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## AFGHANISTAN AND PAKISTAN: CAN EUROPEAN FREE TRADE REGIMES AND INTEGRATION MODELS SERVE AS EXEMPLARS FOR SAARC COUNTRIES?

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### Abstract

*The 28-member European Union can be taken as a successful example of inter-governmental cooperation and economic integration. It provides equal opportunities to smaller and larger economies to obtain commercial benefits from the EU through free trade, single market and a common currency. The EU aimed to become the most competitive economic bloc to withstand growing competition from emerging Asian economies. However, the recent crisis of the eurozone has revealed the structural flaws in its monetary system. It directly impacts the EU's political environment. The emergence of euroskepticism and politics of far-right in Europe could damage the integration of the EU. The EU policy-makers and the national governments are desperately seeking ways to act jointly to avert the crises.*

*The author, however, still visualizes the EU as a model for the SAARC member states to resolve the disputes that haunt their region. This research focuses on the case studies of Pakistan and Afghanistan to develop free trade arrangements and sheds light on the problems and prospects for collaboration among SAARC nations. On the other hand, there is another perception that the China-Pakistan Economic Corridor (CPEC) and Shanghai Cooperation Organization (SCO) could shape the future politics and economics in South Asia.*

In a globalized world, economic integration by forming common markets and currency unions, are an attractive option to draw benefits not only in economic but also in the political realms. For example, these could help reduce the transaction costs of doing business across borders, which can boost trade and generate jobs. This idea underpins the theory and practice of currency unions and single markets like that of the European Union. For the European Union that comprises several countries, some of them very small economies, which are unable to stand up to competition from

stronger economies, the Single Market and currency union is also a means to be part of a strong competitive economic and financial bloc that can withstand growing competition from East Asia.<sup>1</sup> The idea of a united Europe has been nourished since the past many decades.

South Asia comprises many countries, some of them are quite small and the level of economic development in the region is very unequal. The South Asian countries have formed the South Asian Association for Regional Cooperation (SAARC) based on inter-governmental cooperation. In the European Union there is a very obvious difference in the economic strength of the North and South. While France and Germany are the strongest economies, others because of their size and scarce resources are hardly able to compete. The idea of a Single European market and an all encompassing union began to evolve after the end of World War II. It went through various stages before it achieved its present form.

A major development on the threshold of the 21<sup>st</sup> century was the collapse of the Soviet Union and the Socialist bloc that opened the way for the absorption of the Central and Eastern European countries in the mainstream western capitalist system. The goal of the European Union formed in 1992 with the signing of the Treaty of European Union (TEU) was a common currency, the free movement not only of goods, services and capital but also of persons. Thus the objective was to integrate the markets and economies of member states and at the same time to make borders permeable, and a uniting element rather than a dividing one. These aims, however, depended on the fulfilment of two critical preconditions: first, an almost perfect mobility – especially labour mobility – and secondly, a high or at least a steadily growing level of fiscal integration between the member states. Neither of these conditions, unfortunately, were present in Europe when the idea of closer European integration came to the stage of implementation. And there were some more hindrances during the preparatory stage of the project: The people of Europe were not ready for such a step. While they were ready to welcome people from other countries as tourists they would resent them coming in as permanent residents, taking up jobs and settling down in their country. The EU project was not properly explained to the people of the member states and very few accepted the idea. But somehow the Europhiles failed to understand

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<sup>1</sup> Shahid Mahmood, "Project Euro", *The News*, 10 August 2016, at <https://www.thenews.com.pk/print/141305-Project-Euro>.

the mindset of the people or thought that their reluctance to accept the idea would vanish when new prospects opened up for them. The prosperity generated by the single market and the single currency would endear the Union to the clueless reluctant populations of the member states. So what made those politicians in Brussels overlook these formidable hindrances and work towards a quick implementation of their plan?

There was a belief among the leading EU enthusiasts, among them Germany, that countries within the Eurozone would voluntarily adopt sound economic policies over time. A close coordination of economic and fiscal policies though considered desirable was not part of the game plan; these continued to be regarded as 'sovereign' decisions of the respective member states. Also, there was a genuine hope that EU countries would undertake such structural reforms that would make their markets flexible enough to withstand economic crises and downturns. And thirdly, there was a belief that states joining the EU would at the outset, honestly declare their economic and financial assets.

With these beliefs, the Euro project finally took off in 1999 and culminated in 2002 in the launch of the single currency. Sixteen years and two financial crises later, the EU in 2016 received perhaps its biggest shock in the form of the announcement of Britain's exit (or Brexit as it is called in the media) from the European Union. This has raised the spectre of others following suit. The Euro crisis began in 2010 and it took a serious turn in the following years.

There are several factors that triggered the present crisis. The primary one relates to the lack of integrated fiscal and economic policies. Integration in fiscal and economic policies did not evolve as expected. Despite being part of a currency union, the Eurozone governments pursued their national fiscal policies. While some member states like Germany followed fiscal policies based on strict debt reduction and a balance between earnings and expenses, others like Greece went on an expenditure spree aimed at reducing the development gap between their countries and the more advanced EU member states. They also wanted to quickly improve the living standards of their people. This policy was backed to a great extent by the availability of generous loans under the Euro arrangement. A secondary source of this spending binge were investments by the large economies like

Germany and France in peripheral countries like Greece and Portugal in the initial years of the adoption of the Euro.<sup>2</sup>

This fiscal imbalance between the strong and the smaller economies led to the crisis in which Greece's fiscal troubles not only caused a domestic economic meltdown but also started a domino effect that saw other countries like Spain, Ireland and Portugal announce their own economic problems. The international crisis in the banking sector struck the EU banks as well and further weakened the affected economies.

The hope of evolving sound fiscal policies merely remained a hope. In the crisis situation it turned out that there was no consensus among the member states on how to deal with the problems and how to overcome them. Certain restrictions on member states such as a limit to the fiscal deficit were not enforced and member states who overstepped the limit were not punished, though the rules did provide for it. Punitive measures were mostly avoided because there was a fear that voices critical of the EU would be strengthened and resistance against Brussels and its decision-making structures would rise. Particularly noticeable was Greece, the most troubled economy of the Eurozone. The Greek government, continued to do more borrowing without charting out any plan with regard to repayment of old and new debts. With low economic growth, low tax revenue and bleak prospects for growth, the Greek government had hardly any alternative but to announce its bankruptcy. Other countries followed suit by disclosing their dire fiscal problems.

In the process of finding a bail-out for Greece, the EU had to involve the IMF, with the result that Greece lost its sovereign and independent decision-making to the IMF and the EU, which evoked a strong adverse reaction among the population. The current situation has brought home the truth that a genuinely independent European Central Bank could have helped in times of economic upheaval and would have prevented such a situation. The EU has already initiated the European Stability Mechanism to supervise the European Central Bank to further strengthening the banking sector.

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<sup>2</sup> Ibid.

There are political implications of the EU crisis as well. It was not caused only by problems in one or more countries. It is a systemic crisis that requires basic changes in the set-up of the EU; such changes though would require united and concerted action by the member states. So far the EU has not been able to achieve this. It implies that the European political environment, comprising nation-states that till today claim full independence in their decision-making in the political and economic realms, will have to change. One inevitable outcome of closer union is loss of independence in decision-making. Integration also stands in the way of the nationalisms that tend to divide European member states as sovereign entities with different and competing interests. This truth about the obligations of membership of the EU has not been communicated by the governments to the respective populations and is detested by those political forces that insist on preserving the nation state and sovereignty in its traditional form. As a result of the economic crisis the influence of right-wing, nationalist parties and forces is on the rise everywhere in Europe. Even among the countries that stand by the principles on which European Union has been built, the readiness to act jointly according to an agreed plan is missing. Instead, old political and historical prejudices and antagonisms that had been believed to be long extinct or at least subdued have re-surfaced with a vengeance. Thus, Greece is suddenly claiming reparations from Germany for damages done during the Second World War and German Chancellor Merkel is depicted as a despot. In addition, the refugee crisis has overstretched the economic and cultural tolerance of most EU member states, particularly the new entrants from East and Central Europe. The most rabid forms of racism have resurfaced and centre right parties with an anti-EU agenda are gaining political influence.

Though it is a bitter truth, it is undeniable that the severe economic shock that the proponents of European integration had hoped to dodge did take place after all. In fact, integration spread the contagion of the malaise in Greece's economy to other member states of the Union. Keeping all this in mind, people should not have been so surprised that the British decided to opt out of the arrangement. However, it was not only a surprise but a rude shock to Europe, though of course Britain has always been a rather reluctant partner in the different stages of European integration, which may be owing to its insularity or its lingering nostalgia for empire, at times revealed in its imperial posturing. But more than that, this author's hunch is that if the British economy can ward off the negative impact of this exit

move, then we will see more Eurozone countries opting out of the Union. The next crisis is already in the making, for the Italian economy, the third largest in the EU, is not performing well. Recent data reveal that the economy is stagnating, as is consumption. The first six months of 2016 have seen zero per cent growth, industrial production has fallen and unemployment has impacted one third of the people below the age of 35. Around 17% of bank loans are reported to be bad and state borrowing has reached 135% of the Gross Domestic Product.<sup>3</sup> Even worse than the Greek problem and Brexit, the Italian economic woes might trigger a political crisis that could lead to the fall of the Renzi government and early elections. Some fear that this could bring anti-European integration political parties into power and the exit of Italy from the Union. Such a development would certainly be a major shock to stability in the region.<sup>4</sup> Another view is that after Brexit, Italy is keen to replace Britain as the third influential country in the EU.

The Renzi government plans to hold a constitutional referendum on December 4, 2016, asking the electorate whether they favour proposed amendments to the Italian constitution for the redistribution of powers between the Centre, the regions and the administrative units and for parliamentary reforms.<sup>5</sup>

This brings us to the idea of South Asian integration patterned on the EU model. Can the EU model be applied to SAARC or to a cooperative arrangement between Pakistan and Afghanistan? In any case one could suggest that South Asia can always try to learn from the mistakes made by Europe. But given South Asia's stark realities and the present plight of the Eurozone, it should be clear that a complete duplication of the European model would not be workable in South Asia, which is in a very different stage of development and where the cultural and political milieu is entirely different. Anyway, let us see what are the odds of Pakistan and India entering into fiscal or monetary integration, allowing unhindered mobility across their borders, or even a genuinely free trade arrangement? The reality is that the chances, under the present circumstances, are close to

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<sup>3</sup> <http://www.spiegel.de/politik/ausland/dreiergipfel-in-italien-angela-merkel-beraet-ueber-zukunft-der-eu-a-1108985.html>.

<sup>4</sup> <http://uk.businessinsider.com/italys-political-and-economic-crisis-threatens-europes-stability-2016-7>.

<sup>5</sup> [www.repubblica.it/politica/2015/10/13/news/](http://www.repubblica.it/politica/2015/10/13/news/).

zero. The chances of Pakistan and Bangladesh, or Pakistan and Afghanistan successfully reaching or implementing such an arrangement are nearly as remote. Despite all hindrances, steps have been taken by the South Asian countries to promote trade and economic integration in the region. A South Asian Free Trade Area (SAFTA) agreement was reached on January 6, 2004 at the 12th SAARC summit in Islamabad. It created a free trade area between Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The seven foreign ministers of the region signed a framework agreement on SAFTA, envisaging a phased reduction in customs duties on all traded goods, which by 2016, would become nil. The SAFTA agreement came into force on January 1, 2006 and is operational following the ratification of the agreement by the seven governments. SAFTA required India, Pakistan and Sri Lanka to bring their duties down to 20 percent in the first phase of a two-year period ending 2007. In the final five-year phase ending 2012, the 20 percent duty was to be reduced to zero through subsequent annual cuts. The least developed countries in South Asia (Nepal, Bhutan, Bangladesh, Afghanistan and Maldives) have been given an additional three years to reduce tariffs to zero. India and Pakistan ratified the treaty in 2009, whereas Afghanistan as the 8th member state of SAARC ratified the SAFTA agreement on May 4, 2011.

Since the conclusion of the SAFTA agreement some modest successes have been achieved. Pakistan's trade with Afghanistan has increased. In 2006-2007 it was worth only US \$753 million, but rose to US \$2.34 billion in 2011. Pakistan's imports from Afghanistan increased only slightly.<sup>6</sup> Pakistan still maintains a sensitive list of 938 items with regard to trade with Afghanistan under the South Asia Free Trade Agreement. All other items not on the sensitive list can be exported to Pakistan from the SAFTA countries, including Afghanistan, at a tariff rate of zero to 5 per cent. But 938 items is a significant number considering the uneasiness of the whole situation. Afghanistan too maintains a sensitive list of 850 items under SAFTA.<sup>7</sup>

Why is that so? Why has SAARC – the organization designed to promote economic cooperation and integration – failed to deliver? Nasir Iqbal

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<sup>6</sup> [http://www.sdpi.org/publications/files/SOUTH ASIAN FREE TRADE AGREEMENT \(SAFTA\) AND IMPLICATIONS FOR PAKISTAN \(W%20-%20138\).pdf](http://www.sdpi.org/publications/files/SOUTH_ASIAN_FREE_TRADE_AGREEMENT_(SAFTA)_AND_IMPLICATIONS_FOR_PAKISTAN_(W%20-%20138).pdf).

<sup>7</sup> See <http://www.dawn.com/news/1276966/pakistan-has-938-items-on-safta-sensitive-list-with-afghanistan>.

opines that regional and bilateral trade agreements are only effective in enhancing trade when they are supported by a well-developed institutional framework which ensures that agreements are implemented in letter and in spirit. Tariff rates and non-tariff barriers can only be effectively reduced if institutional frameworks are well developed and arrangements are properly implemented.<sup>8</sup> In addition, strong political will is required to ensure that arrangements such as SAFTA and MFN have a positive impact on bilateral trade. Regional and bilateral trade agreements require policy reforms on the implementation side, particularly to reduce tariff and non-tariff barriers to trade. These reforms can only be implemented if the trade agreements are backed up by supportive institutions. But in all SAARC countries, including Pakistan and Afghanistan, not only is the institutional framework missing or inadequate, the political will is also weak to say the least.

Despite the fact that SAARC was designed as an organization for promoting economic cooperation, and excluded from its charter bilateral political issues between member states, the practice, during the decades since its establishment reveals that this is an obstruction to closer cooperation. Political problems cannot be shelved so easily. The European experience is similar. The latest SAARC meeting of interior ministers in Islamabad in August 2016 has proved once again that the persisting political issues between member states hinder an advance in cooperation on economic issues.<sup>9</sup> This is obviously owing to the misplaced belief that economic integration or cooperation is possible without first solving some basic political problems that disturb inter-state relations between the partners. Here the European model could serve as an example, for after the Second World War, Europe had to get rid of enmities and mistrust going far back into history. Germany and France - 'arch enemies' of yesteryears - had to bury the hatchet and come together to form the European communities. A similar approach has to be adopted by the South Asian countries, including Pakistan and Afghanistan. Many SAARC meetings have shown that the uneasy relations between India and Nepal, India and Maldives, India and Bangladesh, India and Pakistan, Afghanistan and Pakistan, and some lingering issues between Bangladesh and Pakistan, related to the secession of East Pakistan in 1971, make it impossible for SAARC member states to

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<sup>8</sup> <http://www.eastasiaforum.org/2016/03/19/why-has-safta-failed-to-boost-pakistan-india-trade/>.

<sup>9</sup> "Rajnath Leaves Saarc Meeting Abruptly Amid Bitterness", *Dawn*, 5 August 2016.



have a meaningful agenda on economic cooperation. Distrust and misgivings are hampering the resolve of SAARC member states to cooperate with each other in the economic and political realms. Of course, mutual trust is the most important pre-condition for cooperation and integration.

This means that political issues like Kashmir, the Afghan-Pakistan border, policies on terrorism and peace in Afghanistan have to be addressed first; and if an early solution to these problems is not found, at least a common approach for finding a solution has to be adopted. With all these lingering, solution defying issues persisting since the past many decades there is a trust deficit between the member states that hinders cooperation without reservations. It also holds them back from pursuing the positive economic path. As long as countries continue to use the economy as a tool for settling political scores, genuine economic cooperation or integration are not possible. Fears of infiltration from rival countries and security concerns hinder economic cooperation. How can Pakistan and India be sure that gas from the Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI) passing through Afghanistan and Pakistan would not be cut off at any moment to exert political pressure on Pakistan or India?<sup>10</sup>

In this author's opinion, the crux of the problem in South Asia is that despite independence the region is in varying degrees still a post-colonial society that is carrying the burden of issues inherited from its colonial past. The partition of British India into two nation states has to a certain extent contributed to the political problems that the region is facing today. An important factor that hinders trust and understanding between the South Asian countries is the comparatively large size and growing military strength of India (the enhancement of which is mostly owing to the defence cooperation extended to the country by the big powers) and its intimidating attitude towards its smaller neighbours in South Asia. While India is without doubt the strongest economy in the region, in a regional arrangement there should be equal partners regardless of their size, population or economic status. Here again, the EU could be taken as an example. All states in the Union, regardless of their size have an equal say in the affairs of the EU. This means that India needs to change its attitude towards its partners in SAARC. As the largest country, and as a rapidly

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<sup>10</sup> Mian Saifur Rehman, "Pak Efforts Provided Impetus to Tapi Gas Pipeline", *The News*, 21 December 2015.

growing economic power in the region, New Delhi needs to demonstrate that it will not dominate the others and is willing to participate in SAARC in a spirit of accommodation. It must also prove that it is not going to trample on the aspirations of its smaller neighbours. The participants of a conference entitled “Transforming South Asia: Imperatives for Action” organized by the Indian Council of World Affairs and the Association of Asian Scholars in 2012, generally endorsed this viewpoint.

The two-day conference brought together scholars and academics from all the SAARC countries.<sup>11</sup> It was acknowledged at this conference that the grant of Most Favoured Nation (MFN) status to India by Pakistan has quite understandably evoked resistance in Pakistan’s agricultural and automotive sectors. It is contended that Pakistan’s industries are too young and vulnerable to be able to compete with the influx of cheaper Indian products. Political circles in Pakistan have expressed the apprehension that extending MFN status to India can cause severe harm to Pakistan’s economy and that there is growing evidence that bilateral trade has hardened India’s stance on the Kashmir issue.<sup>12</sup> In the above mentioned conference there was broad consensus among the participants that without active engagement and the spirit of accommodation on the part of India, South Asia can not achieve the dream of a South Asian union. They concluded that Germany and France, who after the Second World War, managed to set their hostility and differences aside, can serve as a model for India and Pakistan. That was in 2012 and in 2016 we see that these things are easily said but difficult to do.

The EU was granted observer status in SAARC in 2006. It was in acknowledgment of the EU’s genuine interest in the progress of regional co-operation and integration in South Asia. The EU hopes that it can help consolidate the integration process through its economic influence in the region. It also believes that it can serve as a model for the South Asian countries in the realm of economic and trade integration. Like South Asia, Europe too has great cultural, ethnic and economic diversity and yet the European countries realize that there can be unity in diversity. Besides, the European Union and its member states are keen that the international

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<sup>11</sup> Sunjay Kumar, “Can Saarc be South Asia’s EU?”, *The Diplomat*, March 2012. Visit <http://thedi diplomat.com/2012/03/can-saarc-be-south-asias-eu/>.

<sup>12</sup> Visit at <http://thedi diplomat.com/2015/02/india-pakistan-the-curious-case-of-the-mfn-status/>.

community should be vigilant about the eruption of crises in potentially volatile regions of the world. However, the role of an outsider can only be minimal. Neither can a model from outside be adopted in totality, for the ground realities in each region are different. The EU model would have to be realistically adapted to suit the circumstances in South Asia.

### **The possibility of improvement of relations between Pakistan and Afghanistan through more economic interaction**

With regard to connecting – or re-connecting – Afghanistan with South Asia, it becomes quite clear after taking a look at the map and the prevalent geo-political situation, that Pakistan has to play a central role in the process. Soon after the creation of Pakistan, Afghanistan began to question the legality of the Pakistan-Afghanistan boundary as the international border between the two countries and claimed that it was a legacy of the colonial era. Thus relations between the two countries remained uneasy since the beginning. In the aftermath of the Soviet withdrawal from Afghanistan in 1988-89, owing to its vulnerable geo-strategic position, Pakistan began to look towards Afghanistan for ‘strategic depth’. In short, the two neighbours considered their mutual international border as permeable. While Pakistan now appears to have given up this strategic concept, there is still a lingering interest among policy-makers in pursuing this option to ensure Pakistan’s security in the face of any future bellicosity on the part of India.<sup>13</sup> Successive Afghan governments have been quite stubborn about the border issue and it would be difficult for President Ghani to change the country’s stand.

For Pakistan, security along the long Pakistan-Afghanistan border poses a major problem. With permeable borders, Pakistan, suffered because of the continuing turmoil and instability in Afghanistan which began after the coup that removed King Zahir Shah in 1973. The porous border has made it easy for militants and militancy to spill over from Afghanistan into Pakistan. It has also made it easy for Pakistani militants to find refuge in the mountainous terrain of Afghanistan. Sometime back, the internal security of Pakistan had deteriorated, resulting in cruel attacks on schools and government installations. The military operations in Waziristan and other parts of FATA as well as the Rangers operation in Karachi have brought a

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<sup>13</sup> Amir Latif and Shadi Khan Saif, “Islamabad Shifts Course on Afghan Strategy, Abandons Strategic Depth Doctrine”, (June 15, 2016), available from [pkonweb.com/201606/Islamabad-shifts-course-on-afghan-strategy-abandon-strategic-depth-doctrine/](http://pkonweb.com/201606/Islamabad-shifts-course-on-afghan-strategy-abandon-strategic-depth-doctrine/).

real improvement in the country's security and are a proof of the genuine intention of Pakistan to fight terrorism.<sup>14</sup> However, the security situation in Balochistan and the provincial capital Quetta needs improvement, so that it is no longer vulnerable to mischief makers. It is of utmost importance for Pakistan to start getting its act together and establish a tight border security regime. It would not be an unfriendly act towards Afghanistan but the natural desire of a nation state to have its borders secured and its territory well defined. Given that not only are there political issues between the two neighbours, some Afghans have even resorted to open acts of hostility such as the mob attack on border crossing points in Pakistan on the Afghan independence day on June 20, 2016. This is another good reason to guard the border tightly.<sup>15</sup>

The Quetta terrorist attack which killed 70 lawyers in August 2016 has also highlighted another issue that hinders an improvement in Pakistan-Afghanistan relations: namely India using Afghanistan to achieve its ambitions in the region, and Kabul allowing itself to be used for this purpose. India has been trying since the past many decades to use Baloch grievances to encourage unpatriotic elements in the province. Indian President Modi's bellicose statements on the China-Pakistan Economic Corridor and Balochistan, strengthen the perception of the Indian hand behind the unrest in Balochistan.<sup>16</sup> The fact is that India till today has not been able to accept the reality of partition and the existence of Pakistan. Until and unless this mindset of India changes, South Asia will not be secure and stable. And here we are back to square one having completed a full circle: the need to either accept the political status quo as a basis for enhancing economic cooperation or to resolve all the outstanding disputes before an improvement in economic relations can be achieved. So far it seems that even the people at the helm of affairs are not understanding this, or are not sincere in their endeavour to take remedial steps to get rid of the impasse. Therefore, the current prospects for closer economic cooperation and for greater political understanding are dim. The only way out of this situation for the time being, is to make Pakistan as strong as possible, and for the country's government and people to put their own house in order.

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<sup>14</sup> "UN Special Representative on Afghanistan Appreciates Pakistan's Efforts for Counter-Terrorism", *Times of Islamabad*, 4 August 2016.

<sup>15</sup> "Pakistan to continue Regulating Afghan Border", *Dawn*, 24 June 2016.

<sup>16</sup> "India Raises CPEC with Chinese Minister", *Dawn*, 14 August 2016.

It would be pessimistic to say that nothing can be done. That is why the author wants to float an idea which she hopes can bring about a major improvement in the situation in Pakistan's western border and the FATA region, which has suffered the most from militancy and military operations and is in the frontline in the efforts to secure the Afghan-Pakistan border. And if that works out well in FATA, Afghanistan may request to be included in the successful project. But that is a long-time perspective. For the time being, the prospects for peace in Afghanistan are remote. The Afghan government was installed and is propped up by the US and so is dependent on its financial, economic and military support. Despite American support it has been losing control over territory. The Taliban have declined peace talks, and the killing of the Taliban chief Mullah Mansoor in May 2016 by American drones has further lessened the prospects for peace, if there are any. The main demand of the Taliban is that foreign troops should leave the country, and given their current military ascendancy there is no reason for them to back out from this demand.<sup>17</sup> It is in the American interest to prolong their stay in Afghanistan for many more years. The dynamics of conflict in the present-day Middle East has considerably changed owing to the emergence of Russia as a player capable of wielding decisive political influence, and it seems that the situation is going against the US and its allies at this time. This has practically ended the traditional American domination in the Middle East, forcing it to rethink its exit from Afghanistan.<sup>18</sup> This situation throws a spanner in any plans for regional economic development, cooperation or integration.

#### **Economic uplift of FATA by making it a free trade zone**

Other than the US plan to create Reconstruction Opportunity Zones (ROZ) in FATA that had been floated for a couple of years, but was dropped when the US and NATO decided to leave Afghanistan by 2014<sup>19</sup> a free trade zone initiated by Pakistan, combined with the China-Pakistan Economic Corridor (CPEC) project would be a way to bring economic development to the tribal region. This would create jobs and income opportunities for the population. There is a dire need to resettle the population displaced in the course of the military operation Zarb-e-Azb. It is very essential that the

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<sup>17</sup> "No Peace until Foreign Troops Leave Afghanistan: Taliban", *The Express Tribune*, 22 September 2015.

<sup>18</sup> "Should the US just Stay in Afghanistan?", *CS Monitor*, 8 February 2016.

<sup>19</sup> [http://www.atimes.com/atimes/South\\_Asia/NE16Df01.html](http://www.atimes.com/atimes/South_Asia/NE16Df01.html).

Pashtun families are provided with the means of income generation other than the smuggling of arms or narcotics. While it is important to construct houses, roads and bazars destroyed during the operation, people also need to earn their living honestly and not live off charity. They must feel that they are honourable and useful members of society. Trade is a traditional occupation of that area and Pashtuns have centuries old experience in trading. In addition, Pakistan has to effectively check the immense amount of smuggling that has been going on over the decades and that is denting the revenues of the state and destroying Pakistani industries and jobs. Thus, promoting trade in a controlled manner would solve several problems at the same time. In addition, with time, trade can be supplemented by industrial development in the area that could utilize the skills and experience of the Pashtun expatriates who have returned from the UAE or who would prefer to move back from Karachi and other cities of Pakistan if conditions in their own region improve.

A detailed plan for such an endeavour can not be given in this paper. There is no doubt that implementing such a plan will take time and it needs a host of legal, administrative, financial and political arrangements. But economic development in FATA and Balochistan and all along CPEC would open up Pashtun and Baloch society and bring the two communities into mainstream Pakistani population.<sup>20</sup> It is the only way to prevent the recurrence of extremism and militancy, which have made this area so insecure.

In the light of the above analysis, it can be said with certainty that in the short-term there is very little chance for a substantial improvement in economic cooperation or integration of Pakistan and Afghanistan as well as the broader South Asian region. That does not mean that Pakistan should stop trying for it; small improvements can be made and some steps forward can be taken. But given the formidable obstacles, it will take longer to achieve results. For the time being therefore, Pakistan can begin preparing its own economy for regional and even global competition, and strengthening its national fabric through socio-economic development and by integrating those parts of the population that have been neglected over the decades and have been affected by the worst impact of terrorism.

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<sup>20</sup> Amjad Ali Shah, "Fata will be Connected with CPEC, KP Governor", *Business Recorder*, 25 March 2016.

This proposal might seem illogical in a situation where globalization is spreading fast and regional integration is the demand of the time. Securing a national border and concentrating on one's own economy seems a step towards isolation rather than integration. But the example of the European Union has also taught us that taking the second step before the first can be fatal and might bring the whole project down. Pakistan and the other South Asian countries have many problems at home, which have to be solved, and given the political obstacles to regional integration in South Asia, it makes sense to concentrate on the home front first. Putting it philosophically: disengagement and self-reliance may be the first, but necessary step towards sounder cooperation and integration based on mutual trust and respect later on.

An afterthought: The world is changing and new power conglomerations are taking shape in Asia. Among the most important ones is the Shanghai Cooperation Organization (SCO) of which both India and Pakistan are members, alongside China and Russia and others. Maybe in this larger circle, there is a better chance of success for resolving the disputes that haunt South Asia; and those who are not willing to cooperate in the SAARC forum or in bilateral settings, may feel obliged to alter their respective stands when pressed by a bigger circle, with more powerful members.