

The Great Trade Game

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Landlocked Afghanistan moved closer to its goal of becoming a major trade hub between Europe, the Middle East and Central Asia after signing a raft of favourable trade agreements with its neighbours in recent weeks. But Pakistan, gateway for Afghan imports and exports for more than half-a-century, has been left out in the cold and analysts reckon Islamabad has largely itself to blame as its main regional rivals, India and Iran, prepare to cash in at its expense.

Pakistan's own ambitions of opening up trade routes with Central Asia appear to have fallen victim to its ambiguous policy toward the government in Kabul and its hostility toward India, which are reflected in the obstacles it has raised to trade with its western neighbour. These include hiking freight fees for Afghan exports and refusing to forge a new transit-trade deal.

"Pakistan is losing out because its myopic policies place countering India above trade and stability in Afghanistan," says a Western ambassador in Islamabad.

Senior Afghan officials, including Commerce Minister Sayed Mustafa Kazemi, meanwhile, have been busy laying the groundwork for the new direction in Afghan trade over the past two months. In early January Kazemi signed a deal with Iran that will give Afghan import-export merchants the right to use the port of Chabahar on the Indian Ocean with a 90% discount on customs and port fees for nonoil goods and a 50% discount on warehouse charges.

Afghan-registered vehicles, moreover, will be allowed full transit rights on the Iranian road system. Consumer goods and construction materials are likely to make up the bulk of the trade headed toward Afghanistan, while mainly agricultural exports and carpets will head towards the port.

On January 5, at another meeting in Teheran, India, Iran and Afghanistan signed an agreement to give Indian goods heading for Central Asia and Afghanistan similar preferential treatment and tariff reductions at Chabahar. New Delhi, which is barred from trading with Afghanistan through Pakistan, agreed to finance the upgrading of the dirt road linking the port with the southwest Afghan town of Dilaram via the border post of Zaranj.

Existing road networks link Dilaram to Turkmenistan, via the western city of Herat, and to both Uzbekistan and Tajikistan via Kabul. The road through Zaranj will also open up one of the poorest and most isolated regions of Afghanistan, diplomats and officials note.

India, in a memorandum of understanding with Iran, also agreed to build a line linking Chabahar to the main Iranian railway network. Iran will then extend its railway to the western Afghan border town of Islam Qaleh. Iranian officials said they wanted to develop Chabahar as the major port for Afghanistan and Central Asia.

"Chabahar opens up Central Asia to the Gulf and Afghanistan becomes the hub," says Saad Mohseni, director of Moby Capital Partners, an Australian-Afghan investment house based in Melbourne and Kabul. "Both India and Iran are ready to invest in the infrastructure to develop this trade route which will benefit Kabul."

Afghanistan may not have considered such a course had it not been for the ambiguity of Pakistan policy toward the new government in Kabul, which is dominated by members of the former Northern Alliance-long backed by Iran, India and Russia. Islamabad had openly opposed the alliance until it ousted the ruling Taliban in late 2001. And while Pakistan promises aid and trade to President Hamid Karzai's regime, the Afghan government complains that Islamabad does little to expel Taliban leaders and anti-Kabul warlords from sanctuaries just inside Pakistan.

Western diplomats in Islamabad say Pakistan's powerful military intelligence service, which dominates Pakistan's Afghan policy and supported the Taliban, appears more preoccupied with trying to counter Indian and Northern Alliance influence in Kabul than improving trade ties. "The Afghan government was left with no choice but to pursue new trade routes because of the intransigence of the Pakistan government," says businessman Mohseni.

This intransigence was reflected in a host of obstacles raised by Pakistan to trade with Afghanistan in the past six months. First it doubled the rail-freight charges from the Afghan border to the port of Karachi, through which most Afghan exports have flowed for decades. Then it refused to implement a new transit-trade agreement with Kabul and placed new restrictions on Afghan goods.

The result, says United States businessman Steve Shaulis, is that "export cargoes have shifted to being routed through Iran, where transit rates are half the cost and the service much faster and less restrictive." Shaulis, who has been exporting Afghan dried fruit and cotton for a decade, adds that "most Afghan shippers are perplexed by Pakistan's attitude." The American, who is developing a major agro-business in Afghanistan, now sends his exports through Iran.

Pakistan says the failure to forge a new transit-trade agreement with Afghanistan is due to Kabul's unreasonable demands for the import of unlimited duty-free goods through Karachi. Officials in Islamabad say many Afghan-bound duty-free consumer goods-such as TVs, vehicles and air-conditioners-are smuggled back into Pakistan.

Kazemi, however, asserts that the pact has not been finalized because "the Pakistani authorities over the last few years have introduced new restrictions that have had an adverse impact on goods destined for Afghanistan-we are trying to eradicate such restrictions." The talks are continuing.

But Islamabad's stance promises only to reward its rivals for regional influence. Kabul's ties with Teheran had been getting closer even before the January trade agreements. Iran has already pledged to provide electricity to western Afghanistan and meet the \$16.5 million cost of installing transmission cables. Iran and Turkmenistan, meanwhile, recently agreed to provide natural gas to Herat.

preferential trade partner

Western diplomats in Kabul say the growing ties with Iran were partly responsible for prompting U.S. President George W. Bush to designate Afghanistan on January 13 as a preferential trading partner. The move will allow the country to export about 5,700 products to the U.S. without tariffs. The irony is that Afghan exports will likely travel through Iran.

Kabul is also moving swiftly to open trading routes and receive concessions from neighbouring Central Asian republics. In late December Gen. Mohammed Daud, commander of Kunduz in northeast Afghanistan, led an official trade delegation to nearby Tajikistan.

Despite its lack of resources, Tajikistan agreed during the visit to provide electricity to Kunduz and reduce tariffs for Afghan goods, such as cotton and dried fruit, transiting Tajikistan. It also offered 200 scholarships for Afghan students in technical subjects and pledged to build more bridges across the Amu Darya River that divides the two countries. There is currently one bridge spanning the river between the neighbours, and that was only built in November.

Meanwhile Gen. Rashid Dostum, an ethnic Uzbek warlord in northern Afghanistan and a member of the government, has tied up similar deals with Uzbekistan allowing for greater trade, reduced tariffs and the provision of electricity to the city of Mazar-e-Sharif, according to senior officials in Kabul. But the central government had no role in forging these accords.

For its part, Afghanistan says it would be happy to improve its trade ties with Pakistan and the country's leaders support the idea of forging multiple trading routes rather than depending on one. President Karzai says he would like to develop similar trade ties with Pakistan. "We have no preferences, no favourites, as long as Afghanistan can benefit all round," he tells the Review.

