

Chaos in Afghanistan: Economic Consequences for Pakistan

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Regional economic engagement has been instrumental in supporting economies in different parts of the world as businesses and consumers get wider access to finished goods, raw materials and machinery. Many countries in Europe also share energy resources, which enhances productivity and efficiency. Unfortunately, South Asia is one of the least economically integrated regions in the world, which is mostly due to unfavorable security conditions.

In recent years, Pakistan has made efforts to expand economic cooperation with its neighbors to significantly boost economic activity in the country. In this regard, Afghanistan is becoming increasingly relevant for Pakistan given the latter's engagement with Central Asian countries connected via its Western neighbor. Prime Minister Imran Khan recently addressed a business forum in Tashkent where he assured the business community that this ["relationship is just the beginning of the journey of development and prosperity."](#)

Moreover, the present government is pushing an export-based growth agenda for which securing new markets will be critical. In case of Pakistan-Afghanistan trade, however, things are heading in the opposite direction. Due to the conflict in Afghanistan, Pakistan's exports to the country are continuously declining. Pakistan's annual exports to Afghanistan have fallen well below [\\$1 billion as compared to \\$2 billion](#) just a few years ago. With US withdrawal, the economic situation is likely to worsen. Continued turmoil in Afghanistan is also likely to adversely impact Pakistan's trade and economic cooperation with Central Asian countries as well. For a country which is aiming to increase its export volume from [\\$25 billion to \\$150 billion by 2025](#), the present circumstances are far from ideal.

The [Taliban have taken hold of key trade routes](#) which will undermine Afghanistan's potential as a transit hub and energy corridor. A number of cross-border projects such as CASA-1000 and Turkmenistan-Afghanistan-Pakistan-India (TAPI) Gas Pipeline are already facing delays as the situation in Afghanistan has not improved the way regional countries involved in these mega projects were hoping.

With slim chances of political stability in Afghanistan, Pakistan and indeed the region, is likely to be deprived of fruitful economic arrangements. There is an enormous potential for landlocked countries such as Afghanistan, Tajikistan, Uzbekistan, Kyrgyzstan, Kazakhstan and Turkmenistan to boost their trade if they get secure access to Pakistani ports. China is also eyeing the latter as they offer the nearest route to its Western regions. Both Pakistan and China expect the Gwadar Port to become the busiest port in the region once it is completed. For Pakistan, transit trade arrangements will generate foreign earnings which the country is desperate to enhance. Without any improvement in the situation in Afghanistan, these plans are unlikely to go through.

For some years, planning has been ongoing for the extension of the China-Pakistan Economic Corridor (CPEC) into Afghanistan, but US presence in the country was a major deterrent. Last year, the Chinese Foreign Ministry appreciated Pakistan for its measures to improve trade with

Afghanistan and added that [“China supports the CPEC’s extension to Afghanistan so that the Afghan people can benefit from the BRI.”](#) For Beijing, securing trade routes with and through Afghanistan will bolster its economic expansion. In addition, Chinese investment in the country has the potential to improve connectivity between Pakistan and Afghanistan.

The US might have withdrawn its troops, but it is still exploring options to maintain some presence in the region and this will certainly be considered by China before initiating any mega project. In addition, India’s meddling in the country along with its long-standing objection to the Belt and Road Initiative (BRI) and CPEC will be another hurdle to deal with. Islamabad has been blaming India for [sabotaging](#) CPEC, therefore, Indian presence in Afghanistan is a challenge. The [recent attack in Pakistan, on a bus which killed nine Chinese engineers](#), has alerted the authorities of both countries, and they have decided to tighten security measures. Such hurdles in implementation of CPEC and BRI will deprive Pakistan of significant transit earnings.

Pakistan is just as wary about the security situation across its border as any spillover will have severe consequences for the country. There has been a rise in terrorist incidents in the last few months, coinciding with the rise of Afghan Taliban. This spells danger for Pakistani officials and public which already went through a horrific period of human and economic devastation when the Tehreek-e-Taliban Pakistan was active across the country.

In his address to the Parliamentary Assembly of the Economic Cooperation Organization countries in June, [Prime Minister Imran Khan](#) stressed that peace in Afghanistan will benefit the entire region, but in the absence of a peaceful transition, there will be trouble for the entire region. In case of the latter, cross-border projects will not be viable.

The worsening situation in Afghanistan will also have a direct toll on Pakistan’s economy because of the migrant inflow. In recent years, [the UNHCR has also seen reduction in its funding for Afghan refugees](#) which has further stretched resources of host [countries](#). By the end of 2020, there were more than [1.4 million](#) registered Afghan refugees in Pakistan so the government’s first aim would be to resist their entry, and if that is not possible, then it will request for external funding.

Peace and stability in Afghanistan is in Pakistan’s interest. Pakistan’s National Security Advisor and the Foreign Minister have been emphasizing that Pakistan aims to shift its focus from geopolitics to geoeconomics, but that will be dependent on how the situation in our neighboring country unravels. Geographically, Afghanistan is a gateway to economic prosperity for the entire region, but it is too soon to expect conditions to normalize in Kabul and for all planned and potential projects to come to fruition.

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