water and Power Development Authority

INTRODUCTION

International trade of a country is characterized by exports to and imports from the rest of the world. Where exports constitutes of the net available surplus of the goods produced in the country, imports stems from aggregate demand, which is composed of the collective desires and power to purchase of the people. In these two constituents of demand, desires originates from basic needs like food, cloth and shelter; social needs like education, utilities and affording the best available options and esteemed needs like leading the people or their opinions. The first two sets of needs assume the status of demand, when authority is acquired over the requisite resources. This implies that the dominant qualifying factor for demand is authority or more simply the power to purchase. Seen in this context, the imports of a country reflects the affordable desires of the people per unit of time, say during a financial year. Afghanistan, therefore, cannot be an exception to this established principle. The country has been in conflict for the last 25 years during which all the trade, business and production sectors became dysfunctional which well-overlapped to the neighboring countries, particularly Pakistan, where the 1965 Afghan Transit Trade Agreement ATTA provided the necessary cover to the illegal flow of goods across the porous Pak-Afghan border.

For a transit country like Pakistan, issues of some importance may be the annual value and volume of goods in transit, cost & benefit of services provided i.e. transportation-fares earned versus man and machine hours spent; which does not warrant an in depth probe or research. In the context of this research study, it is the dissonance between the ex-ante and ex-post objectives of the Afghan Transit Trade that makes its perception, execution and conclusion worth probe and research. The official or ex-ante perception of the Transit Trade is the facilitation of exports and imports of Afghanistan by Pakistan at two notified routes viz; Chaman-Spinboldak and Peshawar-Jalalabad, without imposition of any tax either

federal, provincial or municipal. But over the years, the ex post or realized level and nature of the trade is that instead of the Afghans, more Pakistanis are involved in the trade, particularly the import segment Goods are under invoiced and its stock & flow are facilitated by an efficient transportation and financial system. This resulted in multiplication of the Bara markets and the associated stakeholders, extendenting from transporters and financiers to the officials of law enforcing agencies, customs authorities and politicians not only in Pakistan but in all the regional states, though with varying scales.

The present status of the trade, as persisted for the last two decades, is that the term transit has lost its significance as the value and nature of goods corresponds more to the indicators in Pakistan rather than Afghanistan. Its execution enjoys all the benefits associated with large-scale business operations. The ever-increasing demand for foreign goods in Pakistan mostly shaped by publicity of these goods through electronic media, increase in personal disposable income and hence in marginal propensity to consume and its soft availability has helped ensure its risk free conclusion. Thus appeared the transformation of ATT into cross border re-exports, executed by well established network which in the contemporary literature has been assessed as the "biggest smuggling racket in the world" The data furnished in the table may substantiate the argument.

TREND IN AFGHANISTAN ECONOMIC INDICATORS

YEAR INDICATORS	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Gross Domestic Product (US Millions)	-	-	22163	21476	31041	22781	9832	9240	11166	-	-	-
Exports (US$ Million)	-	-	181	-	104.61	165.98	128.05	144.41	136.98	109.96	132.91	80.11
Imports (US$ Million)	-	-	398	464.76	390.84	387.35	660.75	604.31	471.68	486.43	636.11	600.38
Official Development (US$ Million)	-	-	204.3	227.7.2	229.8	214.3	183	230.1	154.2	142.5	140.9	-
Per capital Assistance (US$)	-	-	13.1	13.5	12.7	11.2	9.2	11.3	7.4	6.7	6.5	
Value of ATT Through Pakistani Rs. in million	983.64	1050.3	1037.7	3329.23	8004.1	8139	4090.3	4559.09	8954.39	14000	-	-

Source. UN Statistical Year Book for Asia a Pacific, Collectorate of Customs Karachi: -

In the table it may be observed that over its recorded period from 1990 to 1998, GDP of Afghanistan slashed to 11166 million dollars which is half of its initial level in 1992. This trend got translated into continuous decrease in her exports i.e. from 181 million dollars in 1992 to 80.11 million dollars in the year 2001. During the same period official Development Assistance (both bilateral and multi lateral) and so the per capita assistance also got decreased from 204.3 and 13.1$ in 1992 to140.9 .M$ and 6.5 $ in 2000 respectively. The trend in these indicators implies decreased personal disposable income in Afghanistan which should have been reflected in the over all trend of her imports or transit trade through Pakistan. But the later appeared to have been in sharp dissonance to the former thereby making a strong case for research.

This cross border smuggling under the garb of transit trade has cost its shadow over the factors of production in Pakistan. It damaged the protection policy of the govt. and so the fragile industrial structure of the country in general and that of NWFP in particular, bereaved the govt. of precious revenues, affected public morality and diverted the factors of production from formal to underground sector in the province with the result that the later became more efficient that the former and its vertical and horizontal proliferation is on.

Statement of the Problem

In view of the foregoing it become binding to study and analyze the economic indicators, social setup and economic pursuits of Afghanistan from 1990-2000 to determine its consonance with the value and composition of the goods imported by the country through all the transit options during the same period. The thrust of the study is therefore on import rather than exports of Afghanistan. Since the value and composition of the imports do not conform to the affordable desires in the country hence become part of her exports thereby giving birth to the concept of re-export. These re-export are primarily executed through unnotified routes and making a major cause dysfunctioning of the trade and production sectors in Pakistan, particularly the province of NWFP. In the context of this study the research is faced with the following questions; What are

the trends of key economics indicators of Afghanistan from 1990 to 2000? What are the dynamics of the illegal transactions across the Pak-Afghanistan border? What is the role of informal finance and transportation system in maintaining the stock and flow of goods-in-smuggling across the expanding network of Bara-markets? What are the causes that helped flourish the illegal transactions in the region particularly Pakistan? What are the impacts of ATT-related smuggling on the factors of production in manufacturing sector of N-W.F.P, consumer behavior, state-revenues and Govt. expenditure etc? What are the causes of the existing low level of formal trade in the region and how it can be improved? These questions have to be studied in a systematic way and finding appropriate answers by applying appropriate tools of research.

Objectives

The study is being conducted with a view to achieve the following objectives.

I. To compare the nature and volume of goods, imported through the transit facility with the key economic indicators of Afghanistan.

II. To find the causes of illegal transactions and the fallout of Bara-market on the economy of NWFP particularly the manufacturing sector and to ascertain the multiplier effect of illegal transactions on consumption, investment, revenue collection etc.

III. To study the mode of finance and transportation involved in cross-border unofficial trade.

IV. To find the respective obligations of both Pakistan and Afghanistan in the context of the ECO and explore the possibilities of enhancing intra-regional trade.

As a natural sequence to the aforementioned facts and objectives, the following hypotheses emerge for tests.

Hypothesis

The statistical and economic instruments employed to the data, aimed at testing the following hypothesis.

i. The key economic indicators of Afghanistan over the past ten years have declined.

ii. Despite a decline in economic indicators of Afghanistan, both the value and volume of Afghan Transit Trade has increased.

iii. The increased Final Private Consumption Expenditure (FPCE) and hence the increased average propensity to consume (APC) in Pakistan stimulated the increased value of ATT goods through Pakistan.

iv. The value and volume of legal trade between Afghanistan and Pakistan is much smaller in comparison to illegal trade.

v. Due to increased value of ATT goods, number of closed units in the smuggling affected industries increased, employment of the factor labour decreased and hence the operational units in such industries became more capital-intensive.

vi. Industrial units, which smuggle goods from Pakistan to Afghanistan have the major share of investment in the industrial establishment of NWFP.

These hypotheses have been tested in the succeeding relevant chapters. Trade, Transit Trade, Afghan Transit Trade and some symptoms of its adverse fall out on the economy of Pakistan, particularly NWFP are studied in the first chapter.

CHAPTER 1

TRADE AND TRANSIT TRADE IN RETROSPECT

Background

1.1 In recent history of Economic thought and practice, the Mercantilists' philosophy[1] of restricted, controlled and regulated trade, prevailed from 16th Century till the appearance of the Adam Smith's Wealth of Nations' in the last quarter of the 18th century. The most concise summary of Mercantilists' principles was provided by P.W. Hornick, an Austrian lawyer, who published a nine-points[2] Mercantilists' manifesto in 1684. Within a short period of time, their idea of a nation state, resulted in concentration of power in a central monetary authority. The monarchy exercised unquestionable authority. In fact Louis XV of France's maxim was "I am the state". Merchants and landlords had an absolute control i.e. ability to control King's action and decrees[3].

There were host of regulations[4], ranging from the control of wages upto the specification of threads per inch for various types of clothes. But most of these regulations were for low classes only. Influential merchants and landlords were exempted from it openly or implicitly. Following typical mercantilists

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[1]. The economic philosophy of merchants and statesmen, which dominated Western Europe during the 16th and 17th centuries. Pears. D.W. (1986). The Dictionary of Modern Economics, Macmillan Press Limited, London. Here after cited Pears Dictionary.

[2]. Hornic nine points were as under:

a. that every inch of the country soil be utilized for agriculture, mining or manufacturing.
b. that a large working population be encouraged.
c. that all raw material, found in a country be used in domestic manufacture, since a finished goods have a higher value than raw materials.
d. that all exports of gold and silver be prohibited and all domestic money be kept in circulation.
e. that all imports of foreign goods be discouraged.
f. that where certain imports are indispensable, they be obtained at first hand in exchange for other domestic goods instead of gold and silver.
g. that as much possible imports should be confined to raw materials that can be finished at home.
h. that opportunities be constantly sought for selling a country's surplus so far as necessary for gold and silver.
i. that no import be allowed if such goods are sufficiently and suitably supplied at home. Gray, Alexander, Sir (1963). The Development of Economic Doctrine, Northumberland Press limited, London. pp:80-81.

[3]. Lewis, H.H. (1960). History of Economic Thought, Mcmillan Company, New York. Pp.171-177.

[4]. The court life was artificial and extravagant. High expenses and wastage were run up. The king indulged in every conceivable perversion, whether moral, ethical or religious. Ibid.

attitude, agriculture was looked down upon. The transaction of various agriculture products between markets and towns was subjected to a host of tolls, taxes and checks. So farmers, sharecroppers, artisans were forced to live a subsistence living.

But intellectually French thoughts, whether concerning economics, religion, politics, social setup etc were deviating away from mercantilists and medieval rusts. The right of individual, the acceptance of the importance of agriculture, the speculation about natural laws, the rise of natural sciences and their application to various fields, the French enthusiasm about learning foreign languages and translating foreign books into French etc, all hinted at the slow gathering of various forces, which eventually culminated in the downfall of French monarchy and bloody French Revolution of 1789.

1.2 Amidst all these various conditions, physiocracy[1] was born. The physiocrates emerged, as the intellectual star of Mercantilists was on wane. Precisely their appearance is dated from the first article of Francis Quesney[2] (1694-1774) in 1756 and their eclipse from the publication of Wealth of Nation[3] in 1776. Physiocrates were the first exponents of a comprehensive and consistent philosophy of "economic-liberation" - universal liberty or freedom of individual enterprise, competition and trade and the writers who first gave wide currency to the maxim or slogans of Laissez-Fair[4] and Laissez-Passer.[5]

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[1]. A School of Economic Theory, which developed in France in the 18th century. It is associated principally with the names of F.Quesney and Turgot. They criticized the mercantilists' belief that wealth was created in exchange and gave production pride of place in its creation. Ibid.

[2]. The major figure in the group of 18th century French economists known as the physiocrates. A surgeon by Profession, his writings on economics appeared in the Encyclopedia in 1756 and 1757 and the Tableau Econonimique (1758). His Tableau set out a scheme of exchange between three classes of society: Landowners, agriculture workers and the so-called sterile class. Ibid.

[3]. The first full scale treatise in economics written by Adam Smith (1730-90) in 1776, covering production and distribution theory. Besides theories of Economic growth, Division of Labour, Wage Determination and numerous other economic issues, one quarter of the book is devoted to Public Finance, including a discussion of his famous Canons of Taxation. Pears, Dictionary of Economics, Op.cit.

[4]. An economic philosophy which implies, let all men do what their abilities, facilities and market conditions make it natural for them to do. It in turns implies that the best government is the one which govern the least. Pears, Dictionary of Economics. Op.cit.

[5] An economic philosophy which implies that let every current of trade and let every sequence of economic development to take its natural course. Ibid.

To ensure the authority of natural order, the physiocrates advocated the policy of economic liberty, which included minimum of legislation, removal of restrictions on trade and abolition of burdensome taxes. The economic philosophy of the physiocrates led to the consecration of private property on the basis of labour, the freedom of principle of contract and the duty of the state to guarantee these rights. The natural order implied that government should enact such positive laws which reflect the natural laws and refrain from arbitrary legislation. This led to the idea of state non-intervention.

1.3 The economic liberation, as advocated by physiocrates, got a major boost with the publication of Adam Smith's[1] "An enquiry into the nature and causes of Wealth of Nation" in 1776. Contrary to the mercantilists' doctrine, Adam Smith advocated free trade between nations. In his theory of 'Absolute advantage' Adam Smith argued that every nation should specialize in the production of goods in which it has an absolute advantage and import the other commodity in which it has an absolute disadvantage. Thus nation will gain from international trade, the welfare of its people will rise and world production will get both vertical and horizontal expansion.

David Ricardo[2] (1772-1823) agreed to the basic principle of Adam Smith's Theory of Absolute Advantage, but added that any two countries can very well gain by trading even if one of the countries was having an absolute advantage in both goods over another, provided the extent of absolute advantage was different in the two commodities in question. When the comparative advantage was different, trade will rise and it will continue.

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[1] Scottish philosopher and economist, educated at the universities of Glasgow and Oxford and subsequently Professor of moral philosophy at Glasgow University. He wrote over a wide area of which economics was only a part.-Ibid.

[2]. An English economist, who is best remembered for his theory of rent and theory of comparative cost. He entered upon a business career at the age of 14 first as a broker and later as a jobber and operator on the stock exchange. By the age of 42, he had amassed a sufficient fortune to allow him to retire and devote his time to literary pursuits and economics in particular. In 1819, he was elected to the House of Commons. His interest in economics was aroused from reading Smith's Wealth of Nation in 1799. His major work was "The Principle of Political Economy and Taxation" (1817). Pears, Dictionary Op.cit.

This debate of the classical economists[1] in the 18th and 19th centuries, to find the most viable mode of international trade had been necessitated by 'Industrial Revolution'[2].

1.4 The Industrial Revolution caused a startling increase in productivity, and the social changes that attended the growth of factory production appeared to be a revolution as real as the "French Revolution".

During the years from 1760-1840, the steam engine first came into widespread use, which in turn provided the power for newly developed machines. In agriculture, consideration of costs and return now led to more economic and rational use of land. The growth and development of commercial crops, particularly cotton, helped expanded the industry. "By 1813 about 3000 power looms were in use in Britain, twenty years later 100,000 were in use. By 1850 the machine tool industry was well established and the boring mill, engine lathe and planning machine were in wide spread use. Accurate metal-working machinery made possible the growing use of interchangeable parts"[3].

The development of steam-engine freed manufacturing from dependence upon water power. This meant factory could be located almost anywhere and could be larger and larger, since there was virtually no limit to the amount of power that could be supplied. The steam engine also helped power forging hammers and to turn rolling mills.

Efficient steam engines and quantities of cast iron were available to pump out mines. Machine manufacturer were freed from the out-molded practices of the past. The railroad and steamship together with better roads and canals could carry the immense volume of goods required by the time. An overseas empire

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[1]. The economists in the period from the mid-18th to the mid-19th century, of which the greater part emerged from the UK. Its principal exponents were Smith, Ricardo, Malthus, Say, Senior and J.S. Mill. Their economic thought is essentially woven around growth and development and set out to investigate the nature and causes of the Wealth of Nations and the distribution of the national product among the factors of production. Pears, Dictionary of Economics, Op.cit.

[2]. The term "Industrial revolution" was first applied to a dramatic period of economic and technical change in Britain during the late 18th and early 19th centuries. Britannica, macropedia.

[3]. Industrial Revolution, Britannica Macropedia.

provided raw materials, customers and intellectual exposure to new things[1]. "Banking had developed significantly and prosperous merchants, landowners and ship captains had grown accustomed to the idea of investing in another man's enterprise"[2].

Thus intensified the industrial production and grew the importance of trade. The development of the steam-ship reduced the transportation cost by a considerable margin and so the manufactured goods became very cost- effective. Sea-borne trade facilitated the transportation of huge quantities of goods and nations having an outlet to the sea could naturally benefit more.

1.5 In view of the growing importance of sea for economic survival, the land-locked countries of the world started raising their demand for a share in sea-borne trade. The earliest of such demands may be traced back to 1864, when Switzerland, a landlocked country in the heart of Europe, put forward its claim to raise its maritime flag. But "France and Prussia among others, expressed doubts for the recognition of this claim"[3]. However, this right was recognized in the peace treaties[4], concluded between various nations of Europe in the aftermath of the World War-1[5].

It was with this background that the Barcelona Conference in 1921 unanimously adopted a declaration, recognizing the right of land-locked states to fly a flag on the sea, and truly, as the president of the Barcelona Conference, Mr. G.Hanotoud, Stated, "the 'Barcelona Conference has for all times embodied, the right of all states without sea-coast to fly a flag on the sea"[6]. The General

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[1]. Ibid.
[2]. Ibid.
[3]. Tabibi, Abdul Hakim, (1970). 'The right of transit of landlocked countries', Afghan book publishing house, Kabul, Afghanistan P-1 (Here after cited Tabibi, Transit).
[4]. Article 273 of the Versailles treaty (signed on 28th June 1918 between the Allied and Germans), Article 153 of the Newely Treaty (signed on 27th November 1919, between the Allied and Bulgaria), Article 209 of the Trianon Treaty (signed between the Allied and Hungary), Article 225 of the treaty of Sant Germain (signed on 10th September, 1919, between the Allied and Austria-Hungary). Ahmad, Manazir (1986), Europe between the two World Wars', Discovery Publishing house, Delhi. Pp.20-30.
[5]. Ibid.
[6]. Tabibi, Transit, P-II Op.cit.

Agreement on Trade and Tariff[1], accommodated in article 5, the understanding reached in the Barcelona Conference. "Article 33 of the Havana Charter for international trade organization, made an expressed reference to the landlocked countries"[2].

A huge breakthrough, however, in this regard came when the major landlocked countries viz Afghanistan, Austria, Bolivia, Czechoslovakia, Nepal and Paraguay, moved a resolution in the XI General Assembly session of the UN as a practical measure for universal scope of the transit facilities. The General Assembly Resolution 1028 (XI) of 20th February 1957 reads:

"The General Assembly, recognizing the need of landlocked countries for adequate transit facilities in promoting international trade, invites the Governments of Member states to give full recognition to the needs of land-locked member states in the matter of trade and, therefore, to accord them adequate facilities in terms of international law and practice in this regard, bearing in mind the future requirements, resulting from the economic development of the landlocked countries".[3] The efforts of landlocked countries at the preliminary conference at Geneva in 1958 and the first law of the sea conference in 1958 led to the adoption of articles 2,3 and 4 of the High Sea Convention on the right of transit. The adoption of the eight principles during the first UNCTAD in 1964 and finally, the conclusion and coming into force of the 1965 convention on Transit Trade of land-locked countries, established new economic bonds between the countries with sea coast and their land-locked neighbours.

1.6 Thus partly as a key feature of its ideology to establish friendly ties with its neighbors in general and the Islamic World in particular and partly to meet the

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[1]. An agreement signed at the Geneva conference in 1947, which come into effect on 1 January 1948. It was a multilateral trade agreement, which both set out rules of conduct for international trade relations and provided a forum for multilateral negotiations regarding the solutions of trade problems and the gradual elimination of Tariffs and other barriers to trade. GATT has now been replaced by World Trade Organization W.T.O.

[2]. Tabibi, Transit, Op.cit, P.II.

[3]. Ibid

obligation as stipulated by international law, Pakistan inked an agreement with Afghanistan on March 2nd 1965, regarding transit trade, known as Afghan Transit Trade Agreement (ATTA).

Under the provisions of this agreement, Pakistan and Afghanistan agreed "to grant and guarantee to each other the freedom of transit to and from their territories"[1]. The two transit routes[2], explicitly mentioned include:

a. Peshawar - Torkham and vice versa and

b. Chaman - Spin Boldak and vice-versa

Besides, other routes that may facilitate the transit, can be followed, as and when agreed by the contracting parties. Except transportation and administrative expenses, no other tax whether national, provincial or municipal[3] is to be levied on goods in transit. The government of Pakistan is required to ensure the security of the goods-in-transit under a specific territory to be known as "Afghan Transit Area"[4]. Whereas it was made the responsibility of the Government of Pakistan to provide wagons at both Karachi-Spinboldak and Karachi-Peshawar routes, the charges for this facility in no way is to be discriminatory vis-a-vis the nationals of Pakistan or Afghanistan. The agreement provided for an in-built mechanism of renewal after every 5 years if either of the contracting parties does not serve a six-months notice of its termination, prior to its expiry.[5]

The customs and other allied procedures, as annexed to the agreement, provide for across the board checks on the goods-in-transit (both exports and imports) through the Pakistani territory. The invoices of the goods whether transacted through Chaman-Spinboldak or Peshawar-Torkhum, are checked, examined and compared throughout its transportation. In view of these checks and counter checks, it can hardly be believed that these goods-in-transit may either be leaked into or injected back in the goods market of Pakistan. But such a comprehensive checking itself explains that the trade is prone to abuse. Besides,

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[1]. Article-1 of ATTA.
[2]. Article-2 of ATTA.
[3]. Article-4 of ATTA.
[4]. Article-5 of ATTA.
[5] Article-14 of ATTA.

the ever-expanding network of Bara Markets, the below-capacity growth in the industrial sector of N.W.F.P (both consumer and durable goods), the brisk business of the money changers, is a glaring proof of abuse of Afghan Transit Trade. In addition to the authorized routes through Pakistan, the pool of goods in Afghanistan has been provided with additional inlets by the Central Asian Republics (all landlocked), Iran (Bandar Abbas), China, through the Wakhan corridor and air passages from UAE and India.

1.7 Whatever its routes may be, both the nature and volume of the Afghanistan's imports have proved detrimental to the economy of Pakistan particularly the province of NWFP over the period of its operation. Few facts will substantiate the argument.

a. On 20th May, 2000, Minister for Internal Affairs of Pakistan Mr. Mueen uddin Haider, in a televised talk to the mediamen, revealed that the business activities in the Bara Markets segment of the informal sector caused 140 billion loss (3 times the budget deficit), annually to Pakistan. He also argued that the prime source of the goods supplied to these Bara Markets has been the mismanagement of ATTA.

b. Despite declining economic conditions in Afghanistan during the last two decades in general and the lat 5-6 years in particular, the value of goods imported by Afghanistan, through the transit facility, has constantly been increased. During the last 3 years of the period of the study, the value of transit goods has increased 3 folds from Rs.4.56 billion in 1996-97 to Rs. 9.85 b in 1997-98 and to Rs. 14.97 billion in 1998-99.[1]

c. In a summary submitted by the Economic Coordination Committee (ECC) of the cabinet, the government was suggested that 41 items imported by Afghanistan through the transit facility may be banned. Prominent among these goods included glassware, micro-wave oven,

[1] Collectorate of customs, Govt. of Pakistan Karachi.

electrical appliances, toys, safety razors, shaving brush, cosmetics, toiletries, kitchen ware, chewing gum and black and green tea. These goods alone accounted for 45% of the total value of Rs.14.97 b in 1999. The ECC argued that these items were not in consonance to the present socio-economic conditions of Afghanistan.[1]

d. A president of the Peshawar based trade union revealed that "the Afghan Traders neither had the means nor the capacity to assess the requirements of the consumer's goods inside Pakistan. These are actually their Pakistani counterparts, who supply them with money and information to import goods through the transit facility".[2]

e. 'In a national food security plan of 1997, the intelligence authorities were quoted to have investigated that daily more than 100 trucks loaded with wheat grains, with an annual volume of 3,00,000 tons, pass illegally to Afghanistan under the shelter of transit trade. It is also because of this transit facility that allegation of 'Drugs Trafficking', sale of enriched uranium and arms are leveled against Pakistan in the international press in recent times'.[3]

This brief survey apprised us that the facilities extended by Pakistan under ATTA, are being misused to the utter disadvantage of Pakistan, particularly the province of NWFP. Managers of the economic and social affairs both in the public and private sectors are conscious of the ill-effects of the Afghan Trade but despite this consciousness, the menace has grown instead and hence invites efforts for a probe. As a first step the relevant literature available on the subject has been analyzed in literature review to facilitate the research.

[1] Ministry of Commerce, Trade and Industry, Govt of Pakistan.
[2] Interview with Jamshed Sawal, former president of the Sarhad Chamber of Commerce and Industry.
[3] Ministry of Food and Agriculture, 1997 report.

CHAPTER 2

LITERATURE REVIEW

Rahim (1990) in his PhD thesis titled "Pakistan-Afghanistan Trade (1970-1990) has focused on three aspects of the Pak-Afghan Trade, namely:

i- Recorded Trade - implies Trade in the formal sector.

ii- Unrecorded Trade - implies Trade in the informal sector and

iii- Transit Trade - implies the transit facility provided by Pakistan for Afghanistan's imports and exports.

Recording his assessments of the recorded trade between Pakistan and Afghanistan, Rahim opines that it would be mutually beneficial for Pakistan and Afghanistan to make conscious efforts for free trade between them as it would help both of them to:

a. Realize economies of scale,

b. Develop new specialization and

c. More closely knit the two economies in a relationship of complementarity and/or supplementarity.

Regarding the unrecorded trade, Rahim is of the opinion that the unofficial trade between Pakistan and Afghanistan must be more than 10 times the official trade. The tariff and administrative control in vogue were inconsistent and incompatible with the economic structures of the two countries and proving harmful to it. Relaxation of economically compatible control would help rationalize, trade, maximize recorded trade and minimized smuggling to the mutual advantage of the both the countries.

Regarding the transit trade, Rahim concluded that it would be advisable if Pakistan became an intermediary rather than a transit route for Afghanistan imports from other countries. If this could be achieved then an effective check to smuggling would probably be achieved too.

Rashid (1995) in his interview with an official of the central Board of Revenue, quoted him to be saying that "the wild west of free trade expanded due to the civil war in Afghanistan, the drug business and the collapse and corruption of Pakistani, Iranian and Central Asian States' institutions along their borders with Afghanistan". He attributed this illegal trade to a hunger for consumer goods throughout the region. Pakistani and Afghan transport and drug mafias merged to have this need fueled. He also remarked, "The Taliban are funded by transporters to open the roads, for breaking governments in Afghanistan and in Pakistan. Pakistan will face a 30 percent short fall in revenues this year (1997), because of customs duties lost to the ATT".[1]

Rashid recalled that after the ATTA in 1965, Afghanistan got the permission to import duty-free goods through the port of Karachi. Even at that initial phase, truckers used to drive their sealed containers from Karachi, crossed into Afghanistan, sold some goods in Kabul and then turned around to resell the rest in Pakistani markets. It was a flourishing but limited business giving Pakistan's access to cheap, duty-free foreign consumer goods, particularly Japanese electronics. The ATT expanded in 1980s, servicing Afghanistan's communist controlled cities. Rashid also argued that the fall of Kabul in 1992, coincided with markets opening up in Central Asia and the need for food stuff, fuel and building materials as the Afghan refuges returned home – a potential bonanza for the transport mafia.

UNDP (1995) viewed the taxes on opium exports to be the mainstay of Taliban income and their war-economy. It revealed that Afghanistan-Pakistan drugs exports were earning some 50 billion rupees (US $ 1.35 billion) a year. In 1998, heroin exports had doubled in value to US $ 3 billion. Drugs money funded the weapons, ammunition and fuel for the war. It provided food, clothes for the soldiers and paid the salaries, transport and perks that the Taliban leadership allowed its fighters. Alongside the drug trade, the traditional Afghan smuggling trade through Pakistan and now the Gulf-States, expanded under the Taliban and

[1] Rashid, Ahmed, 'Nothing to declare', Far Eastern Economic Review, 11 May 1995.

created economic havoc for neighbouring states. This trade was estimated to be the largest source of official revenue for the Taliban and generated an estimated US $ 3 billion annually for the Afghan economy. UNDP disclosed that though the customs officials in Kandahar, Kabul and Herat refused to disclose their daily earnings but with some 300 trucks a day passing through Kandahar on their way to Iran and Central Asia via Herat and another 200 trucks passing through Jalalabad and Kabul to the north, daily earnings were considerable. The illegal trade in consumer goods, food and fuel through Afghanistan crippled industries, reduced state revenues and created periodic food shortages in all neighboring countries.

This study further added that the Taliban revenues from smuggling were channeled through the State Bank of Afghanistan, which over the years established branches in all provincial capitals. But there was no book-keeping to show the flow of money.

The World Bank (1997) report on 'Afghanistan - Pakistan Trade relations' as a part of its "Watching Brief" strategy for Afghanistan, accounts for the total trade between Afghanistan and Pakistan as $ 2.5 billion in which the unofficial re-exports from Afghanistan to Pakistan has the lion's share. The study assessed that the long and porous border between the two countries, the need for basic goods in Afghanistan's war-torn economy, weak border controls, high import tariffs in Pakistan on goods prone to smuggling and the low cost risks were important reasons behind the large and growing unofficial trade between the two countries. This report further added that there was an evidence of expansion of official and unofficial trade in locally - produced goods between the two countries, which was likely to increase substantially if there was peace and post-war reconstruction in Afghanistan. The impact of bilateral trade with Pakistan, on Afghanistan has been positive overall, as manifested in the modest prosperity that has emerged in the southern and western Afghanistan. In addition, cross-border trade was believed to be providing essential goods and generates huge revenues for Afghan authorities. In Pakistan, the imports competing industries have been

harmed. The study also estimated that the Government of Pakistan had been losing substantial revenues due to tax evasion and fungibility of routes through which unofficial imports enter the country.

Rashid (1998) in 'Taliban' quoted to have investigated that the ATT fuelled the already powerful black economy in Pakistan, as the underground economy in Pakistan snowballed from 15 billion rupees in 1973 to 1115 billion rupees in 1996 with its share in GDP increasing from 20% to 51%. The study discovered that during the same period, tax evasion-including custom duty evasion escalated from 1.5 billion to 152 billion rupees – accelerating at a rate of 88 billion rupees per year. This study estimated that the smuggling trade contributed some 100 billion rupees to the underground economy in 1993 which had swelled to over 300 billion rupees in 1998. That is equivalent to 30% of the country's total import of US $10 billion or equal to the entire revenue collection target for 1998-99. In addition, the Afghanistan – Pakistan drugs trade was estimated to be worth an annual 50 billion rupees.

Rashid (1999) in his book Taliban, recorded that the smuggling trade to and from Afghanistan became the most devastating manifestation of the losses being sustained by the Government of Pakistan during the Taliban regime. According to him, this trade which now extends to Central Asia, Iran and Persian Gulf, represented a crippling loss of revenue for all these countries, but particularly Pakistan, where local industry has been decimated by the smuggling of foreign consumer goods. Rashid elaborates further, "what is euphemistically called the Afghan Transit Trade (ATT) has became the biggest smuggling racket in the world and has enmeshed the Taliban with Pakistani smugglers, transporters, drug barons, bureaucrats, politicians police and army officers. This trade became the main source of official income for the Taliban even as it undermined the economies of neighbouring states".

Rashid also points out that the border post between Chaman, in Baluchistan province, and Spin Boldak, in Afghanistan, is a prime location for

watching the racket at work. His estimates accounts for 300 trucks crossing over from Afghanistan to Pakistan on a good day. The goods which these trucks carry, have no invoice and cross upto six international frontiers without having route permits, driving licenses or passports. The consignments on these trucks range from Japanese camcorders to English under wear and Earl Gray tea, China silk to American computer parts, Afghan heroin to Pakistani wheat and sugar, East European Kalashnikovs to Iranian petroleum and nobody pays customs duties or sales tax.

Oliver (1999) while examining the scope of intra-Afghanistan-Pakistan smuggling, revealed that the smugglers have stripped Afghanistan bare. They cut down millions of acres of timber in Afghanistan for Pakistani market, denuding the countryside as there was no reforestation. He also accused them of stripping down rusting factories, destroyed tanks and vehicles and electricity and telephone poles for their steel and sold the scrap to steel mills in Lahore. He also revealed that car-jacking at Karachi and other cities flourished as the mafia organized local car-thieves to steel vehicles and then shifted the vehicles to Afghanistan. The mafia then resold them to clients in Afghanistan and Pakistan. Sixty four thousand vehicles were stolen from Karachi alone in 1992-98 with the majority ending up in Afghanistan only to reappear in Pakistan with their number plates changed.

Ghori (2000) believed the cultivation of poppy and opium and heroin production to have increased manifold as the Taliban Movement extended across Afghanistan. Quoting US and international drug expert estimates, Ghori rated Afghanistan to be the second-largest opium producer in the world and weighted its share to be one third of the world opium and heroin. He also believed Taliban to be controlling 96 percent of Afghanistan poppy growing regions and earned profits by taxing poppy growers and those who refine poppies into opium.

Quoting the US state Department findings, Ghori stated that as the Taliban expanded their control over Afghanistan's opium growing territories, they

appeared to have expanded their drug involvement as well, including facilitation of major traffickers to move large quantities of morphine base and heroin to the west. According to this report, the Taliban taxed opium, they taxed morphine and they levied fees on transport. They earned tens of millions of dollars a year from the drug trade, even though they initially said they were against it.

Ghori also disclosed that besides causing tension with the west, the increase in drug trafficking involving Afghanistan became a growing irritant for neighboring Iran. At a September 1997 conference of the international policing agency, Interpol's representatives directly accused the Taliban of being "the main source of the death trade".

Inter Press Service, a news agency (2001) found Indian drugs to have found way to Pakistani markets and added yet another dimension to the cross border illegal trade to and from Afghanistan. The agency named Aspirin, Amoxiline, Ampiciline, co-trimaxazole, Laxotanill, Cyprafloxine, Renitidine, Fametidine and Cemetidine to be selling in prominent medicines shops of the province. The agency further disclosed that unlike the settled areas, where the sale of Indian drugs was banned and those found guilty of conduct were liable to severe penalties, the tribal areas were quite immune to such repercussions. Like all other duty free smuggled goods, Indian drugs were evaluated by the agency to be 10 times cheaper than the drugs of the same brand and effect, produced by multinational companies (MNCs) in Pakistan.

Citing reasons for this price disparity, the agency added that unlike India where the MNCs were bound to use raw materials from India, the government of Pakistan allowed them to import raw materials from their parent countries which entailed heavy tariff duties. Similarly, quoting the findings of international regional office for Asia and pacific, the agency counted 26 commonly consumed drugs to have very high prices in Pakistan as compared to India.

The agency while discussing the transportation of the drugs, revealed that along with other goods, Indian drugs were smuggled into Afghanistan, to

Pakistan tribal areas and then finally to Peshawar. The report also disclosed that Afghanistan received thousands of US dollars worth of medicines each month from India under a bilateral agreement, but some unscrupulous agencies in Kabul were apparently making huge profits from selling them in tribal areas.

The report further discovered that due to the mutual collusion of the MNCs, health department's, functionaries, and other government officials, the measure of the government to import drugs from China, Bangladesh, Bulgaria, Poland and Yugoslavia to counter the smuggled and low priced Indian drugs, has miserably failed.

Associated Press of Pakistan (APP) (2001) while referring to the findings of Michael Griffin, author of the best selling book on Afghanistan, has said that the Afghan warlords with the Russian help, had counterfeited their national currency in bulk to paid out their treasuries and ensure an unremitting supply of local mercenaries to staff their private armies. The Northern Alliance, in particular, used access to the original currency printing plates as a tool of economic war in a bid to weaken the Taliban's control of the country's informal money markets. Griffith recalled that when the Taliban expelled the forces of Burhan uddin Rabbani from Kabul, they took away money printing plates to Russia. Whenever Rabbani needed money to pay his men or to buy dollars from the informal markets, he simply sent words to his Russian printers to runoff a fresh supply. This cash then trickled across the front lines to Taliban controlled areas of the country, where it continued to be recognized as official tender[1]. When the Taliban attempted to crackdown on the practice by banning post 1996 bills on the basis of the serial numbers, Rabbani's printers printed new Afghanis with pre-1996 numbers.

Griffith, also wrote that there were four versions of the currency in circulation, some with identical numbers but all with varying rates of exchange. The first, considered the cream of the old money supply, dates from 1973 and

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[1] Daily The Frontier Post. Jan. 8, 2002.

carried a portrait of ex-King Mohammad Zahir Shah. A second set of old bills dates from before 1996 and is also considered old money, if not as valuables as the earlier bills. A third currency, new money, has higher serial numbers originates in Russia and is worthless. A fourth set was produced by the Uzbek warlord General Abdur Rashid Dostum to provide liquidity for his northern mini state and also trade at a significant discount.

Awan (2001)[1] put the Pakistan bound transit goods to Afghanistan at Rs.14.97 billion during 1998-99. Prominent among these goods were safety razors, worth Rs.120 million, cosmetics Rs.150 million, mineral water, Rs.200 million, electronics worth Rs.300 million and telephone sets worth Rs.160 million. The report pointed out that this trade which has been conducted for the last 50 years, fetched billions of rupees to the tribal traders, related to Afghan counterparts and as much to the Pakistani customs and other law enforcing agencies, who facilitated this black trade.

Awan also disclosed that previously, for decades, these Afghanistan bound transit goods were leaked into Pakistani markets before reaching Afghanistan. It was very recently that owing to strict regulations imposed on the transit trade, that the Afghanistan bound goods at least started crossing the border and then re-exported illegally to Pakistan. Awan pointed out that due to the high financial stakes of various interest groups, law, constitution, border, religion, customs and state machinery have lost their efficacy.

Awan found that the import of goods like safety razors, mineral water, cosmetics, cameras and films were in sharp dissonance to the typical socio-religious constraints imposed by the Taliban regime.

Keeping the adverse fallout of the abuse of Afghan Transit Trade Agreement on the industrial sector of Pakistan, Awan suggested that other neighbouring countries with sea-coast should also shoulder the responsibility of transit facilities to Afghanistan.

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[1] Awan, Z. A. 16 August, 2001, Daily Aaj, Peshawar.

The News in its March 2, 2002 issue, reported that there has been an unprecedented increase in the smuggling of tea, spices and other utilities through the Afghan Transit Trade during the last two years. This rise has been attributed to the massive under-valuation of these items at the country's dry ports, especially Lahore, Gujranwala, Faisalabad, Quetta and in other cities, which were basically established for providing facilities to the local traders at their doorsteps.

The report added that "these smuggled items are now openly sold at the Jodia Bazar, Saddar, Banaras Chowk, Landhi and at the Lea Market. At Jodia Bazar, the traders from various parts of the country have opened their offices, which deal exclusively in smuggled items, mostly tea and spices through Quetta's dry port into the city". The dry ports established in various parts of the country have become a major source of smuggling, mis-declaration, under-invoicing, tax evasions and thefts detrimental to the government's treasury, it alleged.

The report revealed that since 1988, the smugglers switched to smuggling of eatable products as they found this proposition highly lucrative. The smuggling of items originates from Dubai, via the Port Bandar Abbas in Iran, through to Afghanistan and ends up into Pakistan. Probing the matter, the report discovered the five per cent increase in the custom duty during the 2001 budget, plus the total tax increase of 70 per cent, to be the main reasons for the rise in smuggling. The smuggling of tea is an instance. An estimated 40 million kg of tea, which forms about 40 per cent of the total legal import of Pakistan's tea need, is smuggled into the country. The annual tea import fell to 92 million from 110 million last year, despite the fact, that tea consumption has registered over 3 per cent increase during the corresponding period and the total consumption stood at 135 to 140 million kgs.

The News was told that representatives of the traders met as well as wrote to the Dry-port Directorates, Coast Guards Officials, high-ups in Islamabad, in addition to the officials of the ministries concerned, but all efforts ended in futility. The dry ports have virtually turned into a sanctuary for

smugglers, as the Custom Collectorates and other staff abet the local traders in under-invoicing of consignments. The Quetta Chamber of Commerce and Industry (QCCI), wrote a letter to the member (Imports) CBR recently with the copy to all about this.

This literature review brought forth the followings five major issues for further probe and analysis: (i) It became very important to know Afghanistan and its economy. (ii) It is also imperative to assess the dynamics of the cross border illegal transactions i.e. its volume, nature, routs of execution, modes of operation and its trends. (iii) This analysis further forced for examining the various modes of transportation and finance of the cross border smuggling. (iv) As a theme of this research the determination of the various causes of illegal transaction and its effects on the economy particularly industrial sector of the NWFP has also become imperative. (v) Since the effects of the situation in Afghanistan overlapped to other neighbouring countries, which all happened to be the members of Economic Cooperation Organization (ECO), therefore it was also of immense importance to analyze the trade patterns of the regional states to chalk out the future economic map for the region. All these issues have been examined in a systematic and formal manner by applying appropriate tools of analysis that is generally known as the methodology of research, which is revealed in the next chapter.

CHAPTER 3

METHODOLOGY

This chapter outlines the procedural formalities observed in the study. The Methodology of the study implies description of the procedures and instruments adopted and employed in collection, analysis and comparison of the data collected for it. Keeping the dynamic nature of the study in view, the research instruments have constantly been developed and modified to respond well to the changing behavior of the respondents and data.

The research has been carried out by using data from interviewees, largely respondents' recall and role characterization constituting primary data as well as official data from the government of Pakistan, international organizations and NGOs related to Afghanistan, constituting secondary data.

3.1 Primary Data

Except for the employment of enumerators, the other three instruments of the collection of primary data, namely, (i) direct personal investigation, (ii) indirect personal investigation and (iii) investigation through questionnaire has been employed.

To overcome the errors associated with sampling, in-depth, informed and intelligent interviews were carried out with all the major actors in Pak-Afghan cross border trade.

The main characters interviewed, include:

i. Suppliers and sellers of various goods,

ii. Transporters and carriers,

iii. Law enforcing agencies and

iv. Financiers.

3.1.1 The questions asked from respondents followed a general interview guide, which usually was not shown to the first two categories out of the four mentioned above. The interview guide was constantly modified and developed during the course of the research. A comprehensive interview schedule pertaining to the following information was evolved.

i. Description of the trading system, including identification of the major actors and the relationship among them.

ii. Specific description and characterization of the transport and finance systems corresponding to the cross border trade process.

iii. Prices, transport costs and mark-ups for the smuggled goods on both the sides of the border.

iv. Trade volumes in standard to ton truck loads through the major passes into Afghanistan for each of the selected product groups.

v. Although the study interviewed participants in both official and un-official commerce (most traders are involved in both), the focus of the questions was the unofficial trade.

3.1.2 It was expected that the motivation of the respondents to talk freely and openly would be a complex issue as the communication hurdles like hesitation to share the information and personal bias of the respondents were likely to influence the information. To overcome these barriers, the following techniques were employed.

i. To avoid embarrassment for the respondents, the interviews were conducted in informal manner i.e. formal questionnaire or tape recorders were not used, particularly its use was avoided with transporters, suppliers and financiers.

ii. To neglect the personal involvement of the respondents, the queries were made in third person e.g.

a. How long it takes the traders (smugglers) to transport their goods to various destinations or

b. How much profit a trader of transit goods normally realize over an investment of say 1 lakh in one year.

iii. The use of words like "smugglers", or smuggling' were avoided during the course of investigation and instead words like 'trade' or 'traders' were substituted.

iv. The respondents were made to believe that the study aimed at facilitating the cross border trade in legal manner as against its present questionable nature.

v. Prior to conducting the interview, a short but comprehensive information was shared with respondents which convinced them that they were not the first ones to be opening their lips on the issue, rather many other had already talked about it and that they would only be supplementing the available information.

vi. In addition, personal guarantees of locals, relatives and friends were also given, which convinced them that the sharing of their information would not let their names appear in the study or be booked by the law enforcing agencies for that matter.

vii. To detect a personal bias, the journalistic technique of soliciting response to stated generalization and then confirming (or denying) these responses by repeating the questions in subsequent interviews was employed.

3.2 Secondary Data

Some of the sources of secondary data consulted for the study include, Federal Bureau of Statistics, Central Board of Revenue, Government of Pakistan,

World Bank, UN statistics, print media, research journals and other agencies associated with Afghanistan and the region.

Though the data obtained from these sources, in the technical sense is branded as secondary data, but since the data collected from the above quoted sources were in raw form i.e. had not been analyzed, compared or went through any of statistical machines, hence in the practical sense were primary. [1]

3.3 Instruments of Analysis

The main statistical instruments which were applied to the data collected are:

i. Simple averages,

ii. Index number

iii. Time series

iv. Multiplier

v. Graphs and diagrams.

These instruments proved very useful for analysis, finding relative trend and the estimation of available statistics, which further facilitated testing of hypothesis and findings of the study.

The application of simple averages helped measure the percentage changes occurring in the data. In index number[2] application, its tool of quantity index number was employed. This tool helped measure the changes in the physical volume or quantity produced or sold of certain goods with respect to time.

Quantity relatives = $(Q_n/Q_0)100$

where Q_n = Quantity in current period

[1] Bhatti, I.A. (1974), Elements of statistics", New Fine printing Press, Lahore. P.26.

[2] The instrument of Index number means, a quantity which shows by its variation, the changes over time or space of a susceptible either of accurate measurement in itself or of direct valuation in practice. Chaudhry, Mohammad, Sher. (1999), 'Statistical Theory', Ilmi Kitab Khana, Lahore. PP.145-150.

Q_0 = Quantity in base period.

The quantity relative helped measure the relative changes occurred in the data with respect to data of a certain year chosen as base.

The tool of time series helped record data in chronological order i.e. it helped analyzed data in accordance with its time of occurrence. The tool of multiplier helped calculate the real impact of the misuse of ATT on various sectors of the economy of Pakistan rather than its nominal values recorded by various national and international departments and organization. To give a fair understanding of the behavior of the data, presented in the study, simple bar diagrams and graphs of the type of historigram have been depicted. The graphs and bar diagram facilitated comparison between two or more than two series and also helped in appreciating their significance readily.

3.4 Sample Size

The research has not only attempted a formally selected statistical sample of respondents with in the cross border trade activity, but has also opted for an overview of the trading process and the magnitude involved. The study has stratified the chosen sample of respondents by targeting a minimum number of candidates in each trading category. The instruments employed, classified the respondents as "large-volume" or "small volume" participants in their particular specialty.

Since the basic characteristics within each group of trade are homogeneous, hence a small fraction of the group represented the whole lot. Only 5 respondents from each group were sufficient to arrive at a reliable findings and facilitate the work. Since the major trade items which are being focused in the study can broadly be categorized into 10 and the major characters into four groups as detailed below, hence a sample of size 120 was adequate.

Instead of random or accidental sampling, the most reliable instrument of purposive sampling was adopted i.e. samples which in view of their experience, stake in and knowledge of the business and hence could respond best, were

selected. The samples whose responses were sought belong to the following categories:

3.4.1. Suppliers/Sellers of the goods in focus

a. Toiletries and cosmetics.
b. Auto spare parts.
c. Textiles.
d. Crockery.
e. Carpets (both machine and hand spun).
f. Woolen garments.
g. Electronics,
h. Electrical goods,
i. Goods for children, Toys
j. Bicycles etc.

3.4.2 Transporter/Carriers

a. Cross-border transporters,
b. Physical body carriers,
c. Inter-provincial transporters,
d. Intra-provincial transporters and
e. Bicycle carriers.

3.4.3 Law Enforcing Agencies

a. Customs' authorities,
b. Police authorities,
c. Excise and taxation department,
d. Political agents.

3.4.4 Financiers

a. Kerb market dealers
b. Agents of the drug suppliers and
c. Dubai bound financiers.

3.5 Scope of the Study

The study has been planned to cover the period from 1991 to the year 2000. But keeping the natural sequence in view, references of the relevant information materials prior to 1990 or post 2000 has also been consulted. Since no record of the illegal transactions is maintained in the formal transaction books of the economy, data for some years couldn't be ascertained. Therefore data available for one period was extended to the preceding and succeeding years as proportionate to some other relevant indicators.

The thrust of the study has been kept limited to the economy of NWFP but since it is an integral part of the economy of Pakistan which in the context of the study is linked to other regional economies, therefore the scope was relaxed to consider the problem in the regional rather national perspective. Due to the expanded structure spread over hundreds of fields and dozens of branches, the field coverage of the study has been kept limited to NWFP, and its adjoining tribal areas. During the course of this research as the facts were established and as the study required, statistics regarding various sectors of all the ECO countries were also sought and incorporated for further analysis and conclusion. The Afghan Transit Trade doesn't specifically mean, the 1965 Afghan Transit Trade Agreement between Pakistan and Afghanistan. The word agreement has particularly been avoided to include the transit facility extended to Afghanistan by Iran, Turkmenistan, through Bandar Abbas and Thorghundi as agreed in the ECO 1997 Transit Trade Agreement in 1997 and Russian Federation through Vladevostock.

Though the number of transit goods smuggled to Pakistan run into hundreds, but goods relevant to specific purposes have been grouped together like toiletries, electronics, electrical goods etc to avoid burden of data. The fact that the interview data cover only 10 categories of items was sufficient to support the progress of the study and derive conclusions.

CHAPTER 4

AFGHANISTAN AND ITS ECONOMY

4.1 Geography

Literally, Afghanistan mean "Land of the Afghans" but Amir Abdur Rahman Khan (1880-1901), referred to his country as 'Yaghistan'. This Yaghistan has variously been translated as; "land of rebels", "land of unruly", and "land of insolence.[1]" Whatever its meaning may be, strategically the land now called Afghanistan is the meeting place of four ecological and cultural areas: The Middle East, Central Asia, the Indo-Pak sub continent and even the Far-East as the Pamir Mountains intrude into Chinese Sinkiang.

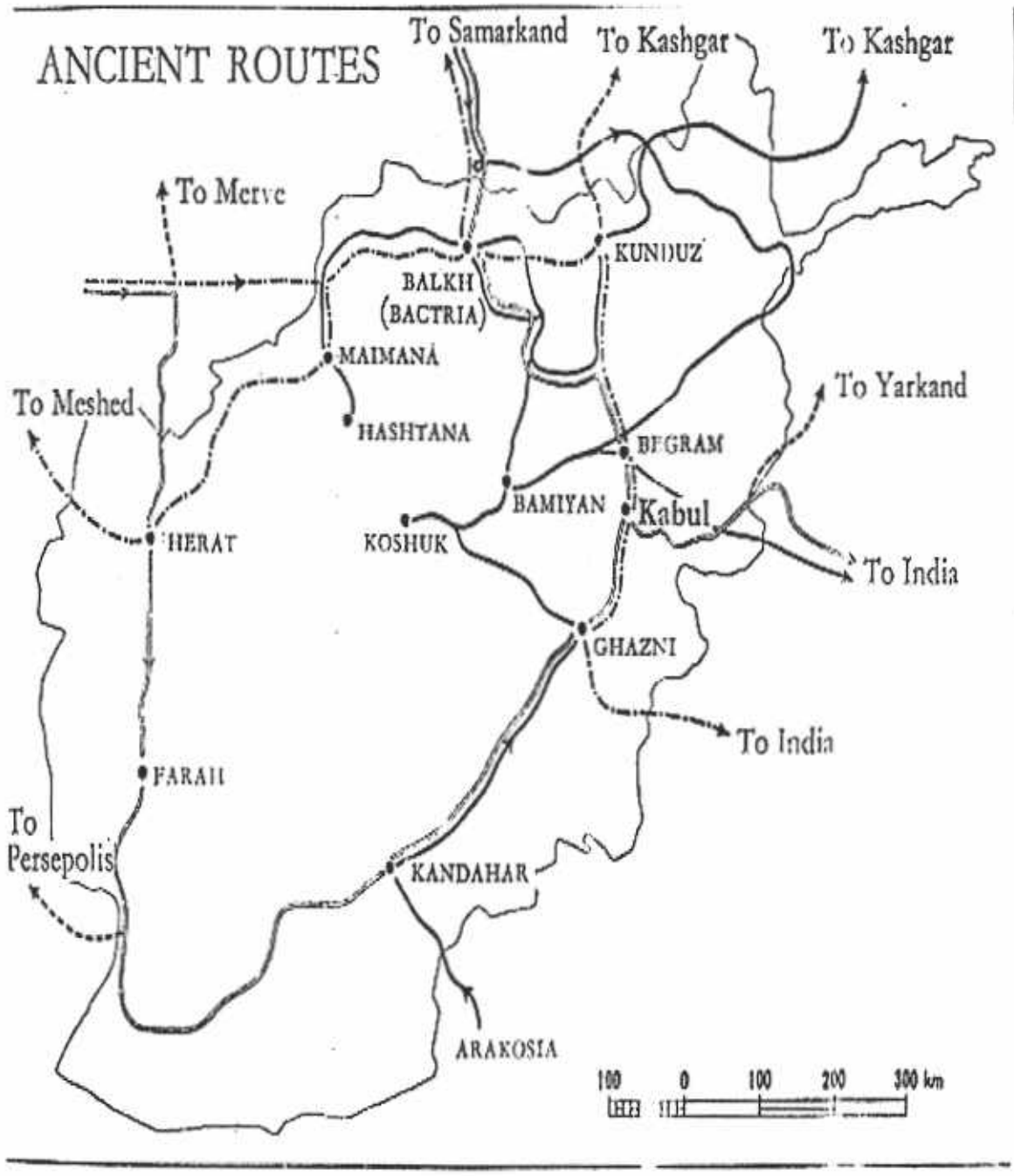
For centuries this landlocked and little known country has been the meeting place of East and West. "It attracted conquerors and empire builders from all side of the globe-Chengiz Khan, Tamerlane, Alexander the Great, the nineteenth century British, America and Russia. It was a major stop on the great trade and exploration routes of the past, traversed by Morcopolo, the Chinese traveler Hsiian-tsang and the silk route merchants."[2]

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[1] "This insolence is not the frustrated insolence of urbanized, dehumanized man in western society, but insolence without arrogance; the insolence of harsh freedom set against the backdrop of rough mountains and deserts, the insolence of equality felt and practiced, the insolence of bravery past and bravery anticipated"-Dupree, Luis (1980), Afghanistan, Princeton University Press, Princeton New Jercy, USA. P.xvii. Here after cited Dupree, Afghanistan.

[2] Konishi, Mastoshi (1976), Afghanistan, Kodanshah international limited, Tokyo, Japan. P.7.

ANCIENT ROUTES THROUGH AFGHNISTAN



— ROUTE OF ALEXANDER THE GREAT (*fourth century B.C.*)

— ROUTE OF HSÜAN-TSING (*seventh century*)

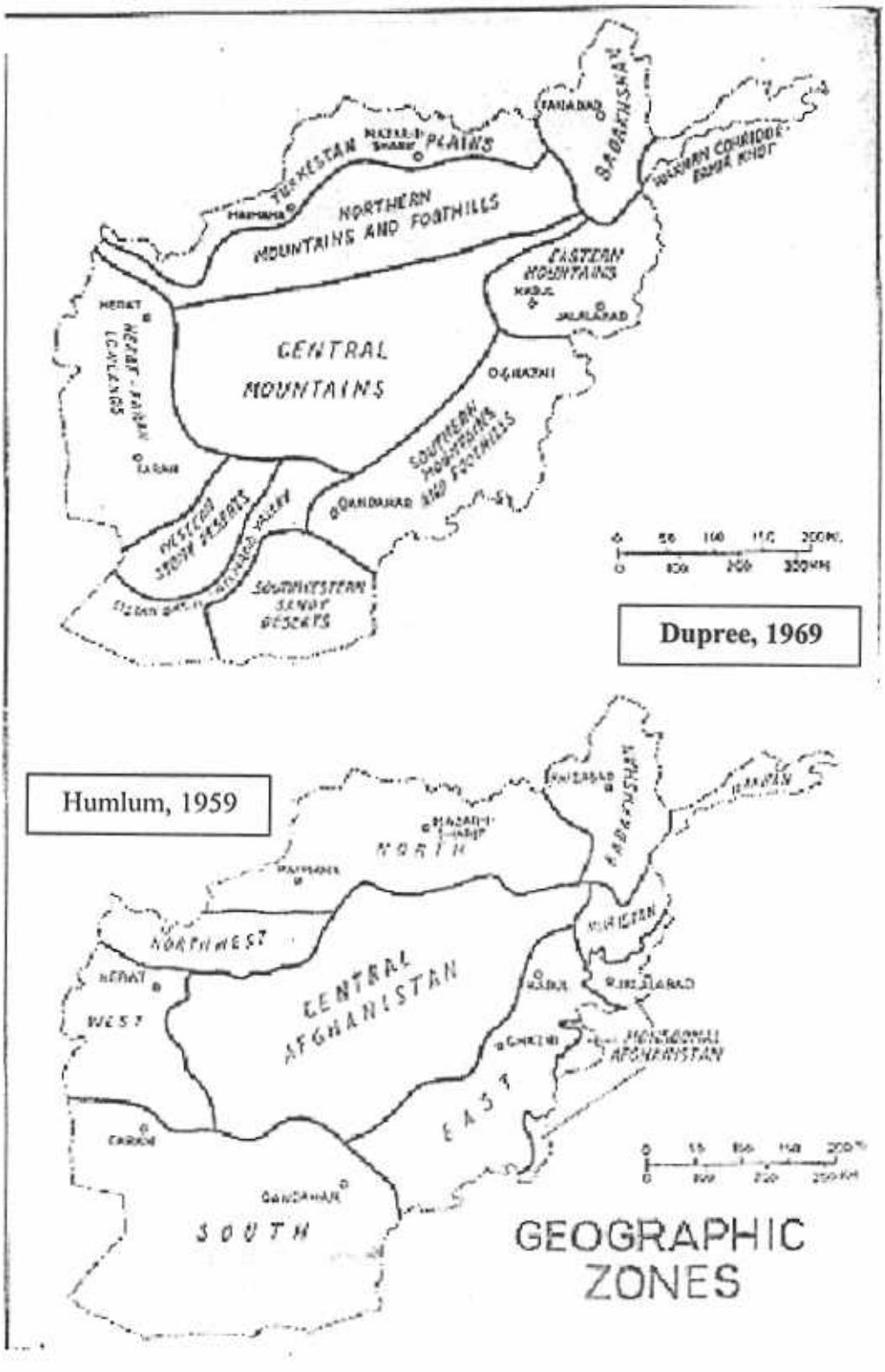
-·-·- ROUTE OF IBN BATTUTA (*fourteenth century*)

····· OTHER TRADITIONAL COMMERCIAL ROUTES

Shaped like on oak leaf, of which the Wakhan strip form the stem, Afghanistan is actually a high plateau, crossed from northeast to southwest by mountains varying in height from about ten to twenty thousand feet. The outstanding geographic feature of Afghanistan is its mountain range, the Hindukush[1]. Many passes cut through the central Hindukush mountains and in the past provided the main routes north and south. The Hindukush and subsidiary ranges divide Afghanistan into three distinct geographic regions, which roughly can be designated as the central high lands, the northern plains, and the south western pleatu. A more broader geographic division of Afghanistan has been made by Louis Dupree. According to him, from the point of view of total ecology, Afghanistan can be divided into eleven diverse geographic zones, as against the ten geographic zones made by a "Danish geographer Humlum in 1959".[2] The first six zones, namely the Wakhan corridor-Pamir knot, Badakhshan, Central Mountains, Eastern mountains, Northern Mountains and Foothills, Southern Mountains and Foothills, relate to the Hindukush mountain system. The remaining five zones, namely Turkestan plains, Herat-Farrah low lands, Sistan Basin-Hilmand valley, Western Stony Deserts, Southern Sandy Deserts, embrace the deserts and plains which surround the mountains in the north, west and south. The central highlands, actually a part of the Himalayan chain, include the main Hinduskush range, its area of about 160000 square miles is a region of deep, narrow valleys and lofty mountains, some peaks of which rise above 21000 feet.

[1] This formidable range is a barrier between the comparatively fertile northern provinces and the rest of the country and it creates the major pitch of Afghanistan from North East to South West.
[2] Dupree, Afghanistan, PP.4-8.Op.cit.

GEOGRAPHIC ZONES



The northern plains region, north of central high lands, extend eastward from the Iranian border to the foothills of Pamir, near the border with Tajikistan. It comprises 40000 square miles of plains and fertile foothills, slopping gently towards the Amu river.

The southern plateau, south of central highlands, is a region of high plateaus, sandy deserts and semi deserts. The average altitude is about 3000 feet. This plateau covers about 50000 square miles, one fourth of which forms the sandy Regestan deserts. The smaller Margow deserts of salt flat lands and desolate steppe lies west of Registan desert. Several large rivers in the southern plateau; among them are the Helmand river and its major tributary, the Arghandab.

Afghanistan possesses extremes in quality of its soils. The central Highlands have desert-steppe or meadow-steppe types of soils. The Northern plains have extremely rich, fertile, loess like soils, while the southern plateau, has infertile soils except along the rivers in the south west, where alluvial deposits can be found.

4.1.1 Location

'Afghanistan has an area of 251828 square miles (625225 square kilometers). The nearest coast is lying along the Arabian sea (Pakistan), about 300 miles to the south. With Pakistan, it has the longest border of 1125 miles (1810 kilometers) to the east and south. In the west a 510-miles border separates Afghanistan from Iran. There is a 200 miles border with Azad Jammu and Kashmir'[1]. The combined length of Afghanistan northern border with 'Turkmenistan, Uzbekistan and Tajikistan'[2] is 1050 miles. The shortest border of 50 miles is with the Uighur autonomous region of Sinkiang of People's Republic of China at the end of long, narrow Wakhan corridor[3] in the external north east.[1]

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[1] Afghanistan, Britannica, Macropadea.
[2] The three central Asian Republics, that border Afghanistan, are landlocked, with Uzbekistan the only landlocked country of the world, which is surrounded by other landlocked countries.
[3] This unique area belongs geographically to the greater Pamir Mountain system. The Anglo-Russian

"Several seasonally closed passes led from Wakhan to Hunza and Chitral in Pakistan. Baroghill pass; Dorah (called Kach in Pakistan), the Kilik (or Wakhjir) Dawan leads from Kashmir into Chinese Sinkiang and on to Tiwa and Urumchi, following former important trade and communication routes traveled by Marcopolo and earlier a flanking forces of Genghis Khan, among others."[2]

4.2 Settlement Patterns

The Hindukush divides the country into northern and southern regions, which can further be subdivided on the basis of topography and ethno linguistic settlement patterns. Northern Afghanistan, for example, may be subdivided into the Badakhshan-Wakhan region in the east[3] and Balkh-Meymanah region in the west.[4]

Southern Afghanistan can be subdivided into four sub-regions those of Kabul[5], Qandahar[6], Herat[7] and Hazarajat[8]. The settlement pattern may, however, broadly be divided into urban and rural.

4.2.1 Urban settlement

Most urban settlement[9] have grown along the road that runs from Kabul south westward to Qandahar, then northwest to Heart, northwest to Mazar-e-

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Boundary Commission of 1895-96, Politically forced this zone on Amir Abdur Rehman, so that at no point would British India and Tsarist Russia touch.

[1] The boundaries of Afghanistan were established in the late 19th century in the context of rivalry between Britain and Russia. Britannica, macropedia.

[2] Dupree, Afghanistan, Op.cit. PP. 6-8.

[3] Mainly a conglomeration of high mountains and high plateaus, east is inhibited chiefly by Tajiks. Britannica, Macropadae.

[4] West is mostly plains of comparatively low altitudes, contains a mixture of peoples in which Uzbeks and Turkmens of Turkic origin predominate. Ibid.

[5] The region of Kabul combines the area drained by the Kabul River and the high plateau of eastern Afghanistan. This region is inhabited by Pathans and is the man corridor connecting the other regions and their people. Ibid.

[6] The Qandahar region consists of the sparsely populated, southern part of Afghanistan. The people inhabiting this region belong principally to the Durrani branch of the Pathans. In addition there is a small number of Baluch and Brahvi peoples. The city of Qandahar is located in a fertile basis near the Arghandab river. Ibid.

[7] The region of Herat, or western Afghanistan is inhabited by a mixture of Tajiks, Pathans and Chahar Aimaks. The life of the region revolves around the city of Herat.

[8] The mountainous region of Hazarajat occupies the central part of the county and is inhabited principally by Hazaras. Although Hazarajat is located in the heart of the country, its high mountains and poor communication facilities make it the most isolated part of Afghanistan. Ibid.

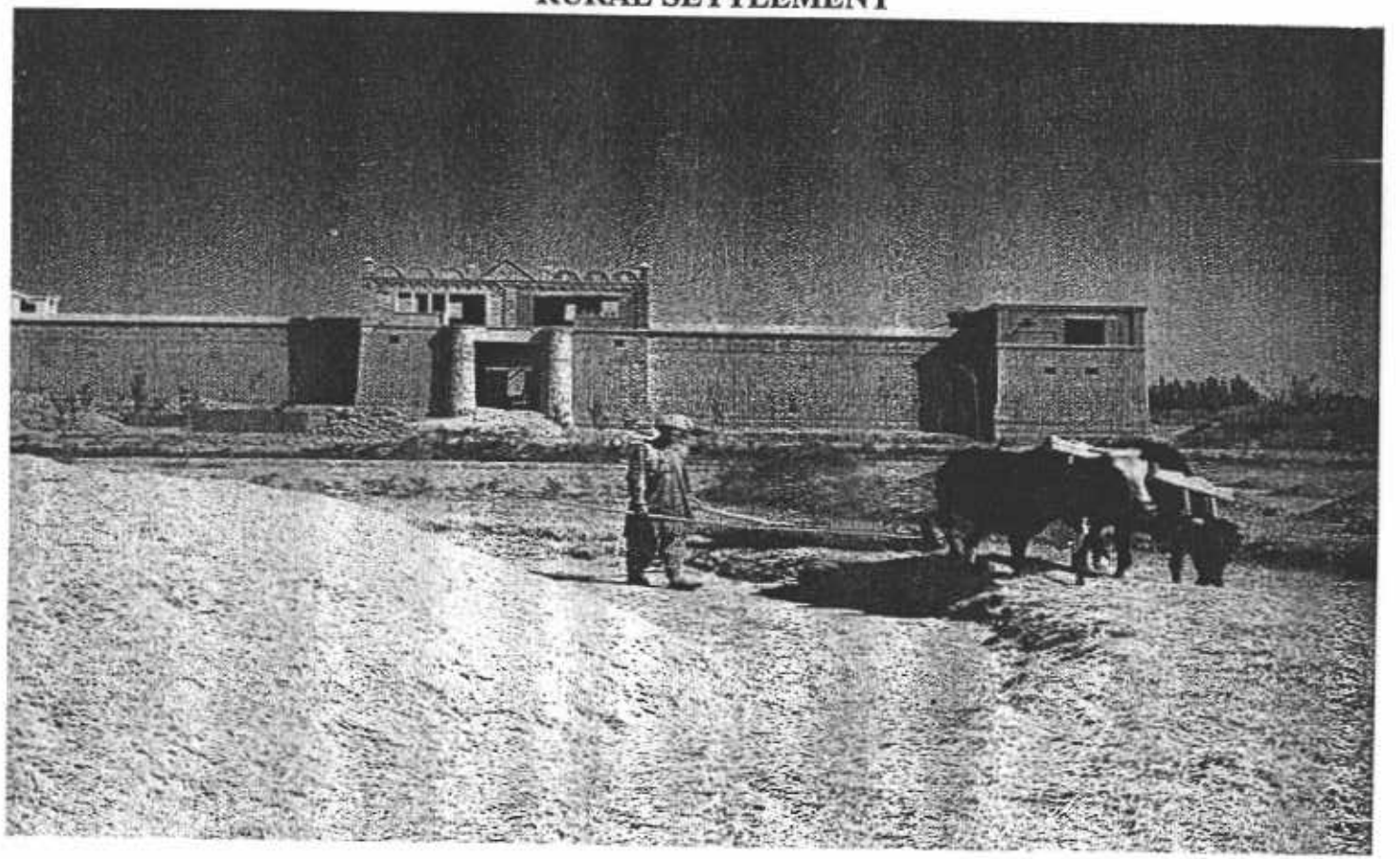
[9] The major cities of Afghanistan include Kabul, Qandahar, Herat, Bagram, Jalalabad, Konduz, Charikar and Mazar-e-Sharif. Ibid.

Sharif and southeast back to Kabul. The most heavily populated part of the country is between the cities of Kabul and Charikar. Other concentrations of people can be found east of the city Kabul near Jalalabad, in the Herat Oasis and the valley of Hari river in the northeast.

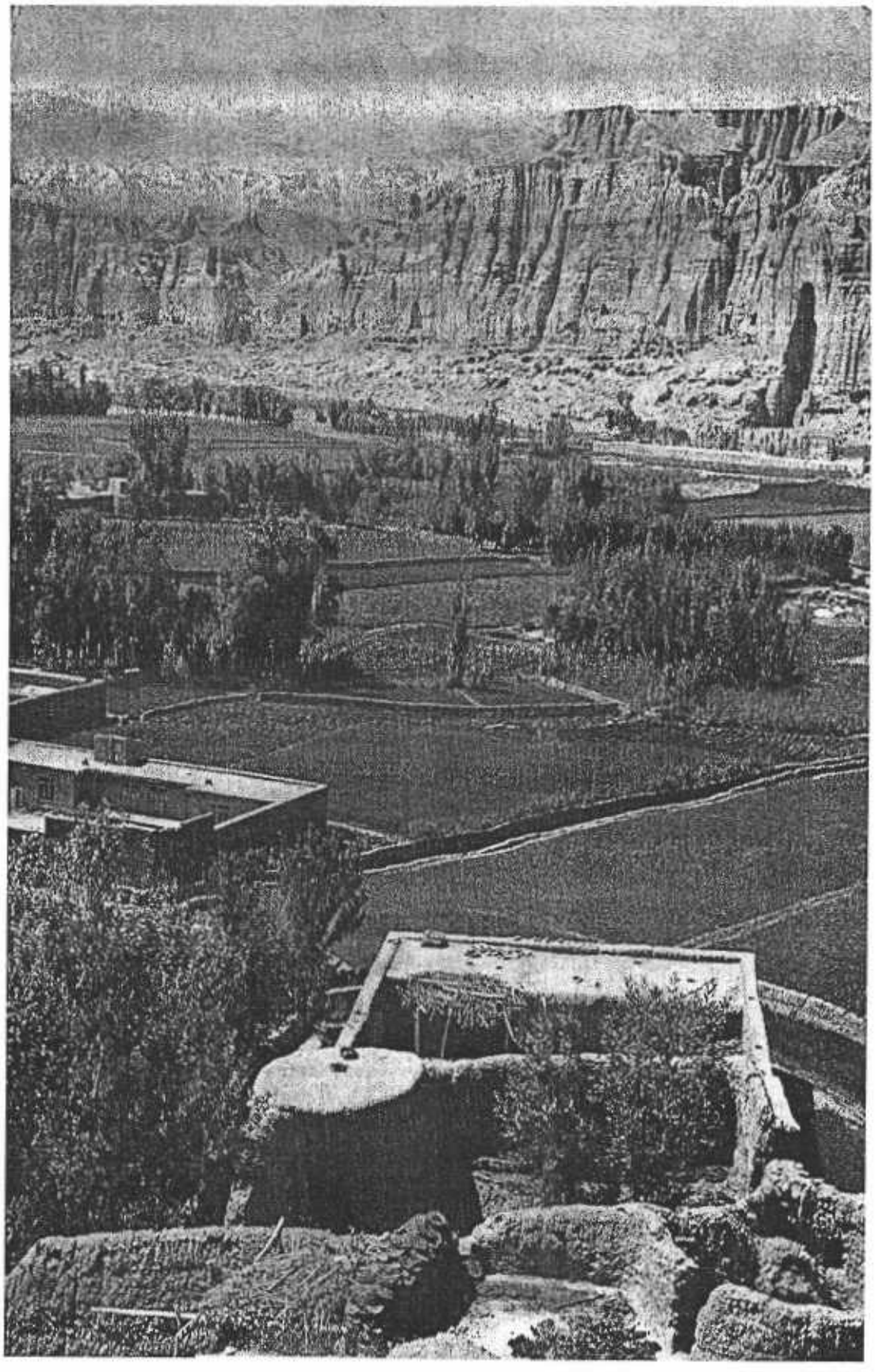
4.2.2 Rural settlement

The rural population may chiefly be divided into sedentary and semi sedentary farmers. The sedentary farmers usually live in small villages, most of them scattered near irrigated land in the valleys of major rivers. These villages, as a rule, are built in the form of small forts. Each fort-village contains several mud houses inhabited by closely connected families who form a defensive community. The semi sedentary farmers, who breed livestock and raise a few crops, live in the high alpine valleys. Since cultivable land there is scarce, they live in scattered isolated hamlets. Each household owns a few heads of livestock, which are moved in summer to the highland pastures. The people usually divide themselves into two groups in summer: one group remains in the hamlet to tend the crops, while the other accompanies the livestock to the highlands.

RURAL SETTLEMENT



Brick and kutcha houses inhabited by closely connected families who form a defensive Community.



4.3 Economy

After the bird eye view of geography and social set up a survey and analysis of key economic assets of Afghanistan is imperative to determine its trend, strength and productivity.

4.3.1 Agriculture

Afghanistan is essentially a pastoral country. Only 12% of the total land area is arable and only about half of the arable acreage is cultivated annually. Much of the arable land consists of fallow cultivable land or steppes and mountains that serve as a pastureland.

4.3.1.i Agriculture and animal husbandry, much of which consists of subsistence farming and pastoral nomadism are by far the most important items of the gross national product (GNP), accounting for more than half of its total value. As is shown in the table, the total arable land and the land under permanent crops remain constant at 8054 (thousand hectares) from 1988 to 1997.

Out of this only 2800 thousand hectare (T.H) is irrigated land which except 1991, 1992 and 1993, registered no increase. In the arable area, land measuring 30000 T.H. is a fallow cultivable land or steppe and mountainous that serve as a pasture land. From 1988 onward not even a hectare has been converted into cultivated area, which implies that the central authorities of the country remained oblivious of the economic considerations due to their pre-occupation with the military pursuits.

The forests and wood land cover about 3% of the total land area. They are mostly found in the eastern part of the country and on the southern slope of the Hindukush[1]. 'Those in the east consists mainly of conifers, providing timber for the building industry as well as some wild nuts for exports. Other trees especially oaks, are used as fuel. North of the Hindukush are pistachio trees, the nuts of which are exported![2]. During the period of the study area of forests and wood land has decreased from 1900 thousand hectares to 1700 thousands hectares showing consumption of the natural resources in raw rather than value added form.

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[1] Afghanistar, Britannica, Macropadae.
[2] Ibid.

Table 4.1 Land use (thousand Hectare)

	Year/Agriculture area	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
1	Arable land and land under permanent crops	8054	8054	8054	8054	8054	8054	8054	8054	8054	8054
2	Irrigated land	2800	2800	3000	3000	3000	3000	2800	2800	2800	2800
3	Permanent meadows and pastures	30000	30000	30000	30000	30000	30000	30000	30000	3000	34000
4	Forest and wood land	1900	1900	1900	1900	1900	1700	1700	1700	1700	1700
5	Other land	25255	25255	25255	25255	25455	25455	25455	25455	25455	25455

Source: UN statistical yearbook for Asia and Pacific.

4.3.1.ii Area under principal crops

The principal crops of Afghanistan include wheat, maize, barley, rice, sugarcane, cotton seed, sesame seed and grapes. As may be observed in the table below, except area under wheat which increased from 1620 (T.H) in 1988 to 2186 (T.H) in 1998, areas under cultivation of other crops have either absolutely or relatively declined.

Table 4.2 Area under principal crops (thousand hectares)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Wheat	1620	1610	1570	1690	1600	1620	1800	1950	2000	2124	2186
Maize	290	270	273	250	220	220	230	230	230	200	200
Barley	212	211	205	204	170	160	170	170	170	200	200
Rice	180	170	175	173	175	175	180	170	175	180	180
Sugarcane	3	3	3	2	2	2	2	2	2	2	2
Cotton seed	45	55	28	60	60	60	60	60	60	60	60
Sesame seed	47	47	46	46	46	46	46	46	46	46	46
Grapes	52	52	52	52	48	48	48	48	48	48	48

Source: UN statistical yearbook for Asia and Pacific.

4.3.1.iii It has already been noted that the cultivable land at the extensive margin remained almost stagnant, at the intensive margin too, the availability of tractor (the only mechanical input available in Afghanistan) remained constant at 840 numbers.

Table 4.3 Farm machinery in use Machines

(Number – in thousands)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Agricultural tractors	840	840	840	840	840	840	840	840	840	840	840

Source: UN statistical yearbook for Asia and Pacific.

4.3.1.iv Similarly the utilization of biological input namely nitrogenous and phosphate fertilizers over the period slashed from 52.2 and 26.2 metric tones in 1988 respectively to negligible proportions of 5.0 metric tones and nil respectively as may be observed in the table below.

Table 4.4 Consumption of Fertilizers

(Thousand metric tons)

Fertilizers	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Nitrogenous fertilizer	52.2	49.8	50.0	44.1	45.0	36.2	40.0	14.0	10.0	5.0	5.0
Phosphate fertilizers	26.2	5.9	5.6	0.4	5.8	6.9	---	---	---	---	---

Source: UN Statistical Yearbook for Asia Pacific.

4.3.1.v Production of Principal crops

This relative and absolute decrease in both the mechanical and biological inputs recorded adverse fallout on the production of all the principal crops, except wheat.

Table 4.5 Production of principal crops

(Thousand metric tons)

Years/Crops	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Wheat	1900	1800	1650	1726	1900	2100	2300	2500	2650	2711	2834
Maize	494	458	480	420	400	380	350	300	280	250	240
Barley	235	231	216	217	150	170	180	200	220	300	330
Rice	343	320	333	335	300	300	350	300	350	400	450
Sugarcane	62	60	55	38	38	38	38	38	38	38	38
Cotton seed	29	23	19	44	44	44	44	44	44	44	44
Sesame seed	26	25	25	24	24	24	24	24	24	24	24
Grapes	365	365	365	365	330	330	330	330	300	300	300
Cotton lint	16	12	9	22	22	22	22	22	22	22	22

Source: UN Statistical Yearbook for Asia Pacific.

4.3.1.vi It can also be seen that though the index number of agricultural production namely food and cereals, has recorded a marginal increase over the period, their per capita production has been slashed considerably.

Table 4.6 . Index numbers of agricultural production (1989-1991 = 100)

Years	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
All commodities	99.7	98.5	99.8	101.8	101.7	103.4	106.0	107.6	109.9	111.6	113.6
Food	99.6	98.7	100.3	101.0	100.9	102.7	105.4	107.0	109.5	111.2	113.4
Cereals	109.2	103.0	97.8	99.4	101.2	108.3	117.6	121.5	129.4	135.6	143.5
Per capita food production	104.3	102.0	100.8	97.2	91.9	87.9	84.6	80.7	77.7	74,5	72.0
Per capita cereal production	114.3	106.3	98.2	95.5	92.2	92.6	94.4	91.6	91.8	90.7	91.0

Source: UN Statistical Yearbook for Asia Pacific.

Table 4.7 Livestock and products

Years	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Livestock (thousand head, end of September)											
Horses	387	374	362	350	340	320	300	300	300	300	300
Mules	29	28	27	26	25	24	23	23	23	23	13
Asses	1280	1260	1240	1220	1200	1180	1100	1100	1160	1160	1160
Cattle	1800	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500
Sheep	14150	14150	14170	14200	14200	14200	14200	14300	14300	14300	14300
Goats	2050	2100	2150	2150	2150	2150	2150	2200	2200	2260	2200
Camels	265	265	265	265	265	265	265	265	265	265	265
Chickens	7000	7010	7080	7100	7180	7140	7160	7200	7200	7200	7200
Livestock product Milk (thousand metric tons)											
Cow	300	300	300	300	300	300	300	300	300	300	300
Sheep	150	170	200	200	269	260	200	201	201	201	201
Goat	37	38	40	40	40	40	40	41	41	41	41
Hen eggs (metric tons)	14200	14250	14300	14350	14400	14450	14600	14700	18800	18800	18800
Wool (metric tons) clean basis	7700	8000	8000	8300	8800	9320	9900	10500	9000	9000	
Greasy basis	14000	14500	14500	15000	15000	15000	15000	15500	15500	15500	15500

Source: UN Statistical Yearbook for Asia and Pacific.

4.3.1.vii Livestock and products

Livestock form the basic component of the agriculture-dominated economy of Afghanistan. Some of its main livestock include, horses, mules, asses, cattle, sheep, goats, camels and chickens. All the livestock except chickens, have registered either an absolute or relative decrease from 1988 to 1999 and so their products except eggs.

4.3.2 Mineral Resources

Extensive surveys have revealed the existence of a number of minerals of economic importance. The most important is natural gas with large reserves near Sheberghan in Jowzjan province.[1] The Khwajeh Gujardak and Yatim Taq fields are major producers with storage and refining facilities.[2]

Petroleum resources have been proved to be insignificant. Many coal deposits have been found in the northern slopes of Hindukush. Major coalfields are at Karkar and Eshposhteh in Baghlan province and Fort Sarkari in Balkh province. But all these industrial inputs together with other industrial goods, as furnished in the table have either shown an absolute or relative decrease.

4.3.3 Power resources

Afghanistan is potentially rich in Hydroelectric resources. However the seasonal flow of the country's many streams and water falls-torrential in spring when the snow melts in the mountains but negligible in summer, necessitates the costly construction of dams and reservoirs in remote areas. "The nation's negligible demand for electricity renders such projects unprofitable except near large cities or industrial centers. The potential of hydroelectricity is tapped substantially only in Kabul-Jalalabad region".[3]. The statistics furnished below, reveals that the production and consumption of both hydro and thermal power over the period has been slashed substantially which implies a reduction in industrial production and lower demand for electric consumer goods.

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[1] Near the Torkham border about 75 miles west of Mazar-e-Sharif.
[2] Pipelines deliver natural gas to Uzbekistan and Tajikistan and to a thermal power plant and chemical fertilizer plant in Mazar-e-Sharif.
[3] Afghanistan, Britannica, Marcopadea.

Table 4.8: Industrial Production

Years	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Mining and Quarrying											
Hard coal	138	127	105	94	8	7	6	5	...	...	...
Natural gas	59	13	8	8	7	7	7	7	...	...	...
Salt, unrefined	37	35	35	12	12	13	13	13	13	...	...
Manufacturing											
Meat, fresh (in terms of carcass weight)											
Beef and veal	65	65	65	65	65	65	65	65	65	...	...
Mutton and lamb	126	132	138	138	138	138	138	141	141	...	...
Butter	9.9	10.3	11.0	11.0	11.0	11.0	11.0	11.0	11.0	...	...
Cheese	12.3	13.6	15.6	15.6	15.6	15.6	15.6	15.6	15.6	15.7	15.7
Sugar, raw	2	1	1	1	1	1	1	1	1	1	1
Sawnwood											
Coniferous	380	380	380	380	380	380	380	380	380	...	...
Broadleaved	20	20	20	20	20	20	20	20	20	...	...
Nitrogenous fertilizers	57	55	55	53	49	42	40	14	10	5	...
Cement	70	100	100	109	115	115	115	115	...	...	...

Source: UN Statistical yearbook for Asia Pacific.

Table 4.9 Production and consumption of power

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Production	1109	1119	1128	1015	703	695	687	625	893	46053	0
Hydro	752	758	764	690	478	175	170	416	390	0	0
Thermal	357	361	364	325	225	220	215	209	203	0	0
Imports	0	0	0	0	131	130	128	120	110	0	0
Exports	0	0	0	0	0	0	0	0	0	0	0
Consumption	1109	1119	1128	1015	834	825	815	745	703	0	0

Source: UN Statistical yearbook for Asia and Pacific.

4.3.4 Trade

From 1988 onward Afghanistan has been suffering a continuous and deepening trade deficit. The value of imports of Afghanistan, which chiefly include, vehicles, petroleum products, sugar, textile, processed animals, vegetables and tea, has shown a drastic reduction from $ 900 million in 1988 to $ 496 million in 1996.

4.3.5 External trade

Table 4.10 Trade balance (year beginning 21 March of year stated)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Imports	900	822	936	616	490	425	347	359	496	-	-
Exports	395	236	235	188	376	688	102	166	125	-	-
Balance	-505	-586	-701	-428	-114	263	-245	-193	-371	-	-

Source: UN Statistical yearbook for Asia Pacific.

As may be observed in the table, the total value of exports of Afghanistan, which chiefly include natural gas, dried fruits, nuts, carpets, wool and karakul pets have substantially been slashed from $ 395 million in 1988 to $ 125 million in 1996.

4.3.6 National Accounts

All the indicators of National Accounts in the available data, has shown a declining trend over the period under study. The main components of the GDP viz Agriculture, manufacturing, construction, transport and finance have recorded a downward trend over the six years from 1988 to 1993 which made the GDP from 127.5 billion. Afghanis in 1988 to only 89 billion Afghanis in 1993. Similarly the GDP per capita, at constant prices, has registered a downward trend.

Table 4.11: National Accounts, GDP, (Billion of Afghanis)

Years	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Gross domestic product	127.5	124.7	124.6	114.1	99.8	89.0	-	-	-	-	-
Agriculture, hunting, forestry and fishing	67.3	65.6	59.6	59.9	62.7	57.3	-	-	-	-	-
Mining and quarrying Manufacturing Electricity, gas and water	32.8	35.6	40.4	29.2	14.3	12.3	-	-	-	-	-
Construction	10.2	7.2	7.3	7.0	5.8	5.5	-	-	-	-	-
Wholesale and retail trade, restaurants and hotels	10.6	9.9	10.5	11.1	10.5	10.1	-	-	-	-	-
Transport, storage and communication	4.6	4.4	4.7	4.8	4.5	2.0	-	-	-	-	-
Finance, insurance, real estate and business services	2.0	2.0	2.1	2.1	2.0	1.8	-	-	-	-	-

Source: UN Statistical Yearbook for Asia and Pacific.

4.4 This brief economic survey shows that Afghanistan to be not only an agricultural country but that agriculture is also very primitive in its nature and effect. The manufacturing sector is almost non-existent which make the national economic indicators to reflect very low levels and a declining trend. Though the country seems to be rich in natural resources, yet the non availability of basic infrastructure and resources keep it unexploited, thereby making the Afghan's deprived of its fruits. This analysis raised the basic question about the means of survival of Afghanistan and its people.

The geography of Afghanistan depicts it to be a country where strong natural barriers to communication exist. It is mostly because of these barriers, that social harmony remained obstructed, despite the country remained one geographic entity for centuries. The geographic zones as demarcated by the historians are not mere symbolic expressions on paper for academic purpose only, rather these demarcations are very strong and deep, strengthened by ethno-linguistic bias. "Afghanistan divisions are multiple-ethnic, sectarian, rural and urban, educated and uneducated, those with guns and those who have been disarmed. Afghans no longer call themselves just Afghans or even Pashtuns and Tajiks, but Kandaharies, Panjshiris, Heratis, Kabulis or Jowzjanis. Fragmentation is both vertical and horizontal and cut across ethnicaity to encompass a single valley or town. The Pashtuns tribal structure has been destroyed by the loss of common tribal property and grazing grounds and by war and flight. The non Pashtuns identify their survival with individual warrior leaders and the valley of their birth".[1]

The fettered communication across the country is also one major reason that constrained the formation of effective national institutions, particularly those pertains to the maintenance of law and order.

[1] Rashid, Ahmad (2000). Taliban-Islam, Oil and the new Great Game in Centrla Asia. I.B. Tauris and Companry Ltd New York. Pp:207-208.

Statistics pertains to demographics of the country reveal that 84.56% population of the country is living in rural areas and only 15.46% in urban areas[1]. It has also been found that manufacturing sector indicators are woven around agricultural products. Communication related statistics of the country consists of only television and radio receivers. During the period of the study, the number of receivers of T.V broadcast increased from 9.3 per thousand in 1990 to only 12.9 per thousand in 1998 and that of radio increased from 116.5 per thousand to 131.6 per thousand at the same points in time[2].

The analysis of the statistics also suggest that in the period under study, except a negligible portion, majority of the population of Afghanistan has been stuck-up in the satisfaction of basic needs of food, water and shelter and have not moved as yet to social needs, let alone, sophisticated and esteemed needs. These revelations are comparable to the nature, value and volume of goods imported by Afghanistan through ATT, which are assessed in the next chapter.

[1] UN Statistical Yearbook for Asia and Pacific.
[2] Ibid.

CHAPTER 5

PAK-AFGHAN FORMAL AND INFORMAL TRADE SYNDROME

Afghanistan has been a country in conflict for the last two decades, resulting in substantial destruction of its economy and formal economic institutions. Information about current economic structure is very sparse, partly because institutions which collected information have become dysfunctional, and also because the recorded economy has almost certainly shrunk, relative to the informal economy, as compared to the pre-war period. This chapter attempts to get a better understanding of a significant segment of the trade relations between Afghanistan and Pakistan, generally called as the informal sector.

Total bilateral trade between Afghanistan and Pakistan was conservatively estimated at $2.5 billion in 1996/97, equivalent to approximately 48% of Afghanistan's roughly estimated GDP and around 12-13% of Pakistan's total trade.[1] This trade can be disaggregated into four categories.

A. Formal trade between the two countries in locally produced goods, which is very small and accounted for approximately 2% of the estimated bilateral trade.[2]

B. Informal trade in locally produced goods was worth $357 million, which comprises 14% of estimated total Afghanistan-Pakistan trade. This is very similar in composition to the official trade, but is estimated at 13 times the value of official trade.[3]

C. Trade under the 1965 Afghan Transit Trade Agreement (ATTA), which primarily comprises of imports bound for Afghanistan. Scope of ATTA was expanded in 1997 and include now trade inlets from Turkmenistan, Vladevostock and air routes from Dubai and India.[4]

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[1]. Naqvi, Z.F. (1997), Afghanistan-Pakistan Trade Relations. World Bank report (Hereafter cited Naqvi, trade).
[2]. Ibid.
[3]. Ibid.
[4]. Ibid.

D. Unofficial re-exports of goods from Afghanistan into Pakistan, has been estimated at $1.96 billion (84% of the total trade) in 1997.[1]

5.1 Formal Trade

As stated earlier, formal trade between Pakistan and Afghanistan is negligible as compared to unofficial trade. The statistics furnished below reveals that except the three years of 1990-91, 1995-96 and 1996-97, the balance of trade remained in favour of Pakistan.

Table 5.1 Pak-Afghan formal Trade (Rs. in Million)

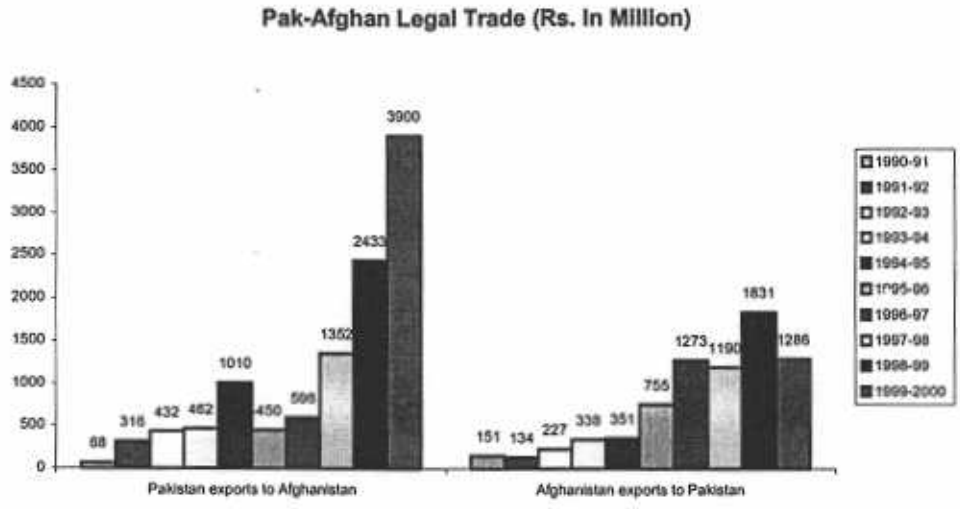
Years	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
Pakistan exports to Afghanistan	68	316	432	462	1010	450	596	1352	2433	3900
Afghanistan exports to Pakistan	151	134	227	338	351	755	1273	1190	1831	1286

Source: Federal Bureau of Statistics Govt. of Pakistan.

In the schedule and diagram depicted below, Afghanistan exports to Pakistan has shown a constant increase. Even during the strife-years of 1995-96 and 1996-97, when the Taliban were yet in the process of consolidating their victories, the economically active population of Afghanistan, remained intact and met the demand of Pakistan with increasing value and volume. During the same period, the civil strife forced people to leave Afghanistan and hence consumers' demand for Pakistani goods inside Afghanistan declined as is reflected by the relevant portion of the graph.

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[1]. Ministry of commerce officials in Pakistan appear to consider that this estimate is very high. According to them, the size of the unofficial imports and re-exports from Afghanistan is closer to $500 million annually. Their estimates are based on the size of the ATT (roughly $200 million) and rough guesses of another $300 million worth of smuggling from Dubai and Iran via Afghanistan. On the other hand, the estimates of the World Bank presented in this study are based on fieldwork, verified during detailed interviews with traders, transporters, shippers and handlers etc. Though limitations are there to this methodology, it is likely that the resulting estimates would not be off by more than 10-25 percent in either direction and perhaps the extent of the trade between Afghanistan and Pakistan is underestimated.



5.1.1 Structure and value of formal exports from Pakistan (NWFP) to Afghanistan

In recent years the structure of legal exports from Pakistan (NWFP) to Afghanistan has been dominated by necessities with a lion share taken by rice, fruits, sugar, ghee and plastic products. Besides the nature and value of goods like cement, construction materials, glass products are commodities which are quite in consonance to the socio-economic conditions of Afghanistan as prevailed during the period of the study.

There has been some changes in the composition of exports from Pakistan (NWFP) to Afghanistan over the last decade. In the mid-1980s to early 1990s, export from Pakistan, largely consisted of food items and raw materials for Afghanistan's industries such as yarn and textile products, metal products and glass products. The decline in exports of yarn/textile products from Pakistan could partly be attributed to the decline in textile production in Afghanistan as the war led to a large scale destruction of that country's industrial sector. There has also been an increase in official exports of plastic products (mainly plastic sheets, plastic bags, PVC pipes etc.), cement and construction materials in recent years, which points to the growing demand for temporary and permanent housing for returning refugees and internally displaced persons in Afghanistan.[1]

[1]. Naqvi, Trade P.7, Op.Cit.

Table 5.2 Structure of formal exports from Pakistan to Afghanistan

(R. in Million)

Name of product	1985-86	1990-91	1993-94	1995-96	1996-97	1997-98	Standard Deviation[1]
Rice	0	5.75	206.94	224.46	334.30	210.958	21.640
Fruits	35.32	1.30	9.74	8.55	28.007	54.092	18.22
Sugar	11.97	11.16	6.03	1.8	0	109.536	38.76
Misc. Food items	0.7	12.61	94.66	23.38	12.52	68.967	34.22
Cigarettes	171.74	-	-	-	-	-	-
Salt			2.32	3.15	41.805	12.170	4.12
Ghee	-	-	-	1.8	-	135.23	50.27
Chemicals	15.58	2.61	27.84	-	-	2.704	12.68
Leather and prod.	3.93	2.95	16.24	0.89	0	2.704	6.78
Garments	3.55	0.89	4.548	-	3.57	13.523	4.52
Cement	n.a	n.a	n.a	0	1.19	22.980	8.48
Glass product	2.97	12.68	1.86	-	5.837	18.923	9.34
Construction material	n.a	n.a	n.a	11.25	4.648	52.739	21.83
Metal products	20.34	3.22	27.278	1.8	-	5.409	13.79
Machinery	3.29	0.828	2.688	3.59	4.0575	8.13	3.90
Plastic products	n.a	n.a	n.a	89.51	131.08	430.03	186.84
Textile yarn/products	28.65	11.57	57.058	43.18	29.672	20.284	34.31
Miscellaneous	25.56	2.94	7.798	36.44	36.82	186.620	79.51
Total	323.6	68.502	464	449.8	595.9	1352.3	102.6

Source: Federal Bureau of Statistics, GOP. n.a not available.

[1] $\delta = \sqrt{\frac{\sum xi^2}{n} - \left(\frac{\sum xi}{n}\right)^2}$

5.1.2 Structure of formal imports from Afghanistan to Pakistan/ Afghanistan's exports to Pakistan

The nature and value of Pakistan's imports from Afghanistan from 1985-86 to 1997-98, is reflective of Afghanistan's potential in bilateral trade. The composition of Pakistan's imports from Afghanistan, as is shown in the table, is indicative of the current exportable surpluses in Afghanistan and also suggestive of its export potential in a more peaceful environment. Afghanistan being a predominantly agrarian economy, primarily exports agricultural products to Pakistan. Fresh fruits, dried fruits and vegetables which have traditionally been important imports from Afghanistan to the sub-continent, continued to be significant.[1] There has been a significant growth in exports of other agricultural products such as lentils, herbs and spices. Metal scrap, a by-product of war related destruction, was a sizeable exports from Afghanistan in the early 1990s, but has been slashed in value and share in recent years. Wood, mainly from the forests and wood lands in eastern and North-Eastern Afghanistan has become Afghanistan's important export to Pakistan.

[1]. These comprised close to half of total legal imports from Afghanistan to Pakistan between the mid 1980s and early 1990s but the share has fallen to around ¼th of the legal imports in the last two years.

Table 5.3 Structure of formal imports from Afghanistan to Pakistan

(Rs. In million)

Name of Product	1985-86	1990-91	1993-94	1995-96	1996-97	1997-98	$\delta = \sqrt{\frac{\sum xi^2}{n} - \left(\frac{\sum xi}{n}\right)^2}$
Lentils	23.758	11.147	17.814	178.18	137.053	154.329	76.228
Fresh and Dry fruits	148.24	70.343	117.333	307.28	337.318	257.083	119.052
Herbs & spices	27.591	10.332	12.206	43.79	48.371	28.565	14.28
Misc. Food Items	0.677	.458	1.649	6.04	3.818	8.332	2.90
Leather	46.475	10.486	27.712	24.16	110.742	47.608	32.28
Carpets	13.213	1.069	3.299	3.02	2.548	00	4.33
Wood	00	5.141	00	92.615	434.058	341.587	176.33
Cotton	00	00	00	14.345	40.313	147.585	57.67
Metal waste	2.867	29.471	112.336	33.22	14.002	22.614	48.35
Chemicals	7.335	2.902	9.145	15.605	11.036	49.591	40.94
Tools/parts	00	00	00	12.585	103.11	95.216	40.94
Vehicles	0.677	0.458	1.227	00	00	1.191	0.33
Miscellaneous	2.867	10.893	27.178	24.16	30.54	36.499	11.82
Total	273.7	152.7	329.9	755	1272.9	1190.2	

Source: Federal Bureau of statistics Govt. of Pakistan.

As may be observed from the available statistics in the tables concerning trade through the legal channels, the value of all the items lack a uniform trend of either increase or decrease throughout the recorded period. To measure the variability in the data, the tool of standard deviation, denoted by δ[1] has been employed to each and every item and the deviated value has been given in the last column against each item in table 5.2 and 5.3. In the table of legal imports from Afghanistan to Pakistan, lentils, fresh and dry fruits and wood appeared to have the greatest dispersion from the average values with the rest also have notable deviations. However in Pakistan's exports to Afghanistan, as given in table (5.2) with the exception of plastic products, ghee, sugar and textiles, other items have acceptable values of standard deviation. This implies that the outflow of Pakistani goods to Afghanistan had relatively greater stability as compared to the inflow of Afghanistan goods to Pakistan. The trend in both the countries are reflective of their respective political conditions.

5.2 THE CROSS-BORDER INFORMAL TRADE

The informal trade or smuggling across the Pak-Afghan border, which was estimated to be Rs.102.583 billion as against Rs.1.709 billion through the official channels[2], has two aspects.

i. Smuggling in locally produced goods.

ii. Re exports of goods (smuggling) imported through the transit facilities.

5.2.1. Informal Transactions in locally Produced goods

In locally produced goods, informal Transaction takes place both to and from Afghanistan. The key feature of this smuggling trade is that, over the years, it has now assumed such proportions, that legal trade through the official channels has been rendered as economically unviable and socially undesirable.

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[1]. "Standard deviation is the square root of the arithmetic average of the square of the deviations measured from the mean" Bhatti, statistics, P. 167, Op.Cit. Since standard deviation is based on all the observation in the data, therefore it is regarded as the most suitable measure of dispersion.

[2] Naqvi, Trade, Op.Cit.

As per estimates of the World Bank,[1] the cross-border smuggling between Pakistan and Afghanistan was Rs.102.583 billion in 1997, which amounts to about 10 percent of the total Pakistan's exports to all the countries of the World. Out of this, the smuggling in locally produced goods was estimated to be Rs.5.586 billion from Afghanistan to Pakistan and Rs.8.681 billion from Pakistan to Afghanistan in 1997, against Rs.1.2726 and Rs.0.595 billion worth of official trade respectively between them, in the same year.[2]

5.2.1.i Pakistan to Afghanistan

As may be observed in the tables 5.4 there are five main routes, namely, Torkum, Gandab, Chaman/Weish, Angoor Ada and Parachinar through which goods are smuggled from Pakistan to Afghanistan.

Table 5.4: Structure of unofficial exports from Pakistan to Afghanistan (1997)

(Value = Rs. In million)

Smuggling routs /items	Torkhum	Gandab	Chaman / weish	Angoor Ada	Parachinar	Total
Flour	435.38	93.772	1188.66	69.29	246.07	2033.172
Rice	237.384	194.649	517.76	86.30	302.96	1339.053
Ghee		100.876	554.22	73.70	269.50	998.296
Sugar		126.465	138.55	100.78	181.43	547.225
Pulses		169.924	109.38	51.65	51.08	382.034
Cotton			10.94	18.27	10.48	39.69
Cloth		538.705				538.705
Medicines	302.234					302.234
Cement			3.65	5.67	65.07	74.39
Fertilizer	116.404	61.325	306.28	81.88	183.18	749.069
Petroleum Product	19.814		207.83	37.16	160.28	405.27
Others	111.464	135.991	608.91	105.19	294.05	1255.605
Total	1222.6	1420.8	3646.2	629.9	1761.3	8664.743

Source: World Bank (1997)

a. Flour, rice and medicines are the major products that are smuggled through Thorkhum.

[1]. Naqvi, Trade Op-cit P.4
[2]. Ibid.

b. Through Gandab, the major items of smuggling, in order of their share are cloth, followed by rice, pulses, sugar and ghee.

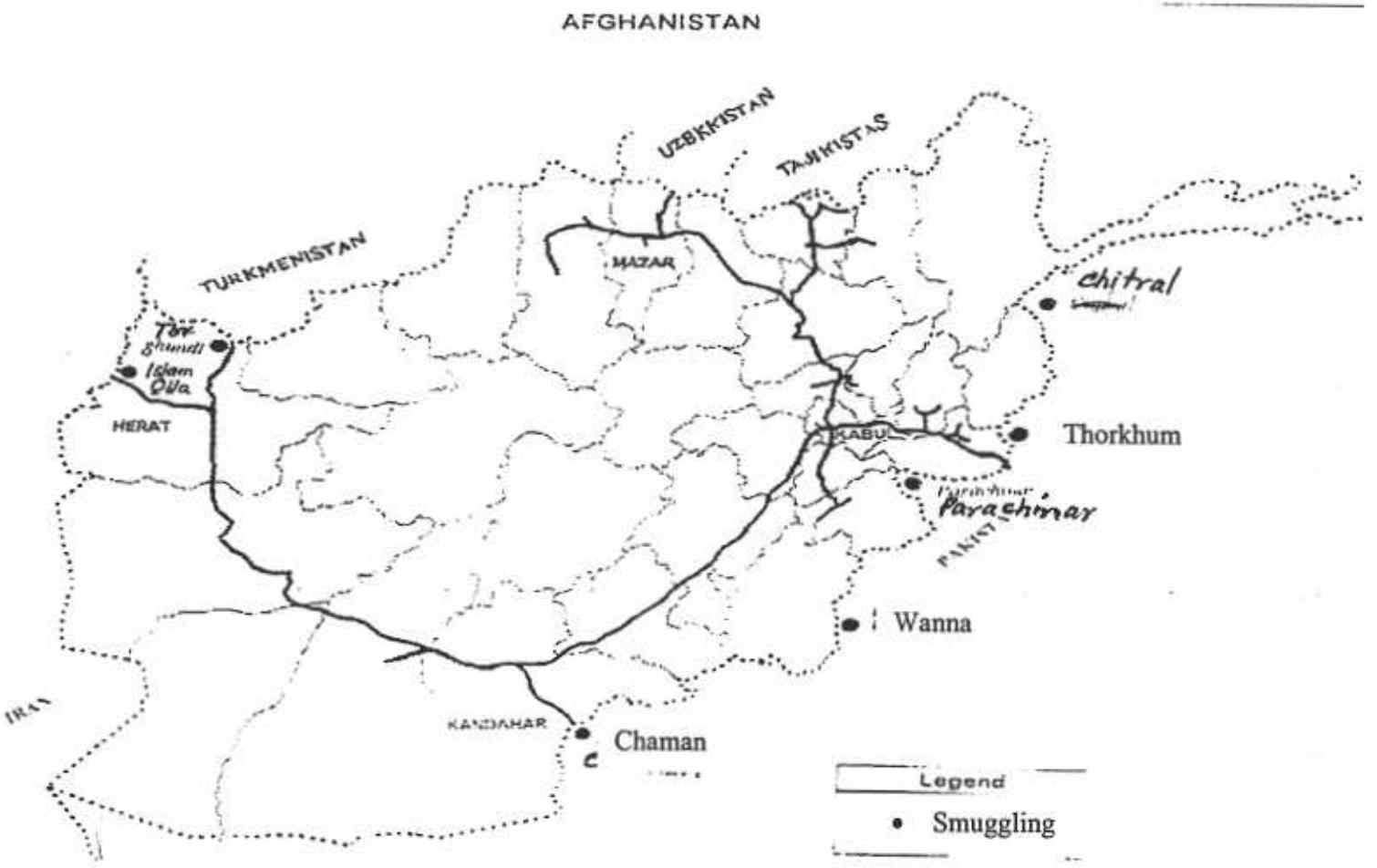
c. Through Chaman/Weish, the main items smuggled are, flour, Ghee, rice and fertilizers.

d. Similarly through Angoor ada, sugar, rice, fertilizer and flour are the main smuggling items.

e. Parachinar provide smuggling outlets mainly to rice, sugar, ghee and fertilizers.

By and large, through all these routes, floor rice, ghee, fertilizers and sugar in order of their share remain the dominant smuggling items from Pakistan to Afghanistan.

AFGHANISTAN-PAKISTAN TRADE ROUTS



5.2.1.ii Afghanistan to Pakistan

Smuggling also takes place in locally produced goods from Afghanistan to Pakistan via Torkhum, Chaman/Weish, Angoor Ada, Miran Shah and Shahi-Saleem.

a. As may be observed in the table 5.5 the major items of smuggling is fresh and dried fruits on all the routes (except, Shahi Saleem), which accounts for 60% of the total Rs.369 million worth of good smuggled through Torkhum. Animals skins and carpets with 9.7 percent and 11.7 percent share in the total are other important items which are injected in the Pakistani markets through Torkhum.

b. Through Chaman/weish, the other items with major share in the smuggled goods are carpets, animals' skin, scrap metals and vegetables.

c. Via the Angoor Ada, after fresh and dried fruits with 36.6% of the total Rs.752.1 million estimated smuggling, animals' skin (15%), vegetables (12.3%) and spices (6.5%) are the major items which find their way to Pakistan through Angoor Ada.

d. The passage of Shahi-Saleem appear to be a paradise for the smugglers of precious stones. Its share of Rs.603.98 million accounts for 65% of the total value of Rs.929.2 million that slipped passed the sight of law enforcing agencies. Other items appear to be live animals (9.7%), animals' skin (3.1%) and spices (1.9%)in order of their share in the total value smuggled.

Table 5.5 Unofficial Imports (smuggling) from Afghanistan to Pakistan (1997)

Smuggling routs /items	Torkhum	Chaman / weish	Angoor Ada	Miran Shah	Shahi salim	Total
Fresh and dry fruits	223.049	953.88	275.194	524.74	22.300	1999.163
Vegetables		64.452	92.50	109.77		266.722
Spices	2.959	45.116	48.552	33.88	17.657	148.164
Live animals					90.132	90.132
Animals skin	35.880	167.57	115.071	109.77	28.805	457.096
Wool		42.968	18.050	14.835		75.853
Precious stones					603.98	603.98
Timber / wood			11.281	66.333		77.614
Carpets	43.278	406.05		230.38	5.575	235.955
Scrap metal		90.233	23.315	16.192	2.787	132.527
Others	64.723	378.118	168.135	249.3	158	1018.276
Total	369.9	2148.4	752.1	1355.2	929.2	5554.9

Source: World Bank 1997.

5.2.2 Re-exports of the transit trade goods from Afghanistan to Pakistan

The term re-exports from Afghanistan bound smuggling to Pakistan was coined by World Bank in its 1997 study. This term implies that goods imported by Afghanistan through the transit facilities provided by its neighbours, have never been meant for consumption in Afghanistan but destined to be re-exported to Pakistan and to a smaller extent also to other neighbouring countries. "More than 80% of the estimated total trade (both official and smuggling) consists of re-exports of goods or smuggling".[1] This concept is being assessed on two accounts, namely:

- Re-exports of goods transited through Pakistan.
- Re-exports of goods transited through other inlets

[1]. Naqvi, Trade, Op-cit.P.4

5.2.2.i Re-export of goods transited through Pakistan

This is not a new phenomenon but existed for decades. Fry[1], estimated that items officially exported into Afghanistan for unofficial re-exports to Pakistan accounted for 20 percent of Afghanistan total commercial trade in early 1970s.

Khan[2] estimated that aside from sizeable smuggling of locally produced goods, unrecorded re-exports from Afghanistan were also quite substantial. During the late 1960s, he calculated the later to be in the range of Rs.40-60 million annually, equivalent to around 1.5-2% of Pakistan's imports.

As may be observed in the table, Afghanistan Transit Trade Imports has recorded an increasing trend with increasing rate. Taking the values in 1985-86 as a base, the percentage increase may be observed in the last row of the table 5.6. The relative smaller increase of 441.85 percent and 503.95 percent in 1995-96 and 1996-97 respectively may be because of internal political situation in Afghanistan, when Taliban were just consolidating their victories and situation had not come yet under control. As the Taliban order was established over 90 percent of Afghanistan, the transit trade resumed its increasing trend as may be witnessed in 1997-98 values of Rs.14.97 billion and its percentage increase of 1883.12, the highest ever. This is further elaborated in the diagram on page 63.

Taking the Afghan transit trade imports through Pakistan, as a percentage of Pakistan's imports we find an enormous increase in the former, both in terms of value and share to the later. The graph portrayed below shows a more discernable picture of the situation.

The table (5.6) shows that from a level close to $50 million annually in the mid to late 80s, ATT imports increased to Rs.3.3 billion ($128 million in 1992-93 and then jumped to more than Rs.8 billion ($264-260) million during 1993-94 and 1994-95.[3]

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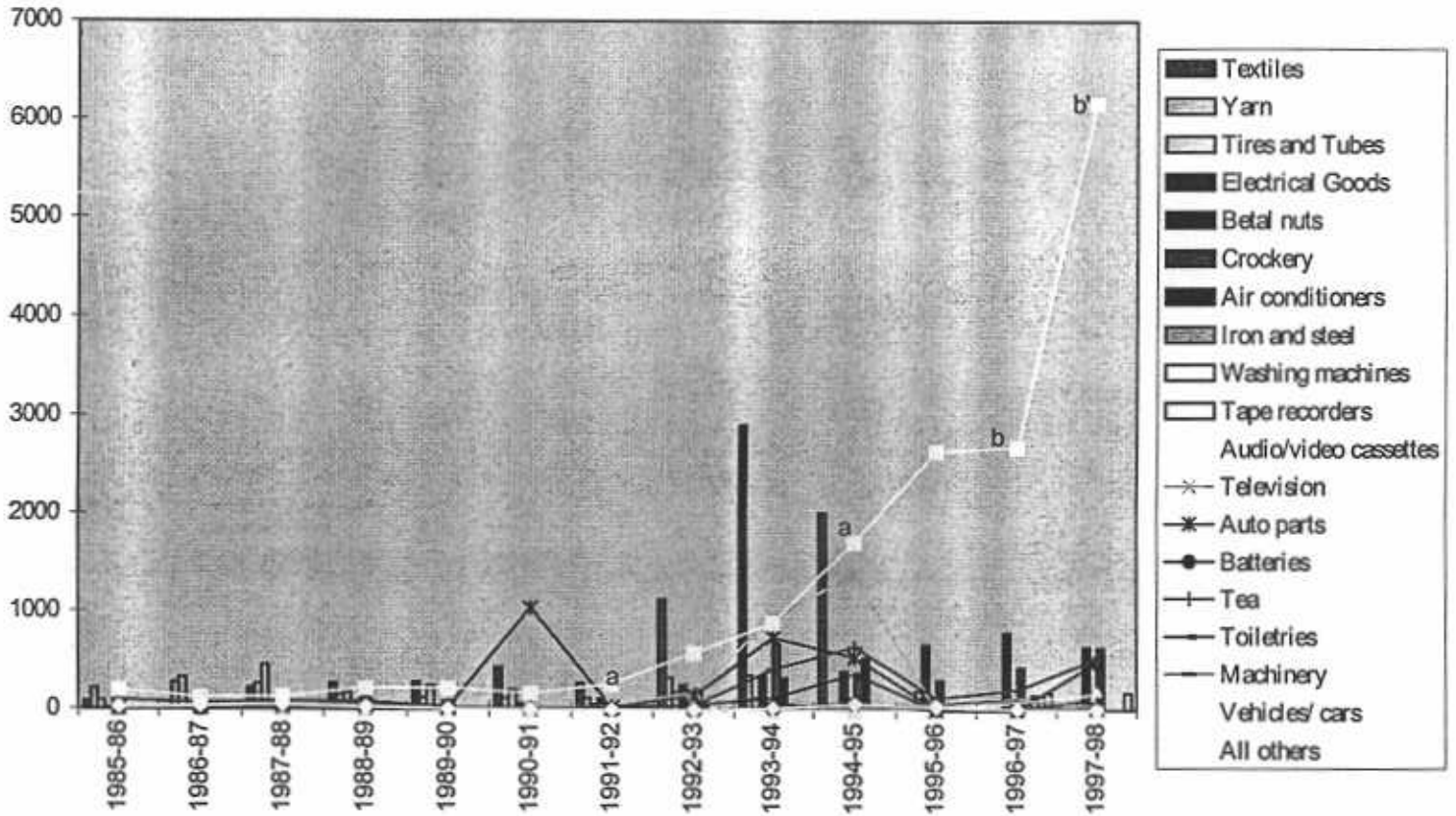
[1]. Fry, Max Well, J. (1974), The Afghan Economy: Money, Finance and critical constraints to economic development, E.J, Brill, Leiden Netherlands.
[2]. Khan, Ghani, Mohammad, (1972), Afghanistan's transit trade through Pakistan and unrecorded transactions through Landi Kotal, Board of Economic Enquiry, University of Peshawar.
[3]. Naqvi, Trade, op.cit, conversion at Rs.40 per dollar.

Table 5.6 Afghan Transit Trade Imports 1985/86 – 1997/98 through Pakistan

(Rs. Million)

Items	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Textiles	82.38	31.85	216.96	268.01	280.54	434.3	277.4	1127.5	2908.3	2018	0	0	0
Yarn	210.7	276.18	259.02	146.84	120.01	119.74	126.03	332.4	360.03	33.94	0	0	0
Tires and Tubes	89.84	325.83	451.64	173.36	238.75	207.43	56.9	188.17	126.9	0.78	198.37	2.42	0
Electrical Goods	19.89	14.57	14	23.74	31.31	69.27	113.43	259.5	357.8	395.57	664.9	789.71	642.85
Betal nuts	3.46	0.79	0.15	0	0	0	0	0	14.23	5.66	8.77	0	0
Crockery	0	2.92	10.43	23.22	23.62	17.4	49.59	214.84	676.8	320.2	304.2	433.9	631.46
Air conditioners	0	0.98	7.07	6.67	1.19	14.65	36.79	63.51	327.68	528.9	4.6	0	0
Iron and steel	19.5	31.34	13.59	8.13	6.35	0	0	0	57.64	23.8	0	151.9	0
Washing machines	0	0.28	0.28	0	0	0	0	0	0.22	2.63	2.45	1.95	0
Tape recorders	2.1	2.1	0	0	0	0	0	0	0.12	17.5	26.2	173.8	175.66
Audio/video cassettes	1.37	1.37	0	0	0	0	0	0	0	0	0	79.8	163.97
Television	0	0	0	0	0	1.9	40.23	171.67	954.7	1372	0	0	0
Auto parts	6.4	18.29	37.14	39.94	20.56	1035	23.61	149.15	737.81	536.63	6.58	0	27.15
Batteries	0.8	3.11	39.96	63.2	26.55		0	0	24.19	64.73	12.98	0	484.39
Tea	94.96	58.96	79.97	83.51	15.13	13.15	26.7	49.3	415	635.2	123.7	205.26	520.19
Toiletries	0.7	0	0	0	0	0	0	51.03	126.31	366.7	0	0	114.19
Machinery	11.45	23.31	50.99	41.41	2.48	0	0	0	19.89	43.25	67.81	109.78	41.36
Vehicles/ cars	21.12	34.62	39.37	19.47	0.65	0	0	0	22.29	58.77	32.37	9.84	0
All others	196.91	124.25	125.81	213.81	215.83	168.4	263.6	582.7	887.42	1720.4	2646.14	2680.53	6153.17
Total	**754.87**	**946.21**	**1345.95**	**1111.31**	**983.64**	**1050.3**	**1037.7**	**3329.23**	**8004.1**	**8139**	**4090.3**	**4559.09**	**8954.39**

Source: Collectorate of customs, Karachi.


7000
6000
5000
4000
3000
2000
1000
0
1985-86
1986-87
1987-88
1988-89
1989-90
1990-91
1991-92
1992-93
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a
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b'
Textiles
Yarn
Tires and Tubes
Electrical Goods
Betal nuts
Crockery
Air conditioners
Iron and steel
Washing machines
Tape recorders
Audio/video cassettes
Television
Auto parts
Batteries
Tea
Toiletries
Machinery
Vehicles/ cars
All others

The portion of the curve marked as aa' (1991-95) and bb' years (1996-1999) showing the increase in the value of ATT during the respective peiords of time, does not seem to be in consonance with the over all economic conditions of Afghanistan and so the nature of goods to the social and other demographics of Afghanistan. For instance goods like glassware, microwave oven, electrical appliances, toys, safety razors, shaving brush, cosmetics, toiletries, kitchen ware, chewing gums and black and green tea, which accounted for 95% of the total value of Rs.14.97 billion of the goods transited through Pakistan in 1998-99, meant to address the demand of Afghan consumers only on papers.

This enormous increase in the value and volume of transit goods during this period is attributed to the import of textiles, yarn, tires & tubes, electrical goods, crockery, air conditioners, televisions, auto parts and tea. If the year 1991-92 is taken as a base the percentage increase in the import of these items in the succeeding years, is shown in the table below.

Table 5.7 The Percentage Increase in Selected Items Imported Under ATT

ITEM	1991-92 (VALUE IN RS.IN MILLION) (BASE YEAR)	PERCENTAGE INCREASE IN 1992-93	PERCENTAGE INCREASE IN 1993-94	PERCENTAGE INCREASE IN 1994-95
Textiles	277.4	306	950	627
Yarn	126.03	64	186	-
Tires & Tubes	56.9	230	123	-
Electrical goods	113.43	128	216	248
Crockery	49.59	333	1264	546
Air Conditioners	36.79	27	800	1300
Television sets	40.23	326	2273	3400
Auto parts	23.61	531	3000	2173
Tea.	26.7	85	1500	2300

Source: Collectorate of customs Karachi.

The goods given in the table above are reflective of the abuse of the Afghan Transit Trade Agreement i.e. despite of the fall of economic indicators in Afghanistan and the break down of social fibers, it continued to import these goods with increasing value and volume during the period of the study.

"These goods enter Pakistan through various land routes along the porous Pakistan - Afghanistan border. The official routes under the ATT are through the port of Karachi to Chaman (Baluchistan) and Peshawar (NWFP) in Pakistan for further transit into Afghanistan. A large share of goods under ATT are believed to end up in Pakistan, either by never crossing the border or after crossing the border, promptly re-entering Pakistan, via-multiple smuggling routes".[1] The World Bank estimates for one year re-exports of goods transited through Pakistan to Afghanistan come to Rs.4559 million. Detailed break-up is as given in the table 5.8.

Table 5.8 Re-Exports of Goods Transited through Pakistan (1997)

ITEM	VALUE IN MILLION OF RUPEES	PERCENTAGE SHARE
Glassware	508	11.2
Electrical goods	472	10.4
Consumer Electronics	638	14.1
Bi-cycle	150	3.3
Textiles	148	3.3
Toiletries	204	4.5
Tea	205	4.5
Non-electrical Machinery	293	6.5
Petroleum Products	589	13
Others	1352	29.7
Total	4559	100

Source:- World Bank, Watching brief strategy for Afghanistan (1997).

[1]. Naqvi-Trade, Op-cit P.6

The comparison of the figures given in this table with table (5.6) shows that almost the entire volume of goods imported in the name of transit trade through Pakistan ended in the markets of Pakistan.

To cope with this economic menace, posed by the abuse of ATTA, the Govt: of Pakistan applied some active checks. Under the constraints imposed, the Commerce Ministry of Pakistan issued periodic notifications, whereby 17 items were banned to be imported under the facility of transit trade.[1]

Table 5.9 Items Banned Under ATT

Date of notifications	Banned Items.
June 1992	Tires/tubes, Cigars/Cigarettes.
November 1994	Yarn, black tea, PVC/PMC pipes, dyes/chemicals, polyester-materialized film.
February 1995	Refrigerators, Air conditioners, Televisions and Parts, Ball Bearings, Soap/Shampoo, Auto Parts, Timers/Capacitors Art silk fabrics.
September 1995	Vegetable Ghee, cooking oil.
July 2001	Telephone set, VCR, Videocassette, Razors, Precious dinner set, Juicer blinder and Tap recorder.[2]

As may be observed in the table 5.9, these banned items virtually disappeared from the transit list in the subsequent years.

5.2.2.ii Re-export of goods transited through other inlets

The active checks applied by the govt: of Pakistan to ban some items and the implied check contained in the custom protocol annexed to the 1965 ATTA, could only help change the composition of the transit trade[3] through Pakistan. Whereas the banned items started pouring in to Pakistani markets via the transit facilities, provided by Iran through Bandar Abbas, Russia through vladevostock, through rail and land routes into western Afghanistan or by air routes from

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[1]. Ministry of commerce, Govt: of Pakistan vide S.R.O 135(1)/96 dated February 12, 1996, formalized the bane on these goods Annexure (1).
[2]. Daily, Aaj, July 12,2001.
[3]. For instance items like yarn, tires tubes lost their share for being banned whereas crockery, household glassware, miscellaneous electrical goods became important traded items.

Middle East and India into Eastern and Southern cities in Afghanistan for further transit into Pakistan[1]

The World Bank estimates of re-exports of such goods in 1997 are furnished in the table below.

Table 5.10 Re-Export of Goods to Pakistan, Imported through routes other than Pakistan (1997)

ITEMS	VALUE IN RS. MILLION	PERCENTAGE SHARE.
Television sets	14846	17.7
Textiles	9168	10.9
Bicycles	4830	5.8
Tires	4146	5
Air-conditioners	3510	4.2
Vehicles	3312	4.00
Cigarettes	2970	3,5
Tea	1932	2.3
Electronics	4883	5.8
Toiletries	1937	2.3
Others	32247	38.5
Total:-	83760	100

Source: World Bank Watching brief strategy (1997).

As may be observed in the table, television sets and textiles are the major smuggling items, which has flooded the Pakistani market.

The comparison of the accumulated value of these goods from 1985 to 1998 and their value re-exported through the smuggling network is shown in the table below:-

[1]. Television set which disappeared from the list of ATT, comprise 18% of estimated unofficial re-exports (value at Rs.4.8 b). Similarly banning art silk fabrics from the ATT had led to curtailment of the imports under the ATT, but they still comprise 11% of smuggled textile imports from Afghanistan in 1997. For other products such as tea, green tea, are still being smuggled to Pakistan through routes crossing Afghanistan.

Table 5.11 Comparative Statement of Legal Imports by Afghanistan and Re-Exports to Pakistan

ITEMS	ACCUMULATED VALUE FROM 1985-1998 VALUE IN (RS. IN MILLION)	VALUE SMUGGLED IN 1997 (RS.IN MILLION)	VALUE INDEX NUMBER(COLUM-II AS BASE)	%AGE INCREASE
Textile	7645.24	9168	119.91	19%
Tire/Tubes	2060.39	4146	201.22	101.12
Electrical goods	3397.54	4883	143.72	43.72
Air conditioners	992.04	3510	353.82	253.82
Television	2540.5	14846	584.37	484.37
Tea	2370.03	1932	83.64	16.36
Toiletries	658.93	1937	293.96	193.96
Vehicles/cars	238.5	3312	1388.68	1288.5

Source- i. World Bank, 1997.
ii Collectorate of customs of Karachi.

The table shows that tea is the only product, the smuggled value of which is 16.36% is less in 1997 than its accumulated value imported under the legal transit facilities from 1985-98. The comparative increase in 1997 of all other products is shown in the last column of the table which reflect the advantage of the underground economy over the formal sector.

5.3 From the analysis so far made in this chapter, the following facts are deduced

a. Well established smuggling network facilitates smuggling on both the sides of the long porous border between Pakistan and Afghanistan.

b. The total value of Rs.3572.7 million of legal exports in 6 years from Pakistan to Afghanistan is 143 percent less than the value of unofficial exports of Rs/8680.6 million in 1997 alone.

c. The total value of Rs.3974 million of legal exports from Afghanistan to Pakistan in 6 years are 39.78 percent less than the value of unofficial exports of Rs.5554.9 million.

d. The composition of locally produced goods smuggled across the border is similar to the goods officially traded by Pakistan and Afghanistan between them.

e. Although all the locally produced goods find their way on all the main routes, each one is more conducive for a specific locally produced good.

f. Torkhum, Chaman/Weish and Angoor Ada are the routes on which smuggling takes place on both the sides. The routs of Miran Shah and Shahi-Saleem for smuggling from Afghanistan to Pakistan, substitute for Parachinar and Gandab for smuggling from Pakistan to Afghanistan.

g. Rice has become major exports from Pakistan through both official and unofficial channels. Due to the disruption of domestic supply routes in Afghanistan, where the rice producing Northern Provinces, held by anti-Taliban forces, until recently, had become economically cut-off from southern and western parts of the country.

h. The share of 3 food items namely rice, ghee and sugar with relatively inelastic demand in Afghanistan, in the given 6 years in the trade of formal sector is only Rs.1257.61 millions, whereas their estimated value, smuggled in one year of 1997 comes to Rs.4365.466 million. This is almost 247% higher than the value of these items for the combined six years in the formal sector.

i. The items with larger share in unofficial export from Pakistan were wheat flour (atta) which is a staple food item in Afghanistan "This comprised close to 1/4 of unofficial exports and doesn't show up in legal exports, because of the official ban on wheat/flour exports in the private sector

following the wheat flour crises in Pakistan during the spring - Summer of 1997"[1].

j. The pattern of trade in locally produced goods which has evolved over a period of prolonged conflict in Afghanistan does not undergo rapid changes, but the changes in official policies in the two countries shift trade flows between official and unofficial channels.

k. It seems that all the attempts to control smuggling by restricting goods coming through ATT - a demand often made by industrial and trade groups in Pakistan, have not been very successful. ATT restrictions have resulted in changes in routes through which smuggling occurs without necessarily reducing its magnitude or changing its over all composition. Other events such as opening of trade routes through Central Asian Republics and their desire to integrate in the global economy are important factors facilitating the flow of goods through unofficial channels.

l. "It is well-known that there is considerable under invoicing of imports under the ATT. Therefore the amounts shown in the official data could be seriously under estimated and the magnitude of smuggling even larger".[2] Customs officials in Pakistan are of the view, that measures taken by them, such as detail field paper work, sealing of consigned goods, shipment of transit goods in special railway wagons, checking of shipment invoices at several points etc, eliminate chances of enroute diversion. But it is a fact that despite elaborate procedures, enroute smuggling from ATT is not inconsequential. "Even if ATT banned goods do cross the border into Afghanistan, a large share of these goods do come to Pakistan"[3].

By and large, there seems to be considerable potential for expanding Afghanistan's bilateral and regional trade in a post - conflict scenario. Based on the analysis of legal and unofficial bilateral trade in locally produced goods,

[1]. Naqvi, Trade, op-cit P.7
[2]. Naqvi, Trade Op.cit P.10
[3]. Ibid.

Afghanistan seem to have clear advantage in existing and newer variety of agricultural and horticultural products. The country used to be one of the largest exporters of Karakul pelts in the past which were auctioned in the markets of London and New York and fetched hard currency for the Govt. Growth in livestock exports could have established substantial potential for expanding future trade. In addition well-established markets for hand made carpets and rugs could be further expanded. Precious stones and Jewellery exports are another area worth exploiting for Afghanistan's future exports.

CHAPTER 6

MEANS OF TRANSPORTATION AND SOURCES OF FINANCING OF ILLEGAL CROSS-BORDER TRADE

6.1 Transportation

The silk route which linked China to Europe in the Middle Ages passed through Central Asia and Afghanistan and was run by the same tribesmen and nomads by camels, who are the truck drivers of today.[1] The silk route influenced Europe almost as much as the Arab conquerors, for these caravans transported not just luxury goods, but ideas, religion, new weapons and scientific discoveries.[2] Little seem to have changed in nearly 2000 years. Today smugglers operate with similar military type infrastructures as before, even though trucks have replaced camels.

The modes in which the cross-broader transportation of unofficial trade is carried out may broadly be divided into:

I. Trucks, which operate across the border, but dominantly inside Afghanistan.
II. Animal Power
III. Human carriers and
IV. Vehicles which operate inside Pakistan.

6.1.1 Trucks

Trucking is the most dominant mode of cross-border transportation between NWFP and Afghanistan. Currently most truckers are hired by wholesalers or clearing and shipping agents to carry goods from Afghanistan through the tribal area. Consequently many truckers tend to be tribal, originating in these areas even for official exports. Each trucker generally own between one and three vehicles and employ drivers and one or more assistants for each. The

[1]. Braudel, Fernand (1993). A History of Civilization, Penguin books, London.
[2]A Camel caravan might consist of five or six thousands camels, its total capacity equaling that of a very large merchant sailing ship. A caravan traveled like army, with a leader, a gravels staff, strict rules compulsory staging posts and routine precautions against marauding nomads, Ibid.

trucking transaction are predominantly characterized by mutual trust between the owner of the truck and owner of the goods. The owners of the goods has a firm belief that the truck owner and his employed agent or driver will look after the goods in a manner and to an extent as a prudent man does in ordinary and extra-ordinary circumstances for his own goods. Similarly the truck owner is confident that he will be paid his due with in the stipulated time. This mutual trust is the core of this cross-border trade.

Some interviewees indicated that due to the poor road conditions even 10 ton-trucks tend to carry only 5 tons goods.[1] However it was directly observed that several 10 ton-truck were fully loaded for shipment over the border for which reason it can be said that loading practices are not standardized. Several truckers interviewed by this research reported carriage of goods from Islam Qila, Thorghundi Herat to Jalalabad, Kabul and to Torkhum and to Spin Boldak. Interviewees have confirmed, however that vehicles owned by Afghans are off-loaded at the border with the goods reloaded on to similar-sized Pakistan Trucks. At the same time trucks with Pakistan license Plates reportedly can and do legally circulate with in Afghanistan. All loading and unloading is done manually.

Reports of the interviewees reveal that 20 ton trucks tend to dominate on regular roads but smaller 5-10 ton trucks and even pickups are in use over the temporary routes usually with smaller loads. Goods are currently rarely transported from origin to destinations in the same vehicles. Because of varying road conditions and political arrangements, several linked trucks and routes are typically involved in any transport activity.

The truckers involved in this business, which has become the biggest smuggling racket in the world, may broadly be divided into; (i) the Peshawar based truck mafia[2] and (ii) the Quetta based truck mafia. Both of them drive their containers to and from Afghanistan. However they got frustrated with the civil

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[1]. Interviews with Afghanistan bound truckers at Torkhum and Chamkani near Peshawar.
[2]. Mafia means a group of people with in a community who use their power to get advantages for themselves. Oxford Dictionary (2004).

war and war-lords who taxed their trucks dozens of times along a single route. In the post soviet troops withdrawal and pre-Taliban era, the Peshawar based transport mafia were trading between Pakistan, Northern Afghanistan and Uzbekistan, despite continuing war around Kabul. The Quetta based mafia were at loss with the rapacious Kandahar war-lords, who had setup dozens of toll chains along the highway from Pakistan. Therefore the Quetta based transport mafia were keen to open up routes to Iran and Turkmenistan.[1]

Taliban leaders were well connected to the Quetta mafia who were the first to provide financial support to the Taliban movement.[2] "Initially, the Quetta mafia gave the Taliban a monthly retainer but as the Taliban expanded westwards, they demanded more funds. In 1995, Taliban collected US$ 130000 from transporters in Chaman on a single day and twice that amount the next day in Quetta as they first prepared for their attack on Herat".[3]

With routes safe and secure during the Taliban era, the volume and area of smuggling increased both vertically[4] and horizontally[5]. From Peshawar, truck conveys traveled to Jalalabad, then Southward to Turkmenistan and to other CARs and even to Russia. Soon the transport mafia were urging the Taliban to capture Herat[6] in order to take full control of the road to Turkmenistan.[7] In 1996 the transporter urged the Taliban to clear the route north by capturing Kabul. After taking the capital, the Taliban levied an average of Rs.6000 for a truck, traveling from Kabul to Peshawar and vice-versa as compared to Rs.30000 to 50000 which trucker paid before.[8]The transport mafia gave Taliban a stake in their business by encouraging them to buy truck or arranging for their relatives to

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[1]. This was in line with Benazir Bhutto, govt(1993-96) policy .Rashid, Taliban, PP /90-91, Op-Cit
[2]. Ibid.
[3]. Rashid, Taliban, P.191, Op-Cit.
[4]. Vertical increase in smuggling implies an increase in the value and volume of goods already being smuggled.
[5]. Horizontal increase in smuggling implies addition of new goods to the existing list.
[6]. Even though they 1st had advised the Taliban not to attack Herat, the Quetta mafia had more influence with the Taliban. Ibid.
[7]. Ismael Khan, the warlord who controlled Herat, was charging exhorbitant custom fees having raised his custom duties from 5000 to 10000 Rupees per truck.
[8]. The News, January 15,1996.

do so, and the drug mafia now willing to pay a Zakat (Tax) to transport heroin, transit trade became more crucial to the Taliban exchequer.

As is the case with most other elements of cross-border trade, the utilizable road network, between Afghanistan and Pakistan is in a state of flux. All the major routes between Khyber pass and Kabul and between Kandahar and Kabul are almost non- existent. Consequently alternate routes centering on the Parachinar area have been opened.

The list shows what the interviewees of the research reported to be the most important cross-border routes being used at present. Even this depiction of utilizable routes, however, is not definitive; a significant and changing group of roads segment is not useable because of intensive mining.[1] The key routes currently being used can be listed from South West to North East.

I. Jalalabad - Narang - Asad Abad - Ngray - border - Dir.

II. Konar - Narang - border - Peshawar.

III. Jalalabad - Torkhum - border - Landi Kotal - Peshawar.

IV. Kohistan (north of Kabul) - Mahmood -e-Raqi - Sarobay - Nesarak - border - Parachinar - Peshawar.

V. Sad (South of Kabul) - Baraki - Khoshi - border - Parachinar - Peshawar.

VI. Loghar Province - Kotgai - border with Paktia - Wana - Peshawar.

VII. Baghlan - Bamyan - Maidan - Wardak - Ghazni - Skaran - Urgun - Bamal - border with Paktia - Wana - Peshawar.

VIII Mogur (thought to be less important) - Khosmora - Gamal - border - Asan Warsak - Jandola- D.I.Khan/

XI. Kandahar - Chaman - Quetta.

X. Mogur - Khosmara - Wazakhwa - border - Quamaradin - Karez - Badyni - Quetta.

XI. Sharebafa - Arghastan - border - Quetta.[2]

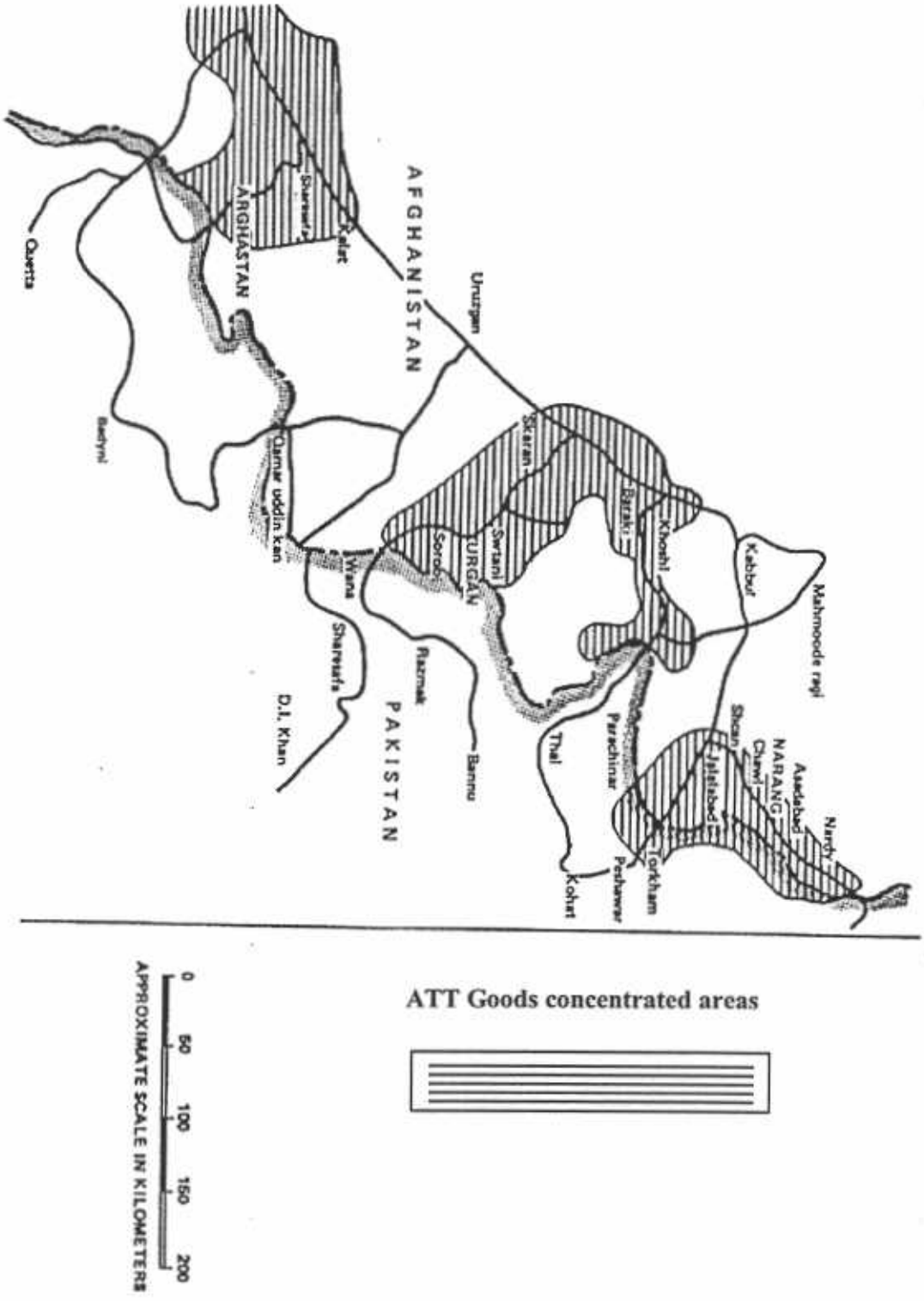
The map 6.1 further clarify these routes.

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[1]. "The laying of millions of mines during the war has created several settlement problems in the cities and the Country side, where agriculture and Irrigation in the most fertile areas is hampered by mines. Since 1979 400,000 Afghans have been killed and another 400000 injured. A staggering 13 percent of all Afghan families has had a relative killed or crippled in mine accidents and over 300 people are killed or maimed every month." UN demining office for Afghanistan, 1999.

[2]. Routes bordering Iran are not included here since their analysis falls outside the scope of this study.

Major Cross Border Routes



ATT Goods concentrated areas

Closely connected to the above details and analysis of the cross-border trade routes and passes is the issue of freight rates which are currently being charged by the trucks to various destinations.

6.1.1.i Freight Rates

Estimated freight rates based on field interviews are shown in the table. The key factors in determining these freight rates are; (i) road conditions,(ii) size of vehicles and (iii) acceptable load factor. For a given vehicle size and load factor, current load conditions result in freight rates three times higher than those under normal or good conditions. This rate should be multiplied by an additional factor to take vehicle size and acceptable load into account. However, certain interviewees indicated a size/load factor of 2, which would imply rates 6 times those which would prevail under normal conditions.

Table 6.1 Illustrative Freight Rates From Afghan destinations to Peshawar (1999-2000)

Destinations in Afghanistan	Rupees per metric ton	Vehicle	Conditions
Ghazni	3500	5 ton load	Current[1]
Konar	1200	5 ton load	Current
Logar	3100	5 ton load	current
Sorobi	3400	5 ton load	current
Wardak	3800	5 ton load	current
Waza Khawa Paktia	2900	5 ton load	current
Kabul	3700	5 ton load	current
Kabul	1300	5 ton load	current
Kabul	450	20 ton load	normal[2]
Kabul	1900	10 ton load	current
Kabul	750	10 ton load	normal
Torkham	180	10 ton load	current

Source: Field interview.

[1]. Current implies road condition which had been damaged during the war and can hardly be called as roads.

[2]. Normal implies routes which though haven't been repaired but still in good shape for transportation.

6.1.2 Animal Power

On all the unofficial routes as are indicated in map 6.1 and map 6.2, unofficial trade is facilitated by animal power both at the crossing points of border and through the tribal area. Horses, camels, mules, asses and cattle provide the necessary power to help cross the goods over to *Battai*(s) (Warehorses) having a network throughout the tribal belt. As may be seen in the table 4.7 in chapter 4, though the number of these "economically" very useful animals over the years has declined but still enough to meet the desired demand. The shifting of smuggled goods from '*Battai*(s)' to *Karkhano Markets* and from there to other shopping centers (*Bara Markets*) is mostly done by mechanical power. But occasionally when the circumstances are not 'favorable', animal power is applied to facilitate the shifting of goods from '*Battai(s)*' to the final sale center in Peshawar

The transport of goods by animals, power is a bulk - breaking operations. Goods are transported to the border area in bulk and then broken into smaller lots. Once they are crossed to the other side, they are rebulked in '*battai*'. The transportation of goods from 'batties' to karkhano market Peshawar or other Bara type markets elsewhere in the province, is a slow process. The goods consigned at Torkham, normally take one month to reach karkhano market or Shoba Bazar in Peshawar - a distance which a motor car covers in 45 to 50 minutes. Within the tribal belt the transportation normally occurs at night and at times when the chances of interception by the law-enforcing agencies are minimum.[1]

At present, horses, mules, asses and camels are employed to facilitate the cross-border trade. The observation on location revealed that a horse or camel can carry 2 air conditioners or 2 refrigerators, or 4 television sets or 10,000 meter cloth or 2 packs of other electronics, cosmetics or toiletries or 8 bicycles (unassembled) or any other goods like kitchenware etc[2].

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[1]. The interception by law enforcing agencies only adds to the transportation cost within the tribal belt and no loss of goods viz confiscation, is effected. However one occasional confiscations are made to legitimize their service. Field Interviews.

[2] Source: Field Interview

Similarly, mules and asses can carry two air conditioners, or 2 refrigerators, 2 TVs or 10 unassembled bicycles or other goods. Depending on the situation and the urgency involved, horses and camels charge Rs.300 - 400 per trip, whereas the charges of mules and asses are Rs.200 - 250 per trip[1].

Consigning the goods through animals are safe from the security point of view, but since it involves a relative higher transportation cost and delays in delivery besides a higher risk of damages being caused to the goods, therefore, the traders prefer to take the law-enforcing agencies into confidence and ensure safe and quick carriage of their goods through mechanical means..

6.1.3 Human carriers

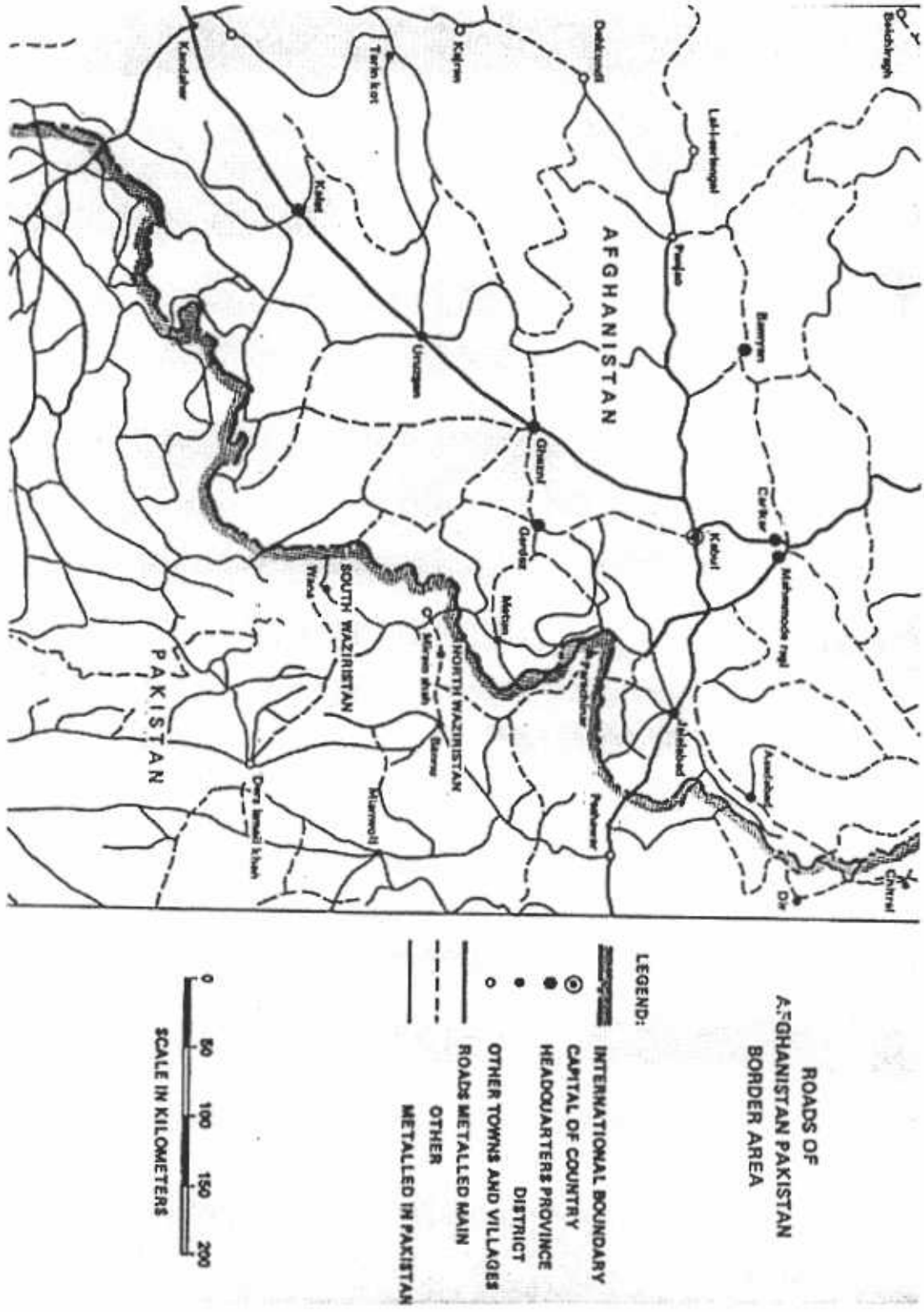
The human power is employed at the particular cross-border points at Torkhum. The routes followed by human carriers are across the mountains and it take them one to two hours to be on Pakistan side of the border. As locals, they move on both the sides of the border quite freely without fulfilling any legal formality.

The human carriers are either hired by individuals who purchase single unit of say electronics or electrical goods in normal circumstances or by traders when it is hard to follow the normal and routine routes.

Interviewees revealed that human carriers may either be hired directly on Afghanistan side on payment determined on the spot or be left to the seller of the goods who charge him additional sums for safe carriage of the goods. In either case the purchaser pay the same price of carriage.

[1] Ibid.

Roads of Afghanistan-Pakistan Borders Areas



A human carrier can carry a single unit of a refrigerator, air conditioner, 2 units of television, a bonnet or a set of doors of a car or a variety of other electrical goods. The price of carriage however ranges from 100 to 200 rupees, depending on the weight, value and the extent of urgency required in carriage of the goods.

As per the tribal convention, the law enforcing agencies there, have no authority to check these carriers or intercept them on tracks across the mountains. Once on the other side, they store the goods in their own houses or ware-houses, where from these are picked, either by the owner or another career, who may be a seller, or a specialized person who pays a monthly retainer to the law enforcing agencies. But in all the cases, where the goods are carried by non-owner carrier, the prime feature is the safe carriage to the destination.

Similarly, despite an authentic and valid information of the dumps of such smuggled goods in these houses and warehouses, the local tribal convention don't allow the *Khasadaars* or the custom authorities to search them for illegal goods.

6.1.4 Vehicles inside Pakistan

The vehicles that carry the specific smuggled goods, along with its estimated value, to the *Bara Markets* all around NWFP, are mentioned in the table (6.3). The smuggled goods from '*Karkhano Markets*' and the warehouses spread over the entire tribal belt, are transported first to locations like *Saddar*, *Shaheen Bazar*, *Hasthnagri* and *Haji Camp* in Peshawar city. Interviewees revealed that the safe transportation of goods in large vehicles is facilitated by a pre-bargain, concluded with the law-enforcing agencies by the owners of the goods. The very value and volume which a truck or a passengers' bus carry for onward delivery to Nowshera, Mardan, Charsadda, Kohat, Haripur or Abbottabad, substantiate the evidence that the risk of transportation of smuggled goods in such large quantities, could not have been taken without the connivance of the law-enforcing agencies. It is astonishing to note that a huge item like diesel

engine which is being mainly transported in Datsun pickup can slip pass by the sight of the law-enforcing agencies. The police personnel disclosed[1] that the Hiace and the 22 seats-coaster, Datsun pickup etc. are not checked by the custom authorities.[2] In their intra-province travel, and the police beats which confront them on any point are paid Rs.50-100 per vehicle. During interview, the police-personnel added that the lower- rank police, follow a '*moral code of ethics*' of not checking the vehicles which they knew to be paying some share[3] to their high ups. They, however, admitted that they still get handsome amount for this cooperation. They also elaborated that while performing duties on ring road or Grand Tank Road, their job is to facilitate and ensure a safe passage to the large - consignments carriers. The police interviewees admitted that the '*mahwari*' from a single consigner ranges between Rs.10000 to Rs.50000, whereas a 'Shabashi' - payment made to low - ranked police officials, falls within the range of Rs.200 to 500

[1]. Interviews with the Gulbahar and Chamkani Police station personnel.
[2]Except those which travel to Hazara because they will have to pass through the province of Punjab at least for 60 K.M.
[3].This share in the popular sense is called a Mahwari. The Mahwari paying vehicles are easily detectable as they carry some special symbols.

Table 6.2 Detail of intra-province transportation of smuggled goods.

Vehicle specification	Value of goods smuggled (Rs.in thousand)	Goods specifically smuggled
1. Truck	10,00,000 to 60,00,000	Raw plastic, petrol, engines, leather, wall paper, silk, cigarettes.
2. Bus	200000 – 1200000	Sewing machines, Sewing machine spare parts, kitchen ware, soap, cloth, tea, ball bearings, steel nails, toiletries, spices etc.
3. Hiace (15 seater)	50000 – 100000	Spare Parts of mechanical goods, television, electronics, cassettes, car tape recorder, ball points cosmetics, crockery.
4. Datsun.	200000 - 400000.	Motor vehicles spare Parts particularly diesel engines.
5. Motor Car	100000 – 200000	Soap, 3000 meter cloth, cardamom, T.V. VCR.
6. Motor Cycles	5000 – 10000	Silver Plates - used by goldsmiths, cardamom, clove, pepper, tea color and cloth.
7. Bicycles.	2500 – 4000	Cigarettes, tea, cloth, soaps.

Source:- Field interviews.

6.1.5 Motorcar Carriers

The motorcar carrier is a self depending and self caring consigner. Rough estimates of the interviewees put their number at 200 to 250 per day from tribal area and Peshawar to various parts of NWFP, but mostly to Punjab. To avoid any suspicion from any of law enforcing agencies, latest models of cars are used. A motor car mechanic at Tehkal area of Peshawar revealed that these latest cars owners, who are engaged in the business, bring their cars to him for readjustment of carborator, whereby fuel consumption of the car is enhanced, as a result of which acceleration -pick of the car is increased which help them vie the pursuits by 'adventurous individuals of police, customs or excise'. The police personnel are of the opinion that among the small scale consigners, the motor car owner has the greatest average return, which is almost risk free. The police also disclosed that it takes them 6 to 12 months to detect any car consigner involved in any sort

of smuggling and their registration number is noted. But by this time they sell their car and buy a new one. Besides, heavy traffic and political influence are hurdles which hinder the arrest of these low-ranked smugglers, the police added.

6.1.6 Motorcycle Careers

Similarly a motorcycle carriers too have the advantage of carrying his consignments unhindered and uninterrupted to the destination. Field interviews, showed that motorcyclist do not run their own shops or any other type of selling unit but serve only as suppliers to the shopping centers and other wholesalers of tea, cloth or preparatories of jewels makers in Peshawar. Since the finances required are too meager, therefore the trade through motorcycles is self financed.

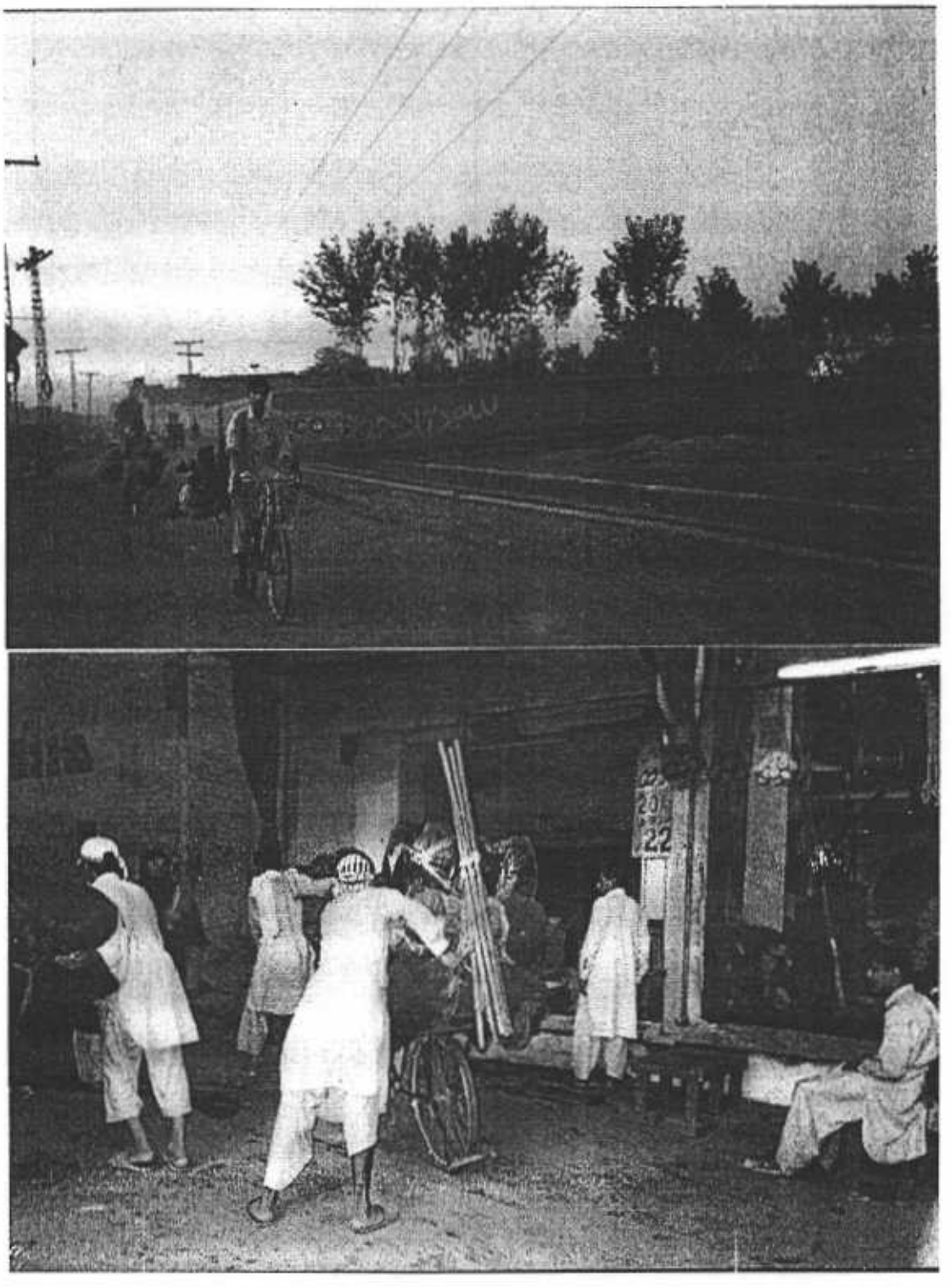
6.1.7 Bicycles

The bicycle carriers may be graded as the lowest ranked smugglers. The bicycles which they use are mostly not owned by them rather borrowed from relatives, friends or those for whom they carry the consignments. Field observations and interviewees showed that the daily earnings of bicycle carrier is not more than three hundred rupees. Cigarettes, cloth, tea, soaps and other toiletries are the main products which they carry. On the average a bicyclist carry goods worth upto Rs.4000 - for which they are paid Rs.250 to 300 per trip.[1]

Explaining their modus operandi, the interviewees said that the cloth retailers in Peshawar for example buy cloth in '*Battai*' at Bara in bulk. To avoid any risk, this cloth is not consigned in bulk but in smaller quantities as may be convenient to a bicycle or motor cycle carrier. It is then entrusted to a middleman called '*commission kar*'. This '*commission kar*' on a personal guarantee of a local tribal, who may be a friend, a relative or any other person known for quite some time to the bicycle carriers, consigns the goods to him for a mutually bargained sum not more than Rs.300 in any case. To provide collateral security, the bicycle carrier in most cases, deposit an advance sum of money with the '*commission kar*'. Goods are consigned to this career in equal proportion to the security.

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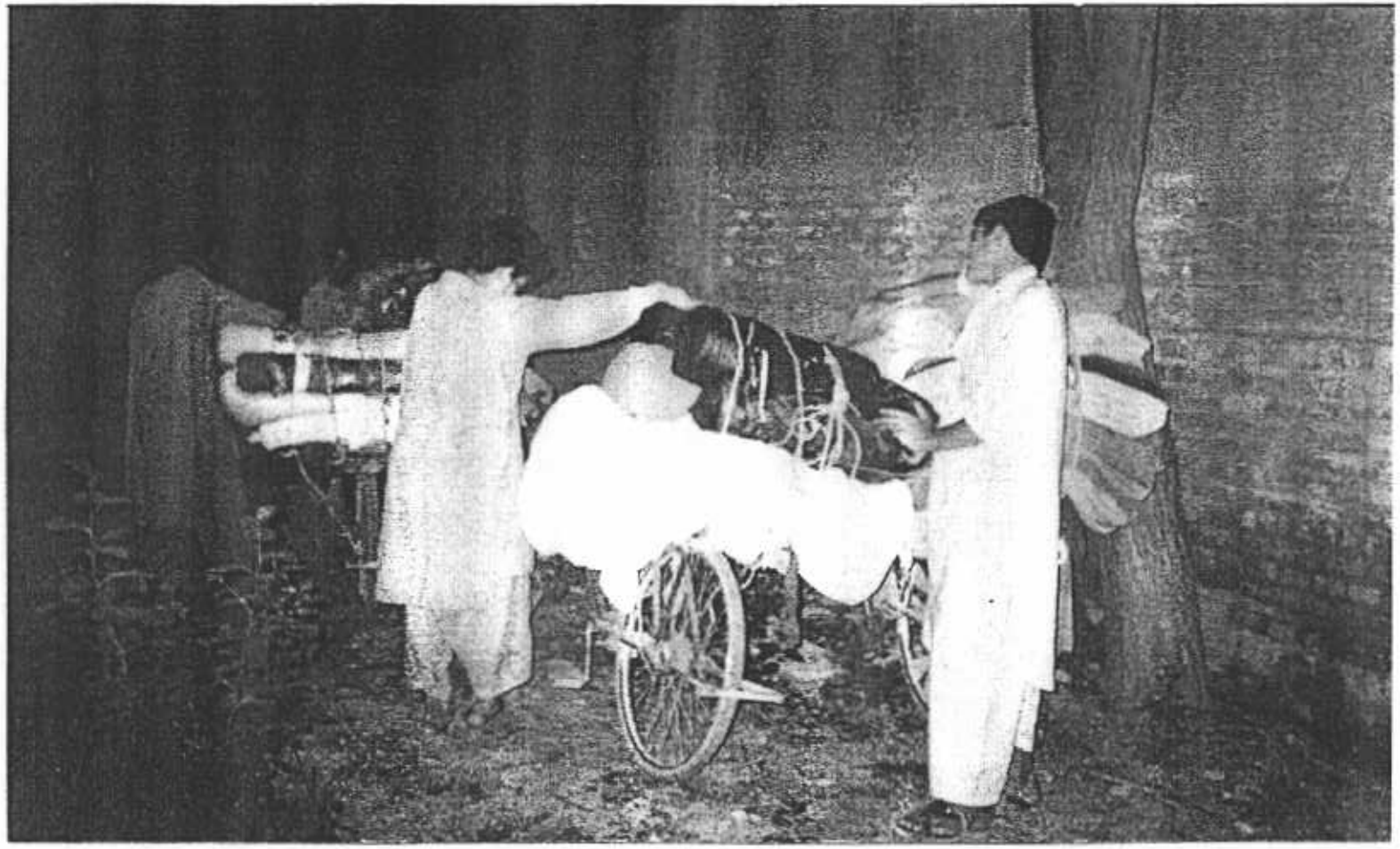
[1]. A bicycle carrier on the average smuggles, say cloth upto 400 meters. They are paid Rs.60 per hundred yards i.e. 60 paisas per meters of cloth



On their way from Bara through Ring Road, Dir Colony and onward to Shaheen Bazar Peshawar.

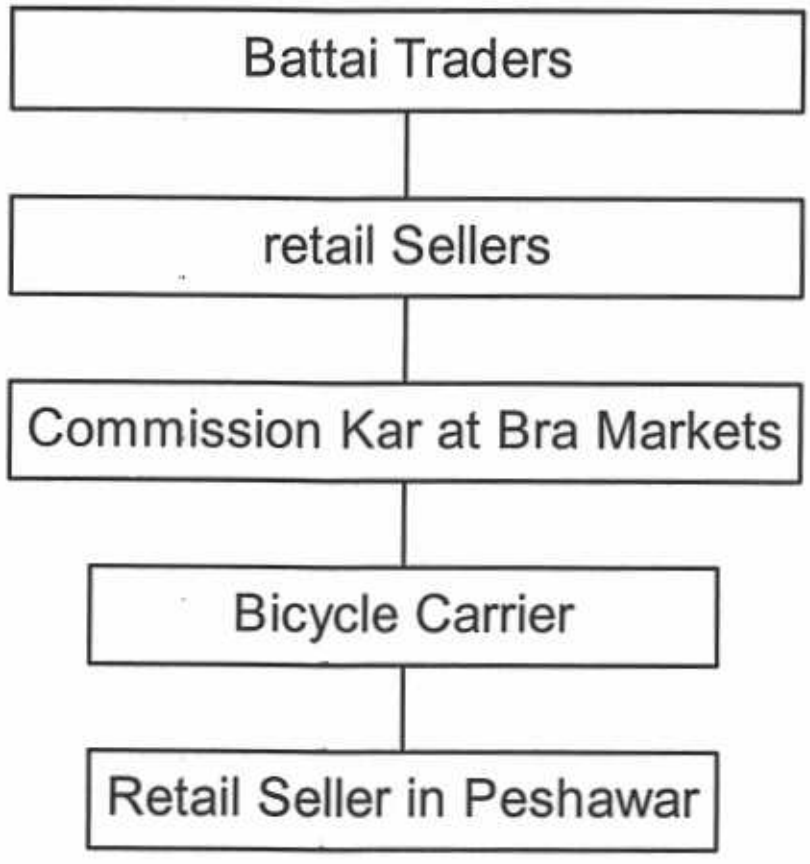


Bicycle careers impounded in a local Police station. To the right is the smiling leader called ***pilot*** in the colloquial. He is responsible for dealing with law enforcing agencies.



The deal completed late at night. They are now on their way to Kochi Bazar Peshawar.

During interview in a local police station, the bicycle carriers said that in summer they make two trips; one in the morning and the other in the evening. But in winter it is possible to transcycle the goods only once. The transcycling of goods from Bara to Peshawar take them four hours. On their way from Bara to Peshawar they pass through the villages of Bara[1], Mairozai, Budber-Bairaybaba and Sheikhano. These bicycle carriers admitted that they are allowed to pass through these areas after paying Rs.10 to the ill-reputed influential who they termed as '*Badmashaan*'.



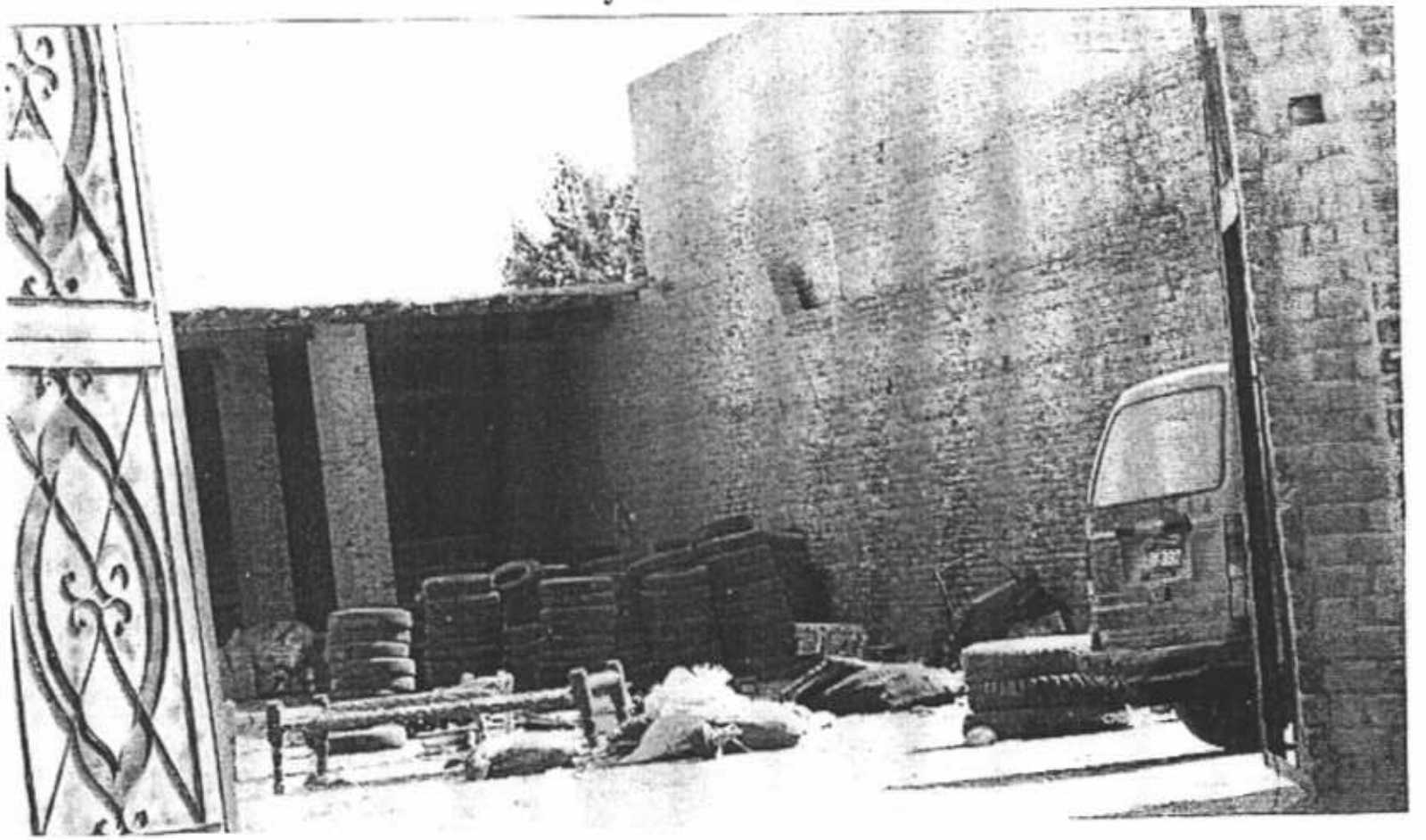
[1]. The Battai are situated at a distance of 0 to 2 kilometers from the main Bara town.

Cloth Battai

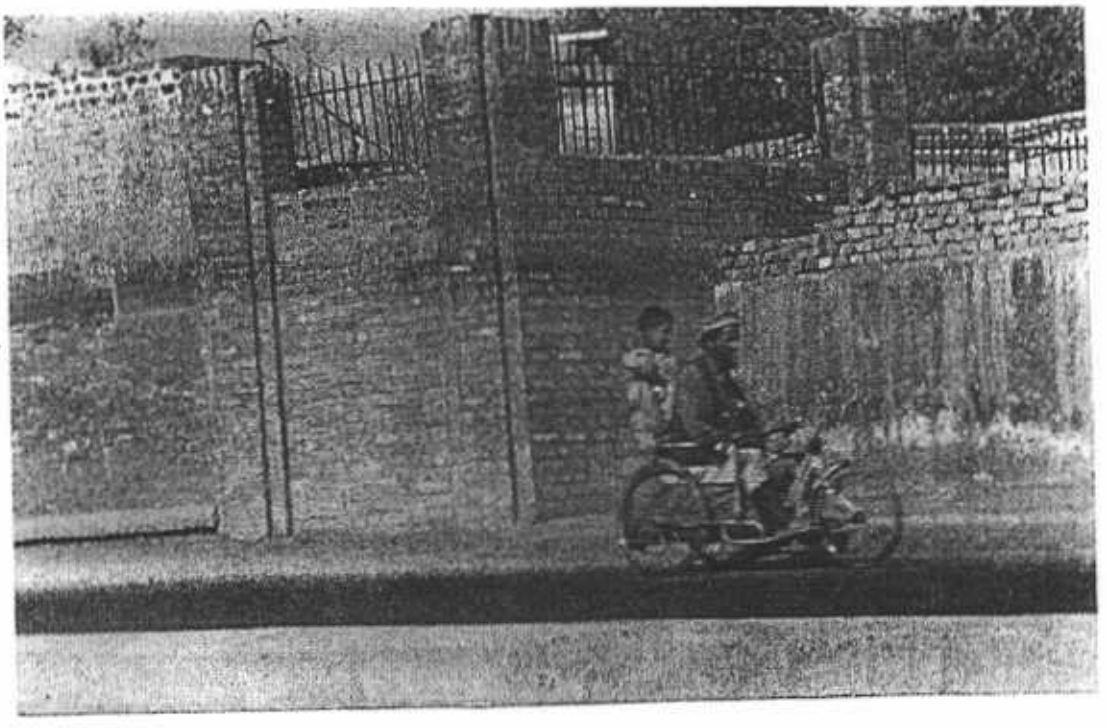


It is spread over an area of about 20 kanal, having 95 sections. Each section contains cloth worth Rs. 10.000 million. There are about 120 cloth Battai in the tribal areas linked with NWFP.

Tyres Battai



It is one of the smallest Battai, situated on Bara- Jamrud Road. It contains used tyres worth Rs. 5.000 million.





Sharif Ullah supported by his son Inayat Ullah, 10, being disabled and so about 100 others, have the unique concession to travel the 15 km journey with out being intercepted by any of the law enforcing agencies. 72 kg sack of tea fetch Rs. 100/- as fare. The routine 3 trips a day make it a total of 90 km journey with Rs. 300//- earning per day. After delivery is completed, tri-cycles are folded and the return journey to Bara is made in a bus.

They also disclosed that they are confronted with three types of law enforcing agencies; namely the Police, Custom, and Khasadaar. They disclosed that Khasadaar and police beat are no problem for them as they release them for Rs.10 and Rs.10 - 20 respectively when intercepted. But the major problem are the customs officials, who in order to register their efficiency confiscate their consignment. Hundred percent of the bicycle carriers interviewed, were found to be under a huge debt burden of no less than Rs.20000. The confiscation of goods even on a 10th trip, if the previous nine were successful, render them into unpayable losses. The repayment of this debt take them so long till they are caught again-goods are confiscated again and the debt mount further. The net result is that each one of them is indebted upto at least Rs.10000./ and so are they caught in the debt -trap. These small carriers, whether on a bus, bicycle or motorcycle are called '*Gundamar*', including the poor disables who have recently added yet another facility to the Bara-Peshawar modes of transportation of the smuggled goods.

6.1.8 Transportation to Punjab

The smuggled goods stored in and around Peshawar are transported to Punjab mainly in 45- seater-Hino bus, which travels from the general bus stand and the former stand for the government transport at Hashthnagri Peshawar. The Munshi of the Hashthnagri bus stand divulged that daily at least 200 buses from both the stands of Peshawar travel to Rawalpindi and Lahore.

'Counting the hardships faced by them on their way to Lahore, the bus drivers and owners exposed that they deal with the police at 25 different locations, Pakistan Customs at 12 places and Excise Deptt at two posts as mentioned in the table (6.4). They assessed that though the number of dealings per day with them varies, but the total number is which shown in the table. At the Peshawar bus stand, the police personnel are paid Rs.250 by each departing bus. Buses which don't have any route permit, pay an additional sum of Rs.50'.[1] The bus drivers made it known that from Peshawar onward, each police beat which

[1] Interviews wit owners and drivers of Lahore-bound buses at Peshawar Bus Terminal.

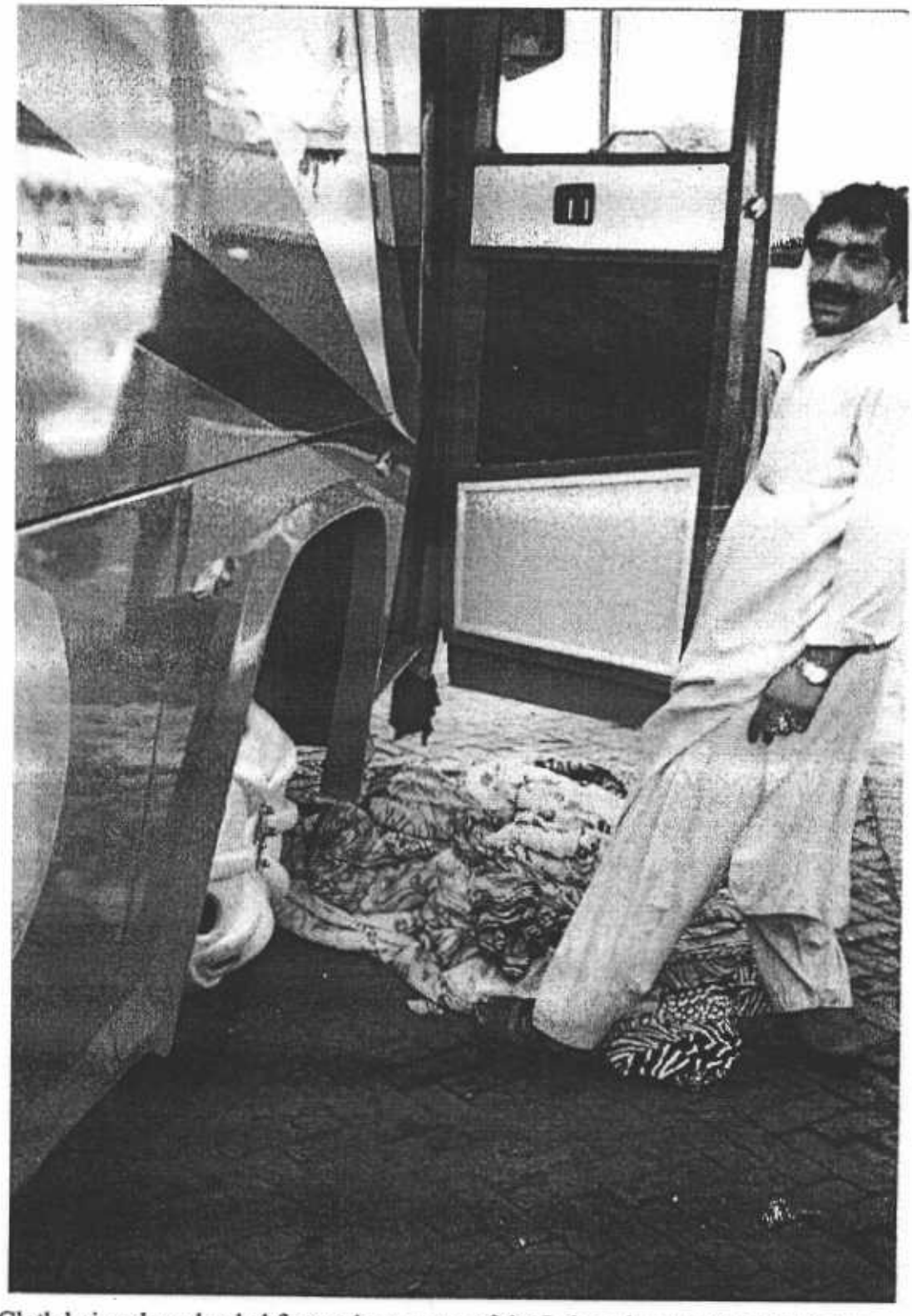
confront them, are paid Rs.100 – 200, except the police at Sarai Alamgir where Rs.500 are paid, for they take the additional responsibility of a safe passage against the Customs as well. The bus drivers exposed that the customs posts are however paid Rs.2000 to 12000.[1]

Table 6.3: Details of law enforcing/smuggling checking agencies from Peshawar to Lahore

Transport distribution	Law Enforcing-Smuggling checking Agencies			Total
	Police Station	Custom	Excise & Taxation	
General Bus Stand Peshawar	1. Chamkani 2. Gulbahar	-	-	2
From Peshawar to Nowshera.	3. Taru Jabbah. 4. Pabbi 5. Peshungru 6. Azakhel	1. Amangarh	-	5
From Nowshera to Kund	7. Nowshera 8. Pirsabak 9. Akora Khattak 10. Kund Turn.	2. Kund turn	-	5
From Kund to Rawalpindi.	11. Hasanabdal 12. Wah Cantt: 13. Chandi Qila 14. Margallah (Islamabad) 15. Faizabad 16. Rawat 17. Mandra	3. Attock 4. Haji Shah 5. Chandi Qila 6. Hasanabdal 7. Margalla 8. Islamabad	1. Mansar Camp 2. Islamabad (Narcotics Excise)	15
From Rawalpindi to Lahore	18. Sahawa 19. Sarai Alamgir (Al-madina Hotel) 20. Sazaki	7. Gujar Khan 8. Wazirabad 9. Mori-Ammabad	-	6
With in Lahore.	21. Shahdara 22. Bhatti Chowk 23. Yadgaar 24. Lahore 25. Shahdara Station.	10. Kalashahaku	-	6
Total	25	12	2	39

Source:- Field interviews.

[1]. Ibid.



Cloth being downloaded from a bus at one of the Lahore bus terminal. This bus was hired by the family members of the researcher to attend a marriage ceremony.





Cloth-Gunda (Nug) owned by an unfortunate Afghan lady being downloaded by the customs authorities Peshawar It was a day of meeting the target.

A police personnel, who had served at the Gulbahar police station, divulged that during his stay there, he was posted at the general bus stand, on the condition of a daily payment of Rs.18000 to the SHO in 1998. Since the daily earnings ranged from Rs.25,000 to 27,000, therefore the condition was accepted. He recalled that later on, one of his colleagues offered to pay Rs.20,000 per day, therefore, he was replaced. Besides, the Munishi of the bus stand also pay Rs.30,000 to the SHO of Gulbahar police station which reached to Rs.45,000 during the tenure of one SHO who imposed harsh 'monetary discipline'.[1]

The Rawalpindi and Lahore bound 45-seats buses have specially designed bodies i.e. they possess goods-career-basement which may well accommodate 18000 meter cloth, 70-80 black pepper sacks each of 20 K.g weight, ball bearings worth Rs.100000, toiletries and steel nails each worth Rs.500000, black tea worth Rs.70000 and so on. The bus drivers praised Fakhruddin and Company of Lahore and Pak-National Company of Gujranwala to be the best bus body makers who are fully conversant of the requirements of present day transportation, especially from Peshawar to Lahore.[2]

The bus drivers said that the chassis of a new Hino bus are bought for Rs.2.200 million and the body is built for Rs.950,000 with Air conditioner plant and Rs.550,000 without A.C.Plant. However the bus drivers admitted that most sale and purchase of buses are made on partial payment of say Rs.1000000 and then a monthly installment of Rs.100000 is paid for a total value of Rs.3000000 to 3200000. The general view among the bus mafia is that 'a bus which don't pay back its price in one year cannot be said a bus i.e. running on economic footings and is needed to reassess its traveling.[3] They also disclosed that the smuggling to Punjab has helped subsidized the fares for the passengers. The fares, they added,

[1] Interview with a police personnal of Hawaldar Rank on 13.12.2001 at Wazirbagh police post.
[2] Interviews with drivers and Bus owners of Lahore-bound buses at Peshawar bus terminal.
[3] Ibid.

will be 150 percent higher to all the destinations along the Pershawar-Lahor read, if the smuggling could be stopped.[1]

The bus careers of smuggled goods can be divided into three categories (i) the owner of the bus (ii) the careers with large consignment and (iii) the small consignment careers, called '*gundamaar*' who carry the goods inside the bus. The bus drivers made it known that 50 percent of these *gundamaar* serve as careers for others on personal risk and are paid as risk bearing allowance; Rs.500 upto Rawalpindi and Rs.1000 upto Lahore. They also assessed that 50 percent of these gundamaar are females belonging to Afghanistan, NWFP and Punjab. The goods they carry are relatively at a high risk of being down-loaded by the customs and time and again by the police. Their frequent interception by the police and customs and the subsequent confiscation of their goods has rendered them into a debt-trap of upto 70,000 Rupees. The driver are of the opinion that the interception of the gundamaar goods, indemnify the goods in the basement of the bus and provide justification to the duty of these agencies.

The smuggling goods of the big carriers are secured upto 90 percent by the personal guarantee of the bus-owners or drivers. They are not needed to take any pain of dealing with any of the law enforcing agencies, rather they pay a lump-sum amount of Rs.10000 to 20000 to the bus driver as a price of safe transportation. These carriers have a firm faith in the promised indemnity. But if their goods are seized, under a 10 percent chance on any bad day, they never blame the bus authorities but their fortune which didn't favour them.

One Hino bus driver revealed that from Peshawar to Lahore, the smuggling goods are stored at three different sites namely, Kamra, behind the Usmania restaurant, at a prominent shopping plaza in the Pakistan motorway chowk near Rawalpindi and at the Turnol oil pump. From these ware-houses, the goods are transported to onward destinations as per the convenience of owners

[1] Ibid.

and transporters, according to the market price of goods and expected supplies from Afghanistan.

The police personnel also exposed that the trucks which travel along the G.T.road, install new smuggled tyres-12 in all, old ones are put inside the truck, travels upto Lahore, sell the new tyres at Rs.24000 per pair there, and then load it with goods from Lahore and load them off at Peshawar. He further clarified that this is the minimum possible smuggling, the maximum quantities are upto 60,00,000 for which a pre-transportation bargain on all the check post was necessary. But the truck drivers admitted that the seldom interception of trucks loaded with smuggled goods, which make headlines in newspaper, is no more than an eyewash to register efficiency in the personal files of the law enforcing agencies.

Commenting on the legal authority to check vehicles, the police personnel at chamkani police station uncovered that under article 100 of the Criminal Procedure Code, Cr PC, of Pakistan, the search of any vehicle required a prior permission from a magistrate. They further added that the fulfillment of this formality is not only a time consuming exercise but also entail a danger of the information being leaked to the smugglers. Therefore in the F.I.R., if lodged, or in the daily reports, they record that 'the informants informed about illegal goods being transacted in the '*Mushtabeh*' (suspected) vehicle' and owing to the sensitivity of the situation they could not fulfill the formalities but to proceed and bring the accused to account'.

6.2 Means of Finance

This part identifies and describes the means by which cross-border trade between Afghanistan and Pakistan is currently financed. We address both formal and informal financial mechanisms. Financial activities in both the restricted sense as a provision of capital over time and the broad sense as a provision of means of payment including provision of non cash instruments and of foreign exchange are covered.

The first section of this part describes the limited set of available formal financial mechanisms, while the second section describes the much more extensive and flexible informal system. The third section addresses what many interviewees considered to be the most important means of payment for international trade: self finance. The general conclusion of this component of the study is that the existing financial system is effective and is capable of servicing any likely increase in trade volume.

6.2.1 Formal Banking

Commercial banks in Pakistan and to a lesser extent in Afghanistan have been financing foreign trade in three ways:[1]

a. Direct export - import payments;

b. Secured personal loans; and

c. General purpose business loans.

All these three kinds of loans have reportedly been used to a limited extent.

6.2.1.i Direct Import- Export Loans

Pakistani banks issue direct financing for international trade only via fully backed Letters of Credit (LCs) and only in US dollars. Afghan banks have historically been very accommodating, issuing letters of credit on partial financing for many currencies. They did so for imports from the former Soviet Union with only a 30 percent advance payment for LCs, financing imports from other countries including Pakistan.[2] This situation off-course limited formal import - export trade and offered opportunity to those willing and able to pay full costs in advance.

All respondents to the interviews including both large and small exporters and brokers, replied that they did not currently use this formal means of finance for export to Afghanistan, an observation supported by interviews with Pakistani

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[1]. Berger, Nathan (1989) Profile of private sector cross border trade between Afghanistan and Pakistan, Atlas Associates, Washington D.C. Hereafter cited Nathan, cross border trade.
[2]. Nathan, Cross-Border Trade, P.P.36,37 op cit.

State Bankers in Peshawar. Even goods transshipped through Pakistan to Afghanistan from other countries, once an exception to this tendency, are now financed by other means. On the other hand, the larger legitimate businessmen stated that they had carried out trade through Afghan Banks prior to the war and hoped to do so again once reasonable credit terms are re-established.

Statistical series available with the State Bank of Pakistan at the time of this writing, indicate no separate category for foreign trade loans or LCs, although there exists a series labeled "bank advances to foreign constituents". It has shown a marked decline over the years form 0.5 Percent of total advances to effectively zero. This tendency was supported by interviews with the interested groups which helped draw a conclusion that direct formal finance of Afghan - Pakistani trade is virtually nonexistent.

6.2.1.ii Secured Personal Loans

Several of the larger, more legitimate exporters and brokers interviewed, reported using bank loans, secured by personal collateral, for the finance of export activity. In at least one case, such loans are taken out by wholesalers to finance agricultural products, both in Pakistan and Afghanistan, for future delivery to the wholesaler. In another variation, businessmen may take out bank loans for other legitimate purposes, yet use the additional liquidity to finance international trade. The interest rate on such loans reportedly varied from 17 to 20 percent per year.[1]

6.2.2 Informal Finance

Due to the restrictions placed on formal banks financing, Afghan and Pakistani businessmen have resorted to other, older and more reliable, means of international payment, based on personal trust and recognizance, as they require extensive pre-established legitimacy. Those means of finance also have their

[1]. Due to the fact that the security for such loans varies and is unrelated to their actual purpose. There appears no way to trace their course or volume through the official data published by the State Bank of Pakistan.

limits, but they seem to be much more accessible than formal bank finance. Popularly this is called the Hundi System.

6.2.2.i The Hundi System

International payments and loans have been made for centuries in this area of the world by means of Hundi system or Hawala (in Afghanistan). This instrument is a remarkably flexible means of payment, varying in use from an internal money voucher in its simplest from to an international multiple currency sight draft in its most complex form. Its essential feature, in the vernacular of Western finance is a "bill of exchange" although it may be used for domestic trading in a single currency.[1]

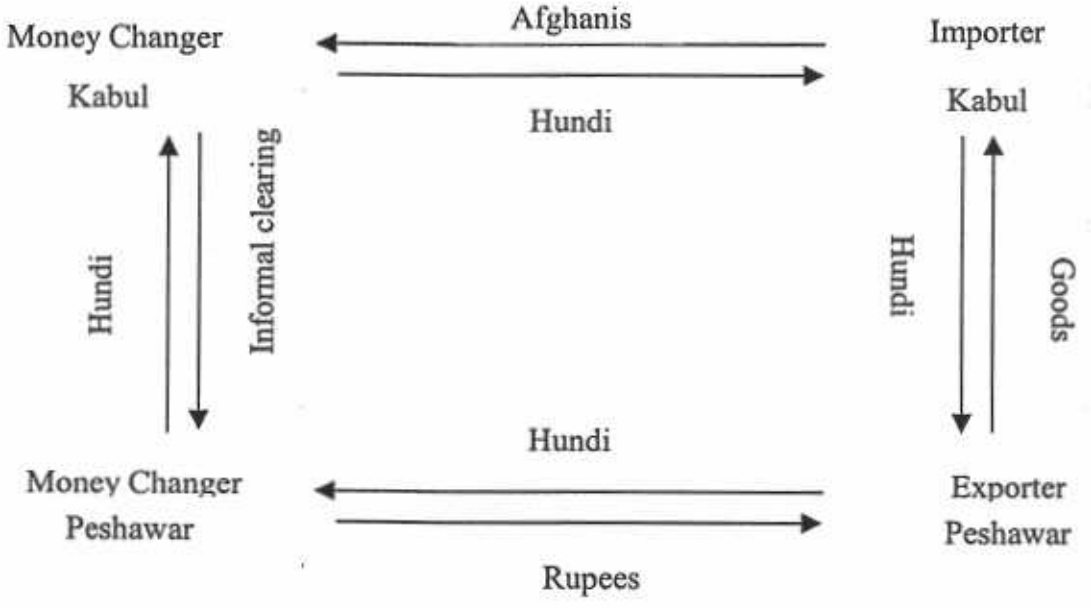
Basically a hundi consists of an order to a money changer (the drawee) to pay the bearer (the Payee) a certain sum in foreign currency from the "account" of the signer (the drawer). Both the drawer and the drawee may be associate money lenders in different cities or countries, in which case the hundi becomes essentially a counter check, payable to the bearer. In such case, this instrument may be endorsed by one or more parties, eventually "clearing" with the drawer, or remaining with the original drawee to be balanced by subsequent transactions. Some interviewees revealed that these instruments are being honoured by international banks in New York and Tokyo.

The figure (6.1) depicts the "classical" hundi transaction, the form in which the system is most often used for Afghan - Pakistani cross-border trade. Typically, an importer in Kabul Purchases a 'Hawala' (hundi in Afghanis from an issuing money changer, the drawer) who has an associate in Peshawar (the drawee). The importer then transfer the document (directly or via an agent) to an exporter in Peshawar in exchange for merchandise. The exporter (the payee) then discounts (exchanges) the Hundi for Rupees with the Peshawar money changer, associated with the original Kabul issuer. Alternatively, the importer or his agent may exchange his own Hundi for Rupees in Peshawar, prior to the actual

[1] Nathan, Cross-Border Trade, P.38. Op.cit.

purchase of products for export, then paying for the products in cash. In simpler cases, the drawer issuing a hundi, may himself be an importer and the redeeming drawee may be either an associate money lender or a seller's agent or broker abroad. Such hundis are typically expected to be repurchased by the importer, his money changer or his agent within a short period[1].

Figure – 6.1
The Hundi / Hawala System of International Trade Finance



Note that, when an importer pays an issuing money changer in advance in his own currency for a Hundi, he effectively finances his purchase in advance. Later when the second money changer abroad, advances funds in a second currency to the seller, he finances the foreign exchange transaction again in advance from his perspective. Liquidity is advanced, then, on at least two occasions in the typical hundi/hawala transactions. In addition, occasionally, but reportedly not often, hundis are purchased on partial payment effecting loan from the issuing money changer. Both commissions and interest rates on such transactions seem to be fairly high. Interview respondents quoted commissions, ranging from 1 to 5 percent, but didn't specify interest rate.

In other cases, hundis are non-negotiable order to pay between very close

[1] Ibid.

business associates, usually relatives. The form of business organization involved seems to reduce to a single family owned multinational trading firm, in which case the order to pay is an internal voucher.

The unifying characteristic of all the forms of the hundi/Hawala system is its basis on trust and recognizance between signing and paying parties. No formal accounts of deposit, no fixed period balancing and no formal clearing process need be involved. In effect the system performs as an informal banking system, complete with credit creation, store of value and provision of non currency medium of exchange. In the opinion of most interview respondents of this research, Hundi transactions are capable of functioning well and supporting any probable increase in Afghan - Pakistan trade, including an increase much beyond the pre-war level.

6.2.2.ii Semi Internal Finance

This means of effecting payment and providing short-term loans is similar to the voucher form of the Hundi described above, except that no written instrument need be involved, while the degree of trust required is even greater. The procedure was described by business associates whose families had dealt with one another across national borders for several generations and who evidently had no fear of failure to pay. Foreign currency is advanced and payments dates are extended and set with no formal documentation of the transaction. Although the respondents acknowledged that prices or exchange rates might vary from their cash levels in such cases, they didn't admit that implicit payments of interest might be involved.,

6.2.2.iii Self Finance

The implications of the above characterization as well as that of most of the interviews conducted is that most financing of smuggled goods in the strict sense i.e. the provision of liquidity in advance of purchase, is provided by the purchasers themselves. Hundis are most often used as a means of payment, rather than an advance source of liquidity. In fact the major advance involved is by the purchaser/importer, who pays cash for hundi, prior to receiving goods, financing his own purchase. On the formal side, direct bank loans and LCs for foreign trade

are practically not economically viable. In no case, however, did the respondents- even the smaller businessmen and smugglers - complain that this condition was a constraint on continued or expanded international trade.

Though the financers of Afghanistan bound smuggling, run into hundreds, Customs House Peshawar have counted 28 of them, as mentioned in the list to be the major magnets.

LIST OF MAJOR FINANCER / SMUGGLERS

1. Qayyum/Qayyumay & Co. R/O Sarband.
2. Haji Mukaram / Sher Ghani & Co. R/O Jamrud.
3. Qamar/Malang-Qamary, Malangy & Co. R/O Sarband.
4. Jabbr-jabbaray &Co. R/O Sarband.
5. Muhammad Khan, Khani (Afghani) R/O Jamrud.
6. Ayaz & Co. R/O Pishtakhara.
7. Hafiz, Majid, Nawab, Mufti & Co. R/O Bara.
8. Haji Ghaffar S/O Mangal R/O Bara Khyber Agency
9. Talib R/O Jamrud Khyber Agency.
10. Talib R/O Dir.
11. Jamaldar S/O Awal Khan R/O Darra Adam Khel.
12. Saddullah R/O Bara Khyber Agency.
13. Muzaffar Abid R/O Jamrud Khyber Agency.
14. Pir Noor Shah R/O Khyber Agency, (Landi Kotal)
15. Noor Feroz Shah Alias Shah Jee R/O Gandaf.
16. Haji Ibrahim R/O Thall
17. Feroz Khan & Kazim (Brothers of Seth Saifullah) R/O Kohat.
18. Fateh Khan R/O Landi Kotal.
19. Lal Mati R/O Darra Adam Khel.
20. Pio Noor (Koochi) R/O Jamrud Khyber Agency.
21. Hassan Khan R/O Jamrud Khyber Agency.
22. Fazal Malik S/O Haji Awal Khan R/O Jamrud Khyber Agency.
23. Munshi Haji R/O Dara Khyber Agency.
24. Hajo Muhammad R/O Jamrud, Khyber Agency.
25. Shamal R/O Jamrud Khyber Agency.
26. Malik Jan R/O Jamrud Khyber Agency.
27. Said Ali R/O Baka Khel, F.R. Bannu.
28. Abdullah R/O Mir Ali NWFP.

Source: Custom House Peshawar

Indirect interviews revealed them to have the following prominent features.

a. They have great liquidity depth with bank accounts across the globe with deposits of millions of dollars.

b. The huge liquidity pool enable them to pay the price of the transit trade goods in advance to the producers in Japan, Korea, England, Malaysia, Hong Kong etc.

c. The advance cash payments earn them at least 10% discounts and help economies their transactions.

d. They have well established warehouses in Dubai and Sharjah with furnished residential accommodations.

e. Afghan and Pakistani traders during their business tours stay with them free of cost for 10 to 15 days. They purchase the goods worth millions of rupees on mere 20% cash payment with the residual payable in monthly installments not exceeding one year.

f. The advance cash payment to the producers and the credit sale to other wholesalers and retailers maximize the profit for them and help multiply their investment in the business.

g. The entire business activity from Dubai to Bara Markets in Pakistan, is characterized by mutual trust and not even a single case of the willful default from any of the credit buyers has so far been reported.[1]

It may however be recorded with reasonable degree of assurance that the finance of Afghan - Pakistani cross-border trade is adequately covered by traditional means: the need for foreign exchange and instruments of payment is met by the Hundi system, and the provision of advance liquidity is covered by self finance, Semi-internal finance with occasional resort to money changers. Even the current instability of the Afghani/rupee exchange rate is not likely to prevent increased trade, as long as the rupee itself remains stable, with respect to international reserve currencies. The network, however enjoys all the economies of scale associated with any large scale business operation.

[1] Interview with Shah Faisal, a resident of Mardan and motorcar dealer in Dubai, on 24.11.2001.

CHAPTER 7

THE CAUSES OF ILLEGAL TRANSACTIONS

The available literature on Afghanistan bound smuggling suggests its causes to have a very broad base, deep routes, numerous aspects and over lapping levels. While examining these causes, real instances have been quoted to facilitate the assessment of the intensity of the smuggling quagmire. The causes, which have been examined in this chapter, include the following.

7.1 Tariff and Protection policy of Pakistan.
7.2 The Afghan Imbroglio.
7.3 The Geographic factor.
7.4 The Political cause.
7.5 The Narco Dollars.
7.6 The Bara Markets.
7.7 The Truck Mafia
7.8 The Income Effect
7.9 The Involvement of Politicians.
7.10 The Pakistan customs.
7.11 Lack of Policy implementation.

7.1 Tariff and Protection Policies of Pakistan

Trade and tariff policies in Pakistan have historically provided incentive for illegal transactions. Pakistan had an import substituting industrialization policy in the first few decades of its existence. Although tariff and non-tariff barriers have come down substantially in recent years and there has been considerable liberalization of the trade regime, the tariff structure still provide ample impetus for smuggling. Many of the items, which are unofficially imported into Pakistan, through the ATT or other means, have high statutory tariff rates, providing strong incentive for smuggling. "Our estimates show that market prices of certain popular smuggled goods are on average 30-40 % lower

than their corresponding landed prices under official imports[1]. The main reason for this has been high tariff and sales tax on these goods. On the other hand, the costs of smuggling are fairly low, ranging from 5-17% (average of 10-20%) which further motivates smugglers to supply goods through unofficial channels".[2]

The tariff and protection policies pursued by Pakistan at present have historical routes. In the early years of Pakistan industrialization strategy, many economists thought that the establishment of domestic industries behind tariff barriers was the best policy to achieve an over all economic progress.[3] Consumer goods industries were considered as the most appropriate type with which to start this process. Later the manufacturing of capital goods was envisaged. It was hoped that imports would be replaced and internal growth fostered. But experience with the strategy was turned out to be disappointing:

i. The Balance of Payment position of the country has not been improved and dependency not reduced.

ii. There has been a change in the structure of imports: final consumer goods, because of poor quality couldn't attract demand and at the same time the significance of plant, machinery, spare parts and raw materials got escalated.

iii. Exports couldn't be increased, as firms producing for exports need to purchase inputs at costs above world market levels from indigenous firms operating under protection.

iv. The policy permitted the exchange rate to remain comparatively over valued which also discouraged exports.

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[1] Landed prices were calculated at the C&F prices of selected brands of imported goods plus customs duty, sales tax, 5% handling cost and a 10% profit margin.
[2] World Bank (1997), Watching brief strategy of Afghanistan, Islamabad Office.
[3] Nasir, S. M. (2000), Economy of Pakistan, Awais Book Centre, Lahore P.P 122-123.

v. Wage levels in the urban areas where manufacturing plants are located, remained inconsistent with the free market levels.

vi. It also augmented the rural urban migration thereby accelerating urban unemployment.

Thus in view of these facts, when the higher tariff rates jacked up the prices of foreign consumer goods and the protection policy failed to achieve its objectives of import substitution industrialization, there was a bonanza for the import of these goods through the illegal channels.

7.2 The Afghan Imbroglio

"Afghanistan has become one of the world's orphaned conflicts, the ones that the West, selective and promiscuous in its attention happens to ignore in favour of Yugoslavia" said former UN Secretary General Bontros Bactors-ghali in 1995.[1] "The country has closed to exist as a viable state and when a state fails civil society is destroyed. Generations of children grow up rootless, without identity or reason to live except to fight. Adults are traumatized and brutalized knowing only war and the power of warlords. We are dealing here with a failed state which looks like an infected wound. You don't even know where to start cleaning it, said UN mediator Lakhdar Brahimi".[2]

The corss roads of Asia on the ancient silk Routes is now nothing but miles of rubble. There is no semblance of an infrastructure that can sustain society-even at the lowest common denominator of poverty. In 1988 the ICRC reported that the number of Afghan families headed by a widow had reached 9800, the number of families headed by a disabled person was 6300 and 4500 people were treated for war wounds that year alone. The only productive factories in the country are those where artificial limbs, crutches and wheel chairs are produced by the aid agencies.[3]

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[1] Rashid. Taliban, pp.207 Op.cit.
[2] Ibid.
[3] Ibid.

Although re-export trade between the two countries has existed for decades, the post - Soviet troops withdrawal chaos and conflict in Afghanistan facilitated expansion of this activity, leading to a complete break-down of formal economic institutions and had increasing informalization and criminalization of the economy. In a war economy, trading activities are among the few remaining avenues for making a reasonable living particularly in urban areas.[1]

The war has also changed the structure of other economic sectors, such as agriculture in Afghanistan. The lack of economic alternatives led to tremendous increase in poppy production, in a few provinces in Afghanistan, which has made the country as the largest producer of poppy, supplying half of world demand for opiates.[2] While poppy production is a source of income for farmers, the manufacture and trade in opiates is believed to be creating huge illegal incomes and profits for the large drug dealers. "It is widely believed that smuggling into NWFP and other neighbouring countries is used as means of laundering illegal drug money."[3]

There has been an increase in smuggling from Afghanistan from 1997 onward due to the improvement in security condition, after the Taliban take over of southern and eastern Afghanistan.[4]" There are indications that movement of goods had become much easier during the Taliban rules via land routes from cities in western Afghanistan (Islam Qila and Thorghundi) to Southern and Eastern Afghanistan. Trade has also been facilitated by opening of trade routes from Iran and the Central Asian Republics".[5] "With routes now safe and secure, the volume and value of smuggling expanded dramatically. From Quetta, truck conveys traveled to Qandahar then Southwards to Iran, Westwards to Turkmenistan and to other CARs, and even Russia".[6]

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1. Naqvi, Trade. Op.cit
2. Ibid.
3. Ibid.
4. Ibid.
5. Ibid.
6. Rashid, Taliban ,Op-cit P.191.

The war has displaced a large number of Afghans, approximately 3 million[1] of whom lived as refugees in Pakistan, whose family members move back and forth between the two countries. Field observations revealed that a large number of wealthy Afghans have setup trade and business enterprises in border towns in Pakistan and in neighbouring countries. The war and long term displacement of the population in Afghanistan has led to the meshing of Afghan and Pakistani population in parts of NWFP and Baluchistan. It has therefore become difficult to draw strict economic boundaries, corresponding to geographical boundaries between the two countries.

7.3 The Geographic -Factor

"Frontiers" said lord Curzon, "are indeed the razors' edge on which hang suspended the modern issue of war or peace, of life or death".[2] "The western frontier of Pakistan in view of its location is indeed "razors" edge frontier".[3] This frontier- the Durand Line' is the longest among Pakistan's neighbours, measuring 1125 miles (1810 Kilometer) to the east and south. Geographically, the frontier can be divided into three broad sections.[4]

7.3.1. The northern mountainous section, north of the Kabul river is that which include the territories of Chitral, Dir, Bajour and Swat. The Hindukush along with its spurs form the principal mountain range in this section and is everywhere jagged precipitous and arid.[5]

7.3.2. The middle section stretching roughly from the Kabul river to Gomal, is that which include the tribal areas of Mohamand, Khyber, Tirah and Waziristan and also the Districts of Peshawar, Kohat, Bannu and Dera

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[1]. In the post Taliban scenario, the figures have now been substantially reduced approximately to one million.
[2]. Khan , Azmat Hayat(2000), The Durand Line, Pan Graphics (pvt) Ltd, Islamabad, (here after cited, 'Azmat, Durand Line). P.Xiv
[3] Ibid
[4]. Ibid.
[5]. Ibid.

Ismail Khan. In this section, barron, sun scorched Jagged hills support only infrequent bushes, acacias, dwarf palms and coarse bushes.[1]

7.3.3. The frontier between the Gomal river and the Arabian sea, has been termed as Baluchistan frontiers. This Southern Section traverses a region of lower relief. However the Scarcity of water, lack of good means of communication, bareness of land, inhospitability of the climate, all render this section impracticable for mass communication.[2]

In the context of the study we are concerned only with the first two sections.

The tribal belt extends more or less all along the frontier, though it is less defined beyond D.I.Khan Division. The tribal of the middle section of the frontier living between the Kabul and the Gomal river are harder to control on account of their intensely democratic organization. This section is divided into a number of agencies. The Bajaur Agency, Mohmand Agency[3] North Waziristan Agency and South Waziristan Agency". Inspite of the marked change in the attitude of these tribal towards their present government, many are still not integrated in Pakistan. Many of them live on both the sides of the Durand Line and have kept their way of life and their tribal system intact over the centuries.[4]

7.3.4 The regular laws of the govt: have not been introduced here. The administration has been carried out by means of Jirgas or tribal assemblies and the code of honour of the tribes. The Khasadars or non-uniformed tribal levies have been employed for picket and patrol duties with the consent and according to the wishes of the tribes.[5] For example in Khyber Agency there are 2753 Khasadars, ranging in ranks from Subedar Major,

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1. Ibid P.11
2. Ibid P.12.
3. The Muhamand Agency was created in 1952 to deal with the affairs of hundred thousands Mohmands, living north of Kabul river. Ibid P.25.
4. Ibid. P.23
5. Ibid. P.25

Subedar, Naib Subedar, Naik, Lance Naik and Plain Khasadar.[1] They are deployed in 90 pickets for protection, anti-smuggling, escort duty and at various govt: installations.[2] Among the other paratroopers in Khyber agency are the Khyber Rifles.[3] Their primary task is that of defence. But when needed they are called to restore peace and ensure the security of life and property. Their total number at present are "3883, with one colonel, Lt colonel, 2 majors and 15 captains.[4] The third force are the Mehsud scouts.[5] Their primary task too is the defence of the frontier. At present they have a total strength of '2329 with one commandant 7 majors 16 captains and 3 wings.[6]

Thus the Khyber rifles and Mehsood Scouts being paramilitary forces are defence-oriented in nature and the Khasadar being employed from within the tribesmen with their consent, are totally ineffective in the question of curbing smuggling. Besides, these tribesmen more than anything else observe a very strong allegiance to their rivaj and "strongly reflect and resist any outside custom, law or authority and display a strong regimentation in case of any intrusion into their boundary wall". This boundary wall has also physical connotation. The areas away from the paved (Government) roads are considered tribal territory, where the Govt: is not allowed to take direct cognizance, while the closed areas are locally inaccessible both physically and administratively to the writ of the Govt where criminals and anti-social elements take refuge from the clutches of the government".[7]

7.3.5 The tribal custom of 'Lokhey'(pot) has also facilitated the cross border smuggling. As per this instrument, two men from two different

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[1].Khan, Mohabat, Teepu (2001) The Land of Khyber, Uzbek Publisher, Peshawar.P.78-84. (Hereafter cited Teepu, Khyber)
[2].Ibid.
[3].Ibid.
[4].Ibid.
[5].Ibid.
[6].Ibid
[7].Ibid. P.76.

tribes are said to be bonded in "lokhey", where they both, turn by turn take a male sheep and slaughter it in the *hujra* of another. After execution, the instrument of 'Lokhey' bind both the parties to protect the life and property of the other in his territory. The instrument of 'lokhey' is normally executed between two influential and strong tribesmen who enjoy respect not only among the tribesmen but also with the government functionaries. This instrument has greatly facilitated the safe transit of smuggled goods through the tribal area.[1]

7.3.6 Tirah, Bazaar and Chora in the Khyber Agency for example are called closed areas, which are inaccessible for the Govt: authorities. These closed areas are "sanctuaries of great many unlawful activities".[2] For example it is a monstrous problem to control poppy cultivation. But since Tirah is a "Sacred homeland of all Afridis, they are loath to defile it by opening it up to any outside presence or influence".[3] Closely associated to this is the problem of controlling smuggling.[4] "A large consignment of foreign goods is transported to Afghanistan as transit trade. However, there is hardly any market for these goods in this war ravaged country, a bulk of these goods is bound to travel back into Pakistan where there is big and flourishing market for these. As these foreign goods offer very stiff competition to the nascent local industry which need protection, the government is trying hard to control the transit of these goods back in to the country. Khyber agency, the main conduit for smuggling, historically had been a host to hordes of caravans plying the silk route, which has continued in one form or the other. This is coupled with the peculiar terrain of the Khyber agency, which facilitates transit of these goods through a myriad of passes inlets and unfrequented routes very friendly to the local tradesmen".[5]

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[1]. Field Interviews
[2].Teepu, Khyber, P.87.
[3].Ibid- P.87
[4].Ibid PP.87-88
[5].Ibid PP 87-88

7.3.7 Though the specified routes for the transit trade are (i).Peshawar - Torkhum and (ii). Chaman - Weish, but actually 7 of the Afghanistan border province namely Badakhshan, Kunar, Ningarhar, Paktia, Zabal, Qandahar and Hilmind are connected to Northern Areas, Chital, Bajaur, Mohmand Agency, Kuram Agency, Northern Waziristan, Southern Waziristan and Baluchistan, respectively in Pakistan.[1] Along this 1810 K.M. long border, there are 141 passes (Annex-2) through which the cross border movement of goods and human takes place.

Thus with mountainous and arid terrain all along the long porous border, with well over 100 passes, shortage of legal opportunities of earning livelihood, the writ of the government being limited only to the paved routes, the khasadars being from within the tribal system, the geographic factor is very conducive to the booming cross-border smuggling.

7.4. Political Cause

During the period under study of the research, political concerns of Pakistan seem to have dominated the Pak-Afghan bilateral issues. The socio-economic interests were relegated to a subordinate position. The Junior position of the economic interests vis-à-vis the political interests, helped promote further the already booming unofficial re-exports from Afghanistan to Pakistan. These political pursuits are chiefly woven around the following three issues.

7.4.1. Security perception

Pakistan security perceptions were initially shaped by Afghanistan's territorial claims on parts of NWFP and Baluchistan and there were border clashes between the two states in 1950s and 1960s. Afghanistan insisted that Pakistan Pashtun tribal belt should be allowed to opt: either for independence or join Pakistan or Afghanistan. Diplomatic relations were severed twice in 1955 and 1962, as Kabul advocated Greater Pashtunistan. The Zia regime (1979-88)

[1].Azmat, Durand Line, P-175-178

saw the Afghan Jihad as a means to end these claims for ever by ensuring, that a pliable pro-Pakistan Pashtun Mujahideen Government came to power in Kabul.[1]

7.4.2. The military objective of acquiring a strategic depth

The military strategists were of the opinion that Pakistan's elongated geography, the lack of space, depth and hinter-land, denied its armed forces the ability to fight a prolonged war with India. Thus they argued that a friendlier Afghanistan would give Pakistan "strategic depth".[2] The military also assumed that the Taliban would recognize the Durand Line.

To overcome the threat of Pakistan being declared as a terrorist state by the USA under the Indian pressure, Pakistan tried to resolve this problem in 1993, by moving many of the Kashmiri groups bases to eastern Afghanistan and paying the Jalalabad Shura and later the Taliban to take them under their protection.[3]

7.4.3. Assistance in promoting the Kashmir Jihad[4]

Increasingly the Kashmir issue became the prime mover, behind Pakistan's Afghan Policy and its support to the Taliban. The Taliban exploited this adroitly, refusing to accept other Pakistani demands knowing that Islamabad could deny them nothing, as long as they provided bases for Kashmir and Pakistani militants.[5]

It was also to achieve the aforementioned objectives that on 28 June 1998 the cash- strapped Finance Ministry of Pakistan authorized 300 million rupees (US $ 6 million) on salaries for the Taliban administration in Kabul,[6] in addition to $30 million given in aid in 1997-98. The allocation allowed the foreign ministry of Afghanistan to dispense 50 million rupees every month for the next

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[1].Ibid.
[2].Ahmad, Iqbal, (23 August 1998),what after strategic depth? Dawn.
[3].Rashid, Taliban P.186, op-cit
[4].Rashid, Taliban PP.185-188, op cit
[5]."We support the Jihad in Kashmir", said Mullah Omar in 1998."It is also true that some Afghan are fighting against the Indian occupation forces in Kashmir. But these Afghans have gone on their own. "The News 19 August, 1998.
[6].The Finance Ministry needed to hide this money in its own budget and that of their ministries, so that it could not appear on 1998-99 budget record and be kept away from the prying eyes of international donors, who were demanding massive cuts in Govt: spending to salvage the crisis hit economy.

six months to pay the salaries of Afghan officials.[1] During the Prime Minister Benazir Bhutto second term of office (1993-96), Nasirullah Babar, the interior minister created an Afghan Trade Development Cell in the interior ministry, which ostensibly had the task of coordinating efforts to facilitate the trade route to Central Asia. Besides:

i. Babar also ordered Pakistan Telecommunication to setup a telephone network for the Taliban, which became part of the Pakistan telephone grid.[2]

ii. Engineers from public works deptt and WAPDA carried out repairs and provided electricity.

iii. The para military Frontier Corpse, directly under the control of Babar, helped Taliban setup an internal wireless network for their commanders.

iv. Pakistan International Airlines and Civil Aviation Authority sent in technicians to repair the Kandahar airport and the fighters jets and helicopters the Taliban had captured.

v. Radio Pakistan provided technical support to Radio Afghanistan, later renamed as Radio Shariat.

On the face of its own economic agonies, such across the board economic assistance and concessions to Afghanistan by Pakistan to achieve political objectives, virtually made the question of abuse of Afghan transit trade, facilitated by Pakistan and other neighbors, as some thing of negligible importance.

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[1].This included 600 tons of wheat, diesel, petroleum, arms and kerosene fuel, which was partly paid for by Saudi Arabia, arms and ammunition, Ariel bombs, maintenance and spare parts for its soviet -era military equipment such as tanks and heavy artillery, repair and maintenance of the Taliban air force and air port operations, road building electricity supply in Kandahar and salaries - Rashid, Taliban P-183-84 op-cit.

[2].Kandahar could be dialed from anywhere in Pakistan as a domestic call, using the pre-fix 081 - The same as Quetta prefix.

7.5 The Narco Dollars

The drug trade in Pakistan and Afghanistan connected the dealers on both the side of the border, in a long lasting and mutually beneficial bonds, strengthened by trust and confidence. Field interviews revealed that these traders have a comprehensive network mostly woven by family members. The network included offices in Hong Kong, Taiwan, Malaysia, Singapore, Japan, China, England, Germany, Dubai, Afghanistan and Pakistan. But explicitly all these offices deal in the trade of 'goods' and not 'bads'.

The financiers of the trade in NWFP for example as reported by the Peshawar customs (Ch:6) and duly verified during the field interviews, suggested that all of them started their business from investment in drugs, first as a carriers and later as independent suppliers. To launder their narco-dollars, they switched over to the Bara type business. In the third phase, the 'money' was invested in transportation and in the fourth phase they erected shopping centers, residential colonies and even medical centers.[1] Since other aspects have already been discussed in details, here we analyze the dynamics of the drugs aspect of the trade.

Unlike the trade in weapons, the drug trade is from poor to rich countries. Though this trade has been of real concern for rich countries, but unlike arms is not a useful instrument of state policy. It become a deadly embarrassment for the United States in the mid 1980s, as the Afghan war against the former Soviet Union was in part funded by rebels in the heroin trade.[2]

Prior to 1985, Afghanistan was not listed among countries which were producing cannabis, coca or opium. It was in 1986 that Afghanistan first appeared on the list of nations producing opium. Starting production on 9950 Hectares in 1986, production of and area under opium cultivation increased with alarming proportion in 1990.[3] Between 1992-95, Afghanistan had produced a steady 2200-

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[1] .Field interviews.
[2] . Segal, Gerald (1991), The World Affairs Companion, Simon schuster limited, London. PP.80-84.
[3] .Ibid

2400 metric tones of opium every year, rivaling Burma as the world's largest producer of raw opium.[1] In 1996, Kandahar province alone produced 120 metric tones of opium harvested from 3160 hectares of poppy fields.[2] Then in 1997, as the Taliban control extended to Kabul and further north, Afghanistan's opium production rose by a staggering 25 percent to 2800 metric tones.[3] The tens of thousand of Pashtoon arriving in Taliban controlled areas were farming their lands for the easiest and most lucrative cash crop available.

Three factors seem to have facilitated the growth of drug trade and its ultimate transformation into transit trade.

7.5.1. Stagflation

As discussed in chapter 4, since the general employment level of all the economic resources, has declined over the period under study, Afghanistan can rightly be said to have been hit by stagflation.[4] All the Afghan were faced with a daily battle to find enough of grupy Afghani notes to pay for daily foodstuffs. Although the shops are full of smuggled foodstuffs from Iran and Pakistan, people did not have the money to buy them.[5] Salaries for instance for the Afghan surgeons who had not fled Kabul, was the equivalent of $5 a month. They only survived because their salaries were subsidized by the ICRC.[6] Average salaries were around US $ 1-3 a month.

As a result of growing poverty and no jobs, a large percentage of the urban population is totally dependent on UN agencies for basic survival and subsidized food supplies. Fifty percent of Kabul 1.2 million people receive some kind of food aid from western humanitarian agencies.[7] Thus in view of the growing stagflation in the formal sector and the still absorbing drugs trade, people are easily attracted towards extracting liquid gold from poppy cultivation. As late as

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[1].Ibid.
[2].Rashid Taliban PP.116-124 op-cit
[3].Ibid.
[4].The stagflation refers to the simultaneous existence of inflation and unemployment, Pears Dictionary, Op.cit.
[5].Rashid, Taliban Op-cit P.126.
[6].Ibid.
[7].Ibid.

2000, there were about 2 million Afghan farmers engaged in poppy production.[1] Abdul Rashid the head of the Taliban's anti-drugs control force in Kandahar remarked: "We let people cultivate poppy, because farmers get good prices. We cannot push the people grow wheat as there would be an uprising against Taliban, if we force them to stop poppy cultivation. So we grow opium and get our wheat from Pakistan".[2]

7.5.2. The Taliban Factor

The Taliban objective of re-establishing peace and security in the countryside proved to be an immense boom to opium farming. They began to collect zakat at the rate of 20 percent of the value of a truck load of the opium from all dealers.[3] By 1997, UNDCP and the US estimated that 96 percent of Afghan heroin come from areas under Taliban control. The Taliban did more than just expand the area available for opium production. Their conquest also expanded trade and transport routes significantly.

Fifty percent of Afghan opium is grown in Helmand province which are transported in 'Toyota Land Cruiser' through the dessert of Baluchistan to ports on Pakistan's Makran coast[4].Some other enter western Iran, skirt Tehran and pass on to Eastern Turkey. Some other convoys go northwest to Herat and Turkmenistan. By 1997, dealers had started flying out opium on cargo planes from Kandahar and Jalalabad to Gulf ports such as Abu-Dhabi and Sharjah.

The taxes on opium export became the mainstay of Taliban income and their war economy. In 1995, UNDCP estimated that Afghanistan's drugs exports were coming to 50 billion rupees a year. By 1998, heroin exports had doubled in value to US $ 3 billion. Drug money provided food and cloth for the soldiers and

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[1].UNDCP(1998),Afghanistan, The Dynamics of the Farmgate Opium Trade, final report. Here after cited UNDCP, Afghanistan 1998.
[2].Rashid, Ahmad, "Drug the infidel's, Far Eastern Economic Review, May 1997.
[3].UNDCP, Afghanistan, 1998
[4].Ibid.

financed the salaries, transport and perks that the Taliban leadership allowed its fighters.[1]

7.5.3. The ISI-CIA Umbrella

The explosion in heroin production began ironically not in Afghanistan but in Pakistan. Pakistan had become a major opium producer during the 1980s, producing around 800 metric tones a year or 70 percent of the worlds supply of heroin until 1989.[2] An immense narcotics trade had developed under the legitimizing umbrella of the CIA-ISI covert supply line to the Afghan Mujahideen. "During the 1980s corruption, covert operations and narcotics became intertwined in a manner which made it difficult to separate Pakistan's narcotics traffic from more complex question of regional security and insurgent warfare".[3] As in Vietnam where the CIA chose to ignore the trade in drugs by anti-communist guerrillas, whome the CIA was financing, so in Afghanistan the US chose to ignore the growing collusion between the Mujahideen and Pakistan's drug traffickers and elements in the military.[4]

'Instances of this collusion that did come to light in the 1980s were only the tip of the iceberg. In 1983, the ISI Chief, General Akhtar Abdur Rehman, had to remove the entire ISI staff in Quetta, because of their involvement with the drugs trade and sale of CIA supplied weapons that were meant for the Mujahideen'. In 1986, Major Zahooruddin Afridi was caught while driving to Karachi from Peshawar with 220 K.g. of high grade heroin - the largest drug interception in Pakistan's history. Two month later an Air Force Flight Lieutenant, Khalil Ur Rehman was caught on the same route with another 220 K.g. of heroin. He calmly confessed that it was his 5th mission'.[5] The US value of

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[1]. Ibid.
[2].Rashid, Taliban, P.120, Op.cit.
[3].Lifschultz, Lawrence (1992), Pakistan the empire of heroin', Study in the US failure of Narcotics policy, west review press.
[4].Ibid
[5].Ibid

just these two catches was US$ 600 million, equivalent to the total amount of US aid to Pakistan that year.[1]

During the Jihad, both the Mujahideen and officers in the communist army in Kabul seized the opportunity. The logistics of their operation was remarkably simple. "The donkey, camel and truck convoys which carried weapons to Afghanistan were coming back empty. Now they carried out raw opium. The CIA- ISI bribes that were paid off to the Pashtun Chiefs to allow weapons convoys through the tribal area, soon involved the same tribal chief, allowing heroin run along the same routes, back to Pakistan".[2] The National Logistic Cell (NLC), an army run trucking company, which transported CIA weapons from Karachi Port to Peshawar and Quetta was frequently used by well-connected dealers to transport heroin back to Karachi for export.[3]

7.6 Bara Markets

Smuggling is a function of crass consumerism.[4] It is a hard nut to crack. Especially so when it has been allowed to grow unchecked and spread its tentacles to all major towns and cities in Pakistan.[5] This trade continued unabated since 1947 and "in law a practice followed for years without any objection by all concerned, assumes force of law. Rome was not built in a day[6]. So were not these Bara[7] Markets".

"In NWFP, smugglers markets or ***Baras*** were flooded with imported consumer goods causing massive losses to Pakistani industry. For example, in 1994 Pakistan, which manufactured its own air conditioners, imported just 30 million rupees' worth of foreign air conditioners. Afghanistan, a country then totally bereft of electricity, imported through the ATT 1 billion rupees' worth of

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[1].Rashid, Taliban, P.121, Op.cit.
[2].Rashid, Ahmad, Dangerous. Liason', Far eastern Economic Review, 16 April, 1998.
[3].Ibid.
[4].The News, October 10, 2000.
[5].Ibid
[6] Ibid.
[7].Bara is a valley of Tirah. It is bounded on the north by Surghar range, which separates it from Bazar and Chora and on the South by the Watershed of the Bara and Tirah Toi. The valley between Rajgal and Kajurai is about 50 Km, long and its width varies from a few hundred yards to 3 or 5 Km, Teepu, Khyber, P.62, Op.cit.

air conditioners, which all ended up in Pakistani B*aras*, thus crippling local manufacturers. When duty free Japanese TV sets or dishwashers were available at virtually the same price as Pakistani manufactured ones, consumers would naturally buy Japanese products. The *bara* at Hayatabad outside Peshawar set up brand name shops to attract customers such as Britain's Marks and Spencer and Mother Care and Japan's Sony where the original products were available duty free".[1] (Illustrations on following pages)

The very mention of the name of Bara Market explains that foreign, duty-free, smuggled goods at a relatively cheaper rates are available in the place. A very small town in the tribal belt, just 10 kilometers away from the Peshawar Cantt: Bara remained a dump and business center of foreign smuggled goods from Afghanistan for nearly twenty years i.e. from 1960 –80. With a mini boom started in the early 1970s and lasted till late 1980s in Pakistan, the enhanced purchasing power of the average income earners facilitated the spread of 'Bara Market.[2] In their first expansion, the Baras moved from their original abode inside the tribal belt At Landi Kotal (Locally Known as 'Lworgey'), 35 K.M from Peshwar cantt and about a K.M. or two from Torkhum (Then not called as bara Market) to Bara and then to its boundary line with the settled area of Peshawar. Two factors seemed to have played a catalyst role to this movement.

[1] Rashid, Taliban, Op.Cit. pp192-193.
[2] .World Bank (1997) Watching Brief strategy for Afghanistan, Islamabad.





It is to facilitate the consumers that prominent companies have opened selling points in Karkhano Markets with their branded names.





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7.6.1. One is the creation and establishment of Hayatabad residential township, where the high income Afghan refugees, elites of NWFP from the Distt: of Charsadda, Mardan, Nowshera, Swabi in general and Peshawar in particular and specifically traders from tribal belt got settled. Prominent among these settlers are the important government functionaries. By and large this settlement overcomes the communication gap among the present players of the 'Afghan Trade'. This collusion among the law enforcing, anti-smuggling authorities and the Bara market traders greatly facilitated the transportation and storage of their smuggled goods and reduced the carriage risks.

7.6.2. The second is the establishment of Hayatabad Industrial Estate (HIE) Peshawar. Respondents agreed that this estate being located on the border of Hayatabad and Jamrud village of the tribal belt also greatly facilitated the overlapping of the common grounds of the Bara-traders and the industrial magnets of the province. "Cheap import of smuggled polyester yarn, dyes, chemical, auto parts, wood timber, metal scarp etc and other industrial inputs from Afghanistan has reduced the cost of production for industry in Pakistan".[1] Since the Bara type markets in Peshawar are located just opposite to HIE, therefore it has been named as Karkhano (Industrial) market.

7.6.3 In the second phase, the Baras spread to all over the province. The Survey made in NWFP by the customs' authorities,[2] reveals 13 main locations in 8 districts of the province where Bara type markets exist. As may be observed in the table, the five main locations in district Peshawar alone account for 90 percent of the total smuggled value of goods in these Bara markets. Though the number of markets in Peshawar are only 43 percent of the total 113 in the province, the number of shops therein are 78 percent and the number of persons associated with the business are 85% of the total 8264 and 72471 in the province respectively. This simply implies that

[1].Naqvi Trade. Op.cit.
[2].Customs house Peshawar 2000-2001.

almost the entire Bara type business is concentrated in the District of Peshawar.

The bara type markets in Nowshera are at second place, where the value of smuggled goods is 8 percent of the total in the province. Almost 90 percent of these goods comprise of cloth. The total number of markets here accounts for 9%, the number of shops make 9.5 percent and the number of persons associated with the business are 5.88 percent of the total mentioned in the table.

The understanding among various players of the smuggling racket, helped established these markets in Nowshera, Haripur and Abbottabad in NWFP and Lahore, Rawalpindi, Faisalabad, Multan, Gujrat, Gujranwala, Sialkot, Sheikhupura and Dera Ghazi Khan in Punjab and even in the capital Islamabad. Thus with such a comprehensive network, with regular inflows of supplies, low transportation cost, high turnover rate and the conniving anti-smuggling and other law-enforcing agencies, Bara type markets have proved to be the major cause of the unabated and ever expanding Afghanistan related smuggling.

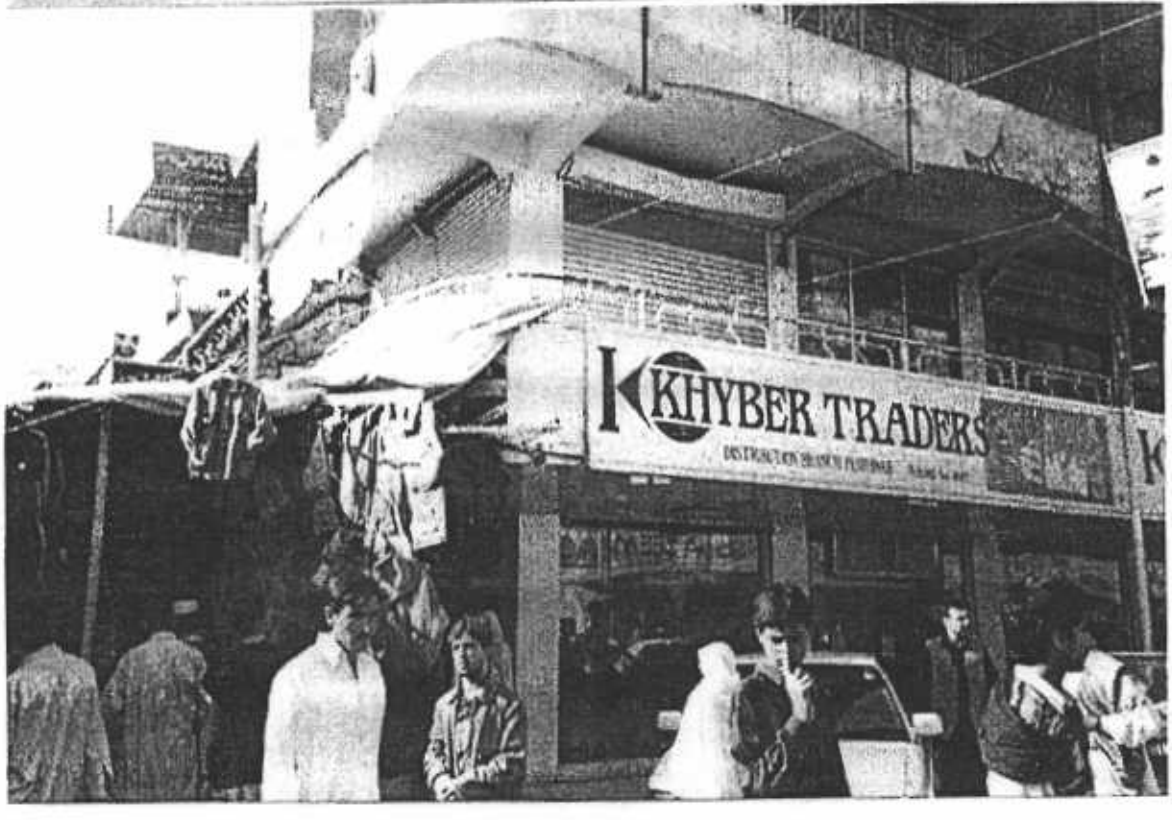
Table 7.1 Survey report in respect of Bara types Markets in NWFP

District/ Bara Markets	Number of Markets	Number of Shops	Number of employees and other personnel associated with the business	Approximate value of goods (million Rs)
Distt Peshawar				
Peshawar City	5	1287	15034	3091
Peshawar Saddar	17	442	4176	3729.5
Shoba Bazar	6	1305	2308	1125
Karkhano Market	20	3293	39324	7378
Total	1	103	1236	1125
Distt. Nowshera				
City Nowshera	11	784	4262	1418.2
Distt. Abbottabad				
Abbottabad (Jungian)	4	160	480	29.5
Distt. Mardan				
Sherin Koty Mardan	1	100	300	30
Sakhakot Mardan	11	225	675	57.5
Distt Bannu				
Bannu City	16	92	756	10.68
Distt D.I.Khan				
City D.I.Khan	5	199	1636	58.195
Distt Kohat				
Hangu	13	259	2130	55.9675
Tall	3	15	124	3
Total	113	8264	72471	17575.54

Source: Customs House Peshawar.

Wholesale Bara Markets at Hayatabad Peshawar





Wholesale Bara Markets at Hayatabad Peshawar



7.7 The Truck Mafia

In any smuggling activity, transportation is the Prime-determinant of the value, volume and turn-over rate of the goods-in-smuggling. The Afghan related transportation has such a wide spread and established network that the business has assumed a formal rather legal status. The transportation inside Pakistan has been discussed at length in Chapter 6, its further dynamics are exposed here.

The border post between Chaman in Baluchistan province and Spin Boldak in Afghanistan and Torkhum in NWFP is a prime location for watching the smuggling racket at work. A good day estimates are 300 trucks passes per day. There seemed a comprehensive understanding among the truck drivers, custom officials of Pakistan and Taliban. They used to mix in a casual friendly way, guzzling down endless cups of tea as long lines of trucks wait to cross. Everybody seems to know everybody else.

"Many of the huge Mercedes and Bedford trucks are stolen and have false number plates. The goods they carry have no invoices. The drivers may cross up to six international frontiers on false driving licenses and without route permits or passports. The consignment range from Japanese camcorders to English underwear and Earl Grey tea, Chinese Silk to American computer parts, Afghan heroin to Pakistan wheat and sugar, East European Kalashnikoves, to Iranian petroleum and nobody pays customs duties or sales tax".[1]

A respondent from the Central Board of Revenue (CBR) remarked: "The transport mafia is completely out of control. The Taliban are funded by the transporters to open the road for smuggling and this mafia is now making and breaking governments in Afghanistan and Pakistan".[2]

In the post Soviet withdrawal and the pre-Taliban era, the transporters were frustrated with civil war and the warlords who taxed their trucks dozens of times along a single route. In this period, the Peshawar-based transport mafia, respondents confirmed, were trading between Pakistan, Northern Afghanistan and Uzbekistan, despite the continuing war in Afghanistan. But the Quetta based

[1] .Rashid, Taliban, P 189,op-cit
[2] Field interviews

mafia during the same period, were at loss with the rapacious Kandahar warlords who had setup dozens of toll chains along the highway to Pakistan. The Quetta based transport mafia were keen to open up safe routes to Iran and Turkmenistan, just as the Bhutto government were advocating a similar policy.[1]

As the understanding between the Taliban and the Quetta based transport-mafia improved, they got linked to one another in more stronger economic bonds. In the initial phase, a monthly payment was made by the truckers to the Taliban. But later on the link got formalized, the payment to Taliban increased and in return, the security of the transactions was guaranteed. The enhanced security during the Taliban, reduced the cost of transportation and the losses incurred by the transporters and the damages caused to the goods got minimized. As a result, the per dollar return on investment in Afghan Transit Trade enhanced. Over a short period of time, the field of cooperation between Taliban and trucker overlapped further as the status of Taliban was transformed from tax levying and commission taking authority to partnership which only strengthened with every passing day and every extension in the Taliban controlled areas.

The nexus extended to politicians and the cabinet ministers in Baluchistan and in NWFP. The chief ministers and the governors of the two provinces issued route permits for trucks to operate and issued wheat and sugar permits for the export of these commodities to Afghanistan. The army officers are quoted to have complained to the government that "the competition between the chief ministers and governors of the two provinces in issuing a route permit, is a major source of corruption, paralyzing the entire administrative machinery, interfering and often at odds with the ISI policy on Afghanistan and creating wide-spread Taliban "control" over Pakistan official".[2]

The 'Truck-mafia', thus, not only ensures smooth supplies to Bara-markets across the country but has also asuumed sucha strength that not it enjoys all the economies of scale associated with transportation and overpowers all the hurdles and barriers regardless of their nature and name and hence form a potent cause of the cross border smuggling.

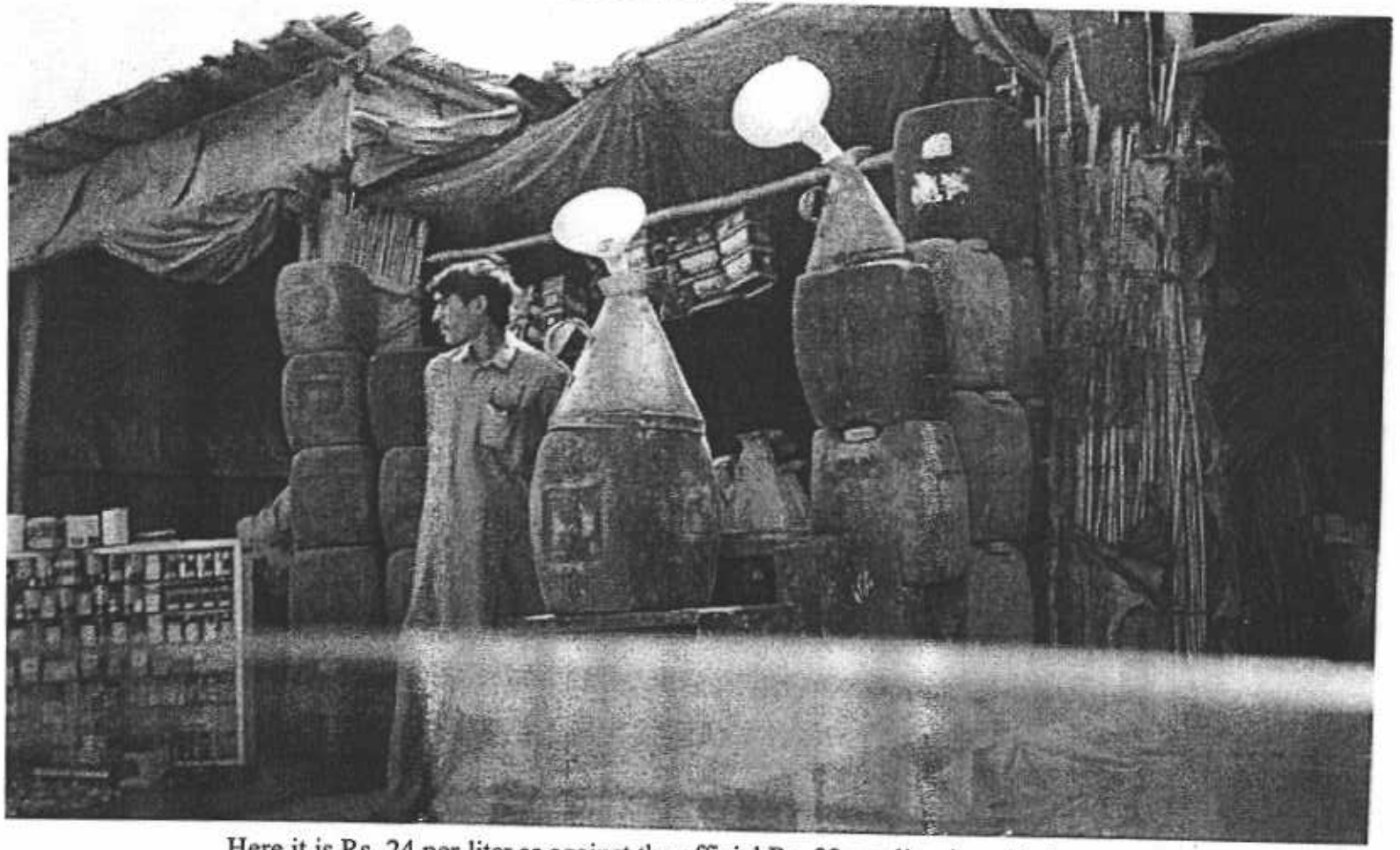
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[1] Rashid, Taliban, Op.cit.
[2].Rashid, Taliban, P.191-192,Op-cit.



A truck carry cloth worth Rs. 7.000 Million has just arrived at Siraj Battai.
Needless to mention which route it might have followed across the border from Afghanistan to Bara.

Petrol Containers in Bara



Here it is Rs. 24 per liter as against the official Rs. 33 per liter in settled areas.

7.8 Income Effect

The goods imported through the Afghan transit trade and smuggled back to Pakistan are normal[1] and Veblen[2] consumer goods. Contrary to the inferior goods[3] for which it is negative, the income effect of these goods is always positive i.e. an increase in income cause an increase in demand for these goods and vice-versa. Since there is a marked increase in the income related indicators[4] over the period under study in Pakistan, therefore the increase in value and volume of Afghan transit trade may directly be related to it.

7.8.1 As may be observed in the table (7.2) the three relevant economic indicators vis GNP(row-1),private final consumption expenditure (PFCE row-3) and per capita income (row-6), has shown a remarkable increase. The average propensity to consume which measure the ratio of consumption (c) to income (y) (row-4) has also recorded an increasing trend, whereas the average propensity to save APS (row-5) has decreased from 0.33 in 1998 to 0.24 in 1999. The proportion of income allocated to consumption has also increased and the proportion allocated to saving has actually declined. This tendency may be counter checked in row-4 where the APC has increased from 0.67 to 0.76, during the same period. Since we have already established that the Afghan imports whether transited through Pakistan or other routes mentioned in chapter-5, ultimately are injected into the Bara Markets in Pakistan, therefore, the increase in private consumption expenditure in Pakistan is directly related to the increase in Afghan transit trade.

7.8.2 To substantiate the facts established, it may also be added that economists are of the view that besides their own prices, the demand for the goods is

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[1]."A commodity is defined as normal when its demand changes in the same direction as income". Kotsoyiannis. A, 1985, Modern Micro Economics, McMillan Publishers limited, London.P.24

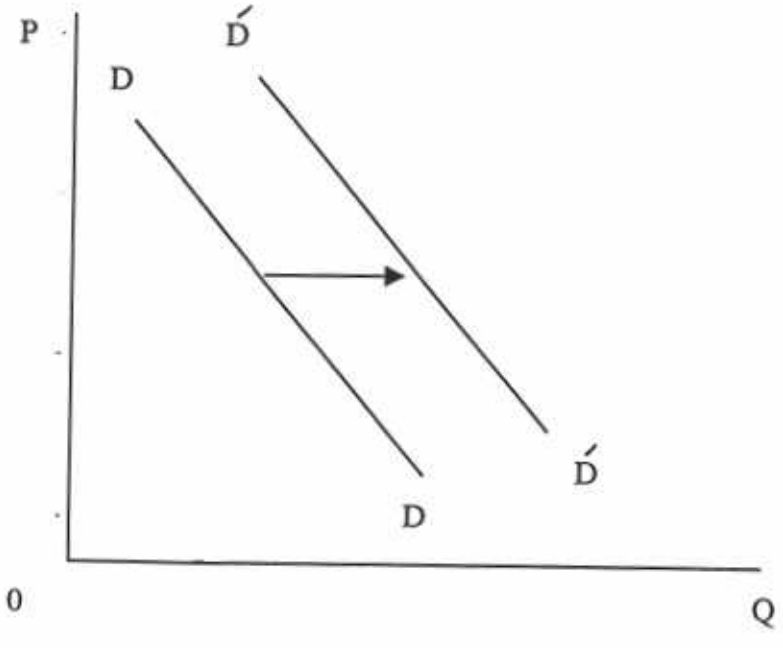
[2].A veblen good (named after the economist Thorstein veblen) is a luxury good, which is in greater demand at a higher price than at a lower price" Hardwick.P, Khan.B, Langmead.J, (1985). An introduction to Modern Economics, Langman group limited,London.P.41

[3]."A commodity is said to be inferior, if the demand for it decreases with a rise in income". Koutsioyiannis, Op-cit P.24

[4].Even if the GNP, is taken as a relative to population, the other indicators viz per capita income, private final consumption expenditure, average propensity to consume and average propensity to save define their positive and direct relationship with the ATT.

affected by income of the consumer, their tastes and the relative prices of other goods. Thus in the period under study, not only income of the consumer has increased, but their tastes too have changed in favour of the smuggled goods, because of their effective advertisement on electronic media.

Also there has been a relative more increase in the prices of the goods produced locally as compared to the smuggled goods. The combined effect of these three factors is that the demand curve for the smuggled goods has shifted rightward 'to represent a new relationship between quantity demanded and prices'[1]. In the figure the new demand curve D'D' reflects the fact that more of the smuggled goods are bought with the rise in income even if their prices have not been reduced.[2]



[1]. Bahadur, Economics, Op-cit P.43.
[2]. The market mechanism has been applied to the goods-in-smuggling because their supply through informal channels donot affect their composition and status being produced by the same factors of production as legal imports.

Table 7.2 Income-consumption trend of Pakistan (1990-1999)

	Items/Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1	G.N.P[1] (at current market price) Rs. in billion	910.70	1040.6	1217.6	1342.8	1565.1	1880.0	2113	2410	2653.3	2888
2	Chain Indices (% age increase)		14.26	17	10.8	16.55	20	12.39	14	10	8
3	Private final consumption expenditure[2] (Rs. In billion)	611.00	964.2	843.2	962.2	110.0	1351.4	1545.2	1818.2	1929.7	2216.8
4	Average propensity to consume APC[3]	0.67	0.62	0.69	0.71	0.70	0.72	0.73	0.75	0.72	0.76
5	Average propensity to save APS[4]	0.33	0.38	0.31	0.29	0.60	0.28	0.27	0.25	0.28	0.24
6	G.N.P per capita (Rupees in billion)	8432	9392	10718	11526	13108	15359	16850	18769	19417	21474
7	Chain Indices Percentage increase	00	11.38	14	7.5	13.72	17	9.70	11	3	10

Source: UN statistical yearbook for Asia and Pacific.

[1] GNP = Y= Income.
[2] Private final consumption expenditure = C
[3] Average propensity to consume APC = C/Y
[4] Average propensity to save APS = 1-C

7.9 The Aspect of Politicians

The brisk and booming transactions of smuggling[1] owes largely to the patronage and facilitation by a number of political heavyweights, both in tribal and settled areas. Some of them are actively involved i.e. have personal investment, other shelter and patronize them, whereas others use their 'good offices' to influence the anti-smuggling authorities or broker deals with them and extract monetary and 'other material benefits'. Some instances are quoted as an evidence.

7.9.1. In 1998 Pakistan Civil and military intelligence agencies unearthed a racket, involved in smuggling of cars and other goods into the country. The racket included some influential smugglers, several ministers of the provincial govt, a governor, members of a political family of Dera Ghazi Khan and a number of parliamentarians. These political people have their own jurisdictions and in their area they protect the smuggling routes from Iran, Afghanistan and India to Baluchistan, NWFP Punjab and Sindh.[2]

7.9.2. "According to a federal minister, if the CBR is given a free hand to nab the smugglers and confiscate their cars, dozens of smuggled cars will be impounded from outside the parliament building".[3]

7.9.3. When in 1995, the govt, imposed restrictions on Afghan Transit Trade, an elder brother of the tribal MNA was reported to have chartered 'Ariana Flights' to transport Japanese cloth from Dubai to Jalalabad.[4]

7.9.4. In 1995, Baluchistan Police arrested a former MNA of Jamhoree Watan Party (JWP), Mir Asim Kurd alias Gelo. Kurd was not only involved in drug trafficking but was also charged for murdering five of the F.C. personnel and kidnapping 6 others in 1991, in retaliation for intercepting

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[1].The terminology has been coined to explain that the trade-in-smuggled-goods is being conducted so widely and openly that now it is practically impossible to question the nature or status of the goods or their owners.
[2].The Frontier Post, January 12,1998.
[3].Ibid.
[4].The News, May 6,1995.

his smuggling goods convoy. He was declared as proclaimed offender by the Baluchistan High Court.[1]

7.9.5. In 1993, the US Central Intelligence Agency CIA report, titled "Heroin in Pakistan: sowing the wind", stated that former Prime Minister Nawaz Sharif's brother-in-law, Sohail Zia Butt, Islam Butt, Haji Iqbal Butt, Chaudhry Shaukat Ali Bhatti, Mohammad Ayub Khan and some ISI officials were involved in heroin smuggling.[2]

A draft of this CIA report was printed by New York Newsday, an American newspaper, published from New York city. The newspaper published the findings and excerpts from the CIA report in its February 23, 1993 issue. The newspaper used the following headlines for its story which was written by the paper's Washington's correspondent, Knut Royee: "CIA: Heroin Rules Pakistan", 'Country run on drugs,' CIA 'report says heroin is Pakistan's life blood'[3]

7.10 The Pakistan Customs

Even a common man in Pakistan knows that corruption, inefficiency and irregularities on the part of the customs' authorities at all levels have facilitated smuggling on all routes to all the Bara Markets in the country. Coupled with corruption is the issue of over staffing. Job in custom is so lucrative, that for the ordinary post of an inspector a bribe of Rs. 1 Million is believed as very economic. Few instances of corruption and inefficiency are quoted here to determine as to how the smuggling network has intoxicated the soul of the customs Department and here the department contributed to the expansion of the network thereby causing dysfunctioning of all the organs of the vital department of the state.

7.10.1. Mueenuddin Khan, former chairman of Pakistan Revenue Services P.R.S., remarked "currently we have about 3500 employees, majority of whome

[1]. The Frontier Post April 3,1993
[2]. The frontier post April 3,1993
[3]. Ibid.

are in the lower cadre. In customs for example we have 17 persons for one process, which can be accomplished by two or three persons only".[1] He also attributed the inefficiency of the PRS to the lack of (a) market based approach,(b) autonomy, and (c) income -cost parity. To him the market based approach meant, the machinery involved in tax collection be paid according to market to erode the menace of corruption. Autonomy would ensure authority to exercise the power and income-cost parity meant that Rs.100 are earned at a cost of Rupee one.[2]

7.10.2. It is to this inefficiency of the PRS that Mohammad Younas Elahi Sethi, a leading industrialist, on behalf of the Sarhad Chamber of Commerce and Industry complained that "the CBR takes months and years to take decisions, resulting in unnecessary hardships and financial loss to the applicants, besides damaging revenue sources of the government. Petitions addressed to the authorities take two or three weeks to reach the concerned section of the C.B.R.[3] He further revealed that it was a normal practice in the CBR that orders were changed, notifications withdrawn or issued immediately to the interested parties. "Even policy matters are molded in such a way to benefit a single applicant, no matter half of the business suffers due to it".[4]

7.10.3. In 1999, the special committee of the Senate called upon the senior representative of the agencies concerned to help protect the ordinary commuters, who were being harrrassed by the officials of different organizations deployed at various check posts on Grand Trunk Road.[5]

In April 1999, the special committee of the Senate was informed by the representative of the CBR that "all regular custom check posts had been

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[1].The Frontier post April 3,1993
[2].Ibid.
[3].It was in response to letter communicated by the four member sub committee on C.B.R. constituted by the National Assembly Standing Committee on Finance, Economic Affairs and Revenue to inquire into complaints, irregularities and Public petition in 1998.
[4].The Frontier Post, February 18,1998.
[5].The Frontier Post, February2,1998

abolished and that a couple of mobile teams were still operating on G.T.Road under the Custom Act to check the flow of smuggled goods.[1]

These couple of mobile teams continued its patrolling, till an ugly but natural with the affairs, incident disrupted the bonanza for the 'custom mobiles'. On March 15, 2002, the Customs' Authorities opened fire on two buses near, Aza Khel, in District Nowshera, in which the driver and the cleaner of one bus were shot dead. A bony lady, 'gundamaar', named Shagufta accused the custom mobile squad of demanding more money in addition to the agreed 42000 rupees, paid in advance.[2]

7.10.4. In October 2000, the special judge custom, taxation and anti-smuggling, Peshawar, sentenced five government functionaries of PIA and customs[3], in a well known case, wherein antiques worth million of rupees, belonged to the Kabul museum were attempted to be smuggled.[4]

In 1993, antiques worth crore of rupees, in the custody of Islamabad Police were replaced. The newspaper report added, "Surprisingly the investigation team which was made to look into the entire smuggling attempt, comprised of such inspectors, who themselves allegedly been involved in antiques' smuggling cases in one way or the other".[5]

7.10.5. In 1996, a crime was unearthed, wherein hundreds of luxurious smuggled vehicles were sold and registered under fake auction letters,[6] issued by various custom officials and other relevant departments, based in

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[1] .The Frontier post June 4,1999.
[2] . Daily Aaj, March 16. 2002.
[3] The five accused were Zafar Iqbal, security guard PIA, Peshawar, Haji Hafeez Ullah, driver PIA, airport, Peshawar, Mohammad Ayub Nawaz, security manager airport, Mohammad Nawaz Khan custom clearing agent and Mohammad Farooq Afridi a custom inspector. The PIA security guard produced six shipping bills, along with airway bills and form E, stating that they were carrying export consignment to the airport. During the course of the investigation Mohammad Nawaz, produced shipping bills, which were found to be forged. The Frontier Post October 20, 2002.
[4] The Frontier Post October 20, 2002.
[5] The Frontier Post August 21, 1993.
[6] Few vehicles under these auction letters were KF-9788, JX-6549, JP-5799, JT8690, JT-8635 and JX 6550, which were registered at the MRW Karachi. The Frontier Post July 28, 1996.

Peshawar, Lahore, Karachi and Quetta. These vehicles included Hi-deluxe Pajeros, vans and double cabin pickups which were smuggled via Quetta from Iran. When this irregularity came to surface, a fire broke out on Feb. 13, 1996, which burnt computer terminals, resulting in loss of Motor Registration Wing (MRW) record. An inquiry into the incident was initiated and several officers and officials of MRW were booked in the FIR, lodged as a result of findings of the inquiry. The accused were soon bailed out after they were arrested.[1]

7.10.6. It was in the custody of customs and state Bank of Pakistan that 120 kg of gold was replaced with metal during 9 years of trial in the court of Special Judge customs Lahore.[2] In 1985, the Lahore Police foiled a bid of smuggling and confiscated 120 kilogram of gold. The case was soon taken over by the Pakistan Customs and the gold was deposited with the State Bank of Pakistan. During the course of the trial, the officials of Customs and State Bank used to present the gold in the court and gradually started substituting it with metal which ultimately was vanished into metal. An inquiry was ordered and the concerned officials of the State Bank and Customs were booked in the initial stage of the inquiry.[3]

7.11 Implementation Lags

The anti-smuggling policies devised by Government of Pakistan are as old and numerous, as the history of the smuggling itself in this country. But the irony is that hardly any of the active policies chalked out by the government has been implemented. The inefficiency of the government to implement its policies, may be judged from the following.

7.11.1 Mr. Hamayun Khan Sikandari, Chief (Custom enforcement), C.B.R, in a meeting of Regional Anti Smuggling Coordination Committee (RASCC), held in Karachi in 1999, attributed the failure of anti-smuggling efforts to

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[1] Ibid.
[2] Daily JANG, February 2, 1994.
[3] Ibid.

the overall attitude of the government and the law enforcement agencies towards smuggling which he described as 'lukewarm' and 'half-hearted'.[1]

There is a lack of coordination between various antismuggling agencies and lack of policy direction due to which efforts to curb smuggling remained largely fragmented and unproductive. "The provincial authorities do not provide the needed assistance to Customs in checking the trading centers which abound in foreign goods and the sale of these goods continued unabated".[2]

The role of Federal Anti-Smuggling Board (FASB), is confined to review reports, furnished by agencies and it has not been able to effectively direct and monitor the anti-smuggling operations of various law-enforcement agencies,[3] including the Civil Armed Forces.

7.11.2. In the year 2000, the government planned to enact two anti-smuggling laws.[4] One law was designed to deal with the legitimization of smuggled goods in the Bara-Markets, requiring the traders to pay duties and taxes with in a given period of three months; the second aimed at enabling various government agencies to control smuggling more effectively and efficiently. The first law seemed to be a quick fix measure to generate instant revenue for the cash strapped government, the second could curtail and eventually plug smuggling.

A draft of the proposed law aimed at putting an end to the illegal business at Bara-Market, was forwarded to the Chief Executive, General Pervaiz Musharraf, whereby "Bara traders will be asked to dispose off their stocks with in three months and then continue to pay taxes, if the business is to be continued".[5]

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[1] The Dawn, Feb, 26, 1999.
[2] Ibid.
[3] Ibid.
[4] The News, October 10, 2000.
[5] The Frontier Post, December 8, 2000.

7.11.3 The interior Minister, Mr. Moeen-uddin Haider said that strict action would be taken against the Bara traders after expiry of the three months amnesty to those engaged in the business.[1] "The Government is committed to eliminate the illegal business and collect taxes from the shopkeepers and others who are involved in it".[2]

After consultation with the Bara traders and evaluating the pros and cons of various proposals, the government gave three months time to clear the stock of smuggled goods with a number of concessions. The decisions announced by the government included:

a. "Each small cabin will pay Rs.10000, while single shutter shops will pay Rs.15000, two shutter shops, Rs.40000, three shutter shops Rs.60000 and the shops with four or more shutter will pay Rs.20000 per shutter per annum.

b. The levy should be paid within one month and the current stock will be eliminated with in three months".[3]

The wholesalers and the composite shops i.e. establishments which dealt with local and smuggled goods, were required to pay duty in the following manner.

c. "They would declare their smuggled goods on self assessment basis.

d. Random checks of 20% of the stock will be made for verification.

e. A concessional duty at the rate of 25 percent of normal tariff will be charged from them,

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[1] Ibid.
[2] Ibid.
[3] The Frontier Post, May 5, 2000.

f. In case of mis-declaration, the entire stock will be subject to full tariff.

g. The duties will have to be paid within one month.

h. The concessional duty is applicable to current stock which have to be cleared in three months".[1]

Despite such an elaborate paper work, the much talked and promised three months had not come as yet, despite a lapse of almost three years from Jan 2000.

7.11.4 To effectively control smuggling, the custom authorities, in August 1998, planned to install a scanner machine at the Attock Post to check a major outlet of smuggling. The then chairman of the CBR. Mr. Moin-Uddin Khan remarked that he "was trying to get assistance from the United States and the UNDP to share the price of the costly scanner worth $ 4 million. Once the Attock check post is effectively monitored, it will make the smugglers to take more longer routes, which will prove more costly for them".[2] The Chairman also informed that the CBR had decided to windup the diplomatic bonded warehouses which was said to be a 'major conduit of smuggling. He revealed that 47 such warehouses were suspected by the CBR.[3]

7.11.5 Similarly in another bid to plug the smuggling via the "green channel facility", the government in 1998 had decided to reinforce baggage checking spots with scanning devices.[4] The scanning process in which the onus of detecting the baggage in excess or in violation of rules is with the machines which are neutral, was considered to be the best option in 1998.

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[1] Ibid.
[2] The Frontier Post, August 2, 1998.
[3] Ibid.
[4] Ibid.

The committee[1] constituted by Prime Minister Nawaz Sharif, made several recommendations to avoid abuse of the green-channel facility. But except for the installation of six scanning devices (2 each at Peshawar and Lahore airports, and one each at Islamabad and Lahore airports), the other recommendations of the committee viz (i) appointment of honest officers on scanning offices, (ii)preparation of leaflets of simplified baggage rules, (iii)barring discretionary powers of any sort for the custom authorities (iv)monitoring of CBR activities through close circuit T.V network (v) availability of luggage trolleys of international standard by CAA and (vi) surprise checking by collector customs of the entire mechanism[2], remained good only on paper.

7.11.6 In March, 1999, The Frontier Constabulary (FC) force in Baluchistan were authorized to take up anti-smuggling measures and seize and auction goods, transported from Iran and Afghanistan.[3]

The Inspector General of FCQ also asked for delegation of powers to head the tribunal deciding the fate of smugglers and the goods seized under the smuggling Act. The FC Chief also asked for powers to seize the smuggled goods and for protective custody of these goods with the FC for unlimited period. A request for delegation of powers to auction the smuggled goods at no limit prices was also made by the FC Chief.[4]

With in these powers granted and those requested by the FC Chief, laid the ugly reality of the creation of yet another anti smuggling authority with over lapping powers and with the potential of gross abuse.

7.11.7 In the year 2001, the Customs House, Peshawar, prepared a 22-points crackdown plan on Bara-type markets. The crack down was planned to be

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[1] The committee designated as Prime Minister monitoring and Evaluation Cell was headed by Major General (R) Sikandar Hayat as Chairman and comprised members from CBR, the ministry of commerce and Finance Division.
[2] The Frontier Post, August 11, 1998.
[3] Dawn-March 19, 1999.
[4] Ibid.

implemented after the local governments were sworn in August 2001, so as to muster their support. The requirements of the number of personnel from different forces, the timing and mode of operation, technical and legal cover and means of communication required were properly evaluated and addressed. In this comprehensive plan, a 45-days amnesty scheme, wherein the traders were required to clear their smuggled stocks and payment of due taxes was also announced. Arrangement for the storage of the goods seized during the operation was also planned at the Custom House Peshawar. But after a lapse of an year now, the proposed crackdown still awaits implementation.

Thus we have observed that the successive governments in Pakistan till date, have shown concern to the growing menace posed by smuggling and has devised strategies, chalked policies and created new and empowered the existing anti-smuggling authorities to counter the threat. "But corruption in the ranks of law-enforcing agencies and other departments at airports, seaports, dry ports and check post, created especially to eliminate smuggling has actually facilitated this trade, allowing it to grow exponentially".[1]

7.12 We may now safely assess over the years the economic bonds among these various interest groups have multiplied so much and got such a strength that it is very difficult for one nation to effectively check it until and unless all the nations of the region, at least at the ECO, level demonstrate a political will to combat it. Though this ATT has been branded as the biggest smuggling racket of the world in contemporary literature and has a regional impact, yet it has been proved too devastating for the economy of NWFP, being the life-line to all the Bara Markets in the country.

[1] The News, October 10, 2000.

CHAPTER 8

THE IMPACT OF ATT ON THE ECONOMY OF N.W.F.P

The Province of N.W.F.P. is spread over an area of 74521 Sq:Km. The total population of the Province according to 1998 census is 17554674, with density of population is 236 person per square kilometer. The literacy rate in the province is 37.3 percent[1]. At the time of independence, "NWFP had virtually no industrial base. The socio economic structure of the province was pre-dominantly agrarian in nature, with a sketchy industrial sector, comprising one sugar mills and some other eleven small units with a total investment of Rs.81.65 million that provided job opportunities to 1063 workers".[2] In the subsequent years, the industrial growth of the province, though not spectacular, but kept pace with that of the rest of the country. But as the grip of the tentacles of the ATT bound illegal transactions expanded in the 1970s, appeared the decline of the NWFP industry and so of its economy. Probe in the matter revealed it to have both direct as well as derived dimensions.

8.1 Direct Impact

Direct impact of the Afghanistan bound illegal transactions implies its ill effects on the relevant sectors of the economy of the province which may directly be observed from related statistics. This direct impact has been assessed to have both intensive and extensive dimensions which may separately be studied as general impact and specific impact.

8.1.1 General Impact

8.1.1.I Interviewees related to the Sarhad Chamber of Commerce and Industry admitted that instead of the analysis of the data relevant to Pakistan, industrialists of the province gave more weightage to the same in Afghanistan. On thorough observation and analysis, the nature of industry of the province seemed to be more responsive to demand in Afghanistan. All the established

[1].Report of the Directorate of Industries, Government of N.W.F.P. January 2000.
[2].Ibid.

firms of the province, as are listed in column 1 of the table 8.1, have been reported by the World Bank to be earning a major chunk of their revenues from smuggling to Afghanistan. The World Bank estimates of the volume of goods smuggled have been mentioned in column 2 of the table 8.1. It may also be seen in this table that on a total investment of Rs.38985.235 million, the estimated revenue generated by these firms in one year of 1997 was Rs.7007.376 million from smuggling to Afghanistan.

Table 8.1: Growth and Development of NWFP industries boosted by smuggling

Items	Smuggled valued in 1997 (Rs in Million)	Total number of unit in NWFP	Units established from 1990-2000	%age growth	Investment Rs. in million	No. of employees
Flour	2028.650	208	149	72	1859.843	4083
Rice	1339.416	29	11	38	20.785	149
Ghee	997.400	32	25	78	2037.633	1555
Sugar	548.620	6	1	16	1352.685	4335
Pulses	381.950	14	10	71	59.410	134
Cotton	39.930	2	2	100	4.725	17
Textile	539.940	78	60	77	15316.801	6308
Mechanics	302.080	39	30	77	1079.077	1539
Cement	75.520	6	3	50	16127.939	2512
Fertilizers	750.840	2	00	00	1004.392	280
Petroleum products	424.480	4	2	50	121.845	224
Total	7004.376	420	293		38985.235	21136

Source: 1. Directory of Industries, Industries' Department of NWFP, 2000.
2. World Bank 1997 Report.

8.1.1.II Though the development of the industrial sector of the province remained unsatisfactory, the development in the listed, smuggling prone industries has been excellent during the period of the study. Their development in percentage terms has been shown in column 5 of the table. "Approximately half of the flour mills in Punjab and NWFP are running mainly to meet the demand for flour and related products in Afghanistan. Similarly the demand for sugar, ghee/cooking oil, garments, plastic products, construction materials, cement, glass products, medicines fertilizers etc in Afghanistan must be creating incomes for these segments of Pakistani industrial sector".[1]

[1] .Naqvi, Afghanistan op cit.

Out of the existing 208 operational flour mills in the province, 149 have been established from 1990-2000. This make 72% of the total. In these 149 flour mills, 99 have been established in the four years from 1997 to 2000.[1] Besides, 23 more units are under construction, scheduled to be completed in August 2002.

8.1.1.III Key industrialists of the province, reputed to be dealing in the formal sector, disclosed that the industries which are raising their revenues from Afghanistan bound smuggling have created an industrial uncertainty. They believed this uncertainty to be having a multi facet fall out:

i. It led to irrational investment of capital. Because all investors, aspirants of the installation of a new unit, demands capital for investment in a particular sector which may already be saturated. This leads to imperfect employment of the factors of production particularly labour and capital.

ii. In view of the various incentives granted by the govt: there hardly existed any barrier for new firm to enter any industry. But every new firm cannot be said to have a perfect knowledge of the market. Because, the recorded transactions of the existing firms are only a small part of the real transactions calculated out of the accounts' books. Thus as a result of the deficient knowledge of the market conditions, exits of firms due to sickness from industries have been substantive.

iii. The borrowing of capital for the already saturated industries has led to what is logical with the marginal efficiency of capital. "The marginal efficiency of capital falls as investment increase. There are two reasons for this:-

    a. One, the installation of a large number of similar machines leads to a reduction in their prospective yields just

[1].Directorate of Industries, Government of NWFP.

as consumption of more units leads to a decrease in marginal utility.

b. Secondly, the prices of such machines will go up as their demand increases. This will add to the cost".[1]

It may be observed that the total investment which amount to Rs.38985.235 Million, in the industries prone to smuggling is almost 90 percent of total industrial investment of the province. Since the capital absorbing capacity of the industries mentioned in the table 8.1 has been exhausted, in view of their demand in the country, demand for capital ought to be properly scrutinized.

iv. Interviewees contended that the cross-border smuggling has diverted the managerial skills from established goals of attaining economies of scale in various departments of a production firm to establishing PR with the various law enforcing agencies. As a result cost reduction policies are pursued by indulging in various underhand methods rather than conducting research and development, devising various sales promotion incentives, attaining specialization and teamwork efficiencies.

v. Since the very nature of smuggling bound trade is uncertain, so are the services of all the four factors of production associated with it. When the flow of goods to Afghanistan is smooth, the labour and inputs related to land including raw materials, transportation, power and other activities are employed to optimum capacity and they get their due price. But as cross-border checking is beefed-up, the flow of goods to Afghanistan gets bottlenecked with a negative fall out on the employment of resources including capital and enterprise.

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[1].Dewett, K.K. 1986, Modern Economic Theory, Shayam Lal Charitable Trust, Ram Nagar new Delhi, P.367. Here after cited Dewett, Economics.

8.1.2 Specific Impact

The specific Impact of Afghanistan bound smuggling on the economy of NWFP implies its impact on the industry of the province. This impact is examined from two aspects, namely: specific physical impact, assessed from relevant statistics and structural impact-evaluated from data collected during field interviews. But before the examination of these impacts is attempted, it is appropriate to assess the potency of the Bara Markets, which is the cause of these impacts.

8.1.2.I The Bara Markets

The survey carried out by Customs House Peshawar reveal all the population concentrated areas of NWFP to have an efficient network of Bara Markets. In view of their strength, these Bara Markets, *viz-a-viz* the formal industrial sector, have established a parallel economy. The scope of this economy over the last 20 years seemed to have extended to all the sectors of the formal economy in a manner that now it is hard to demarcate between them. Some of the features of these markets are given below.

i. In seven districts of NWFP, there are 113 Bara markets in all. There are 8264 shops in them, which cater to the demand for foreign goods of the people in these districts.[1]

ii. These seven districts are population concentrated areas with other demographic figures also very high. The total number of households in these districts is 10,09709 in the total population of 7.620 million in these districts. The total population in these districts accounts for 43.40% of the total of NWFP.[2]

iii. The industrial sector of the province provide employment to 57290[3] people, whereas the number of people who are earning their livelihood

[1] Report of Customs House Peshawar
[2] Bureau of Statistics, GOP 2000.
[3] Directory of Industrial Establishment, Govt of NWFP, 2000.(Hereafter cited Directory)

from Bara Markets business and other related activities have been estimated to be 72471.[1]

iv. The maximum wages paid to the workers in the industrial units are Rs.2500 per month whereas the earnings of ordinary workers associated with the Bara smuggling, estimated by the Peshawar customs and verified during the field observations, comes to Rs400-500 per day.[2]

v. The accumulated investment in the total 2192 industrial units in the year 2000 comes to Rs. 60805.450[3] million whereas the estimated value of goods traded in 113 Bara Markets of the province is Rs.17575.0425 million. This makes the per unit investment in the industrial sector as Rs.28 million whereas the per unit investment in Bara Markets comes to Rs.155 million.[4]

vi. These Bara markets were found to have such an efficient communication system and pursue such pricing policy that there is no price discrimination viz buying the goods in the cheap market and sell them in dearer ones, inside the province. The minimum difference in prices between any two Bara Markets is only enough to make up for transportation costs including cash commissions to the law enforcing / smuggling checking agencies. Similarly the efficient communication system enable the *Bara* traders to make quick adjustments to any price fluctuations in the international markets. Thus appears a high diversion of capital from formal sector to Baras. Substance to the argument is provided in the probe under specific physical impact and specific structural impact.

8.1.2.II Physical Impact

NWFP reflects the same demographic trend as is true for the whole of Pakistan, therefore, it can rightly be regarded as labour abundant province. This in

[1] Report of Customs House Peshawar.
[2] Field Interviews.
[3] Directory. Op.cit.
[4] Report of Customs House Peshawar.

turn implies that by its very nature the industrial units should have been labour-intensive rather than capital intensive i.e. with the passage of time, the per unit employment should have increased. But the industrial statistics as furnished by the industries department of NWFP, show a reverse of the established practices for labour abundant nations.

As may be observed in the table 8.2, 'the total number of industrial units increased from 11 in 1947 to 2192 in the year 2000 with the average per year development of more than 50%, the per unit employment of workers substantially reduced. The average annual employment of workers in the first period from 1947 to 1955 increased from 94 workers per unit to 319 per unit. It remained satisfactory in the second period from 1956 to 1965 when it was 271 and 264 per unit, respectively. But afterwards it recorded a declining trend i.e. consistently decreasing from 144 workers per unit in 1966-70 to 35 in 1996-2000. Similarly, per unit investment in 1947 was Rs.7.42 million, increased to Rs.49 million per unit during 1961-65. But since then, per unit investment slashed considerably i.e. Rs.16 and 17 million per unit at present'.[1]

Key respondents, related to the industry of the province, contended that the declining per unit investment in the industrial sector of the province is because of its transformation to agro-base with mostly consumable products. They also pointed out that though the general trend in the province is that most industrial units are established out side the industrial estates, but in Peshawar, the proximity of both the Industrial Estates, Jamrud Road Peshawar and Small Industrial Development Board (SIDB) to the tribal belt and hence to Afghanistan, have made them an exception, where 211 Units are working in both the industrial estates and only 164 outside it.[2]

The relative meager number of industrial units, producing consumer durables e.g. toiletries and fashion assisting products in NWFP. is because of the increase in imports of these products from 1990-2000, as assessed in chapter 5,

[1] Directory, Op.cit.
[2] Ibid.

under ATT, through other routes, if not via Pakistan. As contended by the leading industrialists, the smuggling, facilitated by the A.T.T., has two pronged effects.

i. It devoided the firms of the province to enjoy the various economies which accrue to firms when it operates on a large scale.

ii. It narrowed the industrial base of the province and worked as catalyst in the exist of firms from industries i.e. increasing number of sick closed units.

Table 8.2 Trends In The Industry Of NWFP

Period	Number of units during the period	Accumulative progress on Units	Percentage growth	Accumulative progress in Employment	Average Number of workers per unit	Accumulated progress in investment (Rs in Million)	Average investment per unit Rs. In million
Upto 1947	11	11	-	1063	94	81.621	7.42
1948-50	4	15	36	2218	148	277.362	19
1951-55	21	36	140	11468	319	1709.948	48
1956-60	10	46	44	12465	271	1969.329	43
1961-65	28	74	60	19562	264	3609.369	49
1966-1970	79	153	106	22001	144	4040.451	26
1971-1975	64	217	42	24366	112	4668.659	22
1976-1980	143	360	66	28326	79	5700.701	16
1981-1985	272	632	75	33153	56	9961.069	16
1986-1990	401	1033	63	42411	41	12331.691	12
1991-1995	791	1824	76	68997	38	30284.212	16
1995-2000	368	2192	20	78883	35	38032.367	17

Source: Industrial Directory, Directorate of Industries, NWFP, 2000.

8.1.2.III

A thorough analysis of the industrial establishment of the province reveals 10 industries to have been mainly affected by the ATT- related smuggling from Afghanistan to Pakistan. These industries, mentioned in the table 8.2 have been examined from five aspects.

i. Except the Textile Mills where the number of operating units increased from 9 to 10, the rest have shown a drastic decrease. The accumulative effect is that the total number of operational units decreased from 356 to 156. Keeping the increasing requirements of textile in the country in view, the increase in the Textile Industry by 1unit, in relative terms may safely be evaluated to be of no real impact.

ii. As a natural consequence of the drastic decrease in the number of closed units, the employment of the labour force has also fallen from a total of 22608 in the period from 1990-95 to 18164 in the year 2000. This trend is dissonant to the requirements of the labour abundant country like Pakistan. As a result of reduced job opportunities in these industries, wag-rate got suppressed and hence a stimulation for the labours to seek fortunes in the informal sector.

Table 8.3: Summary Statistics of Smuggling affected Industries in NWFP

Name of Industry	Number of Working Units		Employment (Numbers)		Number of Closed Units		Capital Sunk (Rs. Million)		Ratio of Capital to 1 labour (Rupees)[2]		
	1990-95	1996-2000	1990-95	1996-2000	1990-95	1996-2000	1990-95	1996-2000	1990-95	1996-2000	Difference
Textile Mills	9	10	9816	6685	3	1	428.484	86.156	107700	262000	154300
Textile(Power Loam Sector)	23	20	902	695	4	16	43.77	326.111	1186000	1408600	222600
Polyester/Acrylic etc [1]	22	13	4679	6308	1	11	6.881	582.075	2117000	2336000	219000
Woolen	6	4	911	857	2	-	53.269	-	149600	297000	147400
Silk Mills	213	60	3118	1243	100	92	178.979	362.521	75000	88000	13000
Malamine Industry (crockery)	9	3	246	70	-	6	-	42.797	24900	26400	15000
Electric Goods &Appliances	32	16	1520	1392	6	17	42.488	242.821	350000	1155000	805000
China Clay ceramics	6	4	541	390	-	2	-	15.706	764000	813000	109000
Soap	33	27	402	401	6	14	11.003	42.256	302000	319000	17000
Leather & Footwear	13	9	473	123	5	5	131.15	45.178	151000	46000	105000
Total	356	156	22608	18164	127	164	896.024	1745.621			

Source: Directories of Industrial Establishment, Govt. of NWFP(1990-2000)

[1] It includes polyester/Acrylic/textorised/viscore/yarn/Polyester Staple fiber.

[2] The amounts rounded off to the nearest whole.

iii. But the brunt has been found to be borne by the smaller firms, which because of its infancy, couldn't absorb the shocks exerted by the Bara Markets. Since they could not take the price level offered by the established foreign firms, their 'average variable cost increased above the revenue curve and hence felt better off to be closed down as a logical conclusion'.[1] The directories of the industrial establishment (1990-2000) of the province enumerates 164 more units in the year 2000 to have been added to the list of 127 units in the smuggling- affected industries in 1995, the worst victim being the Industry of the silk.

iv. As a result of the excessive closure of units in the smuggling affected 10 industries, a total capital amounting to Rs.2.6416 billion have been sunk from 1990-2000. Where this outcome forced the lending institutions to impose strict conditionalities on borrowing, it also played a catalyst role in diverting the capital from formal to informal sector.

The competition forced the existing units to make an upward movement along with the isoquant curve i.e. substitute labour for capital, thereby shifting the balance of Marginal Rate of Technical Substitution (MRTS)in favour of the capital. The relevant figures of ratio of capital to 1 labour have been enumerated in the last two columns of the table 8.2.

Key respondents from Industrial Development Bank of Pakistan (IDBP), Pakistan Industrial Credit and Investment Corporation (PICIC) and feasibility determining chartered accountants in Peshawar, divulged that though the causes of industrial units being fallen sick are numerous, the chief being Bara market smuggling which provide ready made excuse to borrowers for writing off of finances mostly borrowed for dummy industrial units. Owing to this capital bias,

[1] Koutsoyiannis.A(1979) Modern Microeconomics, Macmillan Publishers Ltd. London and Basingstoke. PP-157-58.

precious finances can safely be said to have been caught up in the 'smuggling trap'. They further added that while examining the feasibility for the establishment of any industrial unit, only relevant statistics in the formal sector are analyzed. They admitted that they have no mechanism to take into account the smuggled value and volume of any product for which feasibility is being sought. They contended that:

i. The feasibility proformas do not contain any query regarding smuggling of the good.

ii. Due to high risk involved, it was impossible to have an access to the tribal area to ascertain the quantum of smuggling.

iii. Personal biases of the interviewees insert statistical errors which make it less authentic to incorporate such responses.

iv. The information available with the govt of Pakistan or other international agencies on the subject are based on sampling and 'rough' estimates and therefore present a hazy picture.

Thus these respondents believed that in view of the discrepancies associated with the recorded statistics in the Afghanistan bound smuggling to NWFP, any industrial unit established on the basis of a feasibility report is bound to suffer a set back.

8.1.2.IV Structural Impact

The structural impact of Afghanistan bound smuggling include the internal weakness which the industry of the province suffer due to lack of operation on a large or more specifically optimum scale.

With massive exits of firms from industrial establishment and the fact that the per unit capital investment has fallen to Rs.16-17 million, the industrial firms of the province cannot enjoy benefit which accrue to a firm due to large scale

production i.e. production of firms on minimum point of the long run average cost (LAC) Curve.

Besides, since the cross border informal transactions provide easy means of earning abnormal profits, therefore, the manufacturing sector of the province doesn't deem it worth any consideration to formally resort to established goals of firms aim at cost minimization and profit maximization. Rather these goals are achieved by practices outside the formal economic system due to which the formal factors of production viz. labor, capital and enterprise, during the field study, have been found to be suffering from internal weaknesses.

a. The degree of division and specialization of labour force is very low. Individual workers were found to have been assigned three or four different jobs which ought to be performed by different workers. As a natural consequence, this non division of labour is entailed by wastage of time as is consumed by workers in moving from one type of work to another.

   Invention of tools and machines which help supplement the workers to improve their efficiency has been found to be minimal. Due to this indifferent attitude, workers remain semi-skilled, making their supply in excess of that demanded, as a result of which there is no competition among workers for jobs which keep the nominal wages at minimum which in turn provide incentive for labours to seek fortunes in the informal sector.

b. Modern production function require it to be reasonable mechanized, plants ought to be of optimum scale and that both setting up and initial costs should be kept at minimum, only then the gaps between the cost and revenue curves will be maximum in favour revenue at any given point of time.[1]

[1] Scherver, F.M (1970). Industrial Market Structure, and Economic performance, Rand McNaly. Pp.72-79.

i. The individual units of the province, to a very large extent are capital biased, despite NWFP being a labour abundant province like the rest of the country.

ii. There is a general lack of awareness about set up costs which is reduced by installation of multi-purpose machinery for performing a particular job or product which is common in industries like those producing electrical house-hold goods or motor cars etc.

iii. There is no urge for the installation of relatively larger plant which requires expectation to be in favour of an increase in demand in future rather than the current level of cost. By its very nature, since the cross-border smuggling is uncertain, therefore, concentration in the manufacturing sector of the NWFP is on disposing off the current supply mostly through the informal channels rather in the formal which makes the questions of scale of output as irrelevant.

c. But the small operation has an adverse fallout on production engineers, foremen etc. who tend to acquire consideration experience from large scale operation. Entrepreneurs in the petroleum, textile, fertilizers, chemical, glass-manufacturing, iron, reduction industries, were found to be not bothered about acquiring technical economies of scale e.g. storage tanks, connecting pipes, reaction chambers are not in proportion to the surface area that they occupy. Similarly, there is no desire to have some reserve capacity to overcome difficulties created during breakdown and less conducive environment. As a result of this, the manufacturing sector doesn't have enough stocks to smooth out fluctuations in supply.

In addition, since most of the production is disposed off through the smuggling network, therefore entrepreneurs of the province except for ghee industry, do not opt for advertising be it space (newspaper or magazine) or time (ration and television) hence earning of 'good-well' by keeping the branded names alive in consumers' minds is not realized.

Since the cross-border smuggling already provide abnormal profit by ordinary means of production and supply, therefore, there is no motivation for entrepreneurs to indulge in changing the styles of the product which may requires expenses in research and development and possiblly on new materials and equipments. Decision making is centralized as the divison of managerial tasks into production managers, sales-managers, finance managers, personnel managers etc. was found to be non-existent.

Similarly it is not deemed worth any benefit to consider observation of rules pertaining geometrical relationship between surfaces, capacity, volume inputs. Store geometrical output relationship doesn't hold. Since the cross border smuggling already help realize the profit maximization objective there is no motivation to consider the reduction of cost by constructing multi storied store houses.

8.1.3 Counterfeit impact

The most devastating effect of the cross border smuggling form Afghanistan has been found on the trade behaviour of the people of the province. From street level in the district of Peshawar, counterfeiting extends to established firms in Peshawar, Swat , Mardan, Haripur and Gadoon Amazai in NWFP, to Lahore and Karachi at national level, to Dubai and China at international level. The products being counterfeited range from such small products as soap, toothpaste, shaving razors to large items as tyres and to sophisticated electronics as television, CD players, computers and electrical goods such as iron, air conditioners and juice blenders etc.

8.1.3.1 Street level counterfeiting

Field observations of two sites namely, Karkhano Markets and Kachi Mohallah Peshawar, revealed them to be producing the fake brands of popular consumer goods like bath soap, toothpastes, shaving creams, hair shampoo, hair conditioner, detergents, cosmetics and beverages.

The materials of all products were observed to be prepared in ordinary pots and the contents are being mixed quite in a casual manner with the only concern to ensure similarity of the colour and flavour. Weightage is being done with ordinary balance. Simple but specialized sealing machines, seal the products with such perfection as to make it very hard for naked eye to detect any flaw.

Interviewees revealed that previously the wrappers, bottles, cannes and containers of all sorts were prepared in Lahore. But now they contended to be having the facility of these requisites being prepared in the home province. Since the empty bottles, cannes and containers are unmarked, therefore, their large quantities are not questioned by the law enforcing agencies during transportation. They admitted that wrappers occupy such small volumes as to make it quite simple to be hidden under ordinary arrangements. As assessed during the field study, the availability of these requisites make half of their cost of production. But they admitted to be purchasing a major chunk of these requisites from scrap (*Kabar*) sales. The scrap sellers from around Peshawar visit them every month and deliver the cleaned and sorted bottles and containers as per their requirement. The normal price is Rs.20 per kg for plastic goods and Rs. 8 per kilo for glass bottles etc.

Used safety razors and syringes are also collected, cleaned polished and repacked at street level. Here too the sources of supply are the scrap sellers. Respondents admitted that the sale of the repacked used syringes and razors don't pose any problem when once delivered to the wholesalers at *Peeplemandi*, Peshawar. The wholesaler don't sell them to the retailer in bulk but mix them with the original products, normally three pieces per dozen.

The smuggled black tea is adulterated by mixing with husks of pulses and is dyed with blood collected from slaughter houses, respondents revealed. This looking-like tea is sold to wholesalers at Rs.110 per k.g. which they sell to

retailers in far-flung areas of district, Swat, Kohistan, Mansehra, Malakand, Karak and Laki Marwat at Rs, 140 per kilogram.

Among the toiletries and detergents include Lux, Capri, Dove and Cussions, bath soap, Pantene, Head and Shoulder, Silvikrin and Sunsilk shampoos and 'Surf',. 'Brite', 'Wheel' and 'Bonus' detergents which are counterfeited in Karkhano Market, Kachi Mohallah and in the outskirts of Peshawar. These toiletries and laundry products are sold throughout the province even in the urban areas. Cigarettes of the popular brands like Gold Leaf, Morven Gold and Red & White are also produced in Kachi Mohallah and is sold in rural area and in the outskirts of Peshawar.

Respondents estimated that 50% of the lubricants sold in Peshawar are adulterated. Used lubricants are collected by various agents from workshops and other lubricants changing stations and is distributed in Wazirbagh, Chamkani and Ring road areas of Peshawar. These lubricants are boiled in large containers and polythene bags are mixed in proper proportion to produce the desired adhesion. Various colour are then mixed to resemble the intended counterfeiting brand.

The prominent feature of all these counterfeited products at street level is the availability of exact wrappers, labels and other packing material which are skill-fully prepared in Lahore and tribal areas of NWFP. The use of these fake wrapper and packing materials has even now extended to medicines. Rocephing (seftraxon) injection which is the research product of Roche, a multinational pharmaceutical company is also produced by other national and multinational companies under the copy right. The price of Rocephin injection form Roche is Rs.277, whereas that produced by other companies is Rs.105. Since the bottles of both the brands are of the same shape and colour, therefore, it required the counterfeit mafia to remove only the labels from the low priced ceftriaxon and paste that of the Rocephon. On inquiry, even the laboratory test couldn't detect any flaw as the contents were the same. "Medicines

counterfeiting of this nature has extended to 100s of products and has posed great administrative problem for us as we frequently check and recheck batch number of delivery, voucher, warranties and other receipts documents with the wholesalers to determine the legal and formal delivery of the drugs".[1]

8.1.3.II. Industrial level counterfeiting

Respondents and personal confidants in Karkhano market disclosed that counterfeiting and fake production takes place at the formal industry level as well. Among the prominent products, counterfeited at this level are electric irons of National Company, juicer and blender of Moulinex company and non sticking cooking pots of Japan, Morven Gold, Dunhill, Gold Leaf and Red& White are the popular brand of cigarettes and cosmetics of the well reputed companies like Swiss Miss, Medora and St-Michael. The respondents admitted that fake branded cigarettes by the tobacco companies in district Swabi, electronics are supplied from Gadoon Industrial Estate, whereas cosmetics are produced by the cosmetic industry in Swat.

Shoba Bazar Peshawar and its adjoining areas are reputed for selling used spare parts of vehicles. These spare parts are imported to Afghanistan as scrap and then smuggled to Peshawar as per convenience. Popularly branded as '*Kabuli*', these are in great demand here. The very word Kabuli (meaning from Afghanistan) implied that the spare part is of Japanese origin and has been used only there or in the West. Respondents in Shoba Bazar disclosed that owning to their demand and high profit margin, motorcar spare parts producing companies in Lahore, put their products in mud and allow them to get rusted for sometime. Used mobil oil is later on put on it so that they start resembling the 'Kabuli'. These are then sold in Punjab and Peshawar.

Pakistani cloth is also counterfeited under a Japanese stamp. Respondents in cloth Battai in Jamrud area admitted that Pakistani cloth measuring millions of meters is transported to the tribal areas from Punjab and

[1] Interview with Sayed Nayyer Hussian, Deptt. Manager, Muller and Phipps, Peshawar on 24 July, 2002.

Karachi. Here the widespread counterfeiting infrastructure facilitates fake stamping and is then sold in the Bara Markets throughout Pakistan as smuggled Japanese cloth.

8.1.3.III. International level counterfeiting

At the international level counterfeiting mostly takes place in luxuries and electronics. Sources of supply include Dubai and China. Respondents unveiled that China has such an innovative technological and industrial infrastructure that they require only a model to counterfeit any thing. Some valuable parts being counterfeited in China are lenses of cameras (both still and video), CD players (both audio and video), heads of various electronics, timers of air conditioners and refrigerators, hard disc, printers and toners of computers. A prominent electronics' mechanic in Faqirabad area of Peshawar[1] disclosed that many of the electronic goods brought to him for repair went out of operation because its key genuine parts were replaced with fake Chinese parts. Similar disclosures were also made by air conditioner and refrigerators' mechanics. China Also counterfeits a wide variety of popular branded cosmetics.

Counterfeiting from Dubai consists mostly of cosmetics and mainly of perfumes. Mr.Taj Mohammd, who runs a general store in Karkahno market Peshawar showed three qualities of various items as mentioned, which were supplied to him at different prices but offered for sale as original products[2].

As may be observed in the table, the counterfeiting economy has a wider coverage over commodities and the differences in prices of the three qualities provide great incentive for price discrimination.

This counterfeiting has an adverse fall out on the advertising revenue of the print media of the province. Resident Editor of The Frontier Post, during

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[1] Inteview with Tila Mohammad, Proprietor of 'T.V Clinic', Faqir Abad, Peshawar, April 24, 2002.
[2] Interview with Taj Mohammad, proprietor of AlNoor General Store, Karkhano Market Peshawar, May 26, 2002.

interview,[1] disclosed that in his pleading with the Lever Brothers in Karachi to release advertisement to his newspaper on the footings of Dawn and The News, he was shown two wrappers of Lux soap and asked to differentiate between them as the original and the counterfeited in Darra Adam Khel. The MD marketing Lever Brother feared that advertising through the NWFP newspaper will help increase the sale of the counterfeited products rather than theirs. Scrutiny of the Peshawar based daily newspaper, revealed that in 5 months from January to May 2002, no multinational company of the consumer products, has issued even a single advertisement to them. "In the absence of advertisement revenue, a newspaper can't remain independent and plead for the cause of the nation[2].

[1] Interview on 27 July, 2001.
[2] Informal chat with Adbul Wahid Yousafi, Chief Editor Aaj, 24 January, 2002 in the office Assistant Director (Advertisement), Information Department.

Table 8.4: Statement showing prices of various qualities of counterfeit consumer goods of the same brand

Products	Original Price (Rs)	Supply price of counterfeit brands (in Rs)			
		Street Level	Industry Level	Chinese Brand	Dubai Brand
Perfumes					
One Man Show	480	50	--	200	280
Royal Marriage	240	50	--	90	140
Foreign Hat	2500	120	--	300	800
Eternity	2200	120	--	260	750
Bath Soap					
Lux	20	7	10	10	--
Dove	60	12	18	22	--
Rexona	13	5	6	7	--
Imperial	20	7	9	12	--
Shampoo					
Head & Shoulder	230	10-50	180	140	230
Pantene	230	10-50	180	140	230
Pert Plus	230	10-50	180	140	230
Sun Silk	140	10-30	140	80	140
Cigarettes					
Gold Leaf	37	7	7.5-8	--	--
Marlboro	44	7	7.5	8	--
Red&White	20	8-10	8-12	--	--
Dunhill	44	10	18	--	--
Miscellaneous					
Black Tea (Per 1 kg)	200	80	--	--	--
Pressing Iron (National)	1400	--	400	800	--
CLI Phone	1200	--	1400	1600	--
Juicer Blender	2400	--	1400	1600	--
Rado Wrist Watch	12000-40000	--	--	700-8000	--
Mobile Phone (Nokia)	7500	--	--	1200-1800	--

Source: Field study and interviews.

8.2 Derived Impact

The concept of 'Derived Impact' implies the shocks which the economy of NWFP has absorbed from cross border smuggling affected sectors of the economy of Pakistan. General employment level, diversification of industry, private consumption expenditure, govt. expenditure, tax revenues and importation are macro disciplines but do have micro implications on the constituent units i.e. the statistics calculated though represent the national economy, but being an integral part of it, are true for the economy of NWFP as well.

Similarly derived impact also include changes which the economy of the province has absorbed as part of general change in consumer behaviour and from narcotics smuggling from Afghanistan to other regional countries or more specifically ECO countries.

The large scale smuggling of consumer durables (e.g. television, tap recorders air conditioners etc.) and consumables like tires/tubes, art silk piece goods has caused considerable damage to these industries in Pakistan.[1] "Industry sources say they are losing markets in Pakistan, because they are unable to compete with low cost smuggled goods. For example smuggled goods prices were on the average lower than prices of domestic goods; 12 to 40% lower for automotive batteries, 20% lower for air conditioners and 10-15% lower for tires".[2]

One of the most significant negative impact of smuggling has been on government revenues. Pakistan still relies heavily on custom duties and sales tax on imports. It has been estimated that tax-free imports under the ATT primarily meant for Pakistani markets, is substantial. Estimates of revenue losses are also in a wide range. Estimates of revenue losses based on statutory

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1. World Bank (1997). Op.Cit. P.15.
2. Ibid.

rates of custom's duties and sales tax on imports for an estimated Rs.83 billion worth of re-exports are in the range of Rs.60-67 billion".[1]

As a result of free flow of smuggled goods, the customs and tariffs protection granted to local industries by the government have failed to yield any fruit. To substantiate the argument, the following indicators, relevant to the economy of Pakistan are analyzed.

8.2.1 Impact on the infancy of industry

By its nature, scale of operation and share in the world market, industry in Pakistan can rightly be called as infant one. Since our industry is in its early stage of development, its share even in the domestic market is small and producing output considerably below their minimum efficient scale, protection in the form of tariffs would have been beneficial. But unfortunately due to competition from smuggled goods the ex-ante benefits have not been realized.

Pakistan has its own potentialities for developing some industries in the form of labour skill, raw materials and entrepreneurial talent. But the ATT bound smuggling has divided Pakistan the right to develop its potentialities or discover its latent productive powers. Pakistan's efforts for industrial development has been smothered before it has had a full chance for trial and error. As a result productive resources of the country could not get time for development due to which the labour are semi-skilled, raw materials are over exhausted for direct export and entrepreneurs remained relatively inexperienced.

On the face of this free flow of smuggling, infant industry of Pakistan cannot withstand competition from old and well entrenched industries, which enjoys the benefit of having begun the production of various goods earlier than we have done.

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[1]. These are based on statutory tax rates and sales tax on imports of 12.5 percent for the fiscal year 1996/97. The statutory rates on our list of smuggled goods generated for this study were in the range of 10-45% during 1996-97. However, the bulk of the goods increased the 35-45% tariff rates range and did not enjoy any tariff concessions. Ibid.

8.2.2 Impact on diversification

Due to this ATT bound smuggling, Pakistan could not develop a variety of sources of production and employment. The principle industries of Pakistan remained to be textile, sugar, jute, vegetable ghee, cement, woolen and worsted industry.[1] "The textile industry comprising cotton yarn, cotton fabrics and made ups such as towels hosiery", Knit-wear and readymade garments. This industry accounts for about 34% of industrial labour force, 18% to the total value addition and its share in total exports is about 60%".[2] These statistics about the textile industry has been quoted to explain as to how narrow the base of our industry is.

When the industry of a country lacks diversification, it is bound to suffer both political and economic disadvantages. "Politically, it means too much dependence on foreign trade which may be cut off during a war. Economically, a country depending on few industries is exposed to the danger of serious economic dislocations in case some adverse circumstances affect such an industry".[3] These points proved to be true when economic sanctions were imposed against Pakistan in the aftermath of the atomic bomb blast on May 29, 1998 and when Japan imposed anti-dumping duties against our textile and cotton exports.

8.2.3 Impact on employment

Industrial development through protection increase employment in the country. Conversely if protection is not given against the established industries, "foreign competition may ruin them and create unemployment in the country. The decay of the Indian handi crafts during the 19th century, as a result of foreign competition and the resultant unemployment and distress among the artisans is a case in point".[4] "The late Lord Keynes advocated protection as a means of combating permanent mass unemployment, which is neither in equilibrium nor in

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[1] Naqvi, Trade, Op.cit and UN statistical year book for Asia and pacific 1990-1999.
[2] Ibid.
[3] Dewett, K.K. Op.Cit. PP. 489-491.
[4] .Dewett, K.K. economic theory Op.cit P.P. 489 - 494.

sight of equilibrium".[1] But despite its best protection efforts, neither the industry nor the employment in Pakistan could grow. The impact has been depicted in the table below:-

Table 8.5 Unemployment Trend in Pakistan.

YEAR	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Unemployed person (in thousands)	972	1950	1863	1536	1609	1811	1856	2254	2276	2328
Unemployment rate percentage)	3.1	6.3	5.9	4.7	4.8	5.4	5.4	6.1	5.8	5.8

Source:- UN Statistical yearbook for Asia and Pacific.

In the table it may be seen that except the initial year of 1991, the total number of unemployed labour force on the average remained 1942 thousands and in percentage terms it amounted to 5.57% per year- the highest in the region.

8.2.4 Impact on the conservation of natural resources

'Carey and Patten had argued that failed protection of their industry resulted in the export of agricultural commodities from America and thus led to the exhaustion of the Soil. Jevons in England applied the same argument against the export of coal which exhausted coal fields. The same argument has also been applied in the union of South Africa regarding gold mining and in India regarding the export of manganese and mica'[2].

Seen in this context, Pakistan too seemed to be exposing its resources in raw form rather than value added or finished form. In the table 8.5, few of the crucial commodities which are exported by Pakistan are analyzed.

The data given in the table 8.5 signifies that cotton is exported by Pakistan in raw as well as in value added form. From 1980 to 1995, the combined value of both types of the raw cotton exports was greater than the combined value of the four types in which value added cotton is exported. From 1996 onward the value of the value-added cotton showed a slight advantage over its raw form. But still

[1].Ibid p.490
[2] Ibid.

the value and volume of the export of raw cotton is so large that amply justifies the argument that the potential of the textile industry of the country is not being fully exploited. Similarly in the leather industry the value of raw leather exports is more than 600 percent of the value of the value-added footwear.

Table 8.6 Comparative statement of exports of selected products in raw and finished form of Pakistan

(Value in millions of Pakistani Rupees)

Commodity	Kinds/Years	1990	1991	1992	1993	1994	1995	1996	1997	1998
Cotton	Cotton Raw	9550	9553.4	12943.9	7000.7	2383.2	1924.3	17421.3	1239.4	5482.6
	Cotton Yarn	17916.7	26674.7	29170.3	29183	38075.7	47190.6	52164.2	55239	49988.1
	Total Value	27466.7	36288.1	42114.4	36183.7	40458.9	49114.9	59585.5	36478.4	55470.7
Cotton value added	Cotton Fabrics, Woven	11999.7	15199.3	20371.8	22431	24788.6	33373.1	43279	49354.3	53991.1
	Under garments of textile fabrics	1364.4	1372.2	1498	1465.4	1861.1	2031	2397.1	2533.2	2995.8
	Outer garments	2139.2	3525.2	6247.4	6994.0	8565.3	9171.9	9031.2	11862.4	11034.7
	Under garments knitted or crocheted	1209.9	1545.1	2133.1	3097.5	3749.5	4999	5137.7	6133.2	5617.3
	Total	16713.2	21641.8	31350.3	33987.9	38964.5	49537	60445	69883	73638.9
Leather	Leather raw	6002.4	6184	5990.6	5768.8	6772.4	8400.7	8725.9	9322	8970.5
	Footwear's	503.6	724.3	997.1	979.0	1135.2	1514.2	1723.1	2014.0	1864.6

Source: UN Statistical yearbook for Asia and Pacific

8.2.5 The Multiplier Effect

"The ATT has fuelled the already powerful black economy of Pakistan. According to an academic study, underground economy in Pakistan has snowballed from 15 billion Rupees in 1973 to 1115 billion rupees in 1996, with its share in the GDP increasing from 20 percent to 51 percent".[1] During the same period tax evasion including custom duty evasion has escalated from 1.5 billion rupees to 152 billion rupees.[2] The smuggling trade contributed some 100 billion rupees to the underground economy in 1993 which had escalated to over 300 billion rupees in 1998[3] that is equivalent to 30% of the country's total imports of US$ 10 billion or equal to the entire revenue collection target for 1998/9(300b rupees).

Similarly the Central Board of Revenue (CBR) estimated that Pakistan lost 3.5 billion rupees (US$ 80 million) in custom revenue in the financial year 1992-93, 11 billion rupees (US$ 600 million) in 1993 –94, 20 billion in 1994-95 and 30 billion (US $ 600 million) in 1997/8[4] because of the ATT bound smuggling.

In the practical economic sense the actual damaging impact of ATT bound smuggling is much larger than its recorded value. The economic instrument, which is being employed to measure these changes is called multiplier.

This concept of multiplier was introduced by Richard. F. Kahns,[5] which is known as Kahns employment multiplier[6], to determine the impact of a change in

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[1].Pakistan Institute of Development Economics Study on informal economy,. December 1998.
[2]. Ibid
[3].Ahmad Rashid interviews with the CBR officials in 1997 and 1998. Rashid, Taliban, Op.cit P.262.
[4]. Ibid
[5].A British economist, who had a major influence on economics at Cambridge from 1930s to the 1970s. He is credited with the introduction of the concept of multiplier and for important work in the 1930s. Dictionary of Economics. Op.cit.
[6].Kahn's Employment multiplier postulates that when govt undertakes Public works like road, railways, irrigation etc. people get employment. This is initial not final employment. These people then spend their incomes on consumption goods which cause an increase in demand for these goods. This leads to increase in out put of such industries. But the process does not stop here. The entrepreneurs and workers in such industries in which investment has been made also spend their newly obtained income, which result in an increasing output and employment opportunities. In this way it can be seen that the total employment so generated is many times more than the primary employment. Dewett, Economics, Op.cit. Pp373-374.

the exogenous variable[1] on the level of income and employment. "A multiplier is actually, a number by which a change on exogenous variable is multiplied to get a change in equilibrium national income".[2]

For the neat exposition of the concept, at the outset a simple economy is assumed comprising of only two economic agents i.e. households and business firms. In this Keynesian model Aggregate Demand determine the equilibrium level of income and output denoted by (y). In this economy assumed for Pakistan, aggregate Demand has two components i.e. consumption or personal consumption expenditure denoted by 'C' and investment demand or investment expenditure, demoted by 'I'. To simplify the analysis, investment 'I' is assumed as autonomous. The consumption is divided into two components. One is autonomous i.e. independent of the level of income, denoted by 'Ca' and the other is induced i.e. a function of income, denoted by 'c'. The autonomous consumption expenditure 'Ca' implies that even at zero level of income, people will borrow or dissave to consume. The induced component is actually marginal propensity to consume MPC, which depends on income. Symbolically we may write the simple Keynesian Two sector Economic model as

$Y = C + I$ where 1

$I = Io$

$C = Ca + cY$

Simplifying the function,[3]

$$Y = \frac{1}{1 - C}(c_a + I)$$

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[1].A variable whose value is not determined with in an economic model but which plays a role in the determination of the values of endogenous variables. Thus an exogeneous variable is an explanatory variable (i.e. appears or the right hand side of the equation) but never appears as dependent variable in the model. Dictionary of Economic, Op.cit.P.140

[2].Eke lund, R.B, R.D. Tollison (1997) Macroeconomics, Private market and private choice, Adison - wasely publishing company, USA, p.195

[3].Putting the values in equation 1,we get.

Y= Ca+cY +Io
Subtracting cY from both the sides
Y-cY =Ca+cY-cY+I
Y(1-c)=Ca+I
Dividing both the sides by 1-C
Y=1/(1-C) (Ca+I) Two sector economy

The marginal propensity to consume 'c' which is the ratio of change in consumption to charge in income and is reflective of the Keyn's 'Fundamental Psychological Law' which says that "men are disposed as a result and on the average to increase their consumption as their income increase but not by as much as the increase in their income. In other words as income increase consumer will spend a part but not all the increase, for they will choose to save some part of it".[1]

8.2.5.i The effect on consumption

Consumption and investment both form injections to the income stream. Any positive change in any one of them causes the equilibrium level of income to shift by a multiple. In our present analysis with given level of the national income and consumption expenditure, the multiplier effect of consumption was calculated in row 6 of the table 8.8. Though the MPC for each year of the period under study was different, its average 0.76 was incorporated to obtain a uniform effect. The resultant positive multiple effect on the equilibrium level of income describes the very logical phenomenon, that out of the income generated by the sellers of the goods sold to the consumers, Rs.76, as per our MPC, are spent again and Rs.24 are saved. The wholesalers after getting these 76 rupees spend 76% i.e.Rs.58 and Rs.18 are saved and the process goes on. In our analysis, we have extended the findings of the "World Bank in 1997/98 of the volume of smuggling to Pakistan to other years as percentage of the consumption expenditure. Since smuggling goods consumption form a leakage from the income stream, its multiplier effect has been shown in the last row of the table. This implies that during the period of study, leakage worth 3.18 b$ in 1990 (negative sign explains leakages) has been made which increased with the passage of time with increasing rate, to $ 11.545 b in 1999. This has outlined the basic idea, that the actual consumption damage of the re-exports from Afghanistan has been far more greater than its assessed and recorded value.

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[1].Keyns, J.M (1936),'General theory of employment, interest and money' Harcourt brace & World, England P.96.

Table 8.7 The effect of smuggling on the consumption multiplier

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
National Income = Y, (b, US$)	22.267	26.015	30.44	33.57	39.127	47.00	52.825	60.25	66.33	74.2
Consumption Expenditure = C (US b.$)	15.275	17.355	21.08	24.055	27.75	33.785	38.35	45.455	48.243	55.420
Marginal propensity to consume MPC =C	-	0.55	0.84	0.95	0.66	0.76	0.83	0.92	0.45	0.88
Average MPC	0.76	0.76	0.76	0.76	0.76	0.76	0.76	0.76	0.76	0.76
Multiplier effect $\Delta Y = \frac{1}{1-c}\Delta C$	63.645	72.312	87.834	100.229	115.625	140.770	159.791	189.395	201.01	231.00
Value of smuggling as %age of consumption	0.764	0.867	1.054	1.202	1.387	1.689	1.917	2.272	2.412	2.771
Multiplier effect $\Delta Y \triangleq \frac{1}{1\ c}(-\Delta C)^4$ (US b.)	-3.18	-3.61	-4.39	-5.00	-5.779	-7.037	-798	-9.466	-10.05	-11.545

1. The amounts has been converted from billion of Pakistan rupees to b.US$ at the rate of Rs.40=1$, taken as average for the year.
2. World Bank estimates for 1997 extended as percentage of consumption.
3. Source: UN Statistical yearbook for Asia and Pacific.
4. $Y = 1/1\text{-}c(c_a + I)$
   $Y + \ y = 1/1\text{-}c(c_a + I + \ c)$
   $Y + \ y = 1/1\text{-}c(c_a + I +) + 1/1\text{-}c(\ c)$
   $Y + \ y = Y + 1/1\text{-}c \ \ C$
   $y = 1/1\text{-}c \ \ C$

8.2.6.ii Effect on the Govt. expenditure

Govt. expenditure serves as an injection to the income stream and help cause the national income to grow by a multiple i.e. by the value of the MPC. Any amount withheld from Govt:, expenditure will implicitly mean that the real national income 'Y' has been reduced by the multiple of the amount withheld. Besides the sources of surcharges on utilities, income from Govt: property and enterprises, receipts from civil administration, grants and loans etc, the prime source of income for govt: is the revenue from taxes. The revenue raised from taxes is expended by the Govt, and the amount of taxes evaded reduced the amount of govt expenditure and hence enlarge the scope of govt: borrowing to finance its increasing expenditure.

The loss of revenue due to Afghanistan bound smuggling from 1993 -96 as already quoted, was extended to the succeeding years with the help of a percentage increase during the quoted period in the table. The actual impact of these losses can be found in row 6 of the Table 8.9. This row shows that this loss of revenue due to smuggling caused the national income Y to be deficient by 9.29 billion rupees in 1992, which increased to 270.84 billion rupees in 1999. This means that consumption by the people, employment of resources, savings and investment of Pakistan has suffered a setback by the volume as was withheld from the govt. expenditure. It also signifies one other startling fact that greater the loss in any of the injections to the income stream, the greatest is its multiplier effect.

Table 8.8 The multiplier effects of Govt. expenditure and taxes

Years /Items	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
National Income Y=(billion Rupees)	910.7	1040.6	1217.6	1342.8	1565.1	1880	2113	2410	2653.3	2888
Change in Y	-	129.9	177	125.2	222.3	314.9	233	297	243.3	234.7
Govt. Expenditure = G (billion Rupees)	192.079	237.388	294.870	330.509	362.891	425.418	515.219	482.219	634.054	645.565
Tax revenue = T (billion rupees)	114.004	124.311	156.604	170.977	199.072	247.209	292.912	309.427	343.519	386.847
Loss in tax revenue due to ATT (billion rupees)	-	-	2.23	3.52	11	20	30	38	50	65
Govt. Expenditure multiplier $\Delta Y=1/1-c\ (\Delta G)$	800.32	989.2	1228.625	1377.12	1520	1772.575	2146.75	2009.25	2641.89	2689.85
Multiplier effect due to non Govt. spending	-	-	9.29	14.66	45.84	83.84	125	158.33	229.166	270.84
Changes in Taxes	-	10.307	32.293	14.373	28.095	48.137	45.703	16.515	34.092	43.328
Marginal propensity to tax[a]	-	0.079	0.18	0.15	.013	0.15	0.20	0.05	0.14	0.18
Average MPT	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Tax Multiplier $Y= -c/1-c+ct(-\Delta T)$	-250	-272.74	-342.26	-372.98	-436.76	-542.375	-642.64	-678.88	-753.68	-848.74
Negative effect of tax multiplier $\Delta Y=-c/1-c+ct(-\Delta T)$	-	-	+4.89	7.72	24.133	93.88	65.82	83.37	109.70	142.6

Source: World Bank (1997) study, UN Statistical Year Book for Asia Pacific.

a. $MPt = \Delta T/\Delta Y = t$

8.2.5.iii The Tax multiplier effect

In an open economy taxes form leakages from the income stream. But the actual impact of the amounts of money withdrawn as taxes is far more greater than its nominal impact recorded in the revenue books. Non payment of taxes leave people with more cash balances which stimulate consumption and hence prices.[1]

In the table 8.8, tax multiplier effect has been obtained with the help of marginal propensity to tax MPt which is the ratio of changes in taxes to the changes in income. In our analysis, taxes has been shown as a function of income i.e. the amounts people pay in taxes depends on the money they get as income. Though the marginal propensity to tax has been assessed in row 9 to be varying for different years, but to ensure uniformity, an average has been taken in row 10. The negative signs in row 11, signifies the multiple impact of taxes, shown in row 4, on income Y. This row shows that with the increased amount of taxes, its multiplier effect has also been increased i.e. Rs.250 billion in 1992 which swelled to Rs.848 billion in 1999.

The last row of the table shows that the impact of tax revenue lost due to the ATT, has been actually much greater which increased with an increasing rate i.e. 4.89 b rupees were left circulating in the income stream in 1990 which increased to Rs.142.6 billion in 1999 and hence became a cause of inflation.

8.2.5.iv The import Multiplier Effect

Like savings and taxes, imports also severs as leakages from the income stream. The real impact of the value of imports on the income stream is much higher than its recorded value. i.e. the leakages are multiple of the recorded value. The value of this multiple depends on marginal propensity to import MPm which is the ratio of change in imports to changes in income.[2]

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[1] .Shapiro Edward (1988 Macro economic Analysis, HBJ London, PP 105-108.
[2] .Ibid PP 119-125

In the Table 8.9, changes in income Y has been recorded in row 4th and that of imports in row 8th. The value of marginal propensity to imports has been recorded in 9th row of the table. The value of this MPm may be observed to be a variable, but to establish uniformity, an average of all these MPms has been taken which was found to be 0.22 .The negative sign of the multiplier identifies its leakage nature. In row 10th, we may find that the multiplier value of these leakage increased from $ 19.016 b in 1991 to $ 27.62 b in 1996, then slightly drops in 1997 and in 1998, and then rises again.

As the smuggling value of Afghanistan bound re-exports as percentage of consumption expenditure has already been assessed in table 8.7 therefore all these values for different years are added to the representative values of imports and the multiplier effect has been calculated in the last row. This last row shows that the impact of leakages of imports after the addition of smuggling is much higher than its actual value, the average difference of which comes to $4.5 billion to $5.5b.

Table 8.9 Import multiplier effect

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
GNP = Y (US Billion $)	22.767	26.015	30.44	33.57	39.127	47	52.825	60.25	66.33	74.2
Private final consumption expenditure	15.275	17.355	21.08	24.055	27.75	33.785	38.35	48.455	48.243	55.420
Changes in consumption	-	2.08	3.725	2.975	3.695	6.035	4.842	6.825	2.788	7.177
Change in income	-	3.748	4.425	3.13	5.57	7.873	5.823	7.425	6.08	8.07
MPC	-	0.55	0.84	0.95	0.66	0.76	0.83	0.92	0.45	0.88
Average MPC	0.76	0.76	0.76	0.76	0.76	0.76	0.76	0.76	0.76	0.76
Imports US (Billion $)	7.383	8.431	9.375	9.492	8.884	11.460	12.150	11.611	9.306	10.297
Change in imports	-	1.048	0.944	0.117	0.608	2.576	0.69	0.539	2.305	0.991
Marginal propensity to import MPm = $\triangle M/\triangle Y$	-	0.28	0.22	0.37	0.11	0.33	0.12	0.72	0.38	0.17
Average MPm	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22
$\triangle Y$ = -1/1-c-m $\triangle M$	-	-19.016	-21.306	-21.575	-20.20	-26.05	-27.62	-26.38	-21.15	23.40
Multiplier leakages from Y	-	22.8	25.35	25.67	24.025	31.00	32.84	31.40	27.84	27.85

Source: UN Statistical Yearbook for Asia and Pacific.

8.2.6 Impact on the consumer behaviour

8.2.6.i The uninterrupted inflow of smuggled goods from Afghanistan has created, in segments of the province, a west-inspired approach to material prosperity. This in turn has promoted an imitative mentality which is inimical to creativity and destroys originality. This not only has "aggravated the trends towards moral decay in the society but also has perpetuated the hegemony of western culture on Pakistani land. It has promoted an active collusion between the west and the westernized elite in Pakistan, because, the development of Third World countries as cultural satellite of the west is bound to ensure an ever increasing demand for western products".[1]

8.2.6.ii. This appetite for foreign goods had proved to be highly divisive in our society, splitting it up into modern and traditional, liberal and conservative, urban and rural, rich and poor and so on. This has perpetuated colonial traditions and encouraged consumption habits that tear the modern sector from the rest of the society and tie it in with its counterparts of a privileged minority and the impoverishment of the mass of people. It has engendered economic and social dualism and new tensions and conflicts within society. "Lifestyles are changing in such a way that a high consumption oriented privileged society is being imposed upon a mass of people, committed to a different set of values and traditions".[2] Symbols of modernization are becoming targets of hatred.

8.2.6.iii. The entire experiment of coping with smuggling through market forces has been terribly wasteful and extremely costly. Import substitution has failed to enhance the real technological capabilities of the economy, yet it is making a large number of people addicted to new luxuries and lifestyles that our society cannot and should not afford. A high consumption society has been created in Pakistan that have little to

[1].Ghori M.J.(2000). The Taliban and Power, Oxford University press PP.69-70
[2].Ibid P.70

consume. The patterns of consumption and production have become distorted and tilted to serve the whims and fancies of privileged smugglers. The real gains to the society have been minimal[1].

8.2.6.iv. There has been a metamorphosis of attitudes in the direction of hedonistic individualism. Concern for individual standards of living has taken precedence over that of strengthening the economic base of the nation. Greed and corruption have raised their ugly heads[2].

8.2.6.v Behind all the anti-smuggling policies so far enacted, lies the assumption that an economic system can move on its own without simultaneous deliberate changes in political system, social institutions and moral attitudes of the people. It is generally opined that the delicate balance that exist between different aspects of individuals and social life will adjust itself in the light of the changed economic situation. The experience on the other hand is that the anti smuggling flexibility has divided our society and added to friction, rivalry confusion and waste[3].

8.2.7. Regional Impact-heroin Addiction

Directly link to the issue of smuggling is the menace of smuggling of heroin across the region. In the presence of a comprehensive network of smugglers, interdependent interests of all its key players and almost identical socio economic characteristics of the people of the region, the Afghanistan narcotics trade spread its tentacles to all the neighbouring countries.

In February 1998, the Clinton administration in USA accused Islamabad of doing little to curb production and export of heroin. The US refused to certify that Pakistan was curbing narcotics production, but a gave a waiver on the ground of US national security interests.[4] But the drug problem was now no longer confined to Pakistan and Afghanistan. As exports route multiplied in all

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[1] Ibid.
[2] Ibid.
[3] Ibid.
[4] .Rashid, Ahmad, "Dangerous Liaison, Far Eastern Economic Review, 16 April 1998

directions, there was dramatic increase in drug consumption across the region. By 1998, 58 percent of opiates was consumed with in the region itself and only 42 percent was actually being exported.[1] Pakistan, which had no heroin addicts in 1979, had 650000 addicts in 1986, 3 million by 1992 and an estimated 5 million by 1999. Heroin addiction and drugs money fuelled law and order problems, unemployment and allowed ethnic and sectarian extremist groups to arm themselves.[2]

In Iran the government admitted to having 1.2 million addicts in 1998 but which other senior officials in the relevant ministry confirmed to be near 3 million, even though Iran had one of the toughest anti-narcotics policies in the World, where anyone caught with a few ounces of heroin faced the death penalty automatically.[3] And Iran had tried much harder than Pakistan to keep the drugs menace away. Since the 1980s, Iran had lost 2500 men from its security forces in military operations to stop convey carrying drugs from Afghanistan. After Iran closed its borders with Afghanistan during the tensions with the Taliban in 1998, Iranian security forces caught five tones of heroin on the border in few weeks.[4] The Taliban faced a major financial crisis as the closed border led to a drop in heroin exports and tax revenue.[5]

Heroin addition was also increasing in Uzbekistan, Tajikistan, Turkmenistan and Kyrgyzstan as they became part of the heroin export chain. In 1998, guards on the Tajikistan- Afghanistan border confiscated one ton of opium and 200 kilogram of heroin.[6] In January 1999, Tajikistan president Imamali Rakhmanov told an international conference that drugs were being smuggled into his country from Afghanistan at the rate of one ton a day and addiction was

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[1]. Interviews with UNDCP officials, MARCH 1998
[2].Rashid, Taliban, Op.cit P.122
[3].Rashid Dangerous Liaison op.cit.
[4].Rashid Taliban op.cit P.122
[5].Ibid.
[6].Ibid P.133

increasing.[1] Uzbekistan said there was an 11 percent increase of drugs from Afghanistan during 1998.[2]

The sale of heroin can be seen outside 5-star hotels in Ashakabad, the capital of Turkmenistan[3] and "inside the hotels, flashy Turkmen and Russain Mafiaso with their even flashier girlfriends, spoke of their trips to the Afghan border to do business.[4] In 1997 two tons of heroin and 38 tons of hashish were seized by the authorities.[5] By 1999, Turkmenistan with its conciliatory policy with the Taliban had become the principle route of export for Afghan heroin with corrupt Turkmen officials benefiting from the trade.[6]

Ahmad Rashid revealed that president Askar Akayev of Kyrghystan Admitted to him that his country was a major route for drug trafficking and it is responsible for the growth of crime.[7] Akayev said that war against drugs could not be won until there was peace in Afghanistan and the civil war had become the most destabilizing factor in the region.[8]

The heroin explosion emanating from Afghanistan, during the period of the study was observed to be affecting the politics and economies of the entire region. It has been crippling societies, distorting the economies of the already fragile states and creating a new narcoelite, which has been at odds with the ever-increasing poverty of the population. Drugs are determining the politics of this region as never before.[9] In the west it was equated with other serious threats, such as Islamic fundamentalism, terrorism and potential economic collapse in some of the countries of the region.[10]

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[1].UNDP report 25 october 1998.
[2].Ibid.
[3].Observatories Geopolitique de drogues Paris, report on Turkmenistan, March 1999.
[4].Ibid.
[5].UNDCP Report, OCTOBER 25,1998.
[6].Ibid.
[7].Rashid Taliban, op.cit P.123
[8].Ibid.
[9].Ibid
[10].Ibid.

In view of the disclosures made in the last derived impact concerning regional countries, the causes of smuggling discussed in Chapter 7, and the expanded scope of transit trade in the region as a result of the ECO agreement to this effect in 1997, it has become imperative to follow the tentacles of smuggling monster across the region. This makes it binding to determine as to whether it is this intra-regional smuggling that has obstructed the trade with in the region or the lower regional trade level has given way to smuggling. To examine these issues, the present low level of intra regional trade, its causes and prospects of any potential increase is analyzed in the next chapter.

CHAPTER 9

STRENGHT OF THE REGIONAL FORMAL SECTOR

To materialize the vision of enhanced economic, technical and cultural interaction on regional bases, Iran, Pakistan and Turkey established Economic Cooperation Organization (ECO)[1] in 1985. Under the protocol on preferential tariffs, signed in May 1991, the signatories agreed to offer a 10% preferential tariffs on selected items. The enlargement of the ECO in November 1992 from 3 to 10 members gave the organization new impetus. The accession of Afghanistan, Azerbaijan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan gave ECO a cultural cohesion, incorporating all the non-Arab Islamic countries of Western and central Asia.

9.1 Progress of ECO

This enlarge group contains 325 million people spread over almost 8 million square kilometers. Most importantly in the present context, ECO provides a forum for discussion of regional disputes and for peaceful cooperation among the original members and the newly independent member countries, including the Central Asian Countries.

The ECO members have committed themselves to establishing four regional institutions.[2]

a. A Trade and Development Bank

b. A Reinsurance Company

c. A Shipping Company and

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[1] It is the successor organization to Regional Co-operation for Development (RCD), which was functional from 1964 to 1979 and whose charter; the 1977, Treaty of Izmir, remains the basic document of ECO. Pomfret, Richard, The ECO, Current and Future Prospects, Europe-Asia Studies, Vol.No.4, 1997, PP. 657-67.

[2] Funding appears to be a critical obstacle in all cases. The Bank and Reinsurance Company may also encounter difficulties in remaining consistent with Iran's Islamic Banking law. The shipping company based in Tehran with 5-member board, leased a ship to sail from Bander Abbas to Mumbai in February 1996, but there is little information on any subsequent activities, which leaves the impression that the inaugural sailing was largely symbolic. The ECO Air Agreement was signed by only four members (Iran, Pakistan, Turkmenistan and Afghanistan). Ibid.

d. An airline.

After long negotiations, it was agreed in January 1995 that the ECO Trade and Development Bank would be based in Istanbul and the minutes of the committee meeting included a strong statement that the ECO Reinsurance company would be based in Pakistan.

The 1993 Almaty outline plan often referred as one of the ECO's basic documents, is a project oriented plan for transport and communications development on regional basis. At the 1995 ECO summit, the heads of state signed, the ECO transit trade agreement[1].

The achievements of ECO during the 1990s have clearly been mildest. Some of the ECO summits, notably that of 1996 where the main debates featured disputes between Uzbekistan and Iran and the delegates left a day earlier than planned, have been divisive. Nevertheless it is an achievement of ECO to have kept such conflicts to the conference table, even as the Afghanistan's conflict moldered on with ECO members lining up as supporters or opponents of the Taliban.[2]

By the end of the 1990's, ECO had gradually built up its institutional capacity to act as a regional forum. Symbolic of this development was the move in September 1997 to a new building in northern Tehran designed for the permanent staff and for conferences and seminars on varying scales with simultaneous translations and other technical support. By 1999, ECO had 55 staff, 11 at the directorial level, over 30 other professionals and about a dozens drivers etc from eight of the members countries. A new unit for statistics and

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[1] At the 5th ECO Summit held in Almaty in may 1998, Uzbekistan again refused to sign a much watered down transit agreement. Even when international norms on transit are accepted, transit charges can be an impediment to trade. Kyrgyz exports passing through Kazakhstan enroute to Russia, for example are subject $300 charge on all trucks and for trucks whose cargo is assessed at value of $3000 or more, an additional $100 is levied by each oblast through which the truck passes. (Mudahar S.M. Kyrgyz Republic Strategy for Rural Growth and Poverty Alleviation, World Bank Discussion Pages, No.394 (Washington DC 1998) P.64. Uzbekistan and Iran are also often mentioned by other ECO members as having high transit fees.

[2] Pomfret, Richard (1998), 'Central Asia Turns South', The Royal institute of International Affairs, London. Hereafter cited Pomfret, Central Asia.

economic research was established, which permitted the secretariat to provide better informed technical support. More positively, the ECO Secretary General participates in annual meetings with the heads of ASEAN, SAARC and the Pacific Forum, organized by the UN/ESCAP which provide the opportunity to learn from other's experience.

Thus we have observed that since its enlargement various policies for regional integration at the ECO level have been formulated. But let's analyze as to whether there has been a regional integration or competition.

9.2 Trade Pattern in the Region

The Central Asian States have diversified their trade patterns since independence. Has this been in the direction of greater regional integration? Clearly the orientation of trade towards former soviet markets has declined, but the new markets since independence have tended to be global rather than regional. Table (9.1) provides an ECO trade matrix for 1996 based on trade data in the ECO annual economic report.

9.2.1 Afghanistan

The matrix shows Afghanistan's trade in the official sector, as is reflective of its political condition during the period under study. Its major trade partner appears to be Pakistan with $33 million imports, followed by Uzbekistan, 9 million dollars and Iran 6 million dollars. Her major exports are to Iran, 24 million dollar, followed by Uzbekistan 20 million dollars and Pakistan 15 million dollars.

The economic situation in Afghanistan is the most difficult to evaluate. With on-going military activity there, normal international trade between Afghanistan and its northern neighbors has been limited by security considerations rather than by trade policy as it is normally defined. "The major commercial activity appears to be the flourishing narcotics trade, which is largely unmonitored and whose expansion is not conducive to the development

of normal trading arrangements and institutions".[1]

9.2.2 Azerbaijan

Azerbaijan total exports to the ECO countries during 1996-97 amounted to $298 million with Iran 226 million dollar, Turkey 28 and Turkmenistan 34 million dollars. Similarly her imports from ECO countries amounts to $334 million. Her major imports are from Turkey $240 million, followed by Iran 76 million dollars and Turkmenistan only 18 million dollars. Azerbaijan trade pattern seems to have been shaped by geographic considerations, i.e. geographic proximity is the dominant factor in Azerbaijan trade behavior.

9.2.3 Iran

The matrix shows that during 1996-97, Iran total exports to the ECO countries amounted to $729 million which makes it a mere 3.3% of her total exports to the rest of the world. Azerbaijan, Kazakhstan, Pakistan, Turkey, Turkmenistan and Uzbekistan appear to be the main countries among the ECO, where major exports are flown. "The resuscitation and expansion of the ECO in the early 1990s was part of a concerted Iranian expression of a renewed Iranian orientation and push to reduce the country's isolation both politically and economically".[2]

Similarly Iran's total imports from ECO countries amounts to $770 million which accounts for only 5.1% of her total imports from the rest of the world. Among these countries Azerbaijan, Kazakhstan, Pakistan and Turkey make 91% of her imports from among the ECO countries.

9.2.4 Kazakhstan

Kazakhstan's total exports to ECO countries amounts to $555 million which make 9.5% of the total exports to the rest of the world. Iran, the Kyrgyz Republic, Tajikistan, Turkey, Turkmenistan and Uzbekistan are the major exports

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[1] Pomfret, Richard, (1997). The Economic Cooperation Organization, current status and future prospects, Europe Asia studies, Vol.49, No.4, 1997. P.657.

[2] Herzig, Edmund (1995), 'Iran and the former Soviet South', Royal Institute of International Affairs, London.

buyers from Kazakhstan. Afghanistan, Pakistan and Azerbaijan buy 3.95% of Kazakhstan's total exports to ECO countries.

Kazakhstan total imports from the ECO countries amounts to $554 million which accounts for 9.5% of her total imports from the rest of the world. Azerbaijan, the Kyrgyz Republic, Turkey, Turkmenistan and Uzbekistan are the countries where from Kazakhstan has made 77% of the total $554 million of imports from among the ECO countries.

Kazakhstan has legislated liberal trade policies since mid 1996, when all exports duties were eliminated and the weighted average tariff on imports fell to 12%.[1] There are, however more reports from Kazakhstan than from the Kyrgyz republic of trade restricting border measures, such as the need to bribe the custom officials. As elsewhere in Central Asia, but apparently to a far greater extent, much trade is conducted by shuttle traders (Chelnoki), operating between Kazakhstan and cities in the Gulf, China, India or South East Asia[2].

9.2.5 Kyrgyz Republic

By and large, the Kyrgyz Republic appear to be carrying much of its trade with in the ECO region. Though she sells 51.6% of her exports to the ECO countries but yet the total value of her ECO exports of $262 million is too meager to matter. Kazakhstan and Uzbekistan are the two main buyers who buys 87% of Kyrgyz total exports to the ECO countries.

As regards her imports from ECO, though the value of 335 million dollars is small in percentage terms (37.6%) but quite substantial in monetary terms as compared to exports. Kazakhstan, Turkey and Uzbekistan are the main suppliers who meet Kyrgyz imports needs.

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[1] Kazakhstan shuttle trade is analyzed to be second only to Russia's in magnitude. Introduction of a custom green carrier, in November 1996 facilitated trade but made systematic information collection even harder. (Khaasanova, Markhamat (1998). Central Asia, The challenges of independence, Armonk, New York. PP.181-5).

[2] Ibid.

Table 9.1: ECO trade matrix for 1996 (US$ million)

Importer / Exporter	Afghanistan		Azerbaijan		Iran		Kazakhstan		Kyrgyz Republic		Pakistan		Tajikistan		Turkey		Turkmenistan		Uzbekistan		ECO Total	
Afghanistan	-	-	-	6	-	0	-	0	-	0	-	33	-	11	-	0	-	4	-	9	4	-
Azerbaijan	-	-			226	252	-	23	-	1	-	0	-	3	38	39	34	35	-	4	218	-
Iran	24	-	189	76			45	6	32	3	33	286	22	12	134	806	125	45	125	52	729	3.3%
Kazakhstan	6	-	10	-	62	112			112	140	12	4	61	42	52	101	39	22	202	222	555	9.5%
Kyrgyz Republic	7	-	3	-	6	27	112	91			0	0	8	5	5	6	3	1	116	18	262	51.6%
Pakistan	15	-	11	-	16	54	10	0	4	4			5	1	63	83	7	10	38	38	168	2.0%
Tajikistan	1	-	0	-	4	2	12	18	9	6	1	0			8	3	10	2	20	23	66	-
Turkey	2	-	240	240	298	284	164	176	47	48	78	71	4	5			66	200	231	360	1129	4.9%
Turkmenistan	13	-	-	18	17	9	54	51	1	1	13	2	10	30	79	100			4	17	202	11.9%
Uzbekistan	20	-	4	-	22	24	120	89	84	131	8	1	68	275	174	58	44	6			544	9.6%
ECO total	-	-	-	-	770	5.1%	554	9.5%	335	37.6%	398	3.3%	375	(-)	1197	2.7%	325	21.2%	742	15.6%	3753	5030

Notes: In each cell the first figure is exporting country data and the second figure is importing country data; zero indicates less than $0.5 million and indicates data not given in the source' Pakistani data are for the 1996-97 fiscal year; Tajikistan data are for 1997; the row totals are exporting country data and column totals are importing country data and the figures in parentheses are the share of the reporting countries total exports and imports respectively; the two grand totals are sums of the reported data.

Source: Economics Cooperation Organization, Annual Economic Report on the ECO Member States for the year 1997 (Tehran, 1998).

The Kyrgyz Republic was the first of the Central Asian Republics to leave the Ruble zone and after introducing its national currency in 1993, it also moved fastest to liberalize its trade policies.[1] By 1996 it had low import duties and the last few exports taxes had been eliminated.[2] Its foreign exchange regime is also liberal and the Kyrgyz Republic was the first Central Asian country to accept article VIII commitments of the IMF, guaranteeing full current account convertibility and non discriminatory currency arrangements.[3] This is part of a more liberal approach to economic reforms in general and in all rankings of the pace and extent of economic reforms among transition economies, the Kyrgyz Republic comes first among the Central Asian countries.

9.2.6 Pakistan

The exports of Pakistan to ECO countries make only 2% of her total exports to the rest of the world. In her exports of 168 million dollars, exports worth 117 million dollars have been made to Iran, Turkey and Uzbekistan. Similarly Pakistani's imports of $398 million dollars from ECO, constitute only 3.3% of her total imports from the rest of the world. Afghanistan, Iran and Turkey appear to be Pakistan major imports suppliers in the ECO region. The imports from these countries are 97% and the rest of the ECO only 3%.

Pakistan's trade regime has been characterized by discretionary administration and border delays. Imported goods are valued by comparing their declared value with prices published in an official valuation manual, which complicates customs clearance procedures and provide opportunities for discretionary implementation. The aim is to combat false invoicing and for this reason, Pakistan though a GATT signatory, didn't sign the Tokyo Round of Customs Valuation Code.[4] By accepting the results of the Uruguay Round however, Pakistan committed itself to adopting the valuation methods specified

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[1] Pomfret, Richard (1996), Central Asian Economies in Transition, World Bank, PP. 118-29.
[2] World Bank Report (1996) From Plan to Market.
[3] Ibid.
[4] Promfret, Central Asia Op.Cit. P.23.

in the GATT agreement. Tariff liberalization will also reduce the incentive for false invoicing and smuggling, which should in turn reduce the scope for discretion and delays at borders and encourage expansion of legitimate trade.[1]

9.2.7 Tajikistan

Tajikistan total exports during 1996-97, amounted to 772 million dollars. Out of this only 66 million dollars worth of exports were made to the ECO countries which made it only 8.5%. Kazakhstan with 12 million dollars and Uzbekistan with 20 million dollars wroth of purchases, are the two countries which accounts for major purchasers of goods from Tajikistan. Her 375 million dollars worth of imports from the ECO countries seemed to be concentrated in Central Asia. Out of the total from ECO, 347 million dollars worth of imports have been made from Kazakhstan (42 million dollars), Turkmenistan (30 million dollars) and Uzbekistan (275 million dollars) which makes it 92%.

In Tajikistan, economic reforms were suspended with the out break of a civil war in 1992. One of the government's few sources of finance was sequestration of foreign exchange earnings from cotton and from the intermittently functioning Tursunzade aluminium plant which had been a Soviet Showcase Greenfield industrial project.[2] Tajikistan remained the last country using the Soviet Ruble, even after it ceased to be legal tender in Russia.

Following introduction of national currency in May 1995, and the first step towards establishing macro economic control, a comprehensive economic reform package was announced in the second half of 1995. Exports were to be liberalized including elimination of state monopoly over cotton and aluminum exports and barter operations prohibited. Although liberalization was reinstated, foreign exchange surrender regulations continue to apply.

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[1] Ibid.
[2] Pomfret, The Economies of Central Asia Op.Cit. PP.103-4.

9.2.8 Turkey

Turkey is the most dominant trade partner in the ECO. Though in percentage terms her exports to the ECO is only 4.9% of her total exports to the rest of the world and her imports are 2.7%, but in monetary terms, these are 1129 million dollars and 1197 million dollars respectively. Though Turkey's trade in the ECO context is substantial to all the members, yet her dominant exports partners are Azerbaijan (240 million dollars), Iran (298 million dollars), Kazakhstan (164 million dollars) and Uzbekistan (231 million dollars). But in her imports, the lion's share of 806 million $ has been taken by Iran, followed by Kazakhstan (101 million dollars), Turkmenistan (100 million dollars and Pakistan (83 million dollars).

For half a century since 1992, Turkey's trade and development policies were based on import substituting industrialization.[1] 'The underlying philosophy was etatist with direct and indirect support for the state enterprises which dominated many manufacturing sectors. Although liberalization measures were considered during the 1970s in the context of establishing closer links with the European Union, import controls were in fact tightened in 1974 after the first oil shock and in 1978 on the face of debt crises'.[2]

During the 1990s, the pattern of liberal external economic policies combined with macroeconomic instability has continued. The 1996 custom union with the European Union reinforced the trend towards liberalization of trade in manufactures and reduction of non-tariff barriers, although harmonization with EU policies involved introduction of some new trade restricting measures related to textiles and clothing and allowed Turkish agriculture to remain heavily protected.[3]

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[1] Hansen, Bent (1991), The political economy of poverty. Equity and Growth: Egypt and Turkey, Oxford University Press, World Bank Report.
[2] Ricael, James (1993), 'Economic crises and long term growth in Turkey' World Bank Report, Washington, D.C.
[3] World Bank (1995), Claiming the future: choosing prosperity in the middle East and North Africa, Washington D.C. P.22.

At the same time output growth was being supported by unsustainable foreign borrowing and domestic excess demand, which led to adoption of an IMF supported adjustment programme in 1994, a year when inflation exceeded 100%.[1] Progress in establishing fiscal control and implementing structural reforms has however been slow and accompanied by political instability since the inconclusive 1995 elections.[2]

9.2.9 Turkmenistan

Turkmenistan total exports of 202 million dollars to the ECO are only 11.9% of her total exports to the rest of the world. But her imports of 325 million dollars from the ECO are 21.2% of her total imports from the rest of the world. Turkmenistan major exports partners are Kazakhstan (54 million dollars) and Turkey (79 million dollars). But her imports have a relative diversified nature as compared to exports. Though she made major imports from Turkey (200 million dollars), but Azerbaijan (with 35 million dollars), Iran (with 45 million dollars) and Kazakhstan (with 22 million dollars) also have reasonable share, in its imports bill.

In Turkmenistan too, trade policy is largely nugatory, because of tight administrative controls over the foreign exchange, needed for international transactions, especially since the legal circulation of foreign currencies was abolished in December 1995. All the public sector imports required licenses. Exports earnings are subject to surrender requirements, unified at 50% in April 1997 from previous levels of 70% for oil and gas exports and 50% for other exports.[3]

The private sector is in principle less restricted but remains small in Turkmenistan's largely unreformed economy and the limit on access to foreign

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[1] The World Trade Organization's Trade Policy Review of Turkey, prepared in 1998, highlights the gap between average MFN tariffs of 12% on agricultural products (up from 35% in 1993).
[2] Ibid.
[3] The international Monetary Fund reports that access to foreign exchange was easier in 1997 than previously and that this was associated with a considerable increase in shuttle trade, but no number are given and the increase was presumably from a low base; IMF Staff Country Report No.98/81, Turkmenistan; Recent Economic Development, August 1998, P.52.

exchange is US $1000 per transaction.[1] Turkmenistan is, together with Tajikistan, the least reformed of the formerly centrally planned economies in transition to a more market based economy, so that market oriented price regulations such as tariffs are largely irrelevant.

9.2.10 Uzbekistan

Uzbekistan's 554 million dollars worth of exports to the ECO were actually 9.6 percent of her total exports to the rest of the world. But her imports from the ECO are relatively higher both in monetary as well as percentage terms. Her imports from ECO in monetary terms amounted to 742 million dollars which is 15.6% of the total, she made from the rest of the world during 1996-97. Kazakhstan (with 120 million dollars), Kyrgyzstan (with 84 million dollars) Tajikistan (with 68 million dollars) Turkey (with 174 million dollars) and Turkmenistan (with 44 million dollars) are the ECO countries to which the country made its major exports. Here major imports come from Iran (125 million dollar). Kazakhstan (222 million dollars) Pakistan (38 million dollars) and Turkey (360 million dollars).

Uzbekistan has a less liberal trade policy than the Kyrgyz republic or Kazakhstan. Moreover that policy has been substantially undermined since the second half of 1996 by the reintroduction of draconian foreign exchange controls.[2] In July 1995, tariff schedule had a maximum rate of 50% except on cars which could be subject to 100% duty and an average rate of 18%. The number of export taxes was reduced in 1995 and 1996, although 73 items were still covered in June 1996 and some important exports items were either banned (e.g. cereals, meat, livestock and tea) or required licenses (e.g. metals, oil and cotton fibers).[3]

The adoption of currency controls, made much of trade policy irrelevant. Surrender of foreign exchange at unattractive rates was compulsory and the

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[1] Ibid.
[2] IMF Staff Country Report No.97/98, Republic of Uzbekistan-Recent Economic Development', October 1997, P.53.
[3] Pomfret, Central Asia, Op.Cit. PP.9-10.

main constraint on being able to purchase imports was the need to obtain a license for the foreign currency. During 1997 and especially 1998, the exchange controls were accompanied by a depreciation of the official exchange rate and a widening gap between the official and black market rates.

After this brief but comprehensive economic analysis of the ECO countries, it can safely be argued that the trade among them is very limited and ECO as such has not emerged as a major trading arrangement. It is now important to analyze some of the main obstacles, which have hampered ECO to be transformed into an active, productive and mutually contributive forum.

9.3 Reasons for ECO inefficiency

9.3.1 Birth shocks to Central Asian Republics

The dissolution of the Soviet Union came as a shock to the Central Asian Republics. The new independent states of Kazakhstan, the Kyrgyz Republic Tajikistan, Turkmenistan and Uzbekistan had artificial common borders and little national identity or independent policy making capacity.[1] Within the Soviet Economy, their role was that of a primary products suppliers to the more industrialized republics and their specialized economies were never planned as separate units. They benefited from net resource inflows, which increased during the Gorbachev era and were substantial on the eve of independence.[2] The five republics had open economies, closely integrated into the Soviet economy, but with few direct links to world markets.[3] They had few connections even with the neighboring countries, apart from being military staging points during the Afghanistan war of the 1980s.

During the early years of independence, the five central Asian countries created new national institutions while responding to Three interrelated major economic shocks. Although economic reform had made some progress in other part of the Soviet Union, little reform of the centrally planned economies had

[1] Pomfert, Richard, Central Asia, PP.1-5.
[2] Blanchard, Olivier (1997), The economics of Post Communist Transition', Oxford: Clarendon Press.
[3] Pomfret, Richard, (1994), 'The economies of Central Asia', Princeton University Press, Princeton.

occurred in the Central Asian Republics.[1] The govts of the newly independent states had little option other than to follow Russia's January 1992 price reform, otherwise arbitrage with in the ruble zone would have drained their economies of any thing tradable. But the move from regulated to market determined prices was a major shock.[2] As in all east European and former Soviet economies in transition, the price shock led to a drop in output as a pre-lead to reallocation of resources. The disruption of intra-Soviet supply links, which had begin in 1991 was a second major shock to the Central Asian Republics' specialized economies. Third, the sudden cut in resource transfers, reduced living standards put a strain on government budgets, already suffering from reduced revenue from enterprises. The response in all five new independent countries was inflationary finance of civil war which added to the economic disruption in Tajikistan, but even in the other four CARs, the decline in gross national expenditure was severe.[3]

9.3.2 Poor physical infrastructure of the region

The physical infrastructure underpinning trade between the Central Asian Countries and the southern neighbors is generally poor.[4] The inherited infrastructure of the new independent states was oriented towards the north, and the impact on the post independence trade flows has depended on their commodity composition. Oil and gas exports from Kazakhstan and Turkmenistan have continued to flow overwhelmingly to the CIS, despite many adverse feature of such a trade.[5] Bulky mineral exports have also continued to be shipped north by rail. Uzbekistan has been more fortunate with its cotton and gold exports, which could plausibly be shipped elsewhere, giving the exporter more bargaining power even when the cotton continued to be sold to

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[1] Matveev, Anna (1999), 'Democratization, Legitimacy and political change in Central Asia', International Affairs, Vol.75, No.1, PP.23-44.
[2] Ibid.
[3] Pomfred, Richard and Anderson, Kathryn. Uzbekistan welfare impact of slow transition, United National University World Institute for development economics Research (UNU/WIDER) working paper WP135 Helsinki, Finland.
[4] Pomfret, Richard, Central Asia Op.Cit. PP.6-12.
[5] Ibid.

Russian textile mills.[1] Imports sources have diversified, especially for consumer goods, but despite the early prominence of Turkish beer and processed food stuffs from Iran, the new sources have primarily been the Gulf States or China, India or South East Asia.[2]

9.3.3 Nature of Economies

Today all the ECO countries are committed to market based trading arrangements, but actual national policies vary considerably owing to their varied recent history. Pakistan, Iran and Turkey, have long been market based economies participating in world markets, they rank among the top 50 exporters and importers in world's merchandize trade.[3] 'Kazakhstan, the Kyrgyz Republic, Turkmenistan and Uzbekistan have been economies in transition from central planning, all under peaceful conditions, but at varying speed, they are becoming integrated into world markets, but their trade is significantly smaller than that of Turkey, Pakistan or Iran. The economies of Afghanistan and Tajikistan are also in transition but have been disrupted by armed conflicts in the 1990s and their combined trade is tiny.[4]

9.3.4 Similarity of Resource Endowment

The physical infrastructure has already been argued to be not conductive to large increases in intra-ECO trade, but the main reason why intra-ECO trade has not boomed is the similarity of the resource endowments of the three original members and of the five Central Asian economies. Cotton is important for Turkey and especially for Pakistan, for which cotton and cotton based manufactures account about three fifths of merchandize exports.[5] Energy products dominates Iran's exports. Turkey and to lesser extent Pakistan and

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[1] Trade and investment complementarities among the south western member countries of ESCAP, studies in trade and investment 35, Bangkok, United Nations, 1999.
[2] Beddoes, M.Z., A Caspian Gamble-Survey of Central Asia, The Economist, 7 February, 1998.
[3] Pomfret, Richard, Central Asia. Op.Cit. PP.16-29.
[4] Ibid.
[5] In 1996, The World's top six producers of seed cotton, cottonseed and cotton lint were the United States with 21.2 million tone, China (22.6 mt); India (15.4 mt) Pakistan (9.5 mt), Uzbekistan (6.4 mt) and Turkey (4.2 mt). Cotton is also the 2nd biggest export for both Tajikistan and Turkmenistan; it is also important for the Chimkent district of Southern Kazakhstan. UN Food, and Agriculture Organization Year book, Production, Vol.50, rome: UN 1997, PP. 116-19 and 182-3.

Iran have more diversified manufacturing sectors which can provide some consumer goods to Central Asia but even in their product lines the major suppliers are outside the region. Thus not only the export base of the regional economies is narrow but it also has over-lapping commodity composition. The natural exports markets are outside the region. Similarly given that comparative advantage in limited range of commodities, the natural supplies of a abroad range of imports are also outside the region.

9.3.5 The Existing Commitments and Trade Policies

The ability of Central Asian countries to enter into preferential trading arrangements with their southern neighbors has been limited by the latter's existing commitments. Pakistan is a member of South Asian Association for Regional Cooperation (SAARC) which has preferential trading arrangements resembling those of ECO with their limited scope and lack of impact. There is a potential conflict "between the requirements of SAARC preferential treatment and Pakistan's commitment under the ECO protocol on preferential tariffs, but in practice both schemes are too limited to matter. For Pakistan the SAARC preferences are even more of a dead letter than those of ECO, because trade with India (by far the largest SAARC economy) is subject to specific permission being granted for each transaction.[1]

Turkey formed a Custom Union with the European Union which entered into force on 1 January 1996 and this treaty obligation limits Turkey's ability to alter tariff rate and other trade related policies. Turkey notified the ECO secretariat that its obligations towards the EU would override any ECO commitments.[2]

The policy environment within which trade between the Central Asian countries and their southern neighbors is conducted is dominated by national

[1] Pomfret, Central Asia Op.Cit. PP.28-29.
[2] Turkey has, however, taken positive steps since the mid 1990s to facilitate the shuttle trade which are defacto targeted at CIS countries, especially Kazakhstan. Around the Istanbul market of Liapeli and the town of Antalya special police units protect and assist shuttle traders who have access to complaint bureau, warehouse facilities etc and receive VAT exemption. Ibid.

trade policies. The most important set of external rights and obligation limiting these policies are those accepted by members of the WTO. These obligation form the basis for a liberal trade regime and have the advantage that their rule based nature makes them transparent and consistent. By 1999, only Turkey, Pakistan and Kyrgyz Republic were full WTO member but most other countries in the region are at some point in moving towards WTO membership or at least perceive it as an eventual target.[1]

9.3.6 Intra Regional Competition

With in Central Asia there is an ongoing struggle for leadership between the two largest countries, Kazakhstan which has the largest land and GNP and Uzbekistan, with the biggest population, central location and historic urban centers. The regime in Tajikistan has until recently been closely associated with Uzbekistan, its main regional ally in the civil war, while the Kyrgyz Republic has been closely attached to Kazakhstan.[2] With in ECO, the three original members all see themselves as natural gateways for Central Asian trade, where economies of scale exist as in pipelines and other infrastructure projects, competition is heightened.

For Pakistan to be a physical gateway presumes resolution of the Afghan conflict, which itself had been a source of tension between Pakistan (which supported the Taliban) and Iran (which opposed it). 'Turkey and Iran are involved in competition for the main pipeline route for oil exports from Azerbaijan's Caspian's fields with Iran offering the least cost option but being opposed by the United States which favours the Turkish option.[3] The two countries are also in competition for the hearts and minds of Central Asia.[4]

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[1] Ibid.

[2] The later relationship was cemented in July 1998 by the marriage of Kyrgyz, presidents son and Kazakh's president daughter. Another symbolic similarity is the two countries' retention of the Cyrillic script. Ibid.

[3] The choice is often seen as being between Turkey's more secular form of Islam and Iranian so-called fundamentalism, but there are also linguistic aspects as Tajik is very close to Persian while the other major Central Asian languages are Turkic. Ibid.

[4] Ibid.

Thus we have observed that the volume and to some extent the composition of this intra-regional trade have been constrained by the conflicting interests, poor physical infrastructure and similar nature of national economies, as all the ten members of the ECO are primarily product exporters and share a restricted commodity range of exports. But keeping the present level of cooperation and understanding as upgraded during the last few years, ECO can play a positive role as a forum similar to ASEAN in South East Asia.

9.4 Prescriptions For Vitalization of formal sector in the region

Despite all these deficiencies and shortcomings, the ECO countries have contiguous territories, making movements of goods and services among them relatively easier. In its size it is as large as Europe, with a population exceeding 300 million. Turkey has a reasonable industrial base, Iran floats on oil. The Central Asian states have surplus energy resources. Pakistan has well developed agro-based industries and provides the shortest route to the sea to landlocked neighbors. A common faith, a shared historical past and an analogous culture provides the scarlet threads which binds them together. The steps and policy prescriptions, analyzed below, may give it a momentum that it can become at par with other regional organization in its influence.[1]

9.4.1 Political stability

The first requirement for economic prosperity is to have political stability with in each member country. It is only when a stable government exists and a change of rules takes place in a democratic manner that long term economic strategies can be framed and implemented without the fear of a radical shift in the policies adopted by previous regimes.[2] Much time and effort is wasted and credibility lost if international agreements are violated by succeeding national authorities.[3]

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[1] Pomfert, Central Asia, Op.cit.
[2] Matinuddin, Kamal, ECO: Hopes and Fears, The News 6 June, 1996.
[3] Ibid.

Iran though appearing to be very stable is still in the grip of major social upheavals which compels it to follow inward looking policies. Afghanistan has been in throes of fratricidal conflict which is not likely to end in the near future. Long term projects involving Afghanistan still remain difficult to achieve. The Central Asian states have yet to de-link themselves from their erstwhile masters. Pakistan is locked in the squabbles between the government and the opposition, each determine to undo what the other achieves.

To reactivate and re-strengthen the ECO, members countries must first ensure domestic tranquility without which long term policies cannot be implemented. "Absence of disputes and a friendly environment among all states is a sine-qua-non for expanding commercial relations. A consensus on major issues facing the region is also necessary to deepen the economic cooperation among the members states.[1] To compete with economically strong blocks, these regional states must combine their efforts to acquire state of the art technology and thereby develop competitiveness.

a. Not withstanding the fact that certain members are against expanding the scope of the ECO, security related issues cannot be swept under the carpet. Economic cooperation among regional countries can best be achieved if they have a common vision of the future, which should include political and security concerns. Slowly but steadily the ECO should move in the direction as well as on the lines of the ASEAN.[2]

b. To increase a spirit of friendship among ECO countries their ambassadors in respective capitals should meet regularly to review the progress of the ECO projects in hand and keep their governments informed of the reasons for delay if any. This is being practiced by a similar organization in South East Asia.[3]

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[1] Ibid.
[2] Ibid.
[3] Ibid.

c. Travel restrictions among ECO countries must be relaxed to facilitate a greater interaction between businessmen and officials of member states. To demonstrate a spirit of solidarity, the national days of ECO countries must be well attended. The prime ministers must make it a point to be present on such occasions to indicate the importance attached to this grouping of 'Muslim Nations'. 'ECO has the potential to develop into a strong economic grouping, what is needed is a political will and determination to move forward, come what may".[1]

9.4.2 Communication System

"In old terminology, the world of Islam was divided into two regions, namely 'Arab' and 'Ajam'. Incidentally, the term 'Ajam' covers all the countries now constituting the ECO. As such relations among the ECO countries are spread over centuries. The geographical links between these countries derive further strength from their common religious, cultural, historical, social, economic and linguistic ties"[2]. However in modern times, sustained relationship among them is not possible without developing a dependable communication system. Some of the economically viable highways and railways, as are assessed by the Ministry of Communication of Pakistan, are mentioned below.

9.4.2.I Road links

The various road links connecting these states with the neighbors in the South are country-wise discussed below.

i. Kazakhstan and Kyrgyzstan

Kazakhstan and Kyrgystan prefer using the Alma Ata-Frunze-Naryn-Kashghar-Khunjerb-Gilgit-Islamabad route[3]. This is the shortest

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[1] Ibid.
[2] Mehdi, Ghaznfar, Dr. "Highways and railways links of ECO countries" 'The Nation', August 13, 1993.
[3] Ibid.

route for them. Alma Ata is only 2200 kms via KKH to Islamabad.[1] The distance between Karachi and Alma-Ata is 3708 kms, via KKH and N-5.[2] On completion of the Indus Highway, this distance has further been reduced by 138 kms. The Chinese authorities have also shown interest in transit trade via China.[3]

ii. Tajikistan

The Tajik people are keen in the development of the Garam Chashma (Chitral) and Ishkashim route. The National Highway Authority (NHA), on the directive of the Ministry of Communication, engaged local consultant for the feasibility and detailed design of the Chitral_Ishkashim route.[4] Of the 200 kms of this road, 110 kms lie in Afghanistan. The distance between Dushenbe, the capital of Tajikistan and Karachi port via Chitral_Ishkashim and Indus Highway is 2022 kms.

iii. Uzbekistan

Tarmez-Kabul-Torkham is the shortest route between Uzbekistan and Pakistan. However due to political reasons, the Uzbeks prefer development of Termez-Mazar Sharif_Herat Kandahar-Chaman route. Tashkand-Karachi via Kabul-Lahore and Hyderabad is 3209 kms.[5] 'The distance between Tashkand and Karachi via Indus Highway is 2852 km. Tashkand, Karachi via the Herat Kandahar-Quetta is 2983 km and Tashkand Gawadar via Khuzdar is 3276 km'.[6]

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[1] Ibid.
[2] Ibid.
[3] Ibid.
[4] Ibid. The consultant carried out this study in association with O'Sullivan and Graham of U.K.
[5] Ibid.
[6] Ibid.

Turkmenistan is linked with Afghanistan via road as well as with Herat-Kandahar-Quetta-Khuzdar and is about 2255 km.[1] Ashkabad, the capital of Turkmenistan is also linked with Meshhad in Iran by road.

iv. Azerbaijan

Azerbaijan is situated on the western coast of the Caspian Sea and is linked with Iran. 'The National Highway Authority engaged two local consultant who carried out preliminary maintenance/repair study on roads in Afghanistan. The consultants concentrated on the Torkham Kabul-Puli-Khumri-Kunduz, Sher Khan Bandar (Tajikistan) route and the Termez Mazar Sharif-Heart-Kandahar Chaman route'.[2]

The consultants report required the immediate development of the national highway N-25, Karachi-Khuzdar-Quetta-Chaman for trade/transit trade with the Central Asian countries. 'To meet this requirement, NHA awarded the contracts to contractors from Cyprus, Iran and Pakistan for the improvement of this road. Construction of the Gwadar-Ratodero road is on priority list of the NHA and is a must for the development of the deep sea harbour at Gawadar.[3]

9.4.2.II Rail Links

Railways were most important overland transportation system in the former USSR, especially in the Central Asian region.[4] All the capitals of the Central Asian States except Frunze, Kyrgistan, were connected with each other by a railway network. The railway network extended upto the Afghanistan border. Iran has a railway link with the Central Asian States upto Mashad.[5]

Pakistan also has a good network of railway system which extends upto Landi Kotal near Torkham on a Pak-Afghan border and upto Chaman on the

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[1] Ibid.
[2] NHA, report of 1996.
[3] Ibid.
[4] Ghazanfar, ECO countries, Op.Cit.
[5] Ibid.

Pak-Iran border. The Iranian city of Zahidan is also linked with the Pakistan railway network.

To connect the Pakistan railway system with the Central Asian States, three possible routes are available, where lines have to be constructed. These are:

i. The Termez-Kabul Jalalabad-Torkhum-Landi Kotal route, about 670 km. This route is in difficult terrain and laying of railway line may not be possible.

ii. The Torghundi-Heart, Kandahar-Chaman-route, about 900 km, is the shortest length requiring construction to link Pakistan with the Central Asian States.

iii. The Termez-Mazar Sharif-Shebargan Herat Kandahar Chaman route (850+900=1750km) has been suggested by the Uzbekistan government.[1]

As a first step, the railway line between Torghundi and Chaman (900 km) can be constructed. This will provide the Central Asian States access to the Karachi Port through the railway network. The route suggested by the Uzbekistan Government, required the construction of an additional 850 km railway line to link Termiz with Herat via-Mazar-i-Sharif and may be constructed in the second stage. Further, most of the Railway network is broad gauge, whereas existing network of the Central Asian states has a meter gauge. The transshipment will be required at the border stations.

9.4.3 Areas Identified for Vitalization

At its most basic, the concept of integration can be defined as "forming parts into a whole or creating interdependence. Its underlying motivation is to reduce conflict and achieve harmony. Integration has thus been described as the attainment within a territory, of a sense of community and of institutions and practices strong enough and wide spread enough to assure for a long term,

[1] Ibid.

dependable expectations of peaceful change among its population".[1] Because of its stress on conflict avoidance and potential for enhancement of peace, regional integration has been generally viewed as the best vehicle for creating 'inland of peace' in the international system. Central to the notion of economic interaction is the assumption that geographic space is a cordial factor in economic development but it can be an effective force only through the diffusion of integrative forces that cement the diverse parts into a structurally and functionally cohesive whole.[2]

The integrative forces include a range of diverse factors. Some of these are: geographic proximity, social homogeneity of the people involved, mutual knowledge of each other among the people involved; shared functional interests, the communal character of the people is it disposed towards integration?; the structural frame of system of power and decision making in the emerging community democratic or authoritarian, decentralized or centralized, degree of sovereignty, dependence of the community, government effectiveness, previous integrative experience of the peoples and governments involved.[3]

In terms of the first five factors, ECO rank very highly on the scale of its integrative potential. Because of turmoil in Afghanistan, implementation level of the ECO has been very shallow, but the areas of cooperation pointed out and agreed upon by the member countries, speak volumes of the tremendous potential which the organization awaits for exploitation. Some of the key areas of cooperation as already assessed and evaluated by competent fora are mentioned below.

9.4.3.i Member countries have taken full cognizance of the fact that they have inherited different economic philosophies and institutional

[1] Hussain, Riffat, S. Prospects of Regional cooperation in Central Asia, The News, 24 April, 1993.
[2] Ibid.
[3] Ibid.

structures for historical reasons. However they have agreed to mould their economic pattern based on the principal of free enterprise.[1]

They have fully recognized that a period of transition is required, before all members can evolve institutions and policies bearing the stamp of liberalized trade and investment pattern. However, the reason why private sector is to be encouraged, carried a basic message and on this count, it was felt that the Istanbul meeting's categorical choice of strengthening the private sector,[2] should be fully supported. The member countries have also recognized that human talent and endeavor adapt and improve in the presence of appropriate incentives and rewards. Human creativity does not come from machines or buildings or dams or irrigation facilities, it comes from the people. They have to have incentives and rewards. This explains the appropriate recognition of the importance of the private sector as a partner, a very important partner, with the government in development.

9.4.3.ii The Quetta Plan of Action had set forth the target that by the year 2000, the trucks could travel from one end of the region to the other at internationally accepted standards and in accordance with the routes prescribed by the member states.[3] The projects like expansion of national railways networks to permit transportation by rail from one end of the region to the other, expansion in air connections that there is direct air connection between the capitals and major cities of each ECO country, at least once in a week and expansion in the port facilities to handle the sea born trade,[4] have been worked at as follows:

In May 1996, a 165 km railway link, described as new 'Silk Road', has been inaugurated. This track has given Central Asia an

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[1] ECO, Ashkabad Declaration and Action Plan, 17 July, 1993, The News.
[2] Ibid.
[3] Qazi, Majid, 8 Feb, 1993, The News.
[4] Ibid

access to the Gulf, Indian Ocean and Mediterranean Sea.[1] The former president of Iran, Rafsanjani described the new rail link to have brought "the silk road back to life and is a symbol of the alliance between east and west".[2]

In the first regular meeting of the Council of Foreign Ministers of the ECO, adopted the 'Quetta Plan' to pool arrangements among the national airlines, setting up an ECO airline among the interested public or private sector companies of member countries and incentives to the private sector to initiate air cargo services in the region.[3]

9.4.3.iii In the field of telecommunication the council of foreign ministers of the ECO, have directed the committee for communication to help prepare a plan for the installation of 40000 phone channels among the ECO countries either directly or through another ECO country, besides exploring the possibilities of expanding the satellite links among all the ECO countries either directly or through another ECO country for telecommunication, television and radio broadcasts.[4] It was also decided to prepare a feasibility study for launching of ECO satellite.[5]

9.4.3.iv For the early delivery of the mail, the ECO secretariat directed the transport and communication committee to improve the postal facilities ensuring the delivery of mail within the ECO countries in a week time.

9.4.3.v In the field of energy, the ECO Secretariat has assessed the region to be rich in energy potential, both hydle and fossil and directed for the preparation of a well consulted plan for network of pipelines and the interconnection of power grids to meet the entra-region's requirements and to provide outlets including those of ports, for access

[1] The Frontier Post, 14 May, 1993.
[2] Ibid.
[3] Ibid.
[4] Feb 8, 1993, The News.
[5] Ibid.

to international markets for the members countries.[1] The committee was also directed that the financial sources be explored for the development of the able projects in this field.[2]

9.4.3.vi Recognizing the importance of the agriculture in the ECO region, the committee for agriculture development has suggested the establishment of ECO Agricultural Data Bank to help disseminate information on production and trade of agricultural products within ECO countries, besides cooperation amongst the research institutions of the ECO states.[3]

9.4.3.vii Considering the field of tourism, the committee for cultural exchange and promotion, suggested the ECO governments, to examine the possibilities of liberal issuance of visas and of promoting cooperation between the tourism organizations, tour operators, to help increase substantially the ECO region's share in the global tourism trade.[4]

9.4.3.viii The committee for education and information envisaged a close cooperation among the ECO member nations for the scholarships and vocational training facilities. It was also decided on the proposal of Pakistan to examine the modalities for setting up of an ECO Science Foundation.[5]

9.4.3.ix. To extend a uniform banking facilities, the ECO has decided to establish ECO Trade and Development Bank. This ECO Eank was planned to play an important role not only in mobilization of resources, facilitating exchange of expertise, sharing of development experiences to accelerate the pace of development but also help in identifying

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[1] Ibid.
[2] Ibid.
[3] Ibid.
[4] Ibid.
[5] Ibid.

possible new areas for further financial cooperation among member states.[1]

Elaborating the need for an ECO Bank, I.A. Hanafi, the former Governor, State Bank of Pakistan, remarked. "While the demand for financial resources is likely to go up further substantially in the coming years, prospects of significant improvement in the saving rate of the industrialized nations and hence their lending to the developing countries are bleak. Thus the developing countries may be crowded out in lending by multilateral financial institutions and bilateral donors. The continuing uncertainty characterizing the Uruguay Round has further dashed their hopes of freer access to the markets of developed countries. It is against this background that regional cooperation are gathering momentum and the establishment of an ECO Bank will not only help make up for capital shortages but the untapped resources will also be mobilized to the welfare of the people".[2]

9.4.3.x Seven out of the 10 ECO members states are land-locked and as such depend for their trade on their neighbors for transit facilities. To safeguard the transit interests and cement the trade and commercial links among them, the ECO transit trade agreement come into force in December 1997. But since Pakistan and Iran experience of transit trade agreements with Afghanistan had demonstrated it to be prone to smuggling, therefore, a memorandum of understanding on cooperation against smuggling and custom feud, was also signed to help overcome its side effects.[3] The transit committee of the ECO Chamber of Commerce and Industry (ECO-CCI) regularly meet to help finalize the rules and regulations of the proposed ECO Passage Document (EPD).[4]

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[1] 7 April, 1993 The News.
[2] Ibid.
[3] Mustafa, Ghulam, ECOs progress, The Frontier Post, 11 November, 1998.
[4] The News, 19 December, 1997.

To boost the trade ties and overcome some of the barriers, ECO has formed eight committees since 1993 in various fields to assess the feasibility of cooperation and furnish it to the ECO secretariat for final approval of the heads of states. These committees include "committee for economic and commercial cooperation, committee for industrial cooperation, committee for scientific and cultural cooperation, committee for cooperation in the field of agriculture, committee for education committee in the field of energy, committee for narcotics abuse and committee on infrastructure and public works".[1]

Thus we have observed that despite limited interaction among its members, negligible progress on projects agreed upon and the political barriers, the economic fields of all the member states of the region, exhibits prospects of overlapping to the mutual advantage of the people of the region. The signing of an agreement between Pakistan and Turkmenistan for a gas pipeline from Turkmenistan on 3rd of June 2002 has marked the beginning of a new era of an active, regional interaction in the post Taliban scenario.

[1] Saleem, Mohammad, 'ECO holds the key to regional progress', Pakistan times, 5 February, 1993.

CHAPTER 10

FINDINGS, TESTS OF HYPOTHESES, SUGGESTIONS AND CONCLUSION

10.1.1 The history of trade, as evolved between nations over the past few centuries, suggests that trade relations ought to be beneficial to both the partners and that gains ought not to accrue to one nation at the expense of the other. Trade currents have become so sensitive that a bomb blast in a nation thousands of miles away depresses economic activities at home. And an economic boom in one part of the world overlaps to other areas. It is this potency of the trade that it has become an effective instrument of state policies, particularly in the hands of the developed world which so far has used it very effectively. But in the context of the study, both the bilateral trade and the transit facilities granted by Pakistan to Afghanistan have proved detrimental to the economic interests of Pakistan in general and the province of NWFP in particular. The abuse of the Transit Trade and the informal manner in which the bilateral trade is conducted has assumed such magnitude and reached such proportions that it has outclassed the formal sector. The former NWFP Chief Minister Mahtab Ahmad Khan has very aptly remarked "The ATT has destroyed economic activity in the province and people have given up the idea of honest earnings and consider smuggling as their due right'.[1]

10.1.2. Though Afghanistan is a landlocked country, but its strategic location has made it very important. In the past, all major military expeditions passed through it. It served as a buffer state between the expansionist Russia and Britain in the 19th century. In the 2nd last decade of the 20th century, beside other factors, its topography played a major role in the disintegration of the USSR during its occupation of the country. But the most important geographic feature of Afghanistan is that it provides outlets to six countries of the world namely,

[1]Business recorder, Afghanistan Transit Trade, 15 December, 1998.

Turkmenistan, Tajikistan, and Uzbekistan in the north, Iran in the West, Pakistan in South and China in the east. It is in this regard that the position of Afghanistan ought to be central in any economic activity undertaken on regional basis.

10.1.3. The formal economy of Afghanistan has shown relevant indicators to have registered a negative growth over the period of the study. Since most of the economically active population of Afghanistan, remained outside as refugees with only sporadic visits to their country, therefore the land under cultivation remained constant at 8054 thousand hectares during the period of the study. The declining agriculture activity also caused the use and consumption of inputs like fertilizers and tractors to decline and so the production of the principal crops likes maize, grapes, cotton lint, cotton seed and sesame seed. Since Afghanistan is an agriculture country, therefore a declining trend there, got reflected in the national accounts, as the Gross Domestic Product, at constant prices, slashed from 127.5 billion Afghanis in 1988 to 89 billion Afghanis in 1997.

These economic indicators established the fact that in country of internal strife and infighting among various warring factions for years, formal sector gets depressed, informal sector or underground economy gets strengthened and people resort to temporary and easy to hand methods for earning livelihood. The Afghans, estimatedly, earned $3 billion from cross-border smuggling and another $3 billion annually from opium trade during the Taliban era. Thus a depression in the formal sector was off-set by more than proportionate boom in the underground economy.

10.1.4 Afghanistan - Pakistan trade has been providing income-generation and employment opportunities, in southern, western and eastern Afghanistan and contribute to the observed prosperity in cities such as Herat, Kandahar and Jalalabad. The re-export trade has created business opportunities for Afghan traders, transporters and packaging companies, shipping and handling companies- in addition generating incomes for farmers. Unofficial exports such as carpets, Afghan jewellery, hand-crafted precious stones and other handi-crafts from the

small manufacturing and handicrafts sectors provide incomes to artisans and handicraft makers. Re-exports business activities has been complementing the active "bazaar" money changers and financers in Afghanistan.

The bilateral trade has also provided needed essential goods for the war-ravaged Afghan-economy. Food (mainly staple food items), construction materials, housing supplies, medicines, fertilizers etc. are among the goods being imported into Afghanistan from Pakistan. Availability of goods has also helped in keeping down prices and partly providing for basic needs of large segments of the population. Parts of eastern and southern Afghanistan exhibit characteristics of a small open economy, such as domestic prices closely aligned to cross-border prices and with vulnerability to supply shocks and changes in exchange rate policies in Pakistan.

The authorities in Afghanistan levy a nominal change of one percent, called "Maafi" on unofficial exports coming to Pakistan. On the estimated total value of $ 2 billion in re-exports, they would have collected about $ 20 million annually. The re-export trade has been conducted with the full knowledge of Afghan authorities, who charge a different rate if goods are primarily meant for the Afghan market. The Taliban authorities also charged custom duty on goods coming into Afghanistan through air and land routes. This duty alone fetch $ 50 million in revenue to Afghanistan.[1] Hence the Afghanistan authorities have been collecting approximately $ 75 million, annually, from Afghanistan - Pakistan Trade.

10.1.5 The wide range of transportation has greatly facilitated the flow of smuggled goods across the Bara markets network. The cycles and motorcycles cater to the local needs of Peshawar and adjoining areas on a small scale. The influence and operation of truck has become so widespread that it has now been branded as "mafia" in the contemporary literature. They move through out ECO region and have been greatly facilitated by the law enforcing agencies of the

[1]UNDP - World bank Study in 1997.

region in their movement. It can safely be concluded that the transport mafia has mad smuggling an industry, in which all the stake-holders are paid their due shares in return for surrender of their national and legal writ.

10.1.6 The availability of foreign exchange has never been a problem for the businessmen of the Afghan Transit Trade. With kerb market operating so widely and briskly and with regular inflows of foreign exchange, ATT has proved to be the most promising profit bearing venture for potential investors. About 90% of the business has been found to be self financed-with "hundi" or "Hawala" transaction take only one week maturity or repayment, the entire business is characterized by mutual trust between the parties with no report of promises been broken or trust betrayed. The financial sector of the business, as shaped by the kerb, has been found to be enjoying all the economies of scale associated with it, in all its forms and manifestations.

10.1.7 The numerous causes that helped flourish the informal transcations, revealed, that its present volume and magnitude has been accumulated over the years. As the human wants got more and more diversified, and their resources multiplied, so got the tentacles of the trade of transit with every passing day. Over the span of about 40 years, new routes were found, more people absorbed and its scope got enlarged from electronics, tyres and textiles in the 1970s to cosmetics, kitchen ware, toiletries, tea, medicines, carpets, bicycles and auto spare parts to name the few, in the year 2000. The causes of informal transactions are so diverse that independent policy prescriptions by different agencies and authorities have failed to curb it and that over the years, the anti-smuggling agencies, instead of confrontation started cooperation.

10.1.8 As the scope of the Afghanistan-related smuggling was found to be wider so are its effects. In a narrow perspective, this trade has provided job opportunities, more than those in the industrial sector of the province. But in a broader perspective, this trade has created social imbalances and a high consumption class. It also adversely affected not only the horizontal development

but also the vertical growth of the industry in the province. Its impact on the overall economy of Pakistan has also been substantial. It not only affected the industry of the consumer goods but it also entailed fallout on the revenue, thereby on govt: expenditure and hence on the employment of the factors of production and their prices. Since Afghanistan has been branded as an economic black hole therefore, other countries of the region didn't remain immune to its ill-effects. As the Afghanistan share borders with five of the ECO countries, it is largely because of the situation in Afghanistan, that ECO couldn't implement most of the planned projects. And it is now because of the improved security situation there, that ECO seems to be promising some progress. The post Taliban Afghanistan has also helped overcome most of the mistrust and bad-blood among the ECO partners. The 1500 Km long gas pipeline plan from Daulatabad, Turkmenistan to Gawadar in Pakistan, through Herat in Afghanistan, signed by Pakistan, Turkmenistan and Afghanistan is only a tip of the ice-berg of the vast potential that exists for regional cooperation.[1]

10.1.9 As has been analyzed in the study, the industrial establishment of the province may broadly be segregated into two:

i. Industries boosted by the cross-boarder smuggling and
ii. Industries affected by it.

The number industries boosted by such cross boarder smuggling comes to 11 with total units of 420 and collective investment of Rs.38985.235 million which is 64% of the total investment in the manufacturing sector of the province.

The number of industries affected by cross boarder smuggling is 10 with a total of 156 working units in the year 2000. During the period of the study,

[1] The agreement to this effect was signed by Pakistan President General pervaiz Musharraf, Afghanistan interim President Hamid Karzai and Turkmenistan President Sapramurad Niazor on 30th may 2002. This project after completion at an estimated cost of $2.5 billion will help provide 700 billion cubic feet gas to Pakistan with a future prospect of extending it to India. If materialize, the supply to India will fetch a revenue of $500 million per annum to Pakistan. Besides, the agreement provided for the formation of three working groups. One will look after the gas pipeline project, another after the road and railway and a third after economic and trade affairs. Daily Aaj -May -31,2002.

291 units in such industries got closed, employment of workers reduced from 22608 in 1990 to 18164 in 2000 and precious capital amounting to Rs.2.641 billion sank.

These assessments make us believe that both the growth and decline in the two segments of the industrial establishment of the province, have not been natural, i.e. neither the growth can be attributed to increase in demand in the country or province or technical efficiency acquired by the firms, nor the decline be linked to any inherent structural weakness of the firms rather such a weakness itself has been caused by the ATT-related smuggling.

10.1.10 With the research carried out in the previous nine chapters and the outcomes of the tests of hypothesis in 10.2, it may now safely be recorded that all the objectives set for the study viz:

i. Comparison of the nature and volume of goods imported through the transit facility with the key economic indicators of Afghanistan,

ii. Ascertaining the causes of ATT-related smuggling, its effect on the economy of NWFP through direct and derived effects,

iii. Analyzing the mode of finance and transportation of the cross border smuggling and

iv. Ascertaining the obligations of the ECO countries to overcome the menace of smuggling and enhance trade in the formal sector with the available and collected information, have been achieved.

10.2 Tests of Hypothesis

10.2.1 The key economic indicators of Afghanistan over the past ten years have declined.

This implies, we should take over Null and alternate hypothesis as:

H_0: The key economic indicators of Afghanistan over the past ten years have improved.

H_1: Such indicators have decreased.

The key economic indicators of Afghanistan include GDP, imports, exports, production and consumption of power and index number of agricultural production. The statistics furnished by United Nations reveal GDP to have been declined by 30.200 percent, imports slashed by 44.89% and exports by 68.36%, the production of power from all sources declined by 46.53% and the indices of per-capita food production reduced from 104.3 to 72 and the per capita cereal production from 114.3 to 91 from the base period levels of 1988, over the period of the study. Thus we reject our null hypothesis that the key economic indicators in Afghanistan have improved over the period of the study and accept its alternate version.

10.2.2 Despite a decline in economic indicators of Afghanistan, both the value and volume of Afghan Transit Trade have increased.

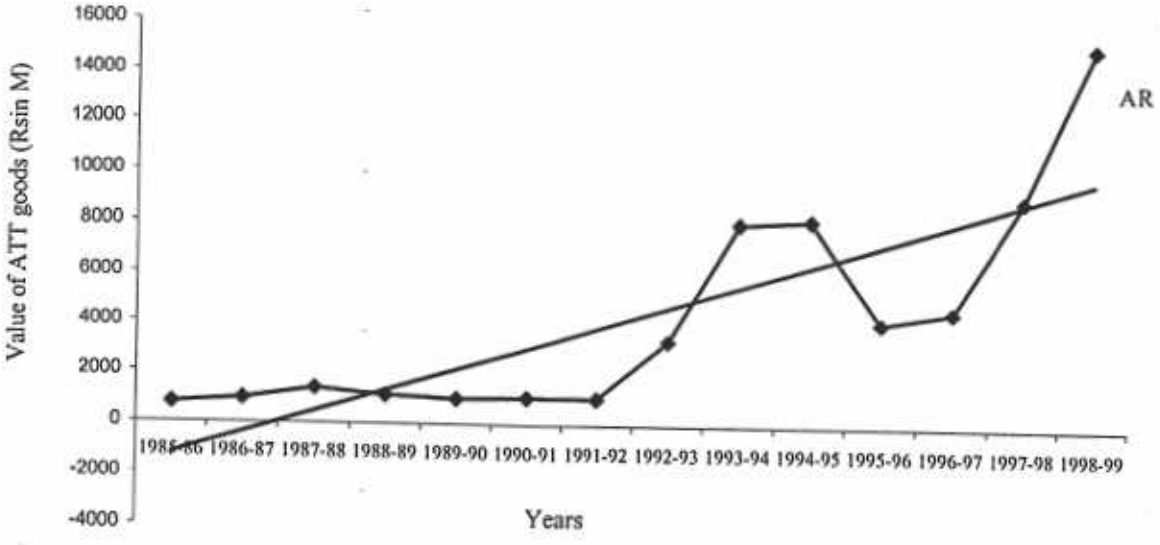
This make us take our null and alternate hypothesis as:

H_0: The value and volume of Afghan Transit Trade Goods have decreased.

H_1: The value and volume of ATT goods over the period have increased.

The acceptance of the alternate version of the first hypothesis implies that both the value and volume of goods imported under the ATT must have been slashed as well. The imposition of curbs on the list of the Afghan transit goods strengthen this assumption. But the value of the Afghan transit goods increased from Rs.754.87 million in 1985-86 (Table 5.6) to Rs.14970 million in 1998-99 registering an increase of 1983.12% and an increase of 1425.3% over the goods imported in 1990-91. In view of these findings we reject the 2nd null hypothesis that both the value and volume of Afghan transit goods during the period of the study have decreased and accept the alternate hypothesis as may be verified from the regression graph depicted below.

Regression Graph



10.2.3 The increased Final Private Consumption Expenditure (FPCE) and hence the increased average propensity to consume (APC) in Pakistan stimulated the increased value of ATT goods through Pakistan.

Table 10.1: Dependence of ATT goods on APC and FPCE from 1989 to 1999.

Years	Total Value of ATT goods[1]	APC[2]	FPCE[3]
1989-90	983.64	0.67	611
1990-91	1050.30	0.62	694.2
1991-92	1037.70	0.69	843.2
1992-93	3329.23	0.71	962.2
1993-94	8004.10	0.7	1110
1994-95	8139.00	0.72	1351.4
1995-96	4090.30	0.73	1545.2
1996-97	4559.09	0.75	1818.2
1997-98	8954.39	0.72	1929.7
1998-99	14970.00	0.76	2216.8

Source:
1. Collectorate of customs Karachi.
2. Analysis already made in Table 7.2
3. UN Statistical yearbook for Asia & Pacific.

This hypothesis is tested from three aspects viz. the dependence of ATT goods on:

i. Final Private Consumption Expenditure FPCE.

ii. Average Propensity to Consume APC.

iii. Both FPCE and APC.

10.2.3.i. The simple regression analysis of the total value of ATT goods over FPCE make us take our null and alternate hypothesis as:

H_0: The increased value of ATT goods is independent of the increased FPCE in Pakistan.

H_1: The increased value of ATT goods depends on increased FPCE in Pakistan.

Since our calculated value denoted by F= 15.52 is greater than tabulated value at P=.05, therefore we reject the null hypothesis and accept its alternate version of ATT goods dependence on increased FPCE in Pakistan.

10.2.3.ii The simple regression analysis of the total value of the ATT goods over Average Propensity to Consume make us take our null and alternate hypothesis as:

H_0: Increase in the value of ATT goods is independent of the increased APC in Pakistan.

H_1: Increased in the value of ATT goods depends on the increased APC in Pakistan.

Since our calculated value denoted by F=6.79 is greater than tabulated value at P=0.05, therefore we reject the null hypothesis and accept our alternate hypothesis of increased ATT goods dependence on increased APC in Pakistan.

10.2.3.iii The simple regression analysis of the increased value of ATT goods over both the FPCE and APC make us take our null and alternate hypothesis as:

H_0: The increased value of ATT goods is independent of the increased FPCE and APC in Pakistan.

H_1: The increased value of ATT goods depends on the increased FPCE and APC in Pakistan.

Since our calculated value denoted by F= 6.8 is greater than tabulated value at P=0.05, therefore reject our null hypothesis and accept the alternate hypothesis.

10.2.4 The value and volume of legal trade between Afghanistan and Pakistan is much smaller in comparison to illegal trade.

We take our null and alternate hypothesis as:

H_0: Legal trade between Afghanistan and Pakistan has higher values as compared to illegal trade between them.

H_1: Legal trade between Afghanistan and Pakistan is smaller in values and volumes as compared to illegal trade.

The acceptance of the alternate versions of the previous three hypotheses lead us to accept that most of the potential investors of the province have opted to invest their capital in the Transit Trade and got benefited from the well established smuggling network. This is amply substantiated by the relevant statistics. The total value of legal exports from Pakistan to Afghanistan for 6 years amounted to Rs.3577.7 million as against Rs.8680.6 million worth of smuggled goods from Pakistan to Afghanistan in one year of 1997, as estimated by World Bank, which is higher by 242 percent. Similarly the total value of official exports from Afghanistan to Pakistan in 6 years, amounted to Rs.3974.4 million. The value of smuggled goods from Afghanistan to Pakistan in 1997 amounted to Rs.5554.9 million which is higher by 139 percent. All these statistics and the acceptance of the preceding three hypotheses provide sufficient evidence to reject the 4th null hypothesis that the value and volume of legal trade between Afghanistan and Pakistan is higher in comparison to illegal trade and accept its alternate version.

10.2.5 Due to increased value of ATT goods, number of closed units in the smuggling affected industries increased, employment of the factor labour decreased and hence the operational units in such industries became more capital-intensive.

In this case we take our null and alternative hypothesis as:

H_0: The increased value of ATT goods has caused no increase in the closed units, no decreased in employment of labour and no increase in the ratio of capital to labour.

H_1: The increased value of ATT goods has increased the number of closed units, employment has been reduced and ratio of capital to 1 labour K/L also increased.

Table 10.2 Summary statistics of smuggling affected industries

Name of Industry	Number of Working Units		Employment (Numbers)		Number of Closed Units		Ratio of Capital to 1 labour (Rupees)[2]	
	1990-95	1996-2000	1990-95	1996 - 2000	1990-95	1996-2000	1990 - 95	1996 - 2000
Textile Mills	9	10	9816	6685	3	1	107700	262000
Textile(Power Loam Sector)	23	20	902	695	4	16	1186000	1408600
Polyester/Acrylic etc [1]	22	13	4679	6308	1	11	2117000	2336000
Woolen	6	4	911	857	2	-	149600	297000
Silk Mills	213	60	3118	1243	100	92	75000	88000
Malamine Industry (crockery)	9	3	246	70	-	6	24900	26400
Electric Goods &Appliances	32	16	1520	1392	6	17	350000	1155000
China Clay ceramics	6	4	541	390	-	2	764000	813000
Soap	33	27	402	401	6	14	302000	319000
Leather & Footwear	13	9	473	123	5	5	151000	46000
Total	356	156	22608	18164	127	164		

As may be assessed from the totals of all the relevant entries in the table 10.2, the hypothesis is signified from plain numerical figures and don't require the application of sophisticated statistical instruments. Since the working units in the smuggling affected industries reduced from 356 to 156, no. of workers reduced from 22608 to 18264, 164 more units were added to the already 127 closed units and the increased ratio of capital to labour may also be verified in the last two columns, we therefore reject our null hypothesis and accept the alternate hypothesis.

10.2.6 Industrial units, which smuggle goods from Pakistan to Afghanistan, have the major share of investment in the industrial establishment of NWFP.

In the instant case, we take our null and alternate hypothesis as:

H_0: Industries which smuggle goods to Afghanistan has smaller share for investment in the industrial establishment of NWFP.

H_1: Such industries have a major share in the industrial establishment of NWFP.

As per Directories of the Industrial Establishment, NWFP (1990-2000) there are 2192 industrial units with a total investment of Rs. 60805.450 (m). This study found the total no. of units in industries smuggling goods to Afghanistan as 420. The above-mentioned directories reveal them to be having total investment of Rs. 38985.235 (m), which is 64% of the total investment. The higher absolute Rs.38985.235 and 64% values provide a strong base for us to reject our null hypothesis and accept the alternate hypothesis.

10.3 Suggestions

The suggestions offered in this part, consists of such policy measures which may help revert the present unwanted economic links and currents in the region, improve the desired and wanted levels of economic activities and explore the possibilities of new viable and productive relationship among the various economic agents. Tackling the smuggling, of course, is discussed first.

10.3.1 Tackling the smuggling

As the smuggling has appeared to be the most dominant factor in shaping the course of bilateral trade between Afghanistan and Pakistan in particular and of the ECO states in general, therefore, it is the most vital to scale it down and ultimately eliminate it. This research proposes a three pronged policy that may help achieve the objective. These include:-

10.3.1. Physical Curbs

10.3.2. Fiscal Constraints.

10.3.3. Foreign Exchange Regulations.

10.3.1.i Physical Curbs

Physical measures involve operations executed by the law enforcing agencies, by taking possession of the smuggled goods for outright confiscation whether they are in transport process, offered for sale in a shop or dumped in store houses, or inflicting such physical harm on them as rendering them ineffective for their intended purpose. Its key feature ought to include:

a. The operation should be titled as "ECO -Operation curb smuggling and boost trade". The operation at a regional level means that Pakistan alone cannot curb this menace until there is an equal cooperation from Afghanistan, CARs (particularly Turkmenistan) and Iran. The heads of these states should agree among themselves to declare, for example, the year 2005 as the year of making the ECO as the smuggling free area. This operation at the ECO level will help ease the pressure of the interested groups as it will be difficult to pressurise all the regional states. It will also be easy to take up the issue with a particular state, if it is involved in administrative lapses.

b. Inside Pakistan, during the course of operation against Bara-Type markets, "Lead Role" should to be played by the civil armed forces (CAFs). During the operation the supply lines will have to be effectively chocked through strict enforcement at entry points on the international border with Afghanistan. Customs will be responsible for checking the main routes, notified routes, inter-provincial entry points, Customs Dryports and Peshawar Air port, during the period of operation. However, as the post operation arrangements, the role of Customs in physical checking should be minimized. "There are 19 mobile checking squads only between Peshawar and Rawalpindi which are a source of harassment for the general public. These should be removed and checking be intensified at the entry points".[1]

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[1]. Minutes of the representation to the Chief Executive of Pakistan on Anti-Smuggling measures on 20-04-2001 in the C.E. office Islamabad.

c. The strategy to curb smuggling should be to chock the demand of smuggled goods as well. Demand should be dried up by targeting smuggled goods markets in the large settled areas like the Blue Area in Islamabad and *Bara markets* in Rawalpindi, Lahore and Karachi. In Peshawar, Saddar bazaar, Shoba bazar and the cloth markets in Nowshera should be operated upon first.

d. The local civil administration and Customs should hold dialogue with the traders and an Amnesty Scheme, as already planned by the government, comprising a period of the 45 days, of issuance of the SRO for its voluntary acceptance should be offered. During the initial period of these 45 days a forceful and wide-range publicity campaign may be lodged by the Lead Agency at the print and electronic media with a view not only to educate the traders on the "Amnesty Scheme" but also to express in a certain and unequivocal terms, the government's resolve to eliminate *Bara markets* once for all.

e. Operation should be conducted market wise. Markets with greater density should be given preference. Within the markets, operation should be prioritized commodity wise to ensure the action has a wider coverage i.e. large items such as T.Vs A.Cs, Tyres, refrigerators should be targeted first instead of small items like cosmetics etc. The stipulated policy should not discriminate between the nature and type of smuggled items which are targeted. However the strategy for implementation should be devised in a manner that does not result in a large scale reaction.

f. It is very difficult to physically inspect the trucks, trawlers and other heavy vehicle for smuggled goods and illegal weapons, mobile and static scanners are, therefore, required to be installed at all the vital entry and escape points. Smuggling of items such as auto spare parts, imported as scarp material, can be curbed if heavy presses are installed at the ports to crush the scrap material before it is cleared by the Customs authorities.

g. "Following manpower shall be required in addition to the existing force of Customs Collectorate, Peshawar and Civil administration of NWFP (including local police).

1. Frontier constabulary = 50 platoons;

2. Frontier corps = 3 wings (Two will take part in the operation and a third one will remain stand-by); and

3. Frontier Reserve Police (Availability to be indicated by the Frontier police)"[1]

Arrangements should be made for providing mobile phones/wireless sets, along with latest arms and ammunition to the raiding parties, so that they are in contact with the Customs and other law enforcing agencies. A special coordination cell should be established in the Customs House Peshawar for coordination with the law enforcing agencies. A help line should also be established.

At the initial stage, Frontier Constabulary and Frontier Corpse shall cordon-off the *Bara markets* and then customs will provide the needed technical advice and legal cover duly assisted by magistrate and police contingents.

10.3.2.ii Fiscal constraints

Trade and tariff policies in Pakistan have historically provided incentives for smuggling. Pakistan had an import substituting industrialization policy in the first few decades of its existence. Although tariff and non-tariff barriers have come down substantially in recent years and there has been a considerable liberalization of the trade regime, the tariff structure still provide ample impetus for smuggling. Many of the items which are unofficially imported into Pakistan, through the ATT or other means have high statutory tariff rates providing strong incentives for smuggling.

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[1]. Collectorate of Customs, Peshawar.

Thus there is ample justification for reducing the tariff rates on goods prone to smuggling. Over the past decade the tariff rates on the smuggling goods have been scaled down from over 100% to about 30%. In Federal Budget for 2002-2003, the rates had been further reduced to 20-25% on 200 items. But still there is a scope for further reduction of tariff to 10-12% , which is the cost being incurred by smugglers. This proposed arrangement has an inbuilt capacity to accrue the following benefits.

a. The structure of imports would get balanced i.e. the value of imports of consumer goods would become somehow at par with the value of capital goods as against the present dominance of the capital goods fostered by the protection policy.

b. Exports will get a boost as they will be able to purchase the raw materials at price equal to world market prices, as against their present costs above the world market levels charged by the industries operating under protection.

c. Exchange rate will be stabilized which in turn will boost exports; the inequality in the distribution of income will be minimized and the wages in urban areas where the manufacturing plants are located will get equal to the free market levels.

d. Rural - urban migration will be reduced which in turn can have a positive impact on the increasing unemployment in urban areas as a result of this migration.

e. A reduced tariff rates will enable Pakistan to enjoy the benefits of the optimum tariff. Reduced tariffs will increase the volume of trade, because the optimum is where the gains from a better terms of trade is offset by the losses from the smaller volume of trade.

10.3.iii Foreign Exchange Regulations

The total numbers of moneychangers operating in Pakistan are 881 including the 400 unauthorized units. Their daily turn over has been put to $12-20 million dollars. Since the brisk kerb markets business has greatly facilitated the smuggling, therefore, its regularization will help reduced the scale of smuggling. Some measures in this regard are suggested below.

a. Embassies and foreign missions of Pakistan should formulate the documentation of Pakistanis working in their respective countries and help form region-wise committees. The foreign office servants should remain in regular contacts with the heads of these committees, provide them some incentives and get them convince to send their money through official channels. The official channel, whatever its form may be, should make it sure that such remittances are received within two days, by the intended persons, with no loss of value and if possible at the open market value.

Regular account of the performance of the heads of such committees should be kept and the best performers should be given Finance Ministry or State Bank of Pakistan awards, preferably by the President of Pakistan on any day of national importance.

b. As another incentives, the Overseas Pakistanis, sending their remittances through the official channels, should be given preferential treatment in govt; residential schemes. Some seats in various educational institutions should be added to their present capacity and kept reserved for the nominees of such overseas Pakistanis who send say 20 to 50 thousand dollars per year. To broaden the scope of this facility, overseas Pakistanis should be allowed to meet the target remittances collectively, in the form cooperatives and get benefited from its associated reward alternately.

c. The decision of the government to establish Foreign Exchange Companies (FEC), by amending, Foreign Exchange Regulation act through an ordinance on 26 June,2002 is likely to regularize the kerb operation and

reduce the scale of smuggling.[1] A regulatory framework provided in the ordinance will put an end to the working of the unauthorized money changers and will be substituted by a corporate culture. The ordinance aims at putting an end to the mysterious rise in demand and supply of foreign exchange. The present unauthorized money changers, however, have been allowed to work for two years after the promulgation of the Ordinance, at the expiry of which either they will opt out of the business or become a part of the FECs, envisaged in the ordinance. Implementation of the ordinance needs a close monitoring.

10.3.2 Vitalization of the formal sector of the region

Over the past nine years, ECO has proved to be a toothless organization, mostly due to the situation in Afghanistan and differences in policies of the member states about Afghanistan. But now that peace is gradually being returned to Afghanistan, political authority is established and refugees are returning, ECO offers its potential for exploitation. Few guidelines may help in exploiting this potential on more rational and viable basis.

10.3.2.i Since institutional structure is not homogeneous in all the ECO members and few vital institutions are non-existent in CARs and Afghanistan and few others are in transition, therefore the institution building should be given priority in any policy frame work chalked out at the ECO level. The establishment of ECO Trade and Development Bank branches in all the major cities and business centers of ECO states should be vigorously pursued. In Afghanistan, Azerbaijan and in CARs, this will develop banking habits, the rest of the ECO will coordinate the intra regional activities and should also help provide the necessary initial working capital. All the traders of the region should be made bound to finance their transactions through the ECO Bank. A uniform

[1].Daily Jang, 20 June,2002.

Banking charter, enlisting the religious susceptibilities of Iran, should be evolved so that the transactions remain brisk and smooth. On the job and prior-job banking training should be arranged in ECO Banking Council, for all the non-original members. The creation of ECO travelers cheques will be of great importance to boost the intra-regional financing and trade through formal channels.

In an associated activity, it is also of immense importance to help develop the institutions of accounts, audit, commerce and insurance in CARs and Afghanistan in accordance with their requirements, experience, social and political constraints but necessarily in english so that communication obstacles are overcome.

10.3.2.ii Visa procedures, as already agreed in various ECO summits, should be liberalized in the first 5 years and in view of the experience during these five years, should be abolished thereafter. In the initial period, the visa procedures should be qualified by the requirement of depositing of amount say dollars 500 for tourists and dollars 1000 for traders in the ECO Bank branch in the home country and arrangement should be made to repay the amount so deposited in the country of the visit, preferably at the airport. For this purpose it is necessary that all the branches of the ECO Bank are linked through the internet. The creation of ECO credit card may greatly facilitate this requirement.

10.3.2.iii To increase the overlapped area of the fields of experience among the citizens of the organizations, telephone, fax and internet charges should be decreased and be made uniform and same for all the member states. Similarly postal charges should also be made uniform and kept reasonably low.

10.3.2.iv As an introductory measure, 'shuttle-traders' should be facilitated so that goods manufactured in one country are easily introduced in other states of the organization. This will pave the way for greater trade through formal channels. In the long run this may help in more regional specialization and industrial units of the region may gradually start enjoying the economies of scale by expanded output.

10.3.2.v As the Russia Federation has started liberalization of agriculture and the importance of private property is recognized[1], the CARs are expected to follow suit. In that case the agriculture potential of the region need diversification and agro-based industries are needed to be developed. Pakistan can be of great help in adding value to the inputs from agriculture. But unlike the USSR, the CARs should not be used as suppliers of raw materials.

10.3.2.vi Partly because of its chequered recent past and partly due to its central position, Afghanistan should be given preferential treatment in all the ECO developmental plans so that social heterogeneity existing in the region is overcome. Tajikistan too should be given the status of MFN in the context of the ECO, in the future regional progrmmes. Since in Afghanistan, due to geographic barriers, ethno-linguistic rivalry is more prominent, therefore the ex-ante road and railway network in the region should have provisions for extension in Afghanistan, so that political stability in the country is established on more sound footings.

10.3.2.vii While pursuing policies for greater regional economic harmony, strategies should be evolutionary in nature and extra-ECO commitments of the members should be recognized and accepted. For example:

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[1].In the initial phase, Land is transferred to private ownership only in Urban areas of Russia, PTV English News 27 June 2002.

a. Turkey shouldn't be forced to prefer ECO commitments vis-à-vis her obligation under the EU.

b. The CARs shouldn't be expected to displease the Russian Federation or CIS for distinct and uncertain ECO favours.

c. Similarly Pakistan's interests in the ECO should not compete with that in the SAARC.

All what is needed is that let ECO gradually gain enough strength that the members states themselves start subordinating their interests elsewhere in favour of ECO.

10.3.3 Economy of the N.W.F.P

If the proposed measures for tackling the smuggling are implemented and ECO got vitalized, the economy of NWFP will find a new life as all the factors of production will be employed to the optimum capacity. In this regard two issues are of vital importance to be addressed:

10.3.3.i Industrial strategy

10.3.3.ii Concerns of the traders

10.3.3.i The location of more than 50% of the industrial units of the province outside the industrial estates, establishes the basic fact that industrial estates have been created without addressing the concerns and requirements of the industrialists. The comparative lesser number of closed/sick industrial units outside the industrial estates further substantiates the argument of industrial estates of the province being unstrategically located. The relative more labour intensive nature of the firms outside the industrial estates signifies them to be more responsive to the nature and potential of the resource endowments of the province. Some measures as mentioned below, will help improve the industrial efficiency in NWFP.

a. The establishment of new industrial until should not be feasibility free. The State Bank of Pakistan should have a board of feasibility experts in every provincial branch. They should conduct and examine the feasibility of the establishment of industrial units in various sectors and publish it separately in its annual or biannual reports. The same should be available with all the commercial banks and other leading institutions for their guidance in entertaining applications for industrial loans.

b. Both the federal and provincial governments should ensure that basic industries of the province are defined in terms of utilization of its own resources. This will not only help improve the employment of the factors of production in the province but will also reduce the variable cost of production. As a result, production will enhance, which will lower the average fixed costs and thereby lower average total cost of production.

c. Though it is wise to keep the government intervention at minimum, yet it should advise for the establishment of industrial units which are based on the existing infrastructure and are labour intensive. Few industries, of cottage-nature and export-value are mentioned for guidance.

c.i. Furniture

The furniture industry of the province offers a vast potential. Though in the western world, refined woodwork is executed with modern electric tools and equipments, the craftsmen of the province are so skilled in inscription, that "with manual work and traditional tools they put life in furniture".[1] It is the continuation of the centuries old Gandhara Civilization with regional specialization. D.I.Khan region is popular for decoration articles, Swat, Mardan, Peshawar and Abbottabad are more popular for

[1] Daily, Aaj, 13, April, 2002.

fancy furniture work. If patronized from foreign trade point of view, the wood related products of the province can earn precious foreign exchange.

c.ii. Onyx and Marble Products' Industry

Onyx is a semi precious stone, abundantly available in Pakistan. "The onyx of Baluchistan is of light golden pale colour. But the reddish and orange colours onyx in general and the black and white onyx of NWFP in particular are more attractive and popular".[1] Besides its dominant use in construction, onyx gets more value added, when flower pots, ashtray, candle stand, cutlery holders, cigarette holders, clock, pen-holders, pencil, jar, paper weight, table-tops, fruit bowls, utensils etc are prepared from it. These products are very cost effective, no foreign exchange component is involved in terms of import of raw material, are luxury items which can earn a lot of attraction in the west, if given due consideration.

c.iii. Art and Crafts

Art and crafts of NWFP, which make an impressive representation of the country's culture, also has an economic value. Though traditional in nature, these art and crafts have the capacity to adapt to changes and accommodate innovation. The valley of Peshawar has tremendous potential in handicrafts, embroidery, brassware, batton copper and bone products. A proper status of an industry will not only solve some of its key problem but will also fetch due price to the workman. These workmen need an informed guidance to transform their skill in accordance with the western tastes, customs and fashion, which is possible if arrangement for their attendance in international industrial exhibitions are made.

c.iv. Copper and brass work

Besides wood products, Peshawar offers a specialty in metal work. Because of floor and geometrical designing, silver-ware industry in

[1] Ibid.

NWFP, has progressed a lot. These products reflect their beauty in embroided stones, coloured glasses and enamel work. This work of melting metal and fixing and inscribing different articles though is a delicate and laboursome, but offers the finest of handicrafts which appeal to the aesthetics. All what is needed is the holding of handicrafts exhibition by the government in foreign countries.

c.v. Products prepared of date palm

These small value products prepared of a date palm are also very attractive and can be of interest for the west, if transformed according to their needs and tastes.

c.vi. Hand Woven Carpets

During the stay of Afghan refugees in and around Peshawar, 'hand-woven-carpets" industry expanded and improved manifold. During the year 2000-2001, this industry earned 483 million dollars in exports. These carpets have a great demand in Europe and America. Its further diversification in sizes may help boost its demand and may augment foreign exchange earnings. The carpet industrial estate and colony near Chamkani Peshawar, after completion is one right step taken by the government to boost this industry. An enhanced minimum wages for this industry shall be of great assistance to the artisans and craftsmen in it.

d. In view of the past experience and present industrial setup as discussed in findings, it is imperative to liberalize industrial concessions i.e. not only its scope should be broadened but also it should be granted concessions, irrespective as to whether the industrial unit is established inside the industrial estate or outside it.

e. Consumer Spending

During the course of the interviews, key industrialists in Peshawar opined that local production will boost enormously if the government and

financial institutions introduce schemes to promote consumer spending. Substantiating the argument, they said that Pakistani consumers, particularly those of the NWFP lack immediate resources to buy necessary household items like fridge, air-conditioner washing machines, television sets, computer, furniture, carpets, crockery etc. The consumer will be able to obtain these items if they are financed by some agency which takes back the actual loan in easy installments at a reasonable interest. They advised that the guarantee for the payment should not rest with the individual but with the government department or commercial organization he works for.

Former President of Sarhad Chamber of Commerce and Industry Jamshed Sawal said loans for the purchase of household items are micro credit in nature which will remain secure if provided to permanent government employees, army personnel and the employees of the credible commercial organization. Former President of the Lahore chamber of commerce and industry elaborated the argument; "Punjab government employs one million people, over a million serve at the center and the three provinces, another million make up the Army, Navy and Air Force. These employees can buy the items worth Rs.10000 to 50000 if their concerned department provide guarantee".[1]

A certified public accountant Asif Ali Shahid Said "such measures if encouraged would induce compulsory savings in a positive manner. Presently this small amount is spent on buying prize bonds numbers, lotteries etc. Car financing introduced by commercial banks and leasing companies in collaboration with car manufacturers is an example in which an industry which was facing recession, boosted after the consumers were facilitated to buy cars on easy installments. Similarly tractor industry is

[1] The News, 21 Feb, 2002.

making progress on the strength of loans provided by the Agricultural Development Bank to the farmers".[1]

10.3.3.ii Concern of the traders

After the collapse of the former Soviet Union in late 1991, it was hoped that our trade with Afghanistan and the Central Asian Republics (CARs) by land route would flourish and resultantly NWFP would become the hub of business activity. However due to lack of consistent trade policies, the promising markets in the CARs could not be effectively reached during the past decade or so. Export of manufactured and semi manufactured goods from NWFP by sea route is not commercially viable due the locational disadvantage of the province. The only viable option open to local exporters is the land route to the CARs via Afghanistan and to Afghanistan, provided the duty drawback facility is made available to them as is the case with exports by sea routes.

Duty drawback is a rebate payable by the CBR under section-37[2] of the Customs Act 1969 to commercial exporters and importers equal to full payment of the custom duty or a part thereof made by such importers and exporters on the import of raw-material/semi manufactured components and then exported outside Pakistan after value addition. It may be pointed out that vide SRO No.800, the Federal Government has allowed export of commodities via land route to Afghanistan and via Afghanistan to the CARs against advance payment of Letter of Credit (LC) in foreign currency without the facility of duty

[1] Ibid.

[2] "37, Drawback on goods used in the manufacture of goods which are exported: where it appears to the board that in respect of goods of any class or description manufactured in Pakistan and exported to any place outside Pakistan a draw back of customs duties should be allowed on any imported goods of any class or description used in the manufacture of such exported goods, the Board may by notification in the official gazette, direct that draw back shall be allowed in respect of such imported goods to such extent and subject to such conditions, as may be provided in the rules". Directorate of Industry, NWFP, Peshawar.

drawback. However, vide the same SRO No.800 export to CARs via Iran has been allowed with duty drawback facility.

Commercial exporters in Peshawar contended that this discriminatory policy was based on the apprehensions of the CBR that the goods if exported by land routes to Afghanistan/CARs with duty drawback facility would find their way back into domestic market. These exporters observed that this perception of the CBR was beyond comprehension, keeping in view the permission granted for such exports by land route to Iran which, they claimed, was as geographically contiguous to Pakistan territory as is Afghanistan and the goods exported by land route via Iran could in the same manner found their way back into Pakistan[1]. They opines that domestic markets particularly in the NWFP are not lucrative enough to allow re-entry of Pakistan goods like sugar, cement, gur, handicrafts etc after their physical export to Afghanistan and CARs.

On the persistent agitation on the issue by local exporters, the Federal Government has, of late allowed the duty draw back facility on the export of manufactured goods to Afghanistan and the CARs by land route obviously from NWFP at the rate of 7.5% subject to the following conditions.

a. Advance payment in US dollars.
b. Irrevocable letter of credit (LC) in US dollars.

This incentive is not acceptable to the exporters of the province. Therefore it is necessary that the exporters of the province be given 100% duty draw back facility as is available to all exports by sea route and to those by land route to Iran.

[1] Field Interviews.

10.4 Conclusion

With the increase in scope ATT and expansion of the Bara Network, the related trade has started enjoying the benefits of the economies of scale associated with large scale business operation. An irony of fate is that, the Trade-in-smuggling in the province of N.W.F.P is generally believed, conducted, argued and referred to as good as legal transactions. The traders in smuggling never hesitate of proclaiming to be doing the business of transit-trade, knowing fully well as to what others would take it to mean. They praise and criticize the governments in terms of their policies regarding the trade.

The opportunity cost of Bara-type-business is so low and the opportunity return so high and with the expected rate of profit and cost of averting the risk are so fully defined that it offers the most lucrative means of making money for big trade magnets, rather is El-Dorado for them. Bara-type business has also proved to be the major source of the strength of the social bonds among the trade-magnets not only in Pakistan but also throughout the ECO region, though with varying scales. With the introduction of more developed and sophisticated means of communication, the network became more wide-spread and efficient, proportionately facilitated by the political conditions of Afghanistan and the tribal laws, customs and geographic conditions, all along the Durand Line.

Un-identical tariff conditions in the ECO region added insult to the economic injuries of our country in general and the province of NWFP in particular, about which the former Chief Minister Mahtab Ahmad Khan very aptly remarked that the ATT had destroyed economic activity in the province and people considered smuggling as their due right. In view of this fact, protection cannot be said to have been failed in NWFP, as on the face of ATT related smuggling it hasn't been provided a fair trail. It may also safely be prescribed that 'state-intervention' of the nature and scale as embodied in the present protection policies of Pakistan, ought to be in conformity to the economic policies of the neighbouring countries and reflective of the custom

and traditions of the tribal as we have all alongwith our border with Afghanistan. It also becomes binding that in pursuit of political objectives, economic interests must be safeguarded and kept supreme rather sacred. With counter terms-of-dealing, in any anti-Bara-type markets operations, fully established and the political situation in region so fluid, efforts to curb smuggling by Pakistan or the province of NWFP are bound to end in failure. This implies that the anti-smuggling operation requires regional efforts rather than national.

The economic cooperation, as is envisaged in the charter of ECO, should be implemented to mean, as a first step, the introduction of identical customs and tariff rates. For Pakistan it may mean that the transit facility to Afghanistan be tied up to this similarity at least for the goods prone to smuggling. On the anti-smuggling operation side, the writ of the govt. should be established by cleansing Bara type markets from all the settled area of Punjab and NWFP. The installation of sophisticated scanners at the inter provincial entry points may prove to be a real first step towards the '*Bara-free*' economic environment in the province of NWFP.

ISSUES FOR FURTHER RESEARCH

The study has geographic constraints as it has mainly been conducted in NWFP and its adjoining FATA. Further research many be conducted in the following areas.

1. Cross-border trade after 2000 and in the context of regional scenario emerged after 9/11.

2. Since the main thrust of the study is on the province of NWFP, the scope may be extended to the whole of the economy of Pakistan and in a much broader scope, the cross-borders smuggling may be assessed in the ECO region, India and china.

3. This study covered only unofficial trade in "goods", but it is equally important to understand the extent and mechanisms of trade in "bads", i.e. narcotics and arms. The latter type of trade is often done under the cover of trade in goods. The size of trade in illegal and contraband items has implications for exchange markets as well as for the underground economies of region.

4. There is ample evidence that open currency markets in Pakistan are facilitating illegal trade activities. It would be interesting to study in more detail the functioning of these currency markets and their impact on unofficial trade. More research is also needed to find the impact of cross border trade on balance of payments of regional economies.

5. Besides NWFP, transshipment and illegal trade activities also take place in the province of Balochistan and has affected its economic life. A comparative study of Baluchistan economy should be able to provide a detailed account of the costs and benefits of official and unofficial trade.

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INTERVIEW GUIDES
INQUIRY FROM INDUSTRIALISTS

1. Pattern of industrial investment in the province.
2. Barriers to entry of new firms
3. Broader categorization of industrial firms
4. Effects of Afghanistan bound smuggling on the industrial sector of the province.
   a. Positive (if any)
   b. Negative
5. Relation of sick units to smuggling
   a.
   b.
   c.
   d.
   e.
6. Causes of low per unit investment and employment
7. Type and level of economies of scale/input-output efficiency enjoyed by the industrial firms of the province.
   a.
   b.
   c.
   d.
8. Causes of lower efficiency
9. Role of the law/anti-smuggling agencies
10. Suggestions for improvement
    a. Legal
    b. Economic
    c. Provincial
    d. National
    e. Regional

BARA MARKETS TRADERS

1. Main sources of supply
2. Initial investment
3. Gradation of goods
4. Quantities purchased
5. Mode of payment
6. Involvement of foreign exchange
7. Location of warehouses
8. Value of goods stored in warehouses
9. Period of storage
10. Cost of storage
11. Number of persons employed
12. Transportation cost to various destinations
13. Turn-over rate
14. Risks involved
15. Percentage of profit
16. Time of transportation
17. Total value of business
18. Personal or hired transport
19. Main transportation routes

TRANSPORTERS

1. Main cities to which smuggling is made.

2. Approximate number of buses involved in intra provincial smuggling

3. Ownership title of buses

4. Types of smugglers

5. Average value of smuggled goods

6. Main items of smuggling

7. Risks of interruption of goods by law enforcing agencies

8. Number of agencies from Peshawar to Lahore.

9. Special arrangements made in the body of the bus and the best body makers.

10. Payments made to the law-enforcing agencies on all the check points enroute to Lahore.

POLICE PERSONNEL

1. Lucrative Police station in Peshawar and on G.T. Road.

2. Legal authority of vehicle searching.

3. Time of custody of goods intercepted and its disposal.

4. Price of posting at smuggling prone venues.

5. Maximum and minimum daily earnings by a single police personnel in bus stand.

6. Prices of safe passages to various categories of smugglers.

7. Broader division of smuggled goods.

8. Approximate value of goods smuggled in various vehicles.

9. Motive of intercepting smugglers, duty or money.

10. Pre-bargain or on the spot arrangement.

BICYCLE CARRIERS

1. Approximate number of bicycle carriers.

2. Types of goods carried on cycles.

3. Values of goods.

4. Risk of interception.

5. Time consumed in transcycling the goods.

6. Price of safe carriage.

7. Losses incurred.

8. Hurdles faced from Bara to Peshawar.

9. Any collateral security for goods carried.

10. Details of dealing with police and customs officials.

ANNEXURE–I

No.2(14)/92-Tr-1
Government of Pakistan
Ministry of Commerce

Islamabad 12 February 1996

NOTIFICATION

S.R.O.135(I)/p6 whereas it is expedient to take necessary measures to protect the public morality, including control of illegal trade and smuggling.
Now, therefore, in pursuance of the provisions of Article X of the agreement between the Government of the:

1. Islamic Republic of Pakistan and the Government of the Kingdom of Afghanistan for regulation of traffic in transit, the Federal Government is pleased to prohibit the bringing into Pakistan by sea, land and air in transit to Afghanistan of the goods specified in column (2) of the table below:-

TABLE

S.No.	Description
1.	Cigars, Cheroots, cigarillos and Cigarettes of tobacco or of tobacco substitutes.
2.	Tyres & Tubes.
3.	Yarn.
4.	Dyes and Chemicals
5.	P.V.C. and P.M.C. materials.
6.	Polyester Metalized Film.
7.	Black tea (except of Pekoe)
8.	Refrigerators.
9.	Air conditioners.
10.	Televisions and parts thereof.
11.	Ball bearings.
12.	Soap and shampoo.
13.	Auto parts (all sorts)
14.	Timers/capacitors.
15.	Artsilk fabrics.
16.	Vegetable Ghee
17.	Cooking oil.

(Naufil)
Section Officer

ANNEX-II

BORDER PASSES

No.	Border pass
1.	Wakhjir Dawn Afghanistan (Wakeljier Shankou, china)
2.	Mintaka Pass (Mingteke Daan, China)
3.	Kilik Pass
4.	Kilik-Union Pass
5.	Kirghiz-I-Union pass
6.	Khora Bhurt Pass (Kotal-e-Khorah Bort, Afghanistan)
7.	Qalandar Uwin Pass (Kotal-e-Qalandar-ud-Din Afghanistan)
8.	Darwazi An (Darwazu An, Afghanistan)
9.	Baroghil Pass (Kotal-e-Baroghil, Afghanistan)
10.	Kan Khun An (Kan Khun An, Afghanistan)
11.	Ochhili Pass (Ochhili Pass, Afghanistan)
12.	Phur Nisini (Kohat-e-Fornesini, Afghanistan)
13.	Anoshah Pass (Anowshah Kocha, Afghanistan)
14.	Kotgaz An (Kotal-e-Gowt Gaz, Afghanistan)
15.	Sad Ishtragh (Sad Eshteragh)
16.	Khatinza An (Khatin Zah An, Afghanistan)
17.	Nuqsan An (Nuqsan An, Afghanistan)
18.	Agram An (Agram An, Afghanistan)
19.	mach An (Mach An, Afghanistan)
20.	Uni An (Uni An, Afghanistan)
21.	Dorah An (Kotal-e-Do-Rah, Afghanistan)
22.	Ustich An
23.	Artshu Pass
24.	Samanak Bro
25.	Palukda Bro
26.	Birzin Pass
27.	Shui an (Kotal-e-Peshawar, Afghanistan)
28.	Pungogazo An
29.	Bukhtansalo An
30.	Matik and (Kotal-e-Matk, Afghanistan)
31.	Gangalwat An (Gangalwat An, Afghanistan)
32.	Zinor Pass
33.	Ustui Pass (Kotal-e-Ustui, Afghanistan)
34.	Shawal Pass
35.	Paripit Pass
36.	Shera Shing Pass (Kotal-e-Shera Sheng, Afghanistan)
37.	Brambalu Pass
38.	Patkun Bro (Pachkium Kandaw, Afghanistan)
39.	Gambir Gri
40.	Damanik Kandao
41.	Sharghali Kandao (Sharghali Kandaw, Afghanistan)

42. Karakar Kandao
43. Dolai Kandao
44. Shani Kandao
45. Panakot Kandao
46. Sunai Kandao
47. Binshal Kandao
48. Tripman Kandao
49. Leogram Pass
50. Lawatai Pass
51. Kaga Pass
52. Mukha Pass
53. Ghakhai Pass
54. Nawa Pass ((Chartani Ghashay, Afghanistan)
55. Chartana Pass
56. Pishio Kandao
57. Spina Tsuka Pass
58. Gprapai Pass
59. Shaunkrai Pass
60. Made Kandao
61. Ahmadi Kandao
62. Inzari Kandao
63. Tandi China Kandao
64. Pidao Kandao
65. Cobi Kandao
66. Tabai Kandao
67. Bazar Kandao
68. Musuabal Kandao
69. Khandwala Kandao
70. Chawatkhai Kandao
71. Darmu Drab
72. Salemai Kandao (Salemai Kandaw, Afghanistan)
73. Brekh Muhamad Kandao
74. Bajaur Kandao
75. nang Stara Kandao
76. Pekhe Kandao (Pakhe Kandaw, Afghanistan)
77. Tora Tigga Kindao
78. Kot Mohmand Kando
79. Oghaz Kandao (Owghaz Kandaw, Afghanistan)
80. Papin Kandao
81. Agam Pass
82. Shah Hussaini Kandao
83. Rishak Kandao
84. Spinkai Raghai
85. Zarai Kande Kandao
86. Gawai Tangai
87. Kirkai Tangai

88. Bargawi Kandao
89. Peiwar Kotal (Peywar Kandaw, Afghanistan)
90. Sursurang Kandao
91. Shautalo Chhapri Kandao
92. Zhawar Kandao (Zhawar Kandaw, Afghanistan)
93. Margho Kandao
94. Mandatt Kandao
95. Dre Drang Kandao
96. Swaro Gawai
97. Arkhai Kandao
98. Inzar Kandao
99. Tabibullah Kandao
100. Cheri Kandao
101. Lakka Tigga Post
102. Spin Tangi
103. Tsaplai Kandao
104. Batai Kandao (Batai Kandaw, Afghanistan)
105. Moghai Kandao
106. Piromandai Kandao
107. Basharm Narai
108. Zangai Narai
109. Musatalbar Pass (Mestar Bel char Naray, Afghanistan)
110. Bichi Narai
111. Ketone Narai
112. Shawana Narai (Shawanah Narray, Afghanistan)
113. Chalong Karsin Narai
114. Mane Kandaw Ghar
115. Dwa Nashtar Narai (Dwa Nashtar Naray, Afghanistan)
116. Lagharkai Narai (Laghrakai Zay, Afghanistan)
117. Wariji Naraj
118. Splagin Narai (Spil Gin Naray, Afghanistan)
119. Saraghumi Narai
120. Zoe Narai
121. Mangrotal Narai (Mangritay Naray, Afghanistan)
122. Wali Khan Narai
123. Zoranda Pass
124. Nazand Narai
125. Khan Narai (Khend Lar, Afghanistan)
126. Aghbargai Pass
127. Warsak Pass
128. Guma Pass (Kotal-e-Gowamal, Afghanistan)
129.
130.
131.
132.
133. Shokoh Narai

134. Ah-I-Duzd Narai
135. Wajar Narai
136. Lghai Narai
137. Iman Bostan
138.
139. Shibian Pass, Kotal-e-Shibian, Afghanistan
140. Mazari Pass, Kotal-e-Shibian, Afghanistan
141.

Source: Azmat, Durand Line, Op.Cit.