

Pak-Afghan Dyadic Trade and Peacebuilding



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(2022)

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A thesis submitted to the National University of Science and Technology, Islamabad in partial fulfillment of the requirements for the degree of

Master of Science in
Peace and Conflict Studies

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Author's Declaration

I, Warda Gul, hereby state that my MS thesis titled, "Pak- Afghan Dyadic Trade and Peacebuilding" is my own work and has not been submitted previously by me for taking any degree from National University of Sciences and Technology (NUST), Islamabad, or anywhere else in the country/world.

At any time if my statement is found to be incorrect even after my Graduation, the university has the right to withdraw my MS degree.

Name of Student: (Warda Gul)

Date: 9th September 2022

Dedication

I dedicate my thesis to my family, especially my mama baba and my baray baba. Without their support I would've never been where I am today, and I am truly grateful to have them as my backbone in life!

Acknowledgements

Foremost, I would like to acknowledge and appreciate the support of my thesis supervisor, Dr. Muhammad Makki, for encouraging me and motivating me every step of the way. Dr. Makki made sure that till the last detail of the dissertation, everything was well-thought out and critically analyzed. The accomplishment of this dissertation would not have been possible without the support, insight, and supervision of many individuals. Without their time, advice, and inspiration, I would not have been able to see it through.

I would like to acknowledge the support of Dr. Bakare Najimdeen for guiding me, particularly in terms of research methodology and initially exploring the area of study and the dimensions that I should adopt for this dissertation. I would further like to acknowledge Dr. Imdad Ullah's guidance during the initial topic brainstorming session, and for providing me critical insights into the area of conflict resolution and peace studies. Lastly, I would like to acknowledge the advice of my thesis defense panelist, Dr. Tughral Yamin, for asking questions that proved beneficial to the study, for advising me to address subjects in my dissertation that will further substantiate it, and lastly, making the thesis defense session enjoyable. During the course of this dissertation, every student was faced with multiple challenges. However, I am grateful to the faculty and staff of Centre for International Peace and Stability for being equally supportive to all.

I am deeply appreciative and grateful for the confidence that my supervisor invested in my capability to carry out this challenging research. Without Dr. Muhammad Makki's timely advice, constructive criticism, and attention to detail, I would not have succeeded in achieving my desired goals.

Abstract

The purpose of this research is to critically explore the relationship between trade of goods and services with the uprise of conflict in the case of Pakistan and Afghanistan during the last 20 years (1990-2019). It is a time-series analysis which makes use of both qualitative tools including semi-structured interviews and an in-depth thematic analysis and quantitative tools including graphical analysis of past trends associated with trade balance and prevalence of terrorism in both countries accompanied with a simple linear regression analysis that helps in identifying the significance of the correlation between trade and conflict in both Pakistan and Afghanistan. The results indicate that there indeed exists a negative relationship between dyadic trade and the likelihood of uprise of conflict in the case of Pakistan and Afghanistan. Furthermore, trade and commerce can be considered a significant tool of peacebuilding for both Pakistan and Afghanistan and could assist in reducing the opportunity costs of war in the near future. There are numerous dimensions that were uncovered through the thematic analysis including the key role of power politics in determining the trend of Pak Afghan trading and understanding the importance of Afghanistan being economically dependent on Pakistan. In addition to this, the results also suggested the effect Taliban Regime has caused in implementing hindrances in trade due to their prejudice against the Border Crossing Points mentioned in the APTTA. Finally, this research also sheds light on the notion that the residents of Tribal Areas and Borderland Areas heavily rely on Pak Afghan Dyadic Trade. In alignment with this, the informal economies that are formed although cause damage to the economies of both countries but are naturally favored by the local residents and play a huge role in sustaining peacebuilding in Pakistan and Afghanistan

Keywords: Peace, Peace Education, Peace Studies, Trade, Conflict, Afghanistan and Pakistan Relations.

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Chapter 1: Introduction

As Pakistan, alongside the rest of the world, is shifting from geopolitics to geoeconomics, both pre-conflict and post-conflict peacebuilding tools have become substantially important in sustaining strong economies that safeguard inter-state relationships. These tools include various economic measures such as stabilizing the economy, trade, and commerce, improving GDP and GNI percapita and improvement in the Human Development Index Indicators etc. These peacebuilding tools go together with the geoeconomics' approach of a country to improve their living standards. Amongst the different peacebuilding tools, this paper aims to study and analyze the impact trade and commerce can have as a peace building measure in the context of Pakistan and Afghanistan.

Pakistan and Afghanistan have had a long-term trade relationship since the time the first bilateral trade agreement, Afghanistan–Pakistan Transit Trade Agreement, was signed between the two countries in 1965. This trade agreement allowed Afghanistan to import goods from Pakistan, particularly Karachi, without the imposition of any tariffs on the capital goods. The aim of this transit agreement was to ensure improvement in the trade balance of both the countries, but it did not come up to its full potential leaving a gap for both trade improvement and efficient peacebuilding in both countries. Furthermore, since, unfortunately, this trade agreement did not allow Pakistan to export goods to the Central Asian Republics or the Soviet Union after the fall of USSR, so it indicates a limitation in trade for Pakistan("Afghanistan's Transit Trade Patterns Pre & Post APTTA", 2015; Khan et al., n.d.). The reason behind this limitation was the poor fraternal relations, at the time, between these countries, and the political instability in Afghanistan. There have always been factors that have deterred the pathway of trade and commerce for both Pakistan and Afghanistan over the course of time. It is rather fascinating to observe however that do these factors also have a spillover effect on the peacebuilding processes in these countries? Or does the trading trend have a grave impact on the peacebuilding process?

Pakistan and Afghanistan are naturally agrarian countries. Fresh fruits and vegetables are reportedly the most important sector of Afghan agricultural activity. They are known for provision of a reliable source of livelihood for millions of farmers, for ensuring food security and for

provision of raw materials for the dried fruit sector. Some well-known horticulturists consider Afghanistan to be the cradle of global fruit production because the country has had many varieties of fruit trees (Muradi & Boz, 2018; Rahimi and Artukoglu, 2019). Unfortunately, since the 1970s, conditions in Afghanistan had worsened tremendously, due to the prevalence of terrorism and political unrest. This resulted in declaring Afghanistan as a hostile country. Alongside this, after the events of 9/11, Pakistan also had to face tremendous loss with respect to its reputation in the international world and was also declared a dangerous country by the west. This deterioration of reputation of both the countries had a massive effect on their agriculture and trading sector. Thus, as a consequence both the countries fell deep into the darkness of trade and current account deficit, resulting their national outputs to go in negative numbers and as a result causing major challenges for the people of both Pakistan and Afghanistan. The aforementioned bilateral free trade agreement that restricted Pakistan to access the Central Asian market was also a major factor that played a key role in stagnating the trade of both countries.

1.1. Research Questions and Objectives

Interestingly, as observed, during the time when there was decreased trade, poor economic conditions and overall political unrest, there was a rise in social and political conflicts in both the countries. The conflicts marginalized in extent that they resulted in causing mass level destructions in both the countries. Given that, researchers and policy makers become curious about the interrelationship that exists between dyadic trade and peacebuilding. Could it be possible that if trade of goods and services increased between the countries, it would aid in promoting growth and economic activity? If so, is it possible that once the trade between Pakistan and Afghanistan has expanded to the Central Asian market, these countries would join hands together in promoting economic prosperity and peacebuilding all over Asia, making it the hub of peaceful cooperation? Further adding onto the previously presented notion regarding the rise in conflicts when there was a decline in trade, the question comes to mind that would the dyadic trade of Pakistan and Afghanistan in point of fact prove to be a tool of peacebuilding for both the countries and reduce the costs of conflict uprise in the near future?

This research will help answer all of these questions by conducting an empirical and grounded thematic analysis of the correlation between the costs of conflicts and the dyadic trade between Pakistan and Afghanistan. The general argument addressed in this paper is based on the possibility of the aforementioned exact negative relationship between conflict uprise in different areas of both

Pakistan and Afghanistan and their trade of goods and services. Given that, if there is an uprising in conflict, in either of the two subject countries, consequently, would the terms of trade be deeply stimulated? If so, what impact would it have on the peacebuilding measures and the economic prosperity measures of both the countries? Simultaneously, on the other hand, if trade of goods between both the countries increases, then would the costs of an uprising in conflict and inter-state distress also increase? In such a case what would the incentives for peaceful cooperation be? Would it be possible to sustain peacebuilding in these countries with the help of improved trade of capital goods and services? To sum up all these questions into two broad categories we can stipulate the following research questions:

1.1.1. Central Research Questions

1. Does a negative relationship exist between the dyadic trade of goods and services and the likelihood of an uprising of conflict in the overall regions of both Pakistan and Afghanistan? If so, will it support in sustaining dyadic trade and promoting Pak-Afghan peacebuilding?
2. Can bilateral trade be used as a peacebuilding tool to reduce the opportunity cost of war in the case of Pakistan and Afghanistan?

1.1.2. Sub-questions

1. What is the geopolitical and geoeconomic importance of Pak-Afghan dyadic trade?
2. How does legal and illegal trade impact the formation and sustainability of illicit economies in Pakistan and Afghanistan?

By uncovering the answers to the aforementioned research questions, we will fulfill the prime purpose of this study that is to understand both the pre-conflict and post-conflict peacebuilding tools that have become substantially important in sustaining strong economies that safeguard inter-state relationships. Amongst the different peacebuilding tools, this paper aims to study and analyze the impact trade and commerce would have as a peace building measure in the context of Pakistan and Afghanistan. In line with this, the empirical study under consideration will also assist in observing how changes in the trade policies on behalf of both the countries will help in sustaining a fruitful environment, improved living standards and likelihood of less conflicts for the people of both the countries under consideration.

Pakistan and Afghanistan as developing countries in Asia have withstood the test of time in terms of all the challenges that they have had to face with respect to numerous aspects including major conflicts, war against terrorism, sociopolitical issues, regional issues, national and international tensions, and environmental issues. The findings of this analysis could help pave the way for the policy makers of both the countries to utilize the emerging impact of the multifaceted geoeconomics model. Within this model, this analysis would particularly focus on the trade and commerce between the countries and its correlation with costs of conflicts. To date, scholars predominantly working on the case of Pakistan and Afghanistan, have not particularly focused on the essential effect and contribution of improved terms of trade on the likelihood of emergence of conflicts in the country. The literature also lacks in showing the importance of efficiently utilizing tools of geoeconomics to improve the conditions of countries like Pakistan and Afghanistan. This in-depth empirical analysis on the Pak-Afghan dyadic trade and peacebuilding would help compensate for the aforementioned gap in the pre-existing literature.

In addition to this, this research would also aid in opening up the gateway for dyadic trade to rid Afghanistan of its currently existing humanitarian and economic crisis. Afghanistan, ever since US withdrew its forces, has seen massive levels of deterioration in its economic reconstruction at the hands of the US. The development indicators including that of the education sector, particularly the net enrollment of students in primary and secondary schools, GNI per capita, and even the employment sector's reconstruction have melted entirely since the withdrawal of US and its forces. In this analysis we would be able to figure whether Dyadic trade would serve as the blessing in disguise in improving the economic downfall and the existing humanitarian crisis in Afghanistan. Accordingly, could we estimate promotion in employment, skill-based training, and reconstruction of the agriculture sector? Would comparable results be shown in the case of Pakistan as well?

In the forthcoming sections, this paper will utilize the pre-existing studies to appreciate the general understanding of scholars presented in the literature on the conceptualization of peacebuilding and trade trends of Pakistan and Afghanistan. Through the help of literature, this paper would formulate a theoretical framework which would be employed in our thematic analysis. The methodology used for this analysis would be explained in detail in the methods section shortly after the reviewed literature. Following the methods section, this paper would utilize statistical tools to identify the previously established correlation between the two variables i.e.,

peacebuilding and costs of conflicts accompanied by dyadic trade. It would further help in uncovering other factors that have influenced both trade and peacebuilding in Pakistan and Afghanistan. By using these statistical models as the firm ground of this research, this dissertation would then expand into the formulation of themes and theories that have been uncovered through the semi-structured interviews which would then lead us to the discussion analysis section. In this section we would analyze all the plausible arguments and the theories that have been uncovered through both statistical, quantitative, and semi-structured interview based qualitative tools. Finally, we would conclude by answering our research questions as to whether a negative relationship exists between the Pak Afghan dyadic trade and their peace building processes.

Chapter 2: Dyadic Trade, Conflict Uprise and Economic Growth

This chapter covers the pre-existing studies that have a thematic focus on international trade, peacebuilding, and the correlation between the opportunity cost of war and trade policies of different countries.

2.1. Dyadic Trade and its Determinants

The age-old understanding of international trade defines trade as a system of exchange of goods and services across international territories in order to meet the needs and desires of the people (Dunning & Dunning, 2014; Markusen et al., 1995). Trade has helped bring countries closer to one another and has also aided in generating a global economy where each country could benefit at the expense of comparative advantage in the international market. Through the help of international trade, countries like Pakistan and Afghanistan etc. in Asia, Democratic Republic of Congo, and Nigeria etc. in Africa can be involved in business with developed countries in the West like Russia, UK, US, and Canada. Furthermore, it is a well-known fact that there are distinct kinds of trades that take place all over the world. In this research, we are concerned with the implications of dyadic trade, which can be defined as the import and export of capital between just two sovereign states ("Trade (v4.0) — Correlates of War", n.d.). To understand the functioning of dyadic trade, we need to establish how do we estimate trade of a country. To measure the level of trade of a country, we make use of its trade balance and trade deficit. The trade balance of a country is an estimate calculated by subtracting the number of exports out of the total number of imports per annum ("Balance of Trade Definition & Meaning", n.d.). Along the lines of trade balance, there is a general consensus between scholars, that for there to be a better balance of trade, exports of the country need to be exponentially high in comparison to the national imports. This makes exports the most significant component of trade balance as though it contributes highly towards improvement of the conditions of the economy of the country. In the light of this, Huntington (2015) highlighted the effect of exports on trade balance by investigating the empirical evidence relating to trade balance and imports/exports of crude oil among 91 countries during 1984–2009. The results revealed that exports of crude oil are significant in explaining trade surplus among the subject countries, however, crude oil imports were insignificant, with the exception to high per capita countries. This thesis is a prime example of the significance of exports as a determinant of

trade balance. A similar example that demonstrates the role of imports and exports in trade balance is a study conducted by Akhtar & Malik (2000). In their study, Akhtar & Malik (2000) showed that when Pakistan's trade with its major trading partners is considered, import and export elasticities tend to have a significant role in determining the trade balance.

Further expanding on the role of imports in the determination of balance of trade and its impact on the national output of a country, Bader (2006) showed that Pakistan relies heavily on its imports to improve economic growth, as the imported intermediary and capital goods are utilized in production of local goods, thereby contributing to the economic growth of Pakistan. Further strengthening this notion, the study by Mukhtar & Rasheed(2010) also mainly concentrated on showing how the imports of intermediary and capital goods serve as extremely significant inputs in the production of exportable(s) by the country.

Similar to Pakistan, Afghanistan's economy heavily relies on its trade as well. Since the economy of Afghanistan is mainly based on its agriculture, and recently the agriculture and textile market has collapsed, thus to increase the national output and provide for the needs of the country, Afghanistan has to rely on its imports (Mahroowal et al., 2014).

In addition to the principle determinants of balance of trade mentioned previously, improved financial developments also results in an improved balance of trade (Ahad, 2017). The researcher employs the Auto Regressive Distribution Lag model on Pakistan's data to study the relationship between financial development and trade balance. The study concluded that trade balance has a short run relationship with exchange rate and inflation, and a significant statistical long run relationship with financial development. Furthermore, the author exercised the VECM that further confirmed the unidirectional causal relationship between the two variables by predicting that 19% of trade balance improvements can be explained by financial development improvements. This indicates that besides imports and exports, there are various other factors that contribute towards the betterment of balance of trade of a country. Alongside financial developments, we should also take agriculture sector's contribution into account when considering balance of trade of Afghanistan. The agricultural products, locally produced in the country tend to contribute around 73.3% to the national exports as of 2016 and engages around 61.6% labor force. This indicates that the exports done as means of the agriculture sector tend to have major contributions towards

Afghanistan's gross domestic product (GDP), thus proving that increased productivity also has an impact on balance of trade (Artukoğlu, 2019).

2.2. Trade and Economic Growth

Besides the factors that impact balance of trade, we should also consider the elements that are affected by the balance of trade, such as economic development. Scholars have widely discussed both theoretically and economically, the relationship between foreign trade of a state and its economic growth. Considering the case of Afghanistan Farahmand & Esen(2020) made use of tools cointegration and Granger Causality to showcase the causal relationship between foreign trade and economic development in Afghanistan in the period between 1980 and 2017. They were successful in determining a direct causal relationship, more explicitly, a two-way causality, between economic growth and exports of Afghanistan. Similarly, scholars have also shown the impact of trade, or of elements of trade on the economic growth of Pakistan. In one of the studies, the effect of terms of trade on economic growth of Pakistan was analyzed with the help of the Autoregressive Distributive Lag Model in the period from 1980-2013. The results indicated significant negative long run and short run effects of terms of trade on economic growth(Jebran et al., 2018). Now that we have a profound understanding of how balance of trade functions and what elements effect it, along with the impact that it has, we can now shift our focus towards understanding the importance of peacebuilding for Pakistan and Afghanistan through the arguments presented about costs of conflict and war in the pre-existing studies.

2.3. Economic Cost of Conflict

In an interconnected world with high stress levels and international tensions, conflicts are inevitable(Forte, 1997). When these conflicts turn into mass scale wars, then the costs of these wars are inevitably extremely high. The costs of war primarily include various aspects such as loss of life, loss of close friends or family, loss of home, loss of well-being, economic downfall, destruction of material possessions, decline in the development sector of the state, loss of money and welfare and so many more different kinds of elements(Hess, 2003). In his study, Hess(2003) evaluated how much an individual would be willing to pay to avoid merely the economic costs of conflicts. The results were remarkable as they indicated that amongst all the individuals that experienced a certain degree of conflict during 1960-62 sample would permanently give up to

approximately 8 percent of their current level of consumption to live in a purely peaceful world. This indicates that costs of war have a significant impact on the livelihood of an individual.

As mentioned earlier as well, whether the conflict is of a small scale, or is a large-scale war, its costs have an adverse effect on the parties involved. In the light of this, considering all the civil wars that took place in the previous couple of decades, the economic and human costs are one of its major consequences. During the period in 1960-99, evidence suggests that the costs of civil wars, or the adverse consequences of war, were not only faced by the combatants but by ordinary civilians which includes women and children. The study also represents how the annual growth rate of a country decreases by 2% just by the existence of civil war for just 5 years. The costs of a conflict do not stop when the war ends, but instead they have a spillover effect in the form of destruction of public health infrastructure, population displacement, destroyed economies and public debt. The post-war number of fatalities and casualties occurring is about as high as the numbers incurred during the war(Hoeffler & Reynal-querol, n.d.).

Amongst all the conflicts that took place in the world, the major costs that were paid were by the African countries. War can serve as a tool of provision of opportunities for the oppressor party. This study suggests that the countries that initiated conflicts and promoted war in African countries, had the incentive to snatch the natural resources away from them in exchange for peacebuilding measures. The countries faced heavy losses, even lost control of their natural resources, and yet are still suffering at the expense of the costs of conflicts (Ndikumana, 1998). Europe's interstate wars are a key example of costs of conflict and its incentives as well. Another one of the principle victims of costs of conflicts is The Democratic Republic of Congo. DRC was initially colonized by King Leopold II in the 19th century as his personal fiefdom and was under the control of Belgium in the early 1900s and then later on It gained its independence in 1960 (Gondola, 2002). Given the colonization of Congo and it being the victim of the resource curse (countries that are rich in natural resources tend to have poor economic growth and weak democracy), at the time of independence, Congo grew into an extremely weak condition in terms of its institutions and functionality. It faced multifaceted challenges and obstacles in its passage towards peace and development. Due to this weak functionality of institutions and poor defense, domestic violent conflicts took place effortlessly. There were military coups staged along with multiple wars that led to loss of thousands of lives and impoverished conditions of the Congolese

people. In addition to this, the economy of DRC faced a heavy downfall such that the total debt of Zaire came up to ten billion dollars by the year 1990. Accompanied by all these factors, DRC, as mentioned earlier, is a victim of the extremely excessive costs of conflicts due to which it still struggles to obtain economic prosperity. Similar to DRC, Afghanistan and Pakistan have also had to face high costs of conflicts, as mentioned earlier in the introduction section as well. These high costs included loss of reputation in the international world due to prevalence of terrorism, political instability, destruction of the agriculture sector, deterioration in the living standards of both Afghani and Pakistani people. With the help of the understanding of balance of trade, terms of trade and costs of conflict and war, we can now dive into the literature that focuses on the interrelationship of these variables.

2.4. Uprise of Conflict and Dyadic Trade

A wide scope of scholars, both from the conflict side and the economic and development side, have focused on the idea of an interrelationship between costs of conflict, or more broadly the uprise of conflict and the dyadic trade between two countries Polachek (1980) in his study made use of the sample of 11 different countries and evaluated the impact of their dyadic trade on the approximate likelihood of uprise of conflict in the near future. The results of his study indicated that if there was an increase in the dyadic trade of the two subject countries, then as a consequence, these countries would face comparatively less levels of conflicts with each other. In addition to this, he also emphasized on the notion that with increased and improved dyadic trade, the countries would rather assist each other in economic empowerment, instead of initiating conflicts and wars. Another interesting take on the correlation between uprise of conflict and dyadic trade was presented by Schultz (2015), where he demonstrated how methodologically if we utilize the borderland areas as institutions, there is a very high likelihood for territorial disputes to die down. This decrease in territorial disputes would result in decreased conflicts and thus would increase the costs of conflicts as a result of which trade would improve and economic prosperity would prevail.

The entire school of thought associated with trade and conflict has strongly emphasized on a negative relationship between the uprise of conflicts and the prevalence of dyadic trade between two countries. For instance, in the study conducted by Heilmann(2016), we observe, through politically motivated boycotts of goods and services, which can also be regarded as political

conflicts, such as the Muslims boycotting Danish goods right after the Muhammad Comic Crisis in 2005/06 or the boycott of Japanese goods by the Chinese due to the Senkaku Diaoyu Island crisis in 2005/06, that political conflicts have a very strong negative effect on bilateral trade in both goods and services of a given market. Scholars like Hegre et al., (2010) have even considered trade, or more particularly dyadic trade to be a powerful peacebuilding tool solely because violence and hate crimes, under the paradigm of conflicts and wars, have huge opportunity, economic and welfare costs.

Although traditionally every model is under the influence of numerous exogenous factors of the economy, yet when the model of trade and conflict is concerned, empirical evidence suggests that both the subject variables (trade and conflict) are directly related and exogenous factors such as globalization, social equality and environment have a negligible effect on the model such that the interrelationship between trade and uprising of conflict between two states is not mitigated by contextual factors. This direct interdependency between both the variables posits serious challenges (Barbieri & Schneider, 1999).

Further countering the previously understood notion on the interdependency of trade and conflict, that indicated that trade does not reduce conflict although presence of conflicts does indeed reduce trade, by utilizing the gravity model, it can be presented, that the increase in trade does in point of fact, promote peace by making conflict less likely to occur, *ceteris paribus*. Within this model nations' sizes and the distance between them geographically has a direct influence on the interrelationship between trade and conflict collectively. Furthermore, it has also been observed that simultaneously trade has significant contribution towards promoting peace meanwhile the uprising of conflict has equivalent contribution contemporaneously to reduce economic growth and commerce. (Hegre et al., 2010)

Recently major developments are being made in this particular school of thought of conflict and international trade. Michael J. Hiscox, the John L. Loeb Associate Professor of the Social Sciences at Harvard University, made use of quantitative tools and case studies of countries across the globe to highlight the pivotal connection between political conflict and international trade. His book serves as a significant base for the argument that dyadic trade could result in peacebuilding solely because preventive measures are necessary to avoid the high costs of conflicts on a global scale

(Hiscox, 2020). Additionally, it's not only the political conflicts, but military conflicts also diminish trade between countries resulting in economic downfall (Martin et al., 2008).

2.5. Uprise of Conflict and Dyadic Trade – Global Cases

2.5.1. US – China Conflict

Alongside militarized conflicts, trade conflicts have a global impact on the worldwide trading and commerce market. A global trade conflict would lead to a 1.96% reduction in global GDP in 2022 and a 17% reduction in global trade (Bekkers & Teh, 2019). In light of this, scholars believe that trade conflicts have a high potential to reduce global trade and output (Lindé and Pescatori, 2019). Given the impact of trade policies on the global markets, this study considers the case of the US and Chinese stock markets, as they are the largest international trading countries (Fontaine et al. 2017; Zhang et al. 2019)., it was observed that U.S. and China trade conflicts have a positive effect on U.S stock market while it negatively affects Chinese stock market, which adversely impacted the trading between both the countries and the overall international trade paradigm (He et al., 2021).

Furthermore, scholars have also observed that the bilateral tariffs between US and China have increased up to 17% on average. In addition to this, the Phase One Agreement, signed in January 2020, between US and China, reduces the tariffs to just 16%. These results further indicated that the trade conflict between US and China has led to a substantial reduction in trade between both the countries and has increased political unrest by considerable trade diversion to imports from other regions, leading to a reorganization of value chains in (East) Asia. (Bekkers & Schroeter, 2020).

2.5.2. Rhino Horn Trade – South Africa

To understand the interdependency between trade and environmental conflict we look towards the Illegal wildlife trade (IWT). IWT plays a significant role within the context of formation of illicit economies (Warchol, 2004). It basically refers to the illicit procurement, transportation, and distribution of commodities such as a few high-profile species like rhinoceros, tigers, and elephants etc. across international borders (Phelps et al., 2016; Sas-Rolfes et al., 2019). Considering the Mozambican-South African borderlands, the increasingly militarized state conservation forces that are formed due to radical inequality are in direct conflict with the hunters of the region due to illegal hunting and trading of the Rhino Horn. This has further resulted in labor migration, poverty,

exclusion, and insecurities across the region. The Rhino Horn hunting and trading has directly affected the safety of the people and thus resulted in an uprise of conflict (Lunstrum et al., 2021).

2.5.3. Russia Ukraine Conflict

Through the understanding of the notion that armed conflict reduces trade through the destruction of inter-group social capital, analysis suggests that Ukrainian trade transactions with Russia experienced a steep decline after the 2014 Russia-Ukraine conflict. The wearing away of the element of trust between Ukraine and Russia can be attributed as a significant cause behind this economically significant decline in trade transactions in Ukrainian firms that were in business with Russia. Affected Ukrainian firms suffered a decrease in performance and diverted trade to other countries. The results further suggest that, conflicts can be economically damaging, especially in terms of trade, even away from combat areas (Korovkin & Makarin, 2021).

Given the recent circumstances, the likelihood of a potential war between Ukraine and Russia could globally impact the trading markets. The exports of India along with the trading between Ukraine, China and Turkey are going to be devastatingly influenced (“How Russia’s War on Ukraine Will Likely Affect Global Economy,” 2022; Jennings, 2022).

2.5.4. US China Conflict

Conversely, bearing the effect of hindrances in trade onto the likelihood of conflict, in mind, we consider the example of US China Trade conflict. The disturbance between both the countries and the disagreements regarding tariffs and trade policies, has resulted in major geopolitical tensions on a global scale. These tensions can be taken back to the nationalist roots of the trade war from both the US and Chinese perspectives. In the USA, the Trump administration’s plan to achieve energy autonomy, decrease reliance on foreign resources, and reinvigorate the manufacturing sector has led to protectionist policies, the othering of China, and hence the trade war. Although reluctant to enter the conflict, China has rebuffed the USA, resisting and counterattacking US actions, owing to a long-felt sense of persecution in the global space and an eagerness to participate fully, and lead in some issue areas, in international affairs. The conflict continues further into the COVID-19 era, marked by US scapegoating of China and immense hits to the economic performance of both the countries (Boylan et al., 2021)

2.6. Global Smuggling Markets and Conflict Uprise

The determinants and significant push factors of smuggling could be attributed to presence of higher corruption, lower rule of law, Tariffs, and trade restrictions. Countries like Pakistan, Cameroon and Kenya have higher trader restrictions, generally unstable political environment and higher levels of corruption thus are subject to formation of smuggling markets that inhibit a strong potential for the rise of conflicts in the near future(Buehn & Farzanegan, 2012).

The lack of regulation in trading markets leads to formation of illicit economies such as the smuggling markets. The empirical evidence in this regard suggests that smuggling tends to transform its nature from a regular market to a something far more violent and dangerous. Evidence suggests smuggling results in crime wars that has caused deaths of tens of thousands of people in Mexico and Central America in the last decade. Furthermore, conflicts that frequently mirror civil wars in their intensity and transgressive use of violence are also observed in regions across the globe such as the Mexico-Guatemala, Tunisia-Algeria, and Algeria-Morocco borders (Herbert,2019). Empirical evidence also suggests smuggling of natural resources results in violent conflicts that remain for longer periods of times and even result in potential civil wars (Conrad et al., 2019). Further evidence also depicts an interrelationship between the uprise of conflicts within the drug smuggling market especially in Netherlands (Melvin Soudijn & Peter Reuter,2013)

Chapter 3: Conceptual Framework

This thesis primarily focuses on validating the following chain reaction for the case of Pak-Afghan Dyadic Peacebuilding:

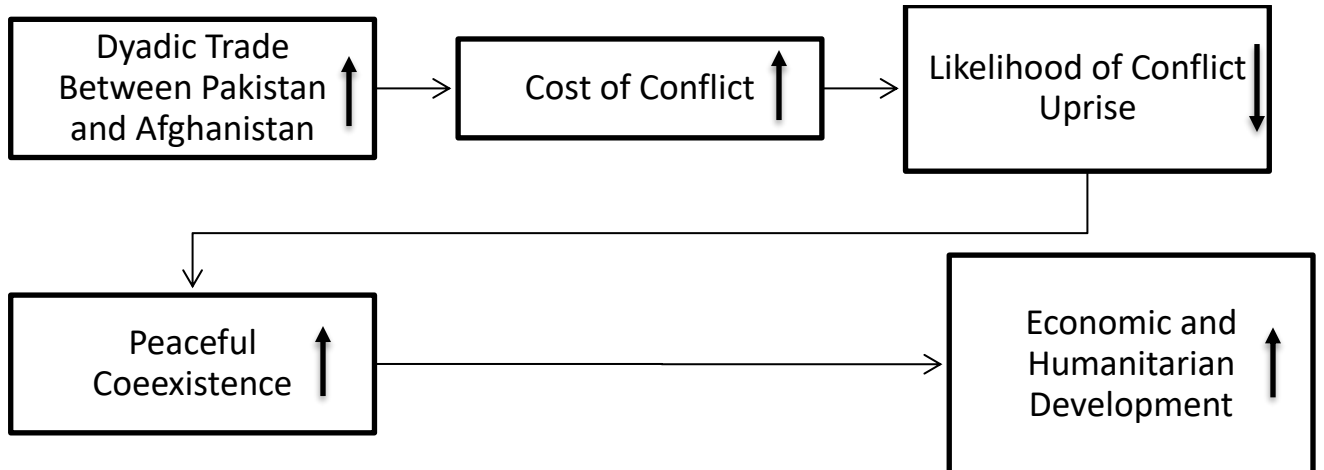


Figure 1: Hypothesized Chain Reaction

Chapter 4: Methodology

4.1. Aim of The Thesis

The purpose of the thesis is to make use of both qualitative and quantitative resources to understand and evaluate the correlation between cost of conflict and dyadic trade between Pakistan and Afghanistan. The analysis of this interrelationship could help in opening doors for further multifaceted concepts and their significance when a country's development and progress is taken into account. Throughout this thesis, dyadic trade is coupled with major peacebuilding tools and economic variables that help us in identifying the factors that influence both the trade of both the countries and their process of peacebuilding.

4.2. Research Design:

The thesis utilizes both quantitative tools and qualitative inquiry coupled with a grounded thematic analysis to understand the correlation between dyadic trade and peacebuilding in the case of Pakistan and Afghanistan.

For quantitative tools, we refer to statistical analysis of the pre-existing data on legal trading, exports and imports of goods and services between Pakistan and Afghanistan along with their overall terms of trade. To conduct this analysis, we will make use of the data on exports and imports of goods and services from the World Bank Database, UNCOMTRADE, along with the local data taken from Pakistan Bureau of Statistics and Central Statistic Organization Islamic Republic of Afghanistan. In addition to this, trends of terrorism, conflict uprising and marginalization will also be taken into account, with the intention of understanding the factors that are required to ensure smooth peacebuilding and how trade and commerce can assist in this process. It further establishes a foundation for the analysis of the correlation between Pak Afghan Trade and Conflict uprising. This interrelationship is further verified with the help of the Simple Linear Regression Analysis.

4.3. Simple Linear Regression Analysis

Simple linear regression analysis is a statistical model used to demonstrate the relationship between two quantitative variables with the help of a straight line (Stanton, 2001). The regression analysis for the variables of this thesis includes trade balance of Pakistan and Afghanistan and

their impact on the net conflict of the respective country in the time series 1990-2019. This relationship is further explained in the equation below:

$$NETF_{afg} = \alpha_0 + \alpha_1 TB_{afg} + \varepsilon$$

$$NETF_{pak} = \beta_0 + \beta_1 TB_{pak} + \varepsilon$$

Here,

NETF = net Conflict of the Country

TB = Trade Balance of the Country

ε = a random error term assumed normally distributed with mean zero.

To further enhance the scope of this analysis, we will also make use of qualitative inquiry. Primarily qualitative inquiry is used as an exploratory tool where a problem or an issue needs to be explored and assessed in a more in-depth manner. In a qualitative approach, the focus is placed on organizing incidents and stories in such a manner that they exhibit a concrete, vivid and meaningful understanding of the issue at hand (Creswell, 2009; Miles and Huberman, 1994). In this research for the comprehensive understanding of dyadic trade and its impact on peacebuilding in Pakistan and Afghanistan, we will make use of semi-structured interviews with the relevant individuals, which are further explained in the next section.

4.4. Sampling Type

There are two kinds of sampling that would be used in this research analysis. Initially we made use of purposive sampling. This is the most widely used type of non-probability-based sampling. In purposive sampling, the researcher makes use of their own judgement to identify the individual that is highly experienced and rich in information on the themes that we intend to explore in this research (Guarte and Barrios, 2005). With the help of purposive sampling, we were able to identify our respondent categories. Since the themes of this analysis are primarily associated with trade and commerce and various peacebuilding measures coupled with market factors and elements, thus the responded categories would include academic and market experts on trade and conflict and peacebuilding studies. Furthermore, to have a more in-depth analysis of how trading works

between these two countries on an administrative level, we would need trade experts and representatives on behalf of the government of Pakistan. In addition to this, since the areas considered within this research involve borderland regions, tribal areas, and newly emerged districts(ex-FATA), thus we would also need to understand the themes from the perspective of a local resident of these particular regions. Further taking the significance of protection of borderland areas, uprising of conflict and pre-existing and potential marginalization of various groups, we would also consider military personnel that have served in these regions. Thus, with the assistance of purposeful sampling this thesis will conduct semi-structured interviews to gather data on Pak-Afghan dyadic trade and peacebuilding interdependence.

Although there are limitations when it comes to gathering qualitative data from the ground-up such as the availability of respondents in the given time. To counter this limitation, we made use of snowball sampling as well. This technique proved to be extremely helpful in identifying academic experts and local businesspeople and traders from the borderland areas. The basic idea behind the functioning of snowball sampling is that the number of people/respondents that we have access to “snowball” as we get in contact with more people through the initially intended respondents(Goodman, 1961).

4.5. Respondent Categories

This thesis utilizes semi-structured interviews with the following respondent categories:

1. Academic experts on trade
2. Academic experts on conflict and peacebuilding
3. Pakistani businesspeople and traders
4. Local Afghans located in the borderland areas
5. Military Personnel deployed in Afghanistan or in the borderland areas
6. Professionals on Trade and Foreign Relations with Afghanistan
7. Liaison Officers on behalf of Afghanistan

In alignment with the respondent categories mentioned above, we considered three academic experts each of which held expertise on trade and commerce between Pakistan and Afghanistan, Pak Afghan relationship and peacebuilding. Furthermore, we considered two major businesspeople from Peshawar that are directly involved in handling imports and exports from and

to Afghanistan. In addition to this we took two families into account that belong to the tribal areas surrounding Gavi Post, Angoor Ada and Kharlachi posts. These posts are interlinked with the Afghanistan border thus the residents of these regions can provide us with a better understanding of the relationship between Pakistan and Afghanistan. With this regard, we also considered military personnel that have served in these posts to see how the borders are tackled when there is an uprising in conflicts in these regions. Finally, from the perspective of Afghanistan we also considered liaison officers that have worked with in Afghanistan and with Afghan authorities that are focused on rehabilitating trade and peacebuilding within the country.

4.6. Semi-Structured Interviews

After finalizing the respondent categories, the introductory calls were made to all the sampled participants to schedule an in-person meeting with them. In these meetings, a semi-structured interview was set up that would allow for the participant to discuss the subject of dyadic trade between Pakistan and Afghanistan and how it has affected the peacebuilding processes in both countries from their perspective. This would allow us to have the general understanding of the correlation between dyadic trade and peacebuilding and all the factors that play a contributing role in stagnating or building this relationship over the course of time. The interviews were then transcribed to conduct a thematic analysis.

4.7. Thematic Analysis

There are a number of instruments available to assess the negative relationship between dyadic conflict and dyadic trade patterns. To address the gaps in current literature, this research would focus on identifying themes within the participants' understanding and utilize qualitative with supplementary quantitative data to answer the aforementioned primary and secondary research questions. This would provide the researcher with scope for further investigation of the subject in question. Thus, the appropriate method for the synthesis of the data gathered, in the case of Pak Afghan Dyadic Trade and Peacebuilding, is a thematic analysis approach.

Braun & Clarke (2006) outline a series of phases through which researchers must pass to produce a thematic analysis. This procedure allows a clear demarcation of thematic analysis, providing researchers with a well-defined explanation of what it is and how it is conducted whilst maintaining the “flexibility” tied to its epistemological position.

A thematic analysis, as explained by Braun and Clarke (2006) is a process that is used for distinguishing and evaluating different patterns or themes within the data that has been gathered through the help of qualitative interviews. The themes that are identified help us in understanding the issue and its significance.

The framework used to conduct a thematic analysis is based on a six-step process. The steps are explained as follows:

1. Familiarize yourself with the data gathered
2. Generate initial codes
3. Search for themes within the data
4. Review and Reform the themes
5. Define the themes
6. Identify arguments within the themes and present them in your research

As mentioned earlier as well, a thematic analysis is a very board and flexible form of research where there is a lot of room for exposure and analysis. Following the steps required to conduct such an analysis, initially we need to familiarize ourselves with the data that has been gathered through the rigorous process of interviews. While going through the data, undoubtedly, we would come across similar ideas and patterns that would present themselves repeatedly. These similar ideas and patterns would guide is to formulate different codes that would help us in identifying different themes within the data. Normally there are many kinds of coding, but the most common types include deductive coding and inductive coding.

Deductive coding refers to a predefined set of codes that are taken from previous research that has been conducted or are interlinked with the themes that we intend to analyze from our research questions. These codes then further expand the concepts that we intend to explore through our research. Meanwhile inductive coding refers to the formation of codes based on the analysis of the gathered raw qualitative data(Thomas, 2006; Boyatzis, 1998; Ibrahim, 2012) Basically, as a researcher we analyze the data and then identify codes within the data that explain the theme that we intend to explore through our research. As far as the themes are concerned, primarily, themes are derived from a data set as an actively constructed model that assists in answering the research question at hand. They are more expansive and elaborate in nature, in comparison to codes. Similar

to coding, generating themes can also be done both deductively and inductively(Boyatzis, 1998; Braun & Clarke, 2006; Ibrahim, 2012).

In light of this, this thesis acknowledges the requirement to incorporate the individual experiences of the respondents along with the impact of the wider social context on the underlying meanings of the aforementioned experiences and opinions. Through the thematic analysis approach, this thesis aims to uncover the real impact that trade and its determinants have on the uprise of conflict and vice versa in the subject countries. The themes uncovered in this thesis are as follows:

1. Dyadic Trade
2. Cost of Conflict and Trade
3. Regional Connectivity
4. Informal Economy
5. Political Interaction and Peacebuilding

With the help of the thematic analysis, this thesis will be able to deduce whether Pakistan and Afghanistan would exhibit the least levels of conflict, if, in point of fact, they have an expansive mutual trade dependence. In other words, the stronger the mutual dependence is between the two countries, the greater would be the deterrent effect of trade on conflict. This research would further draw on different qualitative analysis tools to validate the notion that if there is an uprise in conflict, in either of the two subject countries, as a consequence, terms of trade would be deeply stimulated, thus adversely effecting both countries' economies. Simultaneously, on the other hand, if trade of goods between both the countries increases, then costs of an uprise in conflict and inter-state distress would increase, which subsequently promotes incentives for cooperation which could lead to Pak-Afghan peacebuilding.

Chapter 5: Pakistan – Afghanistan Dyadic Trade Case

5.1. Historical Background

Pakistan gained its independence in 1947 on the basis of the Islamic ideology. This ideology revolves around the notion of Muslim Ummah coming together with Pakistan as a symbol that represents the concept of Islamic solidarity on a universal scale, across the globe. In accordance with the statement given by the first Governor General of Pakistan, Muhammad Ali Jinnah, “Pakistan not only means freedom and independence but the Muslim Ideology which has to be preserved, which has come to us as precious gift and treasure and which we hope others will share with us. (*Ministry of Information and Broadcasting*, n.d.) One key aspect of the Islamic ideology is the sustenance of Muslim brotherhood (Zolner, 2008,). This indicates that it is, therefore, part of the mission which Pakistan has set before itself, to ensure the promotion of closer fellowship and fraternal cooperation between Muslim countries across the globe (A. S. Ahmed, 1989; Pattanaik, 1998). It was with this background that Pakistan, since its inception, pursued every step that could bring Muslim world closer at one platform. To make this a reality, one of Pakistan’s fundamental principles has been to establish brotherly relations with the Muslim countries.

Although Pakistan has relatively been successful in maintaining fraternal relations with majority of the other Muslim countries yet has failed to do so with Afghanistan. Even though Pakistan and Afghanistan are next door neighbors, yet the close proximity has proven to be rather harmful for both the subject countries. Instead of it being a binding strength for both the countries, the geographical location has acted rather negatively here. To explain the relationship between next door neighbors, Pakistan and Afghanistan, the statement by the former Viceroy of India, Lord Curzon, seems to be worth mentioning here, “frontiers are indeed the razor’s edge on which hang suspended the modern issues of war and peace, of life or death to nations.”

Since the time of independence of Pakistan, regrettably, Afghanistan has maintained an attitude of a hostile neighbor and Pakistan has had to make peace with it as next-door neighbors cannot be changed. The core issue behind the unsympathetic and indifferent attitude of Afghanistan towards Pakistan were the problems concerning the Durand Line and Pakhtoonistan¹. The basis of both

¹ Pakhtoonistan was a name given to the historical region, inhabited by the indigenous Pashtuns. This region now makes up the land of modern-day Afghanistan and Pakistan in Central and South Asia. This region is known for its

these issues was the ambition of Afghanistan to regain control of regions of, what is currently known as, Khyber-Pakhtunkhwa, and several other regions that used to be a part of Ahmad Shah Abdali's conquered territories (Usman & Khan, 2017).

Further expanding on the conceptualization of Pakhtoonistan, during the early 1940s, The Afghan government, at the time, asked Britain to allow for there to be an independent Pathan country that extends till the Indus, or for the people of NWFP to be provided with an independent Pathan state that would be termed as Pakhtoonistan when the British empire decides to leave India. (Durani & Khan, n.d.). Scholars elaborate on the rationale behind the formation of Pakhtoonistan and they put forth the idea that at the time, since India was being divided due to the differences between Hindus and Muslims, and Muslims were being given an independent Muslim state, meanwhile Hindus would have an independent Hindu state, therefore, by parity of reasoning; Pathans in the region have a right to call an independent land as their own.

However, the contradiction in the aforementioned claim of an independent Pakhtoon state lies in the fact that Pakistan's independence was not based on ethnic differences but, instead, it relies upon religious, cultural, historic, and economic factors. Regardless, upon consideration of the demand of the people residing in these areas, a referendum was taken. The results of the referendum were to decide the future of NWFP (known as Khyber Pakhtunkhwa now). These results revealed around 289244 votes in favor of Pakistan and 2874 against it which evidently demonstrated the desire of the residents of the region in absolute term. Not only this, people of the Tribal Agencies, as well, without exception, stated that they were part of Pakistan and wished to sustain and preserve the same relationship with the Government of Pakistan, as they did early on with the British Empire (Hamdani, 2009.; Ahmad et al., 2013).

Pakistan and Afghanistan, being neighboring countries have demonstrated their fair share of difficulties together. When Pakistan gained its independence in 1947, the only country that voted against Pakistan's admission into the United Nations was Afghanistan, due to their differences regarding the permanence of the Durand Line (Weinbaum, 2008; Rubin, 2006)². With this regard,

rich Pashtun culture, the Pashto language, and Pashtun national identity. For more info:
<https://heinonline.org/HOL/LandingPage?handle=hein.journals/wrldaf137&div=24&id=&page=>

² The Durand Line refers to the Pak Afghan border. It is a 2,670-kilometre international land border. The Durand Line border was established after the 1893 Durand Line Agreement between Mortimer Durand of colonial British

primarily, Afghanis claimed some of the major borderland Pashtun dominant territories (in Pakistan) as that of Afghanistan, in addition to which they also prepared separatist movements in the newly independent Pakistan to reclaim their lost land and persuade negotiations regarding the border such that they could shift the Pak-Afghan border further east to the Indus River(Gupta, 2019). These circumstances led to the emergence of rough ties between both the countries.



Figure 2: Pakistan and Afghanistan Geographical Location

Source: Alamy

India and Amir Abdur Rahman Khan of Afghanistan for fixing the limit of their respective spheres of influence. For more info: <https://www.tandfonline.com/doi/full/10.1080/03068370902871508>

5.2. Pak Afghan Relation Challenges

Pakistan and Afghanistan hold a rich history of misunderstandings and prejudiced actions which lead to expansive challenges along the way for Pakistan and Afghanistan to be on good terms with each other. There are multiple challenges in the contemporary world as well that present themselves in the face of Pakistan and Afghanistan. Some of these major challenges include the security, political, and economic transition processes that have started off in Afghanistan due to the unresolved end of their ongoing 13-year-long war, as the US has withdrawn its forces and have returned to their homeland. In conjunction with the establishment of a new political system, Afghan Taliban are taking on additional authority and control within the nation. Despite the progress made over the past ten years, Afghanistan currently, still faces issues on various fronts including its handicapped trading sector and thus has a long way to be stable politically and economically. This posits hindrance in peacebuilding processes in Afghanistan and the dyadic trade with Pakistan and thus implying, the international world, the global arena, and its neighboring countries especially Pakistan will have to deal with the spillover effect of the domestic Afghan circumstances, their political instability and current economic crisis.

Meanwhile on a historical perspective, the real and perceived violation of territorial land borders of the colonial era, in other words, inconsideration of Durand Line as a legitimate international border also presents itself as a challenge in the way of fruitful Pak Afghan relations. The impending sensitivity of the Durand line hinders the way to unlock the potential of trade and economic activity that would benefit the state and the communities that reside along the Durand Line as well.

Another key challenge is the influence of India in Afghanistan. Pakistan mostly sees its security interests in Afghanistan through the lens of its neighbor and regional foe India. To prevent a situation where India's influence could encompass Pakistan from its eastern to western borders, Pakistan's security interest is driven to tackle India's regional influence at the west border as well.

Finally, the larger geopolitical dynamics of the strategically crucial area, i.e., Pakistan and Afghanistan, have also been a major factor influencing Afghanistan-Pakistan ties throughout the years. The successive events of the cold war, proxy war, 9/11, and withdrawal of troops followed by the war on terror scarred the two nations and escalated the tension between the two. As a result, both nations have discovered methods for maximizing the benefits of outside interference. To maintain diplomatic relations between the two subject countries, international intervention has

been predominantly significant. Regarding this notion, we consider two of the major agreements that involved international actors to mitigate the tensions between Pakistan and Afghanistan, explained as follows:

5.2.1. Tehram Accord 1963

As mentioned earlier as well that since the time Pakistan attain its independence, there had been differences between Pakistan and Afghanistan on certain key issues. Considering the distaste of Afghanistan towards the newly formed state, Pakistan, in 1949, tensions rose, when Afghanistan's Loya Jirga's proclamation took place and a year after this, in 1950, hate speech for Pakistan was made in Kabul, and placards were flown by the Afghan air force indicating their hatred for Pakistan's emergence. Not only this, but Afghanistan also went into an agreement with India in 1954 to limit aid from America to Pakistan. Further intensification of tensions between Pakistan and Afghanistan took place when Pakistan joined CETO and SENTO. The aggravating tensions between both the countries caught the attention of the international actors like USA and USSR. Thus, as a reconciliatory measure, bilateral presidential visits were made in different years from 1955 till 1959. After the cold war, USSR and USA became even more involved in Afghanistan. Due to the involvement of the external agents, and the use of Afghan land as a platform for mutual rivalry, trade between both the countries was gravely influenced as consulates and trade offices in Quetta and Peshawar were closed. All these events led to the involvement of external actors to mediate the situation. The world leaders started reconciliatory meetings after seeing the aggravating tensions between Pakistan and Afghanistan. Tehran Accord is one the landmark events that contributed towards obtaining the goal of initiating diplomatic relations between both states. Iran played a key role in mitigating the situation and thus making Pakistan and Afghanistan to open up the border again and reinitiate trade.

5.2.2. Pak Afghan Peace Accord 1988

Afghanistan being under the occupation of the Soviet Union became heavily influenced by Moscow and the Red Cross, thus presenting itself as a security threat to Pakistan, Iran, and the Persian Gulf. This allowed for Pakistan to involve US within its territories and use its land to fight the war against their rival school of thought, communism. This ongoing war also gave rise to marginalization of various groups, and the formation of the Mujahedeen group, in Peshawar and its surrounding regions, to work as freedom fighters in the war in Afghanistan. The costs of war

were as high as \$60 million in 1981 and almost \$400 million by 1984. The increasing costs and the overall negative effects of war and rising tensions between Pakistan and Afghanistan all led to the signing of the Peace Accord known as the Islamabad Accord in 1988, in Geneva. The terms of this agreement are as follows:

1. The time for withdrawal of Russian forces was decided to be nine months with fifty percent of the forces to leave Afghan territory in the initial few months
2. There would be voluntary return of the Afghan refugees
3. Both the countries will maintain and sustain mutual diplomatic relations with each other
4. Suspension on arms deliveries for a year
5. Arms delivery to allies can be made if any of the powers disobey the one-year rule.

After understanding the difficulties of the political and regional dimensions of Pak Afghan relations, we now delve into the economic dimension and explore Pak Afghan trade relations in the next section.

5.2.3 Afghan Pak Transit Trade Agreement (APTTA)

Afghan-Pak Transit Trade Agreement is a memorandum of understanding (MoU), observed by the US Secretary of State at the time, Hillary Clinton. The agreement, signed between Minister Makhdoom Amin Fahim on behalf of the Commerce Ministry of Pakistan and Minister Anwar ul-Haq Ahady on behalf of the Afghan Ministry of Commerce, in 2010, allows trucks and other transporting vehicles to drive through Pakistan and move towards India through the Wagah Border(Ahmed, 2010)³. APTTA also allows for the trucks to pass through the port cities of Karachi and Gwadar. These trucks are responsible for the trade of fruits and other exportable of Afghanistan to India(Khan et al., n.d.-b). The primary goal of the APTTA agreement, however, was to improve trade between both the countries and thus as a result improve their bilateral connections. By 2011, APTTA proved to be highly efficient and functional which led to the United

³ Wagah Border: border between Pakistan and India that is located 24 kilometers (15 mi) from Lahore and 32 kilometers (20 mi) from Amritsar.

States and other NATO States to start considering the revival of the ancient Silk Road⁴ to reconnect South Asia with Central Asia and the Middle East. In addition to this, it would also assist the local economies of both Afghanistan and Pakistan(Ahmed, 2010; Khan et al., n.d.; Sachdeva,2010.).

Shortly after 2 years, both the countries came to the agreement of extending the APTTA to Tajikistan. This would be marked as a revolutionary step towards establishing a North-South Trade corridor in South Asia(Warikoo, 2016). By including Tajikistan in the APTTA, not only would the trade improve in both the countries, but the overall ties between Afghanistan and Pakistan would improve immensely. Tajikistan, proposedly being part of the APTTA, would then have access to Pakistan's ports and the Wagah Border for the trade of its goods and services, meanwhile Pakistan and Afghanistan would be granted rights to transport goods across the Tajik territory and into Kyrgyzstan and Uzbekistan(Ubaidulloev, 2014).

5.3. Pak Afghan Trade Relations

Unfortunately, Tajikistan could not be included within the APTTA as Afghanistan demanded for there to be open trade between India and Afghanistan through Pakistani territories. The Afghan government insisted on offering Indian goods the right to be exported to Afghanistan through Pakistan. This demand was in direct violation of the Article 5 and 52 of the signed agreement that specifically forbids the trade of Indian goods through Pakistan(Ahmed, 2010). This demand also puts Pakistan at risk of attack on behalf of India as it would allow for Indian trade vehicles to have unrestricted access into Pakistan. Eventually, by 2017, the APTTA agreement was further weakened as the President of Afghanistan Ashraf Ghani issued a decree banning Pakistani trucks from entering the country via the Torkham and Spin Boldak border crossings("Afghan President Bans Pakistani Trucks from Entering Afghanistan - Pakistan", n.d.; Khuhro, 2021). According to the FBR directorate General of Transit Trade, Pakistan, in the span of the last 10 years, 832,819 ATT containers, carrying goods worth \$33 billion, passed through Pakistan. By 2021, there were major disagreements from both the sides regarding the clauses of the agreement thus the Ministry of Commerce of Pakistan and that of Afghanistan proposed for there to be revisions made in the agreement and for the agreement to be extended 6 months ahead of its original date of expiration i.e., by May 2021("Signing of the 6th Protocol to Extend the APTTA Agreement for Six

⁴ The Silk Road was an ancient trade route that linked the Western world with the Middle East and Asia. It was a major conduit for trade between the Roman Empire and China and later between medieval European kingdoms and China.

Months",2021). Further tensions in both the countries led to additional hindrances in the transit trade between Pakistan and Afghanistan.

Although Pakistan and Afghanistan could not include Tajikistan within the APTTA, but, regardless, another agreement, called as the Preferential Trade Agreement (PTA), was being negotiated and recently has been signed on March 3rd, 2022, with Uzbekistan. Alongside this, Pakistan has also established Joint Working Groups (JWGs) on Trade with Uzbekistan, Kazakhstan, Tajikistan, Azerbaijan, and Turkmenistan that entail the same objective of ensuring the regional connectivity of the Central Asian countries. These agreements allow for the aforementioned member states to access the preferential goods in the market of their respective country without trade barriers and thus become a large contributor to the mutual growth of the economy of the South Asian and Central Asian region. ("Establishment of Strategic Partnership between the Republic of Tajikistan and the Islamic Republic of Pakistan" – Ministry of Foreign Affairs, 2022.; "Pakistan, Uzbekistan to Sign PTA",2022). This indicates the potential for trade within this region is remarkably high, thus aggravating the significance of a stable Pak Afghan trade relationship as well. With this regard, the trade between Pakistan and Afghanistan during the past two decades shows a pattern of significant potential growth, by going from \$0.83 billion in FY06 to \$2.1 billion in FY13 (Husain and Elahi,2015). As of the 13th fiscal year, Pakistan accounted for the highest mark of imports of commodities from Afghanistan. However, since 2013, there has been a significant drop in the overall trade value of goods between Pakistan and Afghanistan. Further details on this are mentioned in the next chapter as well.

5.4. Role of Pakistan and Afghanistan in Global Free Trade Agreements

There are numerous free trade agreements signed by both Pakistan and Afghanistan to promote productivity, economic activity, and trade within and between the respective countries. In relation to this, in this section we will discuss the role of Pak Afghan trading and its potential in reference to the FTAs presented by SAARC and potential of trade and transit with Afghanistan under China Pakistan Economic Corridor (CPEC).

The economic and political regional organization, South Asian Association of Regional Cooperation, or more commonly known as SAARC, was established in 1985 as a multilateral association that works to promote regional social connectivity, economic stability, and trade between the 8 member states, initially including Bangladesh, Bhutan, India, Maldives, Nepal,

Pakistan, and Sri Lanka but since 2007 now includes Afghanistan as well(Dubey, 2007). This association holds the potential to unlock the regional peace and connectivity that promotes trade across all member states including Pakistan and Afghanistan. This implies SAARC also plays a role in sustaining Pak Afghan trade. In alignment with this notion, the preferential trade agreements between SAARC members have the potential to increase both national and SAARC economic resilience and thus stimulate economic growth of the national economies of the member states(Ali & Talukder, 2009; Amjad et al., 2004; Hassan, 2001, 2022). It could further help in enhancing trade, foreign exchange revenues, and could also open up possibilities for investment and production as well as the advancement of economic and technical cooperation between next door neighbors like Pakistan and Afghanistan. Another dimension to consider here is the establishment and improvement in trade value between Pakistan and Afghanistan through the free flow of commodities thus setting the trajectory to achieve regional harmony.

Concerning the subject of SAARC and its role in promoting Pak Afghan Trade, one of the most significant and major achievements of this association is the joint approval of the South Asian Free Trade Area (SAFTA) agreement that was signed at the 12th summit of SAARC in Islamabad on 6 January 2004. The agreement in action forces the launch of the South Asian Free Trade Area aimed to be completed by 2016 that encompasses the customs duty reduction (2006) under the action of article 7; tariff reduction modality that refers to bringing down custom tariff by 20% by the member states to ensure the success of 1st phase Trade Liberalization Program (TLP) by January 2008(“Agreement on South Asian Free Trade Area,” n.d.; Hossain, 2018; Rahman et al., n.d.; Weerakoon and Thennakoon, 2006). With this regard, the President of SAARC-CCI on behalf of Pakistan as well believes that the two nations, Pakistan, and Afghanistan, being members of such regional associations and following through with various free trade agreements such as SAFTA provide grounds to gain symmetrical momentum to unlock the potential of trading that’s worth billions of dollars through mutual cooperation.

On the other hand, if we take China Pakistan Economic Corridor into account, it is considered as a flagship project that could prove to present landmark economic successes and prosperity for not only China and Pakistan, but also, for Central Asian states, particularly Afghanistan. CPEC could open up potential transit routes and thus promote trade within the region which could prove to be beneficial for both Pakistan and Afghanistan. However an interesting school of thought to be

considered here is that scholars believe that the security circumstances, political instability and potential of uprising of conflicts in Afghanistan and or Pakistan could jeopardize the potential prospects of CPEC and thus could hurt trade in the region in the long run as well (Abid & Ashfaq, n.d.; Amir, 2016; Arif, 2018; F. Hussain et al., 2021; M. Hussain, 2016)

5.5. Pak Afghan Exports

There are several goods being exported and imported between Pakistan and Afghanistan annually. Some of these goods include rice, fruits and vegetables, organic surface-active agents, and cement etc. Accordingly, Afghanistan's export to Pakistan as of 2020 was around 492 million dollars. This includes the main products like cotton which was worth a trade of 114 million dollars, grapes worth 57.1 million dollars, and vegetables coupled with leguminous seeds worth 56.9 million dollars explicitly. There is a significant increase in the annual rate of exports from Afghanistan to Pakistan in past seventeen years (2003 to 2020) from 29.9 million dollars to 492 million dollars ("Pakistan (PAK) and Afghanistan (AFG) Trade" | OEC,2022)

However, the exports of Pakistan to Afghanistan were merely around 870 million dollars in the year 2020. This indicates that Pakistan does not capitalize the potential for export of goods into Afghanistan to expand its trade balance. Within these exports, the main products that were traded were rice for 146 million dollars, cement, and related cement types for 71.2 million dollars and medicaments-related goods for 63.1 million dollars. The past seventeen years from 2003 to 2020 are marked by the annual increase in the export rate of 4.55% from 408 to 870 million dollars ("Pakistan (PAK) and Afghanistan (AFG) Trade"-OEC,2022).

Export of goods and services is directly associated with the economic growth of the country. To measure that in quantifiable terms, scholars make use of the Economic Complexity Index (Mealy et al., 2019). As of 2020, Afghanistan has been ranked 109 on the ECI (Economic Complexity Index), meanwhile Pakistan is on the 93rd rank. Simultaneously, in terms of total exports, with total export of \$1.76B, Afghanistan ranked 140, in contrast to which Pakistan was ranked 65 with total export of \$25.5B, in the entire world ("Pakistan (PAK) and Afghanistan (AFG) Trade"-OEC,2022).

Chapter 6: Quantitative Data Analysis

In this chapter , numerous trade trends are observed for both Pakistan and Afghanistan coupled with the chronological presence of conflict and terrorism within these countries during the specified time periods. This would widen the scope of this thesis into understanding the pre-existing economic trends and supposed interrelationship between Pak Afghan Dyadic Trade and peacebuilding processes such as improvement of trade balance and the overall promotion of national output.

6.1. Balance of Trade of Pakistan

Pakistan's balance of trade (in Million Rupees) has been a subject of rapid decline in the last 10 years. As shown in the figure below, Trade Balance for Pakistan for the initial years was constant until eventually it started to decline immensely in the late 2000s. During this period, there were massive geopolitical tensions in Pakistan and severe spillover effects of the events of 9/11 as well. Tariffs and taxes that were induced on the exportable goods of Pakistan also contributed towards the negative Trade balance. Over and above this, the trade balance remained persistent to its fall till the year 2018. The negative trade balance, particularly the negative sign in the figure below, indicates that trade deficit of Pakistan has gradually increased over the years. The rising trade deficit is an indicator of a defaulting economy. There are multiple factors that contribute towards the decline in the trade balance of Pakistan. Some of these factors includes the infant domestic industries in Pakistan that function through the subsidies provided by the Government. In addition to this the current depreciation of the Pakistani rupees in the international market and the overall increase in the domestic consumption of imported goods also play a major contributing role in stagnating the growth of trade of Pakistan.



Figure 2: Balance of Trade of Pakistan (Million Rupees)

Source: Pakistan Bureau of Statistics

To expand our understanding of trade balance of Pakistan on an internal scope, we also consider the trade balance in billion US\$ so that we are able to analyze the state of trade of Pakistan in the international market. As shown in the figure below, similar trend is observed as trade balance has been deteriorating for Pakistan in the past 20 years. As of 2020, Pakistan's trade balance recorded was \$-18.60 billion, which is a 34.45% decline from 2019 where Pakistan's trade balance was recorded to be \$-28.38 billion.

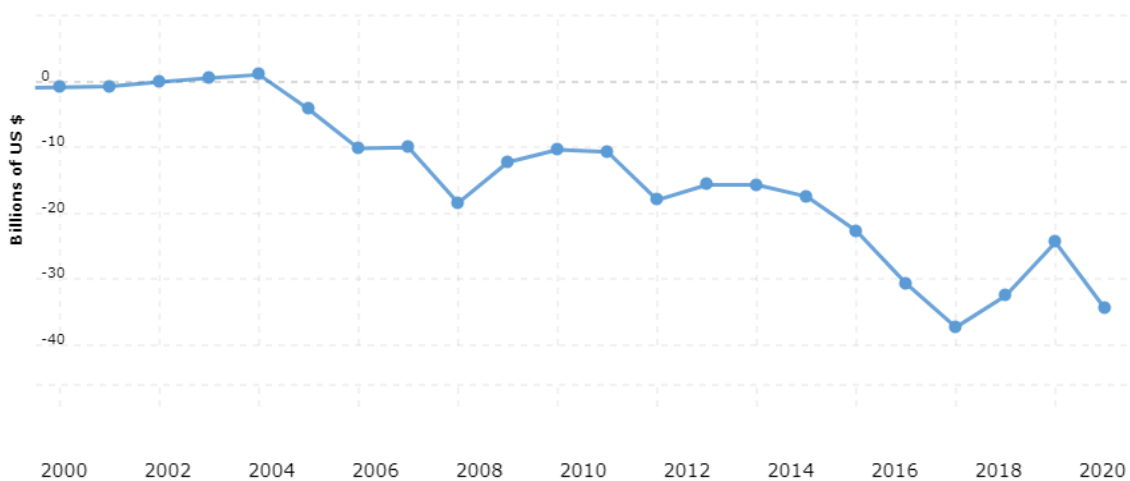


Figure 3: Balance of Trade of Pakistan (Billions of US\$)

Source: World Bank Database

6.2. Balance of Trade of Afghanistan

Afghanistan's balance of trade has declined over the last 10 years due to a rise in its imports indicating a similar trend in its trade balance as that of Pakistan. The trend for Afghanistan's trade balance is shown in the figure below. Similar to Pakistan, there is a sharp decline in the trade balance of the country between 2007 till 2013. This time period also includes major political and dynamic shifts in Afghanistan due to the spill-over effects of 9/11 and the emergence of the Taliban regime.

Afghanistan's major export market lies within Pakistan with 48% of total exports and 14% of total imports but due to the tensions between both the countries, sanctions on the traded items, closing of borders and overall geopolitical tensions, the trade between both the countries has suffered immensely. Besides Pakistan, Afghanistan's main trading partners are Russia (9 percent of exports and 13 percent of imports), Iran, China, India, Japan, and Turkey. Afghanistan observed its highest trade deficit with a record of -6.44 billion U.S. dollars recently. Scholars believe that the major reasons behind the decline in trade balance of Afghanistan is the presence of lower tariffs, destabilized political environment and low productivity levels.



Figure 4: Afghanistan Balance of Trade

Source: Central Statistics Organization of Afghanistan

6.3. National Output and GDP Growth

As mentioned earlier as well that imbalances in trade and rise of conflicts tend to have an impact on the economy of the country as importing and exporting of goods greatly contributes towards the national output. By understanding the trend of GDP growth over the years, we are able to encapsulate the opportunities and challenges for peacebuilding in both the countries. Considering the GDP growth rate of Afghanistan, as seen in the figure below, it has been fluctuating immensely in the past 20 years. The sharpest decline in GDP growth is observed during 2009-11, which is followed by a sparse incline, inevitably resorting back to a declining trend in the current times. The declining trade balance contributes highly towards this sharp decline. In addition to this, the political unrest and uprising of conflicts during these time periods also play a major supporting role.

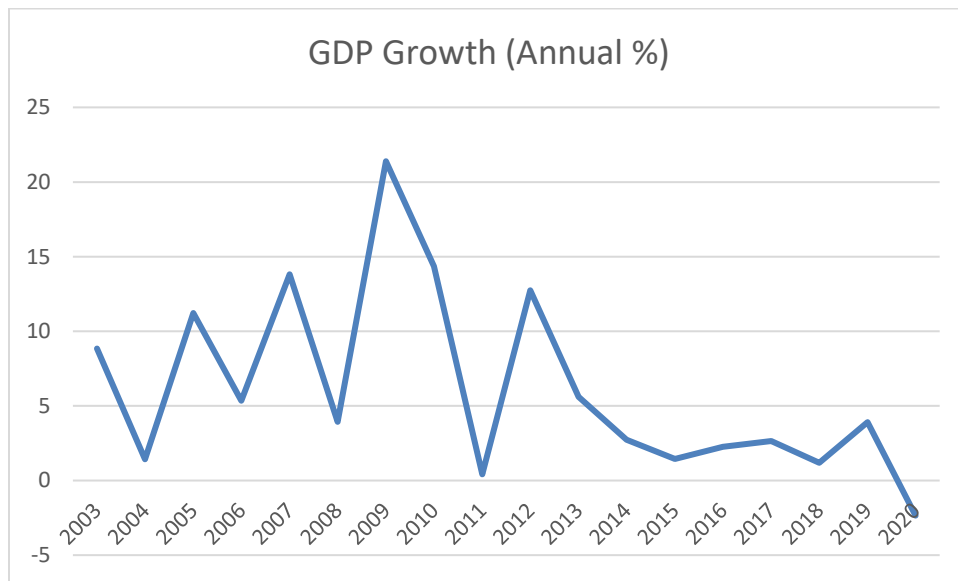


Figure 5: Afghanistan GDP Growth Rate (Annual %)

Source: Author

Similar case is observed in the case of Pakistan as well, as shown in the figure below. There are multiple reasons as elaborated in the literature and scholars regarding the decline in GDP growth and the overall national output of Pakistan. One school of thought presents the idea that due to lack of efficient utilization of industries within Pakistan, there is slow growth in the gross domestic product. Another school of thought agrees on the notion that since Pakistan has been a subject to war against terror and has had an entire decade dedicated towards promotion of its security

measures and defending itself across all fronts, thus there is a negligence observed in terms of economic growth.

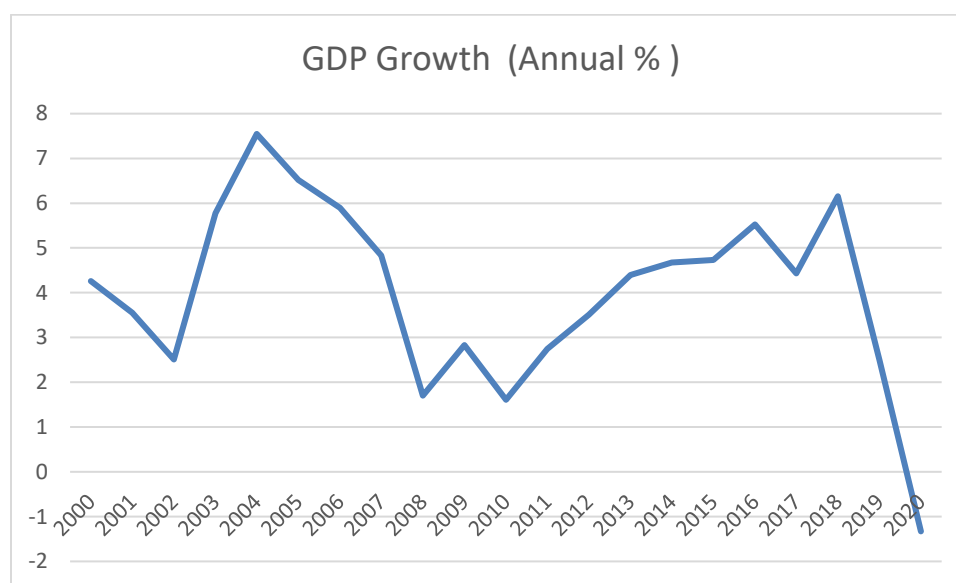


Figure 6: Pakistan GDP Growth Rate (Annual %)

Source: Author

6.4. Cost of Conflict and Terrorism

Alongside trade balance, the uprise of conflict is another major factor that is taken into consideration in this paper. To administer the correlation between both conflict prevalence and dyadic trade between Pakistan and Afghanistan, we first need to administer the trend of uprise of conflict and terrorism in both Pakistan and Afghanistan. According to the Global Peace Index, released each year by the Institute for Economics and Peace, Afghanistan is ranked as one of the most hostile countries in the world with an index score of 3.631 as of 2021. Meanwhile, Pakistan, is doing only slightly better than Afghanistan, with an index score of 2.868. The Global Peace Index (GPI) takes multiple factors into account when administering a country's rank. Some of these factors include militarization, safety and security of civilians, marginalization and separatist movements, domestic uproar of conflicts and international conflicts etc. Out of the total 163 countries that are examined for this index, Pakistan ranks at 150 meanwhile Afghanistan is at 151 which indicates that both these countries suffer greatly at the front of peacebuilding and

maintenance of a secure and sustainable environment that inhibits economic growth and prosperity.

Further highlighting the prevalence of conflicts within both Pakistan and Afghanistan, we look towards the frequency of terrorist attacks that have taken place in the past 50 years. Terrorism can be defined here as the utilization of illegal force, threat, fear, intimidation and violence, by a non-state actor residing within the country or outside, to achieve and fulfill their political, social, economic and or religious goals(Ruby,2002; Schmid,2011). In the case of Pakistan, there is an uprise in the number of terrorist attacks after 2000, as shown in the figure below. This period holds significant political importance as this rise in terrorist attacks could be interlinked with the effects of 9/11 along with the emergence of numerous non-state actors such as the Taliban groups that were actively involved in violent actions within Pakistan. After 2010, Pakistan’s government and military institutions contributed actively towards the war against terrorism and thus launched numerous operations to rid Pakistan of these hostilities. As a result of this, we observe a decline in the number of terrorist attacks after 2010.

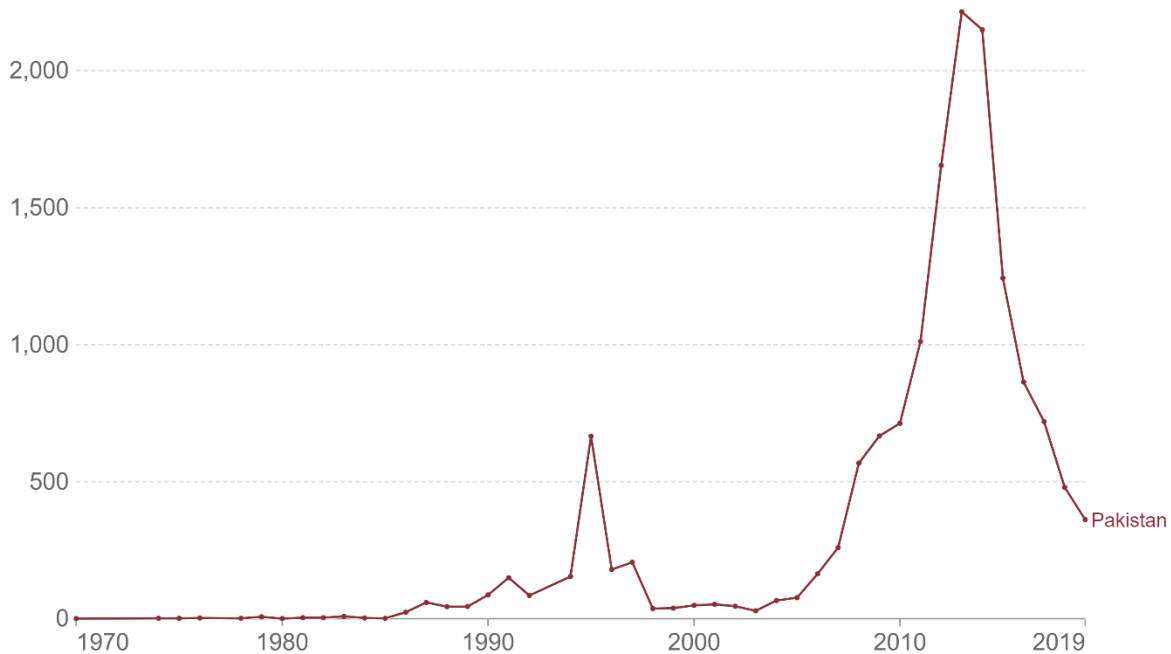


Figure 7: Number of Terrorist Attacks – Pakistan

Source: Global Terrorism Database

On the other hand, unfortunately Afghanistan was faced with an opposite trajectory in terms of the prevalence of terrorist attacks within their borders. As shown in the figure below, there is a sharp increase in the number of terrorist attacks since 2000. In the current times as well, there is still observation of hostilities and aggressive actions by the non-state actors operational within Afghanistan. Afghanistan has been a subject of massive wars over the course of time, along with which, it has also faced political instability and involvement of internal actors on a wide scale. Due to these reasons, the prevalence of terrorist attacks and conflict uproar is stagnantly increasing over time and the environment within the country does not support sustainable peacebuilding.

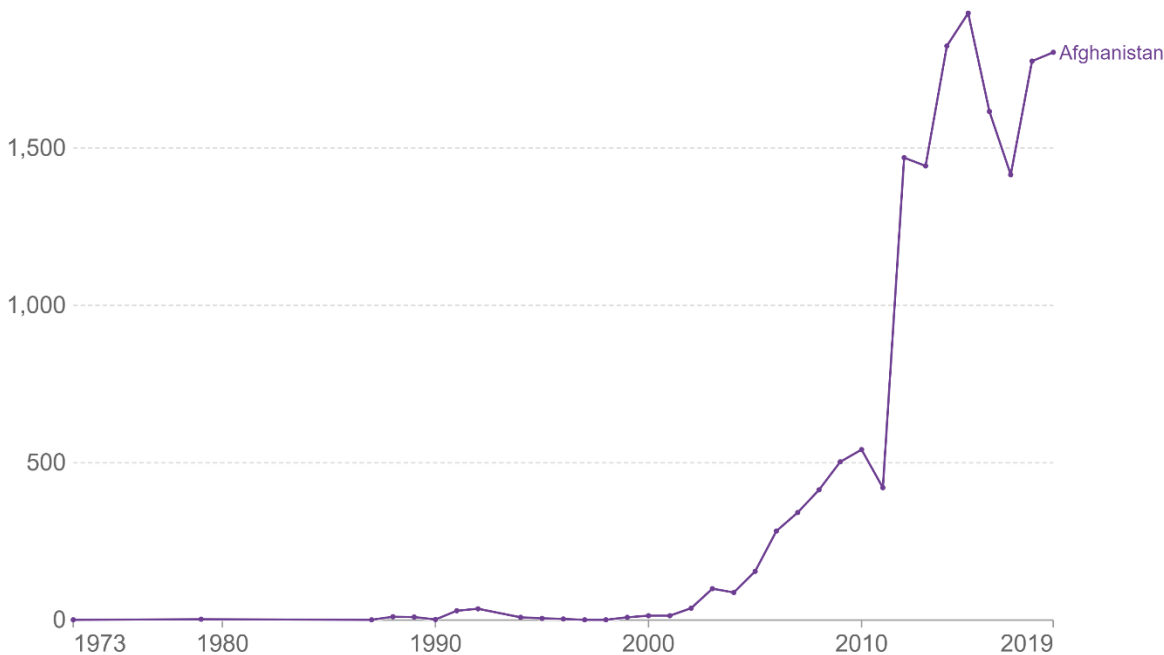


Figure 8: Number of Terrorist Attacks - Afghanistan

Source: Global Terrorism Database

The purpose of the thesis at hand is to understand the interrelationship between dyadic trade and the uprise of conflict and war in Pakistan and Afghanistan. To attain this purpose, we need to understand the numerous dimensions of costs of conflict and war. The one apparent cost of conflict and war is the loss of human life. According to the Global Bureau of Disease, the annual number of deaths per 100,000 residents of all ages and both sexes, due to conflict and terrorism has reached its peak in the early 2000s. This trend is also presented in the figure below. It has been observed

only in recent times that there is a decline in the loss of human life due to the success of Pakistani government and military in taking control of the widespread terrorism and domestic conflicts in sight.

Meanwhile, Afghanistan shows a rather interesting trend in terms of the loss of human life with respect to terrorism and conflict. Since Afghanistan has been a subject of internal conflicts and external wars for a prolonged period of time, thus the fatality rate is quite unstable as shown in the figure below as well. This indicates Afghanistan exhibits an environment where the likelihood of an uprise of conflict is highly probable.

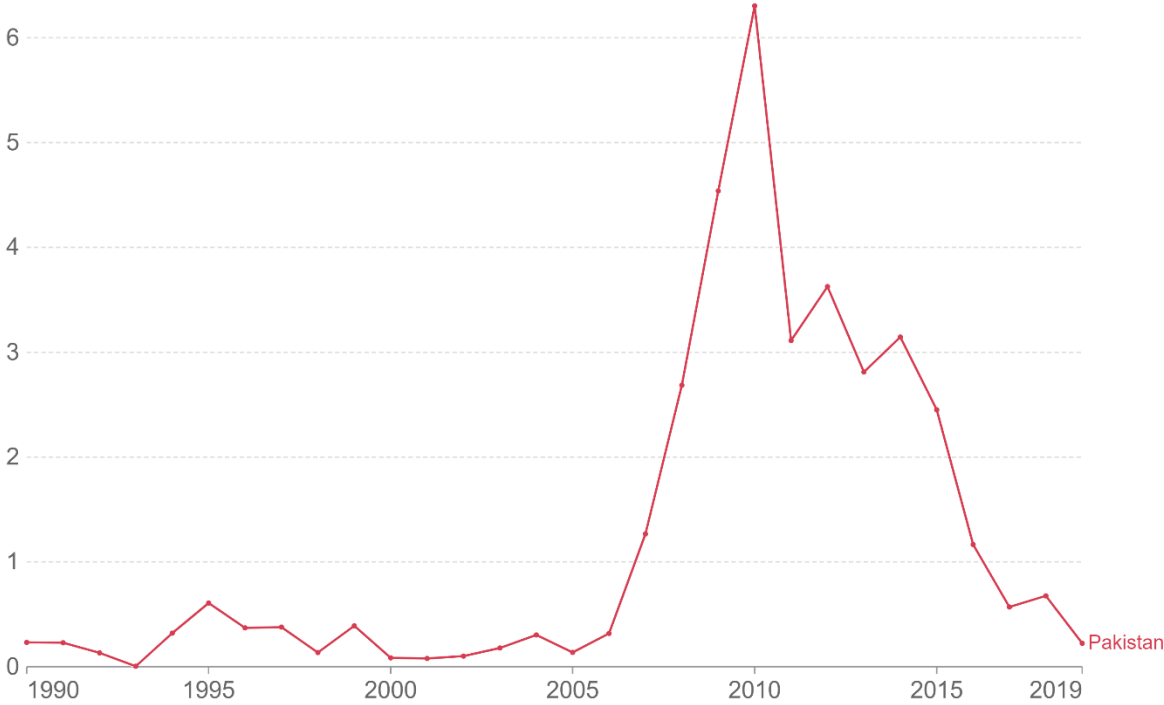


Figure 9: Death Rate from Conflict and Terrorism - Pakistan

Source: Global Burden of Disease

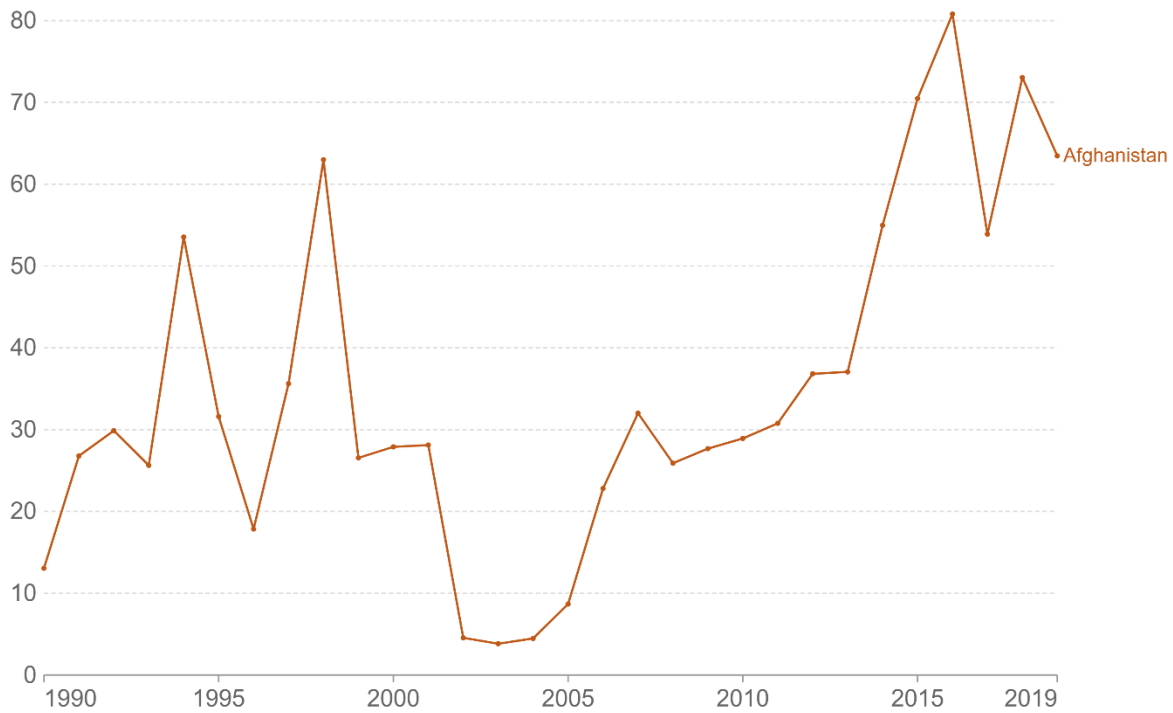


Figure 10: Death Rate from Conflict and Terrorism - Afghanistan

Source: Global Burden of Disease

To put things in perspective, if we consider terrorism and conflicts as a share of total deaths in the past couple of decades, we observe a rising trend in the case of Afghanistan and a declining trend in the case of Pakistan. Since Afghanistan is a major trading partner and next-door

neighbor, the spillover effect is duty bound to take place and thus adversely affect Pakistan.

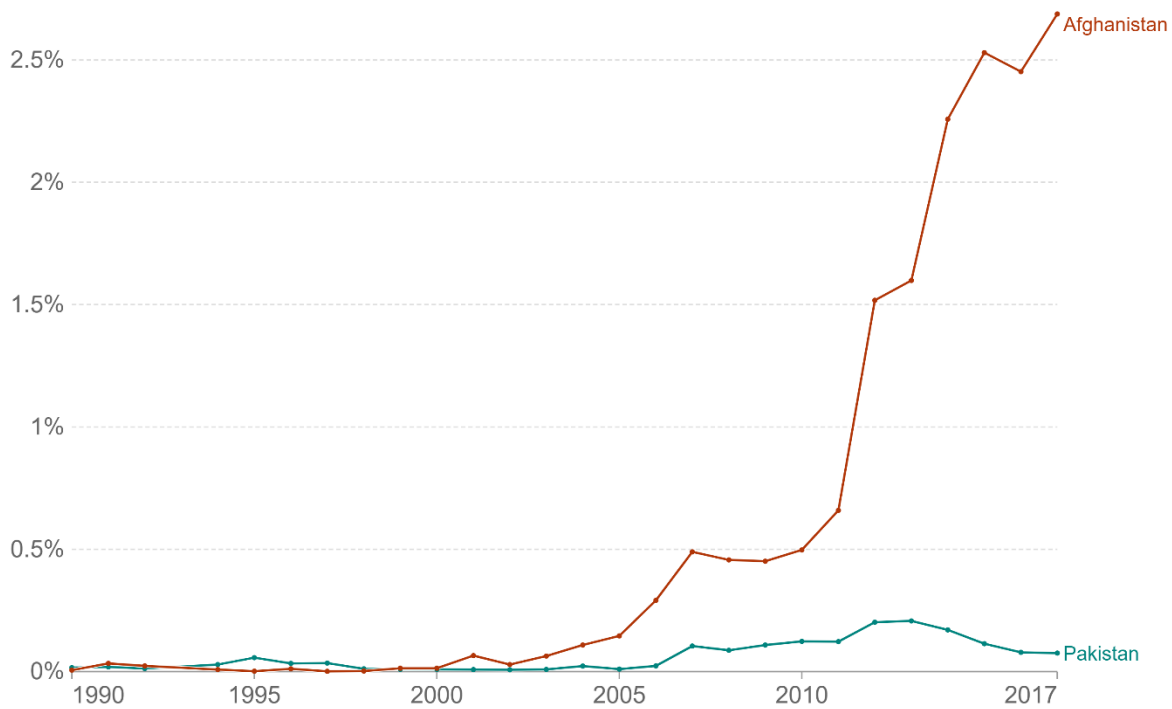


Figure 11: Terrorism as a share of Death in Pakistan and Afghanistan

Source: IHME and GTD

Another significant cost of conflict discussed in this paper is the opportunity cost of conflict. Economists widely use the concept of opportunity cost to explain the rational decision-making process of a reasonable individual. The concept of opportunity cost was first presented by Professor Friedrich von Wieser, and he elaborated how in the process of doing something, an individual must let go of its alternative option at the time. For example, if an individual decides to study in the afternoon, they are letting go of the alternative option of going to sleep or going out for a walk etc.(Buchanan, 1991; Riera-Prunera, 2014). Primarily what this indicates is that due to scarcity of any kind of resource, there is always an opportunity cost of a decision that is made. In peace dynamics, if we consider security and development of a state simultaneously, by prioritizing state security and defense, we are letting the development of the state go as an opportunity cost. With this regard, we consider the progress of Pakistan and Afghanistan in terms of their human development through the Human Development Index reported by the United Nations Development Program (UNDP). The figure below indicates the trend for the Human Development Indicators for

the past 20 years for both Pakistan and Afghanistan. Evidently, there has been an improvement in the HDI for both the countries in the past 10 years after having to face terrorism head on the years prior to that. This indicates that the industries have potential to induce a better standard of living for the people of the respective countries. In relation to this, it should be highlighted that scholars believe that trade openness leads to economic progress of a country by ensuring a higher HDI as well (Jawaid and Waheed, 2017; Eusufzai, 1996). Thus, implying that improvements in trade between two countries could result in higher opportunity cost of conflict thus reverting them away from war and terror and instead pushing these countries towards economic productivity and improved trade and commerce.

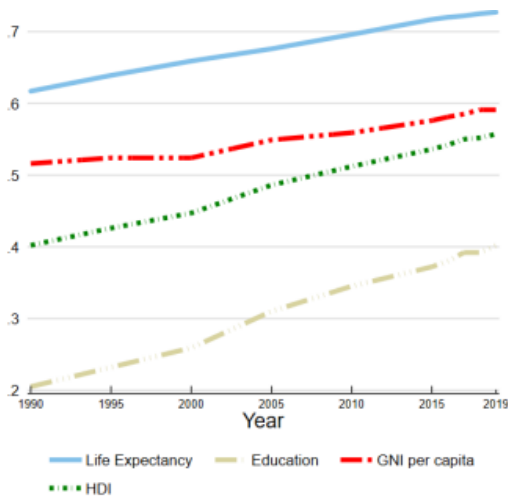


Figure 12: HDI – Pakistan

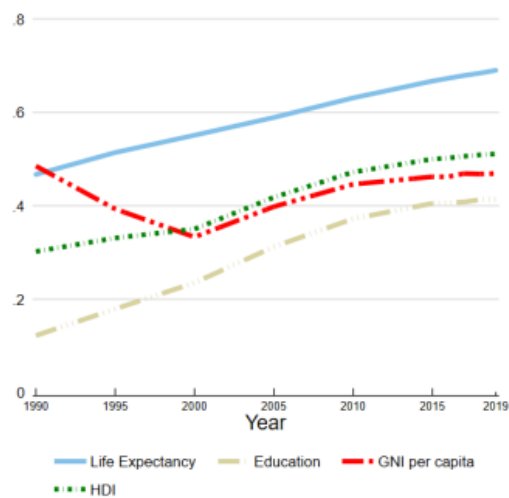


Figure 13: HDI - Afghanistan

6.5. Pak Afghan Trade Value

Considering openness in trade and improvement in the trade balance of the subject countries, it is equally important to understand the terms of trade and the trade relationship that exists between Pakistan and Afghanistan.

Afghanistan’s total reported exports are currently equivalent to only 5 percent of total imports, with exports amounting to \$363.70 million in FY13.3 Pakistan is the largest export destination,

accounting for 32.2 percent of all Afghan exports; even without direct transit access, India forms the second-largest destination for Afghan exports, at 27 percent of the total.

The economies of both Pakistan and Afghanistan have benefitted greatly on behalf of the trade of goods and services between both the countries. Pakistan is Afghanistan's largest trading partner meanwhile Afghanistan is Pakistan's second-largest export market. In 2020, Afghanistan exported \$492M worth of goods to Pakistan meanwhile Pakistan exported \$870M. The major exported goods by Pakistan included Rice (\$146M), Cement (\$71.2M), and Packaged Medicaments (\$63.1M). On the other hand, the main products exported from Afghanistan to Pakistan were Raw Cotton (\$114M), Grapes (\$57.1M), and Dried Legumes (\$56.9M). During the last 17 years the exports of Afghanistan to Pakistan have increased at an annualized rate of 17.9%, from \$29.9M in 2003 to \$492M in 2020, meanwhile, the exports of Pakistan to Afghanistan have only increased at an annualized rate of 4.55%, from \$408M in 2003 to \$870M in 2020. To understand the overall dynamic of trade between these two countries, figure below shows the overall trade value of these aforementioned goods between Pakistan and Afghanistan.

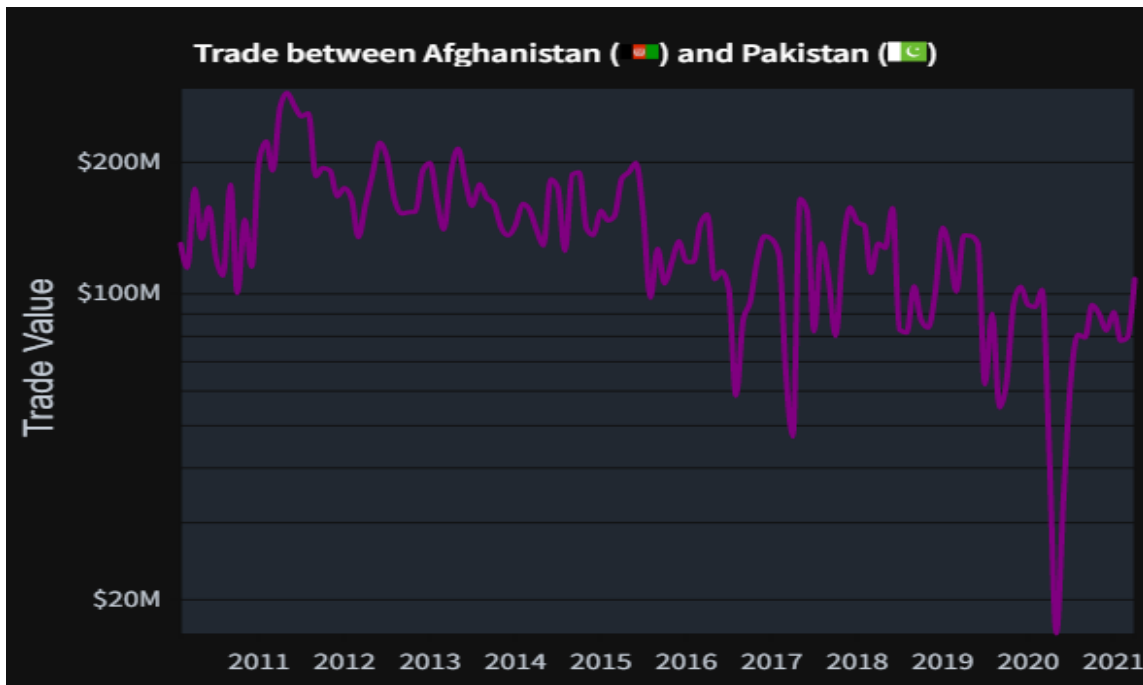


Figure 14: Pak Afghan Trade Value (2011-2021)

Source: OECF

There have been major fluctuations in the overall trade value between both the countries in the past 10 years. The share of Pakistan's supplies in Afghan imports has declined since 2011 due to multiple reasons as elaborated earlier as well, such as, political instability, withdrawal of international forces and aid, lack of security, custom delays and widespread domestic conflicts and terrorism within Pakistan and Afghanistan. Another prime reason behind this fall is the prevalence of illicit trading in the borderland areas as well.

6.6. Illicit Trading and Conflict Likelihood

As mentioned in the previous section that The Durand Line's permanency has been observed as a threat for the tribal residents and traders of the borderland areas. In alignment with this, there has been prevalence of illicit trading of goods and services between Pakistan and Afghanistan. Studies suggest that goods like cigarettes, narcotics and even arms and ammunition have been smuggled from Afghanistan into Pakistan. Not only this, the goods that have high tariffs imposed on them are also exported to Pakistan by Afghanistan through the APTTA, resulting in major tax evasions causing a huge loss to the economy of Pakistan. This handicaps the domestic markets as well causing the industries to default on themselves within the country. However, grass is not all green on the other side of the border either, as scholars have presented that Afghan traders tend to criticize Pakistani traders for selling back Afghan-origin products at higher prices thus forcing Afghani traders to pay custom duties on their own goods. This results in major misunderstandings and an environment that inhibits conflict.

In addition to this, the illicit trading also gives rise to formation of illicit economies within the country. By illicit economy, we refer to the buying and selling of goods and services through illegal channels that allows for no proper record keeping of the money. It also includes inhibiting buying and selling of drugs, arms, and ammunition that later on facilitate non-state actors in aggravating conflicts in the region.

To keep the situation under control on the borderland areas with regards to illicit trading, strictness on the border is imposed which then further results in resistance from the Afghan side as it makes the process of transporting goods across the border more tedious and hectic in nature. It also creates a gap between the traders on both sides of the border thus deterioration the trust of the people of both the countries.

6.7. Pak Afghan Dyadic Trade and Conflict – Simple Linear Regression Analysis

This section of the chapter covers the Simple linear regression analysis results for both Pakistan and Afghanistan

6.7.1. Afghanistan - Regression Analysis

The null and alternate hypothesis for the simple linear regression for Afghanistan is as follows:

Ho: There exists no negative relationship between uprising of conflict and trade in Afghanistan

H1: There exists a negative relationship between uprising of conflict and trade in Afghanistan

The equation for the regression analysis is as follows:

$$NETF_{afg} = \alpha_0 + \alpha_1 TB_{afg} + \varepsilon$$

Here,

NETF = net uprising of conflict of Afghanistan

TB = Trade Balance of Afghanistan

ε = a random error term assumed normally distributed with mean zero.

The regression results in the case of Afghanistan indicate that the independent variable, trade balance, explains 85.2% of the variability of the dependent variable, conflict uprising (represented by terrorist incidents), in the population. Adjusted R^2 is also an estimate of the effect size, which at 0.8472 (84.7%), is indicative of a significant effect size, according to Cohen's (1988) classification. However, normally it is R^2 not the adjusted R^2 that is reported in results. In this case the regression model is statistically significant as the p value is equal to 0. P-value is the smallest piece of evidence required to reject the null hypothesis of the thesis. It also tells the significance of the variable. Since the p-value is less than 0.005 so we reject the null hypothesis and conclude that there exists a negative relationship between uprising of conflict and trade balance of the country. This indicates that the overall model applied can statistically significantly predict the dependent

variable i.e., the uprise of conflict. The negative sign of the coefficient indicates the direction of the relationship as well.

| | | | | | | |
|----------|------------|----|------------|---------------|---|--------|
| Source | SS | df | MS | Number of obs | = | 29 |
| | | | | F(1, 27) | = | 156.23 |
| Model | 12191169.8 | 1 | 12191169.8 | Prob > F | = | 0.0000 |
| Residual | 2106840.98 | 27 | 78031.1474 | R-squared | = | 0.8526 |
| | | | | Adj R-squared | = | 0.8472 |
| Total | 14298010.8 | 28 | 510643.244 | Root MSE | = | 279.34 |

| terrorist_~s | Coef. | Std. Err. | t | P> t | [95% Conf. Interval] | |
|--------------|-----------|-----------|--------|-------|----------------------|-----------|
| TradeBalance | -.8093229 | .064749 | -12.50 | 0.000 | -.9421769 | -.6764689 |
| _cons | -195.1381 | 79.72619 | -2.45 | 0.021 | -358.7227 | -31.55343 |

Table 1: Afghanistan Regression Analysis Results

6.7.2. Pakistan - Regression Analysis

The hypothesis for the simple linear regression for Pakistan is as follows:

Ho: There exists no negative relationship between uprise of conflict and trade in Pakistan

H1: There exists a negative relationship between uprise of conflict and trade in Pakistan

The equation for the regression analysis is as follows:

$$NETF_{Pak} = \alpha_0 + \alpha_1 TB_{Pak} + \varepsilon$$

Here,

NETF = net uprise of conflict of Pakistan

TB = Trade Balance of Pakistan

ε = a random error term assumed normally distributed with mean zero.

In the case of Pakistan, the independent variable, trade balance, explain 26.2% of the variability of the dependent variable, conflict uprising, in the population. The regression model is statistically significant as the p value is equal to 0.005. P-value is the smallest piece of evidence required to reject the null hypothesis of the thesis. It also tells the significance of the variable. Since the p-value is less than or equal to 0.005 so we reject the null hypothesis and conclude that there exists a negative relationship between uprising of conflict and trade balance of the country. This indicates that the model can predict the dependent variable. The negative sign indicates the direction of the relationship between the two variables. The linear regression established that the changes in trade balance could statistically significantly predict any uprising in conflict in the country.

| | | | | | | |
|----------|------------|----|------------|---------------|---|--------|
| Source | SS | df | MS | Number of obs | = | 29 |
| | | | | F(1, 27) | = | 9.59 |
| Model | 2796312.57 | 1 | 2796312.57 | Prob > F | = | 0.0045 |
| Residual | 7875729.29 | 27 | 291693.677 | R-squared | = | 0.2620 |
| | | | | Adj R-squared | = | 0.2347 |
| Total | 10672041.9 | 28 | 381144.352 | Root MSE | = | 540.09 |

| TerroristI~t | Coef. | Std. Err. | t | P> t | [95% Conf. Interval] | |
|--------------|-----------|-----------|-------|-------|----------------------|-----------|
| TradeBalance | -2.48e-07 | 8.00e-08 | -3.10 | 0.005 | -4.12e-07 | -8.35e-08 |
| _cons | 256.456 | 130.9324 | 1.96 | 0.061 | -12.19506 | 525.1071 |

Table 2: Pakistan Regression Analysis Results

Chapter 7: Qualitative Thematic Analysis

This chapter presents the narrative of the themes that were extracted through the qualitative data gathered with the help of the semi-structured interviews. The in-depth semi-structured interviews with each respondent category were focused on understanding the significance of Pak-Afghan dyadic trade along with the analysis of the geoeconomic and political significance of trade of both countries with respect to their peacebuilding measures. Each theme is elaborated through the lens of the military to understand the perspective associated with security and terrorism, the underpinnings from the ministry of Trade and Commerce Pakistan, the perspective of the local residents of the borderland areas and the liaison officers that have worked with in Afghanistan holding responsibilities relevant to trade of goods and services and the maintenance of border security. The themes identified along with their sub-themes are summarized in the figure below:

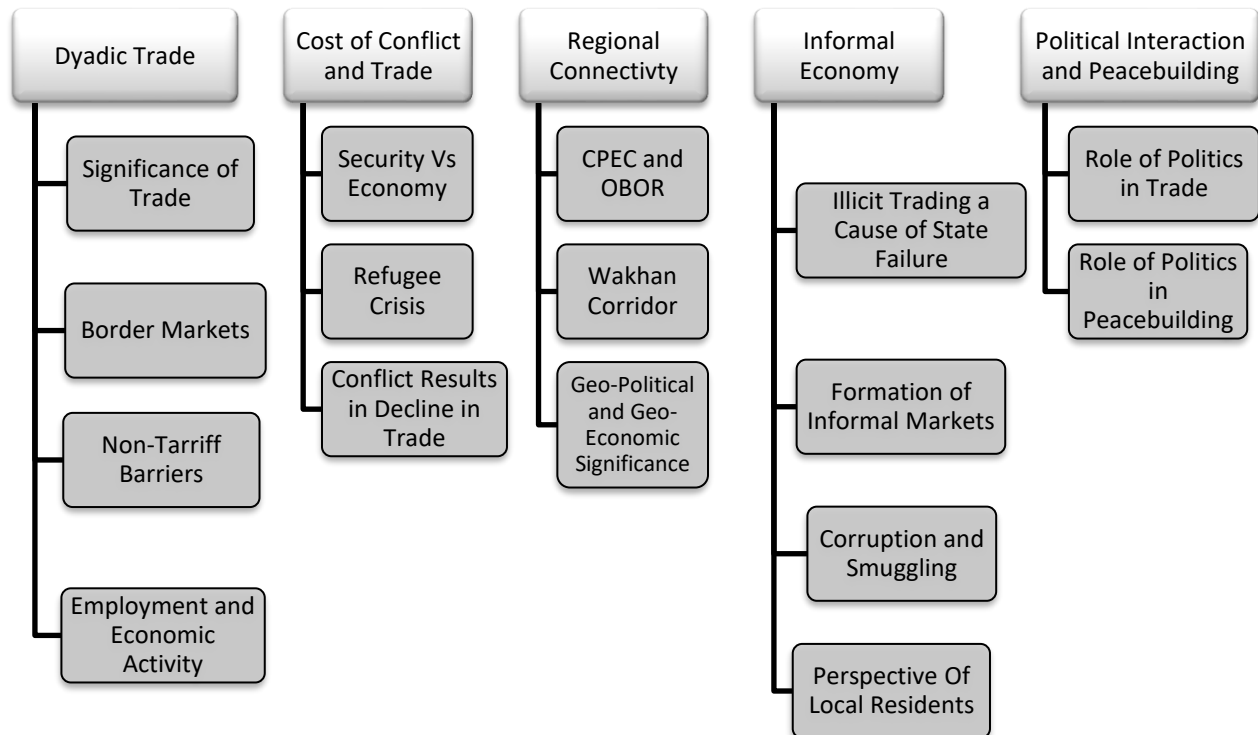


Figure 15: Thematic Analysis

7.1. Dyadic Trade

7.1.1. Significance of Trade

Charles de Secondat and Baron de Montesquieu stated that “Peace is the natural effect of trade. Two nations who traffic with each other become reciprocally dependent; for if one has an interest in buying, the other has an interest in selling: and thus, their union is founded on their mutual necessities.”

Pakistan largest trading partner is Afghanistan and presently, one of our economic issues is trade deficit and Pakistan can reduce it with more trade with Afghanistan and vice versa. Afghanistan, being isolated by the international community can get benefit by trading with Pakistan as well (Dr. Noreen Naseer, personal communication, 3 June 2022). From a historical perspective, trade has proven itself to be a useful peacebuilding tool and thus can serve as an asset in the case of Pak-Afghan dyadic trade as well. With this regard we can learn from the case of Europe, from 1870 to 1938, 14 wars were fought, 270 disputes were going on amongst states of Europe, however, after Second World War, the need for peace building arose, and the warring states used trade as a tool for peace building. All the respondent categories shared a similar stance with respect to significance of trade in Pak-Afghan peacebuilding by insinuating that international trade brings countries closer together. They become dependent on each other, because of which there are gestures of cooperation and peace prevalence (personal communication, 30 May 2022)

7.1.2. Border Markets

A key feature in dyadic trade of Pakistan and Afghanistan is the promotion of creation of border markets to sustain economic activity in the borderland areas. These border markets are commonly termed as “*HAAT*,” which are described as an open-air market that serves as a trading venue for local people in rural areas and towns of countries like Pakistan, Afghanistan, India, Bhutan etc. These markets can single-handedly help generate economic activities at a sustainable basis and could promote trade in those areas coupled with small scale industrial activities. These markets are generally unrestricted access so for Pak-Afghan border, if residents of certain villages are unable to access certain facilities on their side of the border, they can attain that by availing the facility across the border. This would generate legal trade of goods and sustain economic activity for both the countries (personal communication, 2 June 2022)

7.1.3. Non-Tariff Barriers

There are multiple ways in which Pakistan and Afghanistan have hurt their cross-border trade. One of the most prevalent means used is the use of Non-Tariff Barriers. No doubt, if a restriction is imposed on a state, it would adversely affect exports on both sides of the border. Officers at Ministry of trade and commerce of Pakistan highlighted that Pakistan, these days, apart from two or three items does not levy a tax on exports. Considering wheat, for instance, Pakistan has a major wheat scarcity in the current time period. Due to this scarcity, Pakistan is forced to impose a ban on the export of wheat to Afghanistan or any other country. These kinds of bans are regarded as a Non-Tariff Barrier in Pak-Afghan dyadic trade. They further elaborated:

This year, alone, Pakistan is in the planning process of importing three million tons of wheat from Russia. In such a circumstance, if we allow export from Pakistan to Afghanistan, that means there will be more scarcity of wheat in Pakistan. Since we are not a wheat surplus country at the moment, and to protect our resources, we impose such bans on trade. Such bans are not limited to wheat, instead domestic markets of Raw Cotton and Cotton Yarn are protected in a similar pattern as well in Pakistan (personal communication, 13 June 2022).

The Non-Tariff barriers, ultimately impose a gap in Pak Afghan relations as it generates distaste of traders across the border, and it also weakens relations at the federal level. Another downside of these barriers is the encouragement of smuggling of these goods thus again implying that dyadic trade of Pakistan and Afghanistan holds paramount importance (Dr. Zafar Mehmood, personal communication, 2 June 2022)

7.1.4. Employment and Economic Activity

Trade holds significant importance for sustaining peacebuilding in both Pakistan and Afghanistan. With the change in regime in Afghanistan, there is likelihood of an uprise of conflict in Afghanistan and insurgencies in Pakistan as well. Dr. Irfan Mehsud elaborates:

It is not the emergence of Taliban; it is a resurrection. They have emerged again. There can be militant spillover in Pakistan as well due to this resurrection (personal communication, 31 May 2022)

Not only this, trade, whether formal or informal helps sustain employment and economic activity in the borderland areas. Trade experts denote that if either Pakistan or Afghanistan discourages informal trade, the local residents that rely on this source of income will suffer to make a living. There is no employment or human resource investment in these regions, so with a halt on this trade, people could go towards marginalization and possibility of crimes and insurgencies could increase. In such a condition where state is unable to provide, informal economies are bound to prevail and thus become pivotal for the local tribal residents (personal communication, 31 May 2022).

Officers at ministry of trade and commerce share a similar perspective as they believe that if informal trade is halted between Pakistan and Afghanistan, or overall cross-border legal trade stops, Balochistan and Khyber Pakhtunkhwa's economies would suffer a huge loss as these economies are heavily relying on open market demand in Afghanistan. Within these two provinces, Small and Medium Enterprises (SMEs) produce goods solely for the Afghan market. e.g., pharmaceutical industries, Matches, Wood based products, etc. are all intended for the Afghan market. These industries will shut down if trade ceases to exist (personal communication, 13 June 2022)

In addition to this, employment is generated through Pak-Afghan dyadic trade as well. Ranging from transporters to traders to custom clearing agents to shipping agents and even daily wage laborers, Pak-Afghan dyadic trade promotes employment of all these individuals and helps sustain their standard of living. As mentioned repeatedly in this chapter, Afghanistan is exceptionally economically dependent on Pakistan. This forces Pakistan to maintain and sustain a strong relationship with them. In this process, trade plays a key role. This further helps in retaining peace as well (Ms. Maria Qazi, personal communication, 13 June 2022).

Another principal factor to note here is that military representatives further highlighted the significance of trade by presenting their observation that even in the prevalence of strong military operations on the border of Pakistan and Afghanistan, trade and business is kept continuous through all means necessary. A military officer recalled on his experience on the border as:

If Khyber Pass, Turkham, border crossing point, is under threat then, Kharlachi from Khurram Agency is opted for trade, if that is not in use then, South Waziristan's Angoor Adha is utilized and sometimes even Ghulam Khan in North Waziristan is put to use. Regardless, every agency has a route that can be and is opted. There are offices established here now as well that regulate cross-border trade (personal communication, 6 July 2022)

7.2. Cost of Conflict and Trade

7.2.1. Security Vs. Economy

The most highlighted variable in this thesis is the costs of conflict and their relevance with Pak-Afghan trading and peacebuilding measures. To understand the idea of costs of Pak Afghan conflicts, the argument that was highly prevalent was in association with the trade-off between Security and Economy for both the governments of Pakistan and Afghanistan. Generally, Pakistan and Afghanistan are both considered security states as both these countries have a rich history of conflict and marginalization. The trade off with this regard is such that if a country is a subject of a hostile environment, the priority of the government and the international actors is to focus on the securitization of the state instead of the economic development. This can be regarded as a major cost of conflict in Pak-Afghan Dyadic trade as well (personal communication, 30 May 2022). Dr. Irfan Mehsud, further highlighting on the security vs economy trade off in the case of Afghanistan elaborated:

.... Afghanistan has been dependent on foreign aid. Forty percent of their GDP is foreign funded. Afghanistan does not have the capability of revenue generation because they focused on securitization instead of industrialization (personal communication , 31 May 2022)

On the other hand, Pakistan faced similar circumstances as well in terms of terrorism and conflict uprise, such that up until recently there was major implementation of securitization in the borderland newly emerged tribal areas as well. Military Officers expanded on Pakistan's priority being security of the state as:

In Peshawar there is only one brigade, and they have the security responsibility of Distt Mardan, Nowshera, Peshawar Charsadha and Khyber. Meanwhile in South Waziristan we

have five brigades, 37 Frontier Corp Units. It is a huge presence (personal communication, 7 July 2022)

The securitization of these regions hinders the informal trade that is conducted between Pakistan and Afghanistan as there are multiple check points installed to prevent illicit trading and informal economies. Although it has helped with minimizing drug and arm trafficking but unfortunately it has also negatively impacted the economic activities in this region. This has resulted in buildup of a negative perception in the Afghans regarding Pakistani military which has given rise to the Anti-Pakistan narrative in Afghanistan as well (Dr. Irfan Mehsud, personal communication, 31 May 2022). Experts on trade and even military representatives believe that by minimizing military presence in borderland areas and instead having the local government, and the civil administration interact with each other on both sides of the border could help destabilize the Anti-Pakistan narrative in Afghanistan and help promote peacebuilding (personal communication, 13 June 2022)

From a historical perspective, insurgencies have risen in Balochistan due to excessive involvement of the military and lack of action on behalf of the federation in the borderland areas back in the 1970s. The distaste of the Baloch people towards the federation emerged from the poor military and civil relations in the state. One key example to be considered here as highlighted by experts on Pak Afghan conflict is the Safar Khan Case from the 1970s. Being a Baloch national, he resisted against the military at the time which resulted in major insurgencies in the region. Considering such an instance, continued large scale military presence in the borderland regions in both Balochistan and KPK could result in history repeating itself (Majeed,2014)

The officers from Ministry of Trade and Commerce further highlighted the tradeoff between security and economy in the case of Pakistan by presenting the example of Bangladesh.

This is a long debate going on in the media about Bangladesh' progress and how they have improved beyond Pakistan and India. The reason that is so is because Bangladesh focused on their economy and prioritized it as a result of which they were able to improve their trade and become good with their human development indicators. The security states that inhibit nationalists, hatemongers, for them, trade and economy is a secondary priority (personal communication,13 June 2022)

Whenever the priority is given to the security at federal level, then the decisions are not taken in the favor of the economy. Pakistan is failing in the area of trade and human development indicators due to its lack of focus on peacebuilding and prioritization of defense and security. Ms. Maria Qazi, JS Ministry of Trade and Commerce mentioned, No doubt, economy is subservient to security and political relations of Pakistan (personal communication, 13 June 2022).

7.2.2. Refugee Crisis

Pakistan has aided Afghanistan's economy through trade since the time of its inception. The logical underpinning here is that if two countries are next-door neighbors with strong trade ties, there should be a free trade agreement between them. However, trade experts at the Ministry of Pakistan believe that free trade agreement (FTA) would be beneficial for Pakistan more than Afghanistan because Pakistan has already been giving Afghanistan concessions in unilateral custom duties. Given this, even with the emergence of Taliban government, except for the top 50 import commodities, further custom duties have been reduced on other goods for Afghanistan, in such a case, Afghanistan would not have any incentive to sign an FTA with Pakistan because they are already benefitting off of tax concessions and cheap imports through Pakistan (personal communication, 13 June 2022). The reason we gave these concessions was due to the 1970 Afghan refugee crisis. At that time when Taliban came into power, people fled the country and emerged as refugees in Pakistan which proved to be a huge burden on Pakistan's economy. In the current period, the fear of emergence of another refugee crisis persists now if Afghanistan's economy defaults, given that their 70% revenue generation is foreign funded, and their assets have now been frozen. In such a case people would come to Pakistan just like how they did in the seventies and Pakistan would not be able to bear the burden so to avoid such a large-scale refugee crisis again Pakistan has levied their taxes off so their economy can retain itself. Ms. Onsia Zafar, Ministry of Trade and Commerce elaborated this rationale as "...Sustaining their economy at the expense of our economy to avoid a refugee crisis is the strategy used by Pakistan" (personal communication, 13 June 2022)

7.2.3. Conflict Results in Decline in Trade

The general hypothesis of this thesis resonates with the negative relationship between conflict uprising and improved Pak-Afghan trading of goods and services. The unlikely events of terrorism, marginalization, and wars in both Pakistan and Afghanistan have deeply impacted trade for both

the countries. Businesspeople have highlighted the visible decline in trade that they have witnessed over the course of time, and they attribute the reason for this fall in trade to terrorism and conflict uprise in Pakistan. One resident reported:

...There was a time when traders used to come from Kabul to Gujranwala and reside with people in their homes because the relations were fraternal. We do not see that happening anymore (personal communication, 8 July 2022)

The target market for certain goods that are produced in Pakistan has been the lower income and middle-income class in Afghanistan. Due to prevalence of conflict these markets are destroyed and thus economic activity, trade, and business on both sides of the border is adversely affected. The local businesspeople from Peshawar shed light on this as:

...Pakistan produced aluminum utensils, are still used in Afghanistan, and they are demanded by the lower income individuals across various Afghan regions During Afghan wars as well, the industries that were producing these utensils, fan industry in Gujrat, housery industry in Gujranwala and Faisalabad completely shut down because the demand from Afghanistan ended (personal communication, 8 July 2022).

This indicates that peace aided business on both sides of the border and terrorism, conflicts and wars unfortunately destroyed trading of goods between both countries and weakened their relations as well. Both Pakistan and Afghanistan share similar foods, similar languages and a culture that overlaps with each other. Such soft powers should be strengthened to promote peacebuilding on both sides of the Durand Line (Dr. Noreen Naseer, personal communication, 3 June 2022). The Joint Secretary, re-emphasizing on sustaining strong ties highlighted the loss of trade that Pakistan faced due to Ashraf Ghani's government's distaste for Pakistan but simultaneous good relations with India which allowed Afghanistan to import goods through Iran instead of Pakistan which resulting in costing Pakistan a loss of around \$1Billion worth of exports:

...Peaceful and cordial relations would help in promoting trade in both countries. The more you trade with your neighbors in your region, the more economically dependent they are on you, whether it is for passing their transit or for imports and exports, they will re-think ten times before going to war with you or destroying their peaceful terms with you (personal communication, 13 July 2022)

Further stressing on the importance of trade and economic activity, military experts share a similar perspective as well:

There are numerous internal and external factors that influence trade. Terrorists and smuggling have had a grave impact on trading in regions like Ex-FATA ... Absence of economic activity results in marginalization in these regions especially in Khurram Agency and South Waziristan (personal communication, 6 July 2022)

7.3. Regional Connectivity

7.3.1. Geopolitical and Geo-Economic Significance

A common notion, observed in the interviews of all the respondent categories that were conducted for this thesis, was that Pakistan and Afghanistan both hold significant geopolitical and geoeconomic importance such that their geographical position allows them to enable regional connectivity. Considering this promotion in trade and commerce between Pakistan and Afghanistan could help both the countries in the current scenario (Dr. Irfan Mehsud, Personal Communication, 31 May 2022). Furthermore, with the help of improved trade, Pakistan can become capable of being connected with the Central Asian states as well with the help of Afghanistan. This would assist in building an extraordinarily strong dynamic in this region and thus help promote and sustain peacebuilding in both Pakistan and Afghanistan and there is a possibility of wide-scale regional connectivity in this region. Dr. Zafar, an expert on Pak Afghan Trading stated:

Pakistan's connection to Central Asia and Russia is through Afghanistan so it holds huge geostrategic importance (personal communication, 2 June 2022)

Although there are certain challenges in achieving the aforementioned regional connectivity through Afghanistan. Considering the geographical location, Pakistan being next door neighbors with India that has a tough history with Pakistan presents a set of multidimensional challenges that have hindered Pak Afghan trade relations over time as well. For there to be regional connectivity, India's connection with Afghanistan and with the Central Asian states could become possible through Pakistan only if the security concerns between both the countries (Pakistan and India) are halted. There are multiple apprehensions such as the Kashmir conflict as well as Pakistan's hesitancy in providing free trade passage to India to reach Afghanistan and Central Asia. Although

recently Pakistan did assist India in providing them with humanitarian aid to Afghanistan, but this passage cannot be considered synonymous with the regular trade of goods and services between these countries (Personal Communication, 2 June 2022). During the interviews, Dr. Zafar further insisted upon the following notion:

Trade from India can only occur when there is confidence building between both countries. Then we can think about connecting Bangladesh, and Bhutan with Afghanistan as well (personal communication, 2 June 2022)

With respect to geostrategic importance of Pakistan and Afghanistan, it is important to note that Afghanistan is a land-locked country and their access towards water bodies is through the aid of Pakistan. If there are possibilities of trade being halted between Pakistan and Afghanistan, then there is likelihood of conflict uprise between both countries and or within countries as well. This perception is in alignment with the hypothesis of this thesis as well such that if there is a decrease in trade or there is closing of borders, that Pakistan hinders Afghan trade routes, then there is an exceedingly high likelihood of an uprise in conflict and distress in between both countries. Ms. Maria Qazi, Joint Secretary, Ministry of Commerce highlighted this aspect as:

We, in Pakistan, have also given Afghanistan access to the warm waters. If we close this access for Afghanistan then there is possibility of marginalization as well as conflict uprise (personal communication, 13 June 2022)

Finally, considering the economic importance of Pak-Afghan trading, it should be highlighted that Afghanistan shares longest and most porous border with Pakistan through impoverished Pashtun belt Newly Merged Districts and Baluchistan. Pakistan was once upon a time (before Taliban take-over) a major trading partner of Afghanistan. Every month Pakistan exports fruits, nuts, hand-woven carpets, wool, cotton, hides and pelts, precious and semi-precious gems from Afghanistan. Similarly, Afghanistan imports maximum number of utilities and commodities from Pakistan as well (personal communication, 3 June 2022).

Dr. Noreen Naseer, an expert on Pak Afghan conflict studies, elaborated that:

...In fact, both the states were completely depended on each other for certain commodities, in 2013 recorded bilateral trade was two billion. The governments on both sides tried to enhance trade to five billion dollars by 2015. Besides regular and formal trade, an informal trade is conducted by the Pak-Afghan tribes living in border areas and according to the custom officials it is nearly three billion dollars annually, not only satisfying the poor consumer of Pakistan but also generating jobs and economic opportunities for border area people of both Afghanistan and Pakistan. In 2010 while revising transit trade treaty, both states had trade of worth two billion dollars (inclusive transit trade) and 34% of Afghan transit commodities passed through Pakistan border. (personal communication, 3 June 2022)

7.3.2. CPEC And OBOR

Alongside regional connectivity, the significance of One Belt One Road Initiative and its flagship project, China Pakistan Economic Corridor (CPEC), was frequently highlighted in the interviews. CPEC serves as the key tool for ensuring regional connectivity and expanding the scope of fraternal relations between Pakistan and Afghanistan coupled with China. From the perspective of trade and commerce, involving Afghanistan and Iran within CPEC would open multiple dimensions of improved terms of trade and thus bring Pakistan and Afghanistan closer to one another (personal communication, 7 July 2022). Upon interviewing the local residents near the Pak-Afghan border in Balochistan and in the newly emerged tribal areas (NETA), it was uncovered that a lot of individuals are dependent upon the trade being conducted through CPEC. Not only formal trade, but informal trade has also been assisting the residents of the region and thus proving CPEC to be an asset for the local community. Dr. Irfan Mehsud, holding expertise on Pak-Afghan conflict highlighted:

If trade of goods and services, both formal and or informal, in the newly emerged districts stops, there could be prevalence of marginalization in these regions (personal communication, 31 May 2022).

Trade experts believe that If Afghanistan is incorporated within the projects of CPEC, that are particularly associated with trade of goods and services, it would prove to be highly beneficial in

the long run. An interesting aspect to note here however is that if incorporation of Afghanistan is beneficial for Pakistan and point in fact for China, then why does not China promote for there to be stronger trade ties between Pakistan and Afghanistan. The reason behind China's hesitancy in this matter, as uncovered in the interviews conducted with the officers at the Ministry of Trade and Commerce, Pakistan, is associated with China's fear for *Muslim extremism* in the region. By having strong connections with Afghanistan, Pakistan could be directly interconnected with the Central Asian states, which could possibly result in Muslim fraternal unity and sustainable ties. China in pursuit of maintaining its regional hegemony perceives this as a threat for itself and thus avoids the establishment of such ties for Pakistan through Afghanistan (personal communication, 13 June 2022). The representatives at MOTC highlighted this as:

China does not let our trucks and goods from their territories travel all the way to Central Asia instead they opt to go themselves through the Karakoram highway even though Pakistan has had an agreement with them since 1995. The more our truckers and traders will start going to Central Asia, the more we will be able to establish a stronger bond with Central Asian states and emerge as a strong Muslim collaboration (personal communication, 13 June 2022)

7.3.3. Wakhan Corridor

Although barely mentioned in usual routine, Wakhan corridor is the single most important belt that is located at the crossroads of Afghanistan, Tajikistan, China, and Pakistan. It is considered as the most essential junction point of the previously known Silk route, and currently known CPEC. Unfortunately, due to unforeseen historical events such as the decade long Soviet and NATO Invasion of Afghanistan, and the Chinese Communist Revolution in 1949, there has been little to no infrastructural development in the infamous Wakhan Corridor. Utilizing this corridor could be a game-changer with respect to regional connectivity between the aforementioned four states. Scholars have emphasized repeatedly that if a road is built across the belt of Wakhan, it could promote trade and business activities in the region, especially for Pakistan, Central Asia, and Afghanistan. Wakhan corridor could single handedly offer Pakistan with the shortest trade route

that would connect it to Central Asia and for China to be connected with Afghanistan (Malik, 2014; Munir & Shafiq, 2018).

Furthermore, Wakhan corridor holds equal importance for Afghanistan as much as it does for Pakistan as it highlights the significance of Central Asian states in Pak Afghan trading. The Liaison Officers from Afghanistan highlighted the significance of this corridor as:

.... Central Asian States hold paramount importance for Pakistan and its trade through Afghanistan. Chitral is directly next to Tajikistan. 15 km narrow bed Wakhan Corridor. This connects China, Pakistan, and Central Asian States. It is the narrowest corridor, although unutilized, but of utmost importance (personal communication, 7 July 2022)

For there to be minimized conflict and marginalization in regions that are hostile, it is important to generate economic activity and operational markets. Dr. Zafar upon discussing the importance of trade of goods and economic activity for the minimization of an uprising of conflict between Pakistan and Afghanistan and ensuring peacebuilding measures for both states mentioned:

...Creating markets is difficult but retaining markets is even more difficult for a state (personal communication, 2 June 2022)

Although infrastructural developments within Wakhan could serve in improving trade and Pak Afghan relations, however there are multiple challenges such as India's perceived threat of Wakhan corridor becoming the tool that outmaneuvers against its interests in Indian-held Kashmir and China's hesitancy in utilizing this corridor based on its own perceived threats as mentioned earlier as well (Malik, 2014; Munir & Shafiq, 2018).

7.4. Informal Economy

7.4.1. Illicit Trading a Cause of State Failure

As mentioned repeatedly in this thesis, local residents of the borderland areas in both Pakistan and Afghanistan benefit greatly through the informal markets and the informal trade of goods and services. The formation of informal markets although is beneficial but is regarded as a cause of state failure (personal communication, 8 July 2022). Trade experts believe that one of the main sources of earning of residents of the borderland areas is the informal trade. If these activities are put on a halt, there would be insurgencies as people would struggle to make ends meet. It should

be highlighted here that as far as emergence of informal economy is concerned, WTO has no strict restrictive policies. WTO promotes legal and recorded trade but there is no specific agreement across countries that prevents informal economies. The reason informal markets are formed, and people engage in illicit trading is due to lack of economic incentive on behalf of the state. These people are businesspeople, and they actively avoid losses for their businesses through any means (Dr. Zafar Mehmood, personal communication, 2 June 2022) Representatives at the Ministry of trade emphasize on the notion as well:

If legal trade and business was lucrative, these people would opt for legal trade, but if illegal trade is lucrative, then they would go towards that side in order to sustain their businesses and not incur heavy losses (personal communication, 2 June 2022)

To avoid emergence of informal economies, state should install industries

Further expanding on the lack of incentives on behalf of the states, military representatives have also pointed out that attributing to due process of custom duties and legal trading, the traders end up with spoiled goods which results in losses in their businesses. The Liaison Officer working actively in Afghanistan overlooking the process of legal trade noted the following observation:

...Custom duties etc. and due diligence impact the quality of goods being traded as these goods are held at the border crossing points for prolonged periods of time. e.g., fruits and vegetables being exported from Afghanistan to Pakistan start to rot while due processes take place. To avoid this, traders involve the duty officers into bribery, or they take alternative routes to prevent their goods from rotting thus giving birth to informal trade (personal communication, 7 July 2022)

7.4.2. Corruption and Smuggling

In alliance with the formation of informal economy, there is emergence of corruption and smuggling in cross border trading as well. The interesting factor to note here is that smuggling is not limited to markets on the border, or sidelined markets like Bara Market or Karkhano Market in Peshawar, instead it is engraved in the overall business of the state. Further, it is not only limited to crockery and small electric appliances like an electric iron etc., but instead large-scale firms also engage in informal economies. Dr. Zafar Mehmood explained this conundrum with the following case scenario:

If an industrialist follows the proper channel of importing raw materials for their manufacturing, they must go through the due process of tariff payments and other requirements which is a time-taking and costly process. The alternative of which is that they would hire an individual that would engage in the informal economy and provide the industrialist with the raw materials that they require at a cost that is easily affordable by them. In such cases, sometimes the smuggler charges more than what they bribe to gain profit. On the other hand, for the company, it is highly costly if they legally import their raw materials so by engaging with smugglers, they can avoid the hefty costs and sustain their business, meanwhile the smuggler will deliver the raw materials at the factory rate. It is a win-win situation (personal communication, 2 June 2022)

7.4.3. Perspective of Local Residents

As mentioned earlier as well that attribution towards state's failure in providing people with economic opportunities to provide for themselves, there is formation of informal economies. Trade experts believe that when the economy is illicit, there are evasion of custom duties, value added taxes and other tariffs which harm the revenue generation process of the government. Considering how informal economies are damaging for the business of the state and the overall development of the country, thus it is equally important to understand the perspective of the local residents regarding these informal economies.

The general observation with this regard is that people that participate in businesses that are operational in an informal economy are indifferent towards the informal trading of goods and services. Dr. Zafar Mehmood explains this analogy as:

If the expected earnings from a trade activity that is legal or illegal is just equal to the probability of being caught, then traders and businesspeople are indifferent to indulging in informal economies (personal communication, 2 June 2022)

Applying this analogy in the case of Pak Afghan dyadic trade, it can be said that if an individual from Afghanistan is engaged in an illegal trade activity, then the cost of that activity (informal trade) is bribery or paying certain hidden taxes, commonly called as Para-Tariffs. The Afghan traders can evade taxes back at Afghanistan as well. Not only this, but the good that has been traded would not enter Afghan economy instead it would be sent back to Pakistan. In such a case

if the total cost of this illicit activity is less than the regular tariff that they must pay to Pakistan's government, then the trader would indulge in illicit trading and economic activity. In addition to this, when they enter back into Afghanistan, they would have to pay taxes that are on a lower tariff rate than that of Government of Afghanistan as the items that have been purchased would not be going into Afghanistan's recorded economy, instead they will be sent back to Pakistan. In real time, such an instance has taken place back in the early nineties in Pakistan. A study conducted back in 1993 indicated that televisions used to be produced in Pakistan, but they could not compete with the smuggled TVs present in the market. In that situation, the Government of Pakistan brought the tariff rate equivalent to the cost of illicit trading which resulted in a reduction in the smuggling of these goods and thus promoted the domestic production of the aforementioned Televisions. This implies that adjustments in taxes etc. are taken at federal level to protect the domestic markets from the negative impact of informal economies, yet people still engage in them as it is beneficial for their businesses (personal communication, 8 July 2022). This perception is not limited to the residents of Pakistan, instead, across the border, according to the liaison officers in Afghanistan:

People are happy with economic activity whether it is legal or illegal. Someone is employed as a munshi, someone is loading or unloading trucks as a laborer. They are indifferent towards the legality of trade through the Pak-Afghan border (personal communication, 7 July 2022)

Furthermore, such informal trading is not limited to the borderland areas. Officers at ministry of trade and commerce highlighted that meanwhile at the same time, within both the governments and in the private sector there are certain lobbies that are formed that develop their personal stake in informal economies which prevents them from eliminating the informal economies and the informal trade from the state. Joint Secretary at Ministry of Trade and Commerce elaborated further as:

Let us say people are bringing the goods of Afghan Transit trade back into the country, it is the Pakistanis that have a strong lobby with the Afghans that allows them to function informally and thus it promotes illicit trading. In addition to this they also incorporate government officials in their proceedings through bribery (personal communication, 13 June 2022)

7.5. Political Interaction and Peacebuilding

The most paramount element that drives trade of goods and services in Pakistan is the role of politics and inter-governmental ties. Although naturally trade must be kept away from political decisions and instead the policies should be solely based on economic productivity and development. However, that is not the case in Pakistan. If Pakistan has poor relations with a country, the trade with that country is deeply affected. The Joint Secretary from Ministry of Commerce pointed out:

In 2010-11, our exports were over two billion dollars with Afghanistan. They were our second largest market after USA but due to conflicts with the successive government, our exports before Taliban government, had dropped to one billion ... Even during covid-19 years, trade between Pakistan and Afghanistan was hardly 885 million dollars (personal communication, 13 June 2022).

The poor ties, result in imposition of anti-trade measures such as unnecessary tariffs and other rather negative political relations. Initially the government of Ashraf Ghani was comfortable with Pakistan but due to negligence of Pakistani government in terms of trade policies and other actions that damaged the Pak Afghan relations, it ultimately enforced Ashraf Ghani to tilt towards India with respect to trade as mentioned earlier as well. This had a grave impact on Pakistani trade. With respect to unnecessary anti-trade measures, US China relations can be considered as a key example here. Due to unrest in the Pacific, both countries are imposing tariffs and trade taxes on each other which is hurting both economies just like the case of Pakistan and Afghanistan. Ms. Maria Qazi further expanded the scope of this argument as:

A sovereign government has the right to impose trade restrictive measures on any other country and they do so when there are bad political relations without caring about the impact on the domestic and international markets. (personal communication, 13 June 2022)

Chapter 8: Discussion and Conclusions

Basing on the analysis given by the pre-existing literature on the negative relationship between dyadic trade and uprising of conflict, this thesis formulated a hypothesis that aims at exploring the multi-faceted dimensions of the aforementioned interrelationship in the case of Pakistan and Afghanistan. Both countries share a rich history of conflict uprising and an irregular trend of trade balance, which is, mostly found in deficit, due to excessive dependence of their economies on imported goods and stagnated domestic markets.

The prime purpose of this thesis is to determine the school of thought which elaborates that there exists a negative relationship between conflict uprising in different areas of both Pakistan and Afghanistan and their trade of goods and services. Given that, if there is an uprising in conflict in either of the two subject countries, consequently, the terms of trade would be deeply stimulated and present a decline in the trade balance of both countries. In such a case, the peacebuilding measures along with the over-all well-being of the people and the state will have a negative impact as well. Simultaneously, if such a negative relationship exists between conflict uprising in Pakistan and Afghanistan and their respective trade balance, then if there is a decline in conflicts and marginalization, then naturally, the observation would be an increase in exported goods and improvement in the overall economy of both countries.

Furthermore, this thesis also expands its scope beyond this relationship to further understand the dimensions of peacebuilding in Pakistan and Afghanistan. Trade can be utilized as a useful peacebuilding tool and can assist in bringing regional connectivity in the Asian region. Upon understanding the results, the elements of regional connectivity were explored which as well highlighted the significance of trade within the scope of Pak-Afghan relations.

Initially, the thesis made use of the pre-existing literature to establish the foundation of the interrelationship between conflict uprising and trade balance. Scholars strongly believe that there exists a correlation between the two variables and have presented multiple examples across the globe that have displayed this relationship over the course of time. Translating this school of thought into the case of Pakistan and Afghanistan, this thesis observed the trends of trade and conflict uprising in the last 20 years. The balance of trade of Pakistan showed a downward trend starting from 2000 till 2020. Initially trade balance was constant and there was an improvement observed between 2006 till 2008 but then onwards there has been a steady decline in the exports

of goods from Pakistan thus indicating an increasing trade deficit. At the same time, observing the trend for the number of terrorist attacks in the country, data indicated a sharp increase in the prevalence of terrorist attacks during this time period. Not only this, but the death rate due to terrorist attacks and conflicts during this time was at an all-time high as well, as shown in the previous section. In addition to this, during this time the trade between Pakistan and Afghanistan and the overall political and bilateral relations between both countries were deeply affected as well. Alongside this, the trend of trade balance of Afghanistan has seen a steady and sharp decline since 2004 till 2012 and has been poorly rising back up since then. During this time period there has been an intense and detrimental increase in the prevalence of terrorist attacks and the uprise of deaths due to terrorism, conflicts, and marginalization within Afghanistan.

This simultaneous incline in conflicts and decline in trade balance points the direction towards the prevalence of the negative relationship between the two variables. This notion is in alignment with the hypothesis of this thesis as well that whenever there is an increase in the prevalence of conflict and terrorism, the impact would result in a decline in trade balance of the country thus deteriorating the bilateral ties and the overall wellbeing of the people of the state.

Another interesting aspect to note here is that during the time when there was excessive marginalization and prevalence of conflict in both countries, the prospects of securitization were at an all-time high as well and the relations between Pakistan and Afghanistan were deeply suffering. Not only this, but, due to the involvement of international actors, the overall economy and sustainability of the position of Pakistan and Afghanistan were under sincere turbulence and thus were suffering at an immense scale.

This had a negative impact on the overall regional connectivity as well. Pakistan and Afghanistan were suffering losses at the humanitarian level, economic level, domestic and international level, causing the people of the newly emerged tribal areas to further deteriorate. From an economic perspective, the economies of Balochistan and Khyber Pakhtunkhwa suffered great losses which set the people back a couple of years in terms of growth and sustainability. Similar case was observed in Afghanistan as Afghanistan has been a subject of war crimes and political instability since the longest period of time, thus these turbulences further halted the peacebuilding processes within the region and thus deteriorated the lifestyle of the Afghan people. This deterioration can be further verified by observing the HDI indicators of both countries, as shown in the previous

section. There has been no significant improvement in the GNI per capita of both countries and the lifestyle of people has been under stagnation since the war against terrorism. In the case of Afghanistan, particularly, the change in regime has also not aided Afghanistan in a courteous manner as the political instability has further languished the process of peacebuilding within the region.

Now, to further verify the significance of the negative relationship between uprising of conflict and dyadic trade in the Pak-Afghan case, this thesis made use of the Simple Linear Regression Analysis. The simple linear regression analysis is used to determine the nature of the correlation between two variables, one being the independent variable and the other being the dependent variable. The results indicated a negative relationship in both the cases. The interesting thing to highlight here is that the gravity of this relationship was higher in the case of Afghanistan than in the case of Pakistan. The reason that is so is because the prevalence of terrorism and the overall history of conflict and wars in the case of Afghanistan had already beaten the peacebuilding process of the country to the ground. Afghanistan has had major wars and invasions over the course of time, as mentioned in detail in the previous sections as well. These conflicts, wars, invasions, have deeply stimulated the conditions of the people of the country such that they have become extremely turbulent in nature. In addition to this, the political instability has played a leading role in halting the peacebuilding processes of Afghanistan. This has had a spillover effect on Pakistan and thus made Pak-Afghan ties weaker over the course of time. The results of this thesis also highlight that the role of international actors has played a key role in deteriorating the Pak-Afghan relations.

The regression analysis results indicated that estimated 84% of the uprising in conflict and marginalization can be explained by the decline in trade balance of Afghanistan. This indicates that the absence of economic activity in the region has in fact translated into causing people to shift towards marginalization. In addition to this, this has also resulted in an increase in the illegal activities like smuggling and corruption within the country as well which has further resulted in political instability and the overall deterioration of the well-being of the society of Afghanistan. The spillover effect of this interrelationship is observed in the case of Pakistan as well but due to the efforts of Pakistan's government and military, the damage of this negative relationship between conflict uprising and trade has been minimized significantly. This notion was

highlighted in the interviews with the army personnel as well, where the efforts of the military indicated a strong hold over the spread of terrorism and marginalization in the country thus preventing major losses and damages to the overall economy of Pakistan. The negative sign of the co-efficient(s) also indicates a negative relationship between conflict uprise and trade balance in both the cases of Pakistan and Afghanistan thus verifying the hypothesis of this thesis that there exists a significant negative relationship between conflict uprise and trade in the case of Pakistan and Afghanistan.

Further highlighting the dimensions of this interrelationship and the effect it has had in multifaceted dimensions in both countries, the thematic analysis was conducted with the help of semi-structured interviews with a diverse group of respondent categories. This thesis utilized the perspective of economic experts, trade experts, military representatives, and academic experts to explore the distinct aspects and attributes of the Pak-Afghan dyadic trade relations and the role of peacebuilding. The thematic analysis uncovered various dimensions such as the formation of informal markets, non-tariff barriers, the significant role of economic activity and the role of political relations, among other various aspects.

The results indicated that trade is a significantly important peacebuilding tool that can be used to revitalize and strengthen Pak-Afghan relations. Not only this, but trade can also be used as a measure of regional connectivity by utilizing it within CPEC, Wakhan Corridor and even by connecting Pakistan with the Central Asian states through Afghanistan, as mentioned in detail in the previous section as well. The geopolitical and geoeconomic importance of Pak-Afghan dyadic trade serves as a driving force in bringing all the countries in this region closer to one another thus fast-tracking the process of peacebuilding in both Pakistan and Afghanistan.

In addition to this, the thematic analysis results further emphasized on the importance of political relations and how they impact terms of trade and the overall fraternal ties of the two neighboring countries. The results indicated promotion of border markets to promote economic activity in the borderland areas so that people have an incentive towards maintaining and sustaining a licit livelihood and thus drive them away from the road of marginalization and illicit trading. There have been major steps taken on both sides of the border to halt trade through the means of various restrictive policies, such as, the implementation of non-tariff barriers. These non-tariff barriers, as explained in the previous section as well, serve to stop trade of certain goods between Pakistan

and Afghanistan which has resulted in the generation of distaste in the local residents on both sides of the border for the opposite country. The distaste of local Afghans towards Pakistani traders and vice versa deteriorates the fraternal ties between both countries from a local level to the federal level which hinders the peacebuilding process and the overall regional connectivity.

Another interesting aspect that was highlighted in the results was associated with the Security vs Economy debate. No doubt, both Pakistan and Afghanistan, have been a severe subject of conflict and marginalization in the course of history. Both countries have suffered major economic, social, political, and dynamic losses due to the marginalization (both internal and external), and the prevalence of conflict and wars. Due to these reasons, the focus of the governments and the international actors has been on the securitization of the states. As shown in the previous section as well, in the borderland regions of both countries, there is a huge military presence and even the fencing of the border has resulted in deployment of check posts and further militarization. This militarization and strictness in policies has translated into the custom offices and trade routes as well. The focus of the governments of both countries being on the defense of the state and not on economic development is a huge opportunity cost of conflict and thus can be attributed as a major loss in the process of peacebuilding in both countries. The economic development, infrastructure establishment, and improvements in HDI are all secondary measures in the face of the security of the state.

From this notion, the results further amplified the failure of state in generating employment opportunities and promoting economic activities in the regions that were most effected by terrorism and prevalence of conflict uprising and marginalization. Due to the absence of economic activity, aforementioned strict policies in trade, and poor handling of Pak-Afghan relations on behalf of the federation, residents of tribal areas engage in the informal market thus further deteriorating the economy and trade balance of both Pakistan and Afghanistan. Although, at the local level, the informal market benefits the local residents and helps people to sustain a livelihood, but, from a macroeconomic perspective, these informal markets damage the GDP of the country as the business taking place is not recorded and is thus not included in the record for both Pakistan and Afghanistan. In the case of Afghanistan around 40-50% of the economy is undocumented, alongside this, in the current time period, with their assets frozen, and their dependence on foreign aid for revenue generation, Afghanistan is in deep trouble to sustain itself. The inability of

Afghanistan to maintain its economy has an adverse effect on Pakistan as it would serve as a burden on Pakistan's economy. There could be a threat of an influx of refugees and further conduction of informal businesses across border resulting in increased corruption and smuggling. Pakistan, in such a case, has to assist Afghanistan through trade, by removing restrictions and getting rid of tariffs and excessive taxes, thus deteriorating its own economy. Pakistan would incur relatively small losses in terms of trade to avoid major losses that could result if Afghanistan's economy defaults. Considering the hypothesis of this thesis in this case, however, these small losses in terms of trade would eventually result in major damages as the possibility of uprising of conflict would increase and thus destroy peacebuilding measures in the case of Pakistan and the case of Afghanistan as well.

The negative relationship between the two variables thus amplifies, intensifies, and strengthens the importance of trade as a significant tool of peacebuilding for security states like Pakistan and Afghanistan. It serves as the guiding door of hope towards prosperity for both countries if utilized strategically and in an orderly fashion.

8.1. Concluding Remarks

In conclusion, as an answer to the central research question of this thesis, it can be said that there exists a negative significant relationship between Pak-Afghan dyadic trade and the uprising of conflict in both countries, respectively. Initially, the research revolved around building a comprehensive literature understanding by observing historical background to apprehend the nature of the relations between Pakistan and Afghanistan and the uprising of conflict and instability within both the subject countries. The literature and the pre-existing understanding of scholars clearly illustrates the turbulent pattern of the relations between trade balance and conflict uprising in both countries due to multiple reasons like terrorism, political instability, owing to the regime changes, and involvement of external actors. Secondly, the research involved conducting a trend analysis to draw inferences on the prevalence of conflict uprising within Afghanistan and Pakistan in the last twenty years with respect to the trade balance in the corresponding countries. The trends regarding Pakistan and Afghanistan's trade balance, conflict uprising, prevalence of terrorism, HDI and GDP growth are indicative of the fact that the trade balance declined significantly when terrorism, political havoc, and involvement of external actors like the United States were predominantly ensuing conflict uprising.

To further verify the nature of the correlation between conflict uprise and trade in the case of Pakistan and Afghanistan, the research incorporated simple linear regression analysis where the coefficients demonstrated the negative sign and presented a significant regression model in both cases. This is highly suggestive of the presence of a negative significant relationship between the uprise of conflict in Pakistan and Afghanistan and the trade of the respective states. Accordingly, the hypothesis of this thesis is verified that the uprise of conflict in either of the two states will inevitably lead to a decline in the trade balance of that state. While, on the other hand, the surplus in the trade balance of Pakistan and Afghanistan will stimulate economic growth by generating economic opportunities like employment for nationals of the respective states. Consequently, the prevalence of conflict uprise will diminish significantly in turn reducing the plausibility of marginalization. Simultaneously, economic sustainability will surge within the states contributing to the prevalence and solidification of peace-building measures in both Pakistan and Afghanistan.

Further, the thesis constitutes the thematic analysis that revolved around the semi-structured interviews that were conducted with different respondent categories including experts on trade, commerce, and Pak Afghan peacebuilding, academic experts on conflict and peacebuilding, traders and business people(s) inside Pakistan, local Afghans located in the borderland areas, military personnel deployed in Afghanistan or in the borderland areas, professionals on trade and foreign relations with Afghanistan, and Liaison officers on behalf of Afghanistan. Through in-depth analysis, the research illuminates the underlying ground realities that the inter-relation associated with Pakistan and Afghanistan dyadic trade and peacebuilding underlay multifaceted dimensions. The thematic analysis demonstrates that expansion of trade in Afghanistan and Pakistan will spill over to create economic opportunities like employment, higher average income, poverty reduction, and conversion of informal markets to formal ones successively easing the subjects in the respective states. In the past, nontariff barriers have remained a predominant factor in deteriorating relations between Pakistan and Afghanistan. For that reason, reducing non-tariff trade barriers and implementing the concept of border markets between the border region of Pakistan and Afghanistan can help to solidify the peacebuilding measures.

In addition, unstable and uncooperative political relations between Afghanistan and Pakistan and the involvement of external actors inside both states have added insult to the injury, making Pakistan-Afghanistan relations even worse. For this purpose, the vital component of foreign policy

vision to approach the recurring instances of conflict uprise requires the respective states to drift away from traditional approaches to conflict uprise. It is pivotal to recenter their focus on the economy rather than the securitization of the state. Although the state defense should be prioritized in terms of national interests, spilling it over into securitization will keep on elongating the negative relation between trade contraction and conflict uprise. However, the systematic resolve is to expand the trade balance that will not only expand the overall economic stature and growth of both states. This will inevitably ensure that better economic opportunities are available for inhabitants on both sides of the border by intensifying economic activities, consequently, improving the living standards and average income of inhabitants in both Pakistan and Afghanistan.

With the help of the three-step rigorous research analysis, this thesis was able to identify key factors that could contribute towards highlighting trade as a peacebuilding measure and amplifying the intense nature of the negative significant relationship between conflict uprise and trade balance in the case of Pakistan and Afghanistan. Furthermore the results of this thesis were able to identify trade as a driving force that could ensure regional connectivity and economic growth among the South Asian and Central Asian states.

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