

An Analysis of Pakistan's Trade Potential in Afghanistan with Special Reference to ECO Bloc:

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Abstract:

The bilateral trade between Pakistan and Afghan has a long history. Both the countries are not only sharing common borders with each other, they are member of Economic Cooperation Organization (ECO) and have a remarkable potential for mutual trade. The gravity model used for the estimation has testified the potential trade between the two countries. The results from the gravity model suggest that Afghanistan has great potential for Pakistan's exports. However, the hypothesis that bilateral trade is low and both countries trade less with each other than what is predicted by the model was not supported by the estimation. As Pakistan share common geographical border with Afghanistan, and both are also member of ECO (Economic Cooperation Organization) the privilege of geography and the existence of trade preferences between the two countries have resulted in almost full utilization of the potential trade projected by the model for the two countries. Despite diplomatic breakdowns for long period between Pakistan and Afghanistan the trade between the through official channels continued without much interruption.

Introduction:

The present paper is a sequel to previous paper appearing in Pakistan Development Review (PDR), where a gravity model of trade was applied to estimate the magnitude of potential trade flows between Pakistan and the nine Economic Cooperation Organization (ECO) member countries. The result shows that the ECO bloc has great potential for the member countries. However, a dismal picture is presented by the available information regarding the share of the member countries in intra-regional

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trade which has never exceeded 6.0 percent of their total trade share with countries of the world. This low level of trade is not indicative of a paucity of opportunities, but rather a reflection of several trade-inhibiting factors, which must be overcome before the members have a chance of expanding their trade with each other to a meaningful level. The present paper is an effort to explore the future prospects of intra-regional trade among the countries of ECO bloc.

Trade Potential of Eco Countries:

The table1 gives the estimated potential trade among Pakistan and nine ECO member countries in general and Afghanistan in particular. It shows that except for Afghanistan and Turkey where the trade potential is fully exhausted the remaining seven countries are trading with less than 20% of their potential, even country like Iran which shares common border with Pakistan is trading with only 10% of her potential.

Table 1: Pakistan's Predicted Trade with ECO Member States

(US \$)

Countries	Current Trade (Exports)	Predicted Trade (Exports)	Current: Predicted Ratio (%)
TURKEY	110000000	98000000	112
AFGHANSTAN	222000000	229000000	97
AZERBAIJAN	2000000	9000000	22
TURKMANISTAN	2000000	15000000	13
KAZAKHSTAN	11000000	92000000	12
IRAN	41000000	396000000	10
UZBAKISTAN	8000000	75000000	10
KYRGYZ REPUBLIC	1000000	13000000	8
TAJAKISTAN	1000000	17000000	3

Pak-Afghan Trade Potential:

Pakistan's actual exports to ECO member countries were below the levels predicted by the model in all but except one of the cases examined. The exception is found for Pakistan's exports to Turkey, where the actual level is 12 percent higher than the predicted value. While on the other extreme, in case of Tajikistan the exports are only 3 percent of the predicted value. Among the Central Asian countries, Azerbaijan is the major market for Pakistan's exports which meets 20 percent of the predicted exports. Iran, being a close neighbor of Pakistan, hardly matches ten percent of the potential exports predicted by the gravity model of trade.

In the case of Afghanistan, the country being the second biggest market for Pakistan's exports after Turkey and having common border with Pakistan broadly matches the predicted value. The country received 97 percent of the exports which the model predicts for.

The main factors behind the decreasing trend of Pakistan's exports to Afghanistan are deteriorating security conditions in Afghanistan, lack of political stability in Afghanistan, absence of the writ of Afghan government in areas of the trade routes, the decrease in the number of foreign forces from Afghanistan, the substitution of Iranian goods for Pakistan's exports by Afghanistan, delays caused by Pakistani custom authorities.

Despite the fact that the political relations between the two countries have not been very friendly, the interdependence of the two countries is well borne out by the past data on the volume, value, and composition of bilateral trade. The future promises unprecedented needs as well as opportunities of trade expansion, besides general economic cooperation between the two countries. Faced with the devastated effects of years old war, Afghanistan will need to import huge quantities of goods, besides services, for its reconstruction for a long period of time. Pakistan is, and will continue to be a potential source for the provision of resources in the effort of reconstruction of Afghanistan.

Traders are of the view that Islamabad needs to shift its policy perspective from a security-centered one to an economic one — from 'guns to butter'. At the same time, imports under the Afghan transit trade can also be substituted by Pakistan's exports to Afghanistan if effective measures are taken in this direction.

The risk to Pakistan is the diversion of trade to Afghanistan's other neighbors. Afghanistan has signed more than 36 trade agreements and protocols with different organizations and countries in recent years, including Iran, India, Tajikistan, Turkmenistan and Uzbekistan.

Conclusion:

The gravity model of trade results shows that Afghanistan is a potential country for Pakistan's exports. However, it does not support the hypothesis that bilateral trade is low and both countries trade less with each other than what is predicted by the model. As Pakistan share common geographical border with Afghanistan, and both are also member of ECO (Economic Cooperation Organization) the privilege of geography and the existence of trade preferences between the two countries have resulted in almost full utilization of the potential trade projected by the model for the two countries. Despite diplomatic breakdowns for long period between Pakistan and Afghanistan the trade between them through official channels continued without much interruption.

The elasticity estimates produced by the model clearly show that Pakistan's exports to Afghanistan largely matches the figure estimated by the model. As both the countries share common geographical border with each other, and are also member of the same regional bloc of ECO, the privilege of geography and the existence of trade preferences between them could further expand bilateral trade between the two countries.

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