

# Changing the Rules of the Game: How the Taliban Regulated Cross-Border Trade and Upended Afghanistan's Political Economy

## Afghanistan Border Monitoring Project

### Executive Summary

This research reveals just how fundamentally the rules that govern cross-border trade have changed since the Taliban takeover, upending the political economy of Afghanistan in the process. Key findings:

- 1.** Once in government, the Taliban moved quickly to regulate and centralise revenue collection on cross-border trade through the Ministry of Finance, replacing senior officials at Border Crossing Points (BCPs) while adopting and rigorously enforcing government regulatory frameworks and border management systems.
- 2.** The Taliban also dismantled the network of roadside checkpoints that had collected rents for powerbrokers in the provinces, as well as checkpoints operated by the Taliban as insurgents, earning them an estimated US \$245 million in annual revenues under the former Republic.
- 3.** In wider efforts to channel trade to official BCPs, where taxes are collected by central Ministries, the Taliban also closed smuggling routes that had previously generated revenues for both Taliban factions and local powerbrokers.
- 4.** These Taliban efforts have drastically reduced corruption and effectively disassembled a political settlement that rested on a system of patronage where powerbrokers siphoned off as much as US \$767 million in bribes each year on undeclared goods at official BCPs and levied a further US \$650 million at checkpoints on arterial roads.
- 5.** Changes in flows and border management, as well as Taliban policies, have also redistributed benefits among Afghanistan's neighbours, with a significant drop in the volume of trade with the Central Asian Republics and Iran attributable partly to an 80 percent drop in fuel imports.
- 6.** In contrast, the Taliban and Pakistani governments are adapting policies and infrastructure to improve the flow of trade. Tighter Taliban border management and the Pakistan border fence deny funding to armed groups opposed to the government in Islamabad, while a doubling of coal exports from Afghanistan to Pakistan benefit both parties.
- 7.** Centralisation of revenues deny factions within the Taliban the revenue they earned as insurgents. Opportunities for patronage are now more limited, but may include government appointments, mineral industry contracts, aid delivery, and the drug industry. Potential dissatisfaction with their distribution among groups within the Taliban could threaten the stability of the Taliban government over time.

# Introduction

There has been a fundamental shift in the way the revenues on cross-border trade are collected and distributed following the August 2021 Taliban takeover of Afghanistan. Under the former Islamic Republic of Afghanistan, corruption was not just endemic, it was a critical part of the political settlement, with powerbrokers at the centre and in the provinces collecting substantial rents on trade at both official Border Crossing Points (BCPs) and roadside checkpoints in the interior. In capturing BCPs as well as key roadside checkpoints in their advance towards the capital, the Taliban denied these rents to the Republic's allies in the provinces, undermined Kabul's ability to provide largesse, and undercut the bargains that held the previous government together. It is therefore understandable that, once in government, the Taliban moved quickly to regulate and centralise revenue collection, channel trade through formal crossings, and enforce effective management of official BCPs. However, this arrangement now denies groups within the Taliban the revenue they earned as insurgents. How these groups gain rent and favour under this new system remains unclear, as does its future stability.

This paper by Alcis and David Mansfield<sup>1</sup> presents the key findings of six months of in-depth research that combined focused fieldwork with high resolution

satellite imagery and geospatial analysis. The research reveals just how fundamentally the rules that govern cross-border trade have changed in Afghanistan since the Taliban takeover, the implications for the present Taliban government's revenues, and how these changes impact on the political topography within Afghanistan and on its borders.



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## Seizing a Different Kind of State

**In the mid-1990s, the Taliban captured a country and economy that had been devastated by almost two decades of war.** Government ministries and state institutions in Afghanistan were barely functional, and the United Nations agencies and NGOs delivered most education and health services. The economy was subsistence with few exports, the most notable being illegal opiates. The largest source of domestic revenue was the duties levelled on the transit trade,

which according to the World Bank earned the previous Taliban government US \$75 million in 1997.<sup>2</sup>

**When the Taliban seized Kabul in August 2021, they inherited established government institutions and a much larger economy.** After two decades of internationally supported, albeit fitful, reconstruction and state-building, the Republic officially employed more than 400,000 civilians in 54 ministries and

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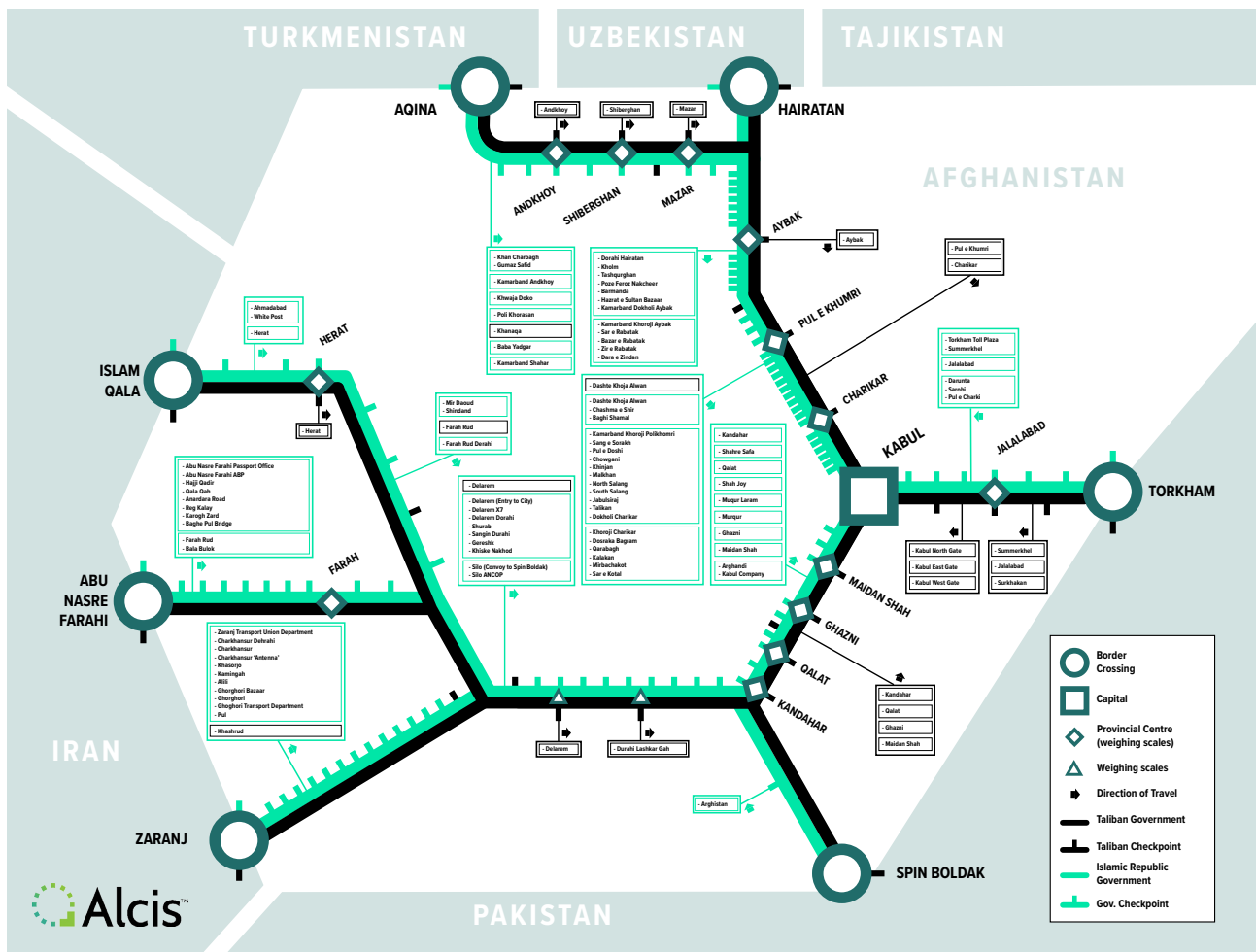
1. We wish to thank the Organization for Sustainable Development and Research (OSDR) and Daud Sangarwal for data collection over the duration of this project. Fieldwork included in-depth interviews at seven BCPs with customs officials, traders and transporters directly involved in nine cross-border value chains. The methodology, data analysis and final report were solely the responsibility of Alcis and David Mansfield.

2. Barnett Rubin, "The Political Economy of War and Peace in Afghanistan," World Development Vol 28, No 10, pp 1789-1803, 2000

agencies. It had an operational budget of US \$3.7 billion and a development budget of US \$2 billion.<sup>3</sup> Although highly dependent on aid, officially the Republic generated US \$1.2 billion in taxes in 2020, one third of which was from taxes on international trade.<sup>4</sup> While the economy and trade have shrunk since the Taliban seized power, reducing the Taliban's tax base, the new government has largely sought to adopt and operate within the existing institutional framework.<sup>5</sup>

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**Figure 1.** Schematic showing the distribution of checkpoints under the Republic and under the Taliban Government.



3. National Statistics & Information Agency, “Afghanistan Statistical Yearbook, 2020” NSIA, Issue No 42, April 2021.

<https://invest.gov.af/theme3/wp-content/uploads/2021/06/Afghanistan-Statistical-Yearbook-first-Version.pdf>

4. Ibid.

5. The Academy of Sciences review of the laws and constitution remains ongoing, so the future institutional structure of the government remains uncertain. So far Independent Directorate for Local Governance, the Ministry for Women’s Affairs and the Afghan Independent Human Rights Commission have been abolished.

# The Regulation and Centralisation of Revenues

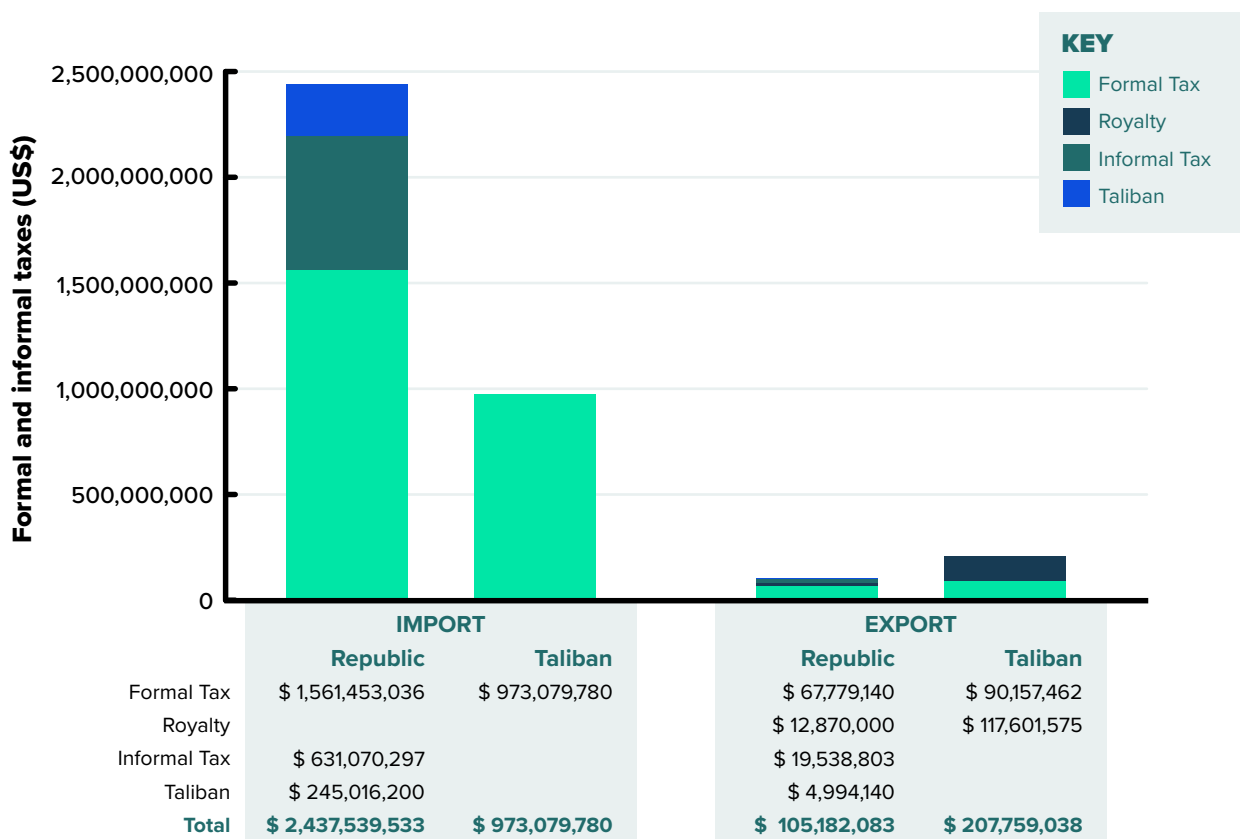
Once in government the Taliban quickly moved to regulate and centralise revenue generation on cross-border trade. They made significant efforts to disassemble the patronage system that prevailed at the borders and on the roads under the Republic. They were aided by the departure of many of the “strongmen” who occupied positions of power in the government and who fled the country when the Republic collapsed. The schematic in Figure 1 above shows the distribution of roadside checkpoints along routes to and from the seven main BCPs under the

Republic and under the Taliban Government. As the figure shows, there are now many fewer checkpoints than there were under the Republic (see also below).

**Effective management of the official BCPs was prioritised, including centralising the collection of revenues through the Ministry of Finance.**

Corruption at the borders was endemic during the Republic, with significant volumes of undeclared goods entering and exiting the country. This research documents and maps US \$1.56 billion that the

**Figure 2.** Potential formal and informal taxes on exports and imports under the Republic and under the Taliban.



Republic could potentially have earned annually on cross-border trade, whereas it reported only US \$793 million in 2020 (see Figure 2). The Taliban replaced senior officials at BCPs while still enforcing the “rules of the Ghani government”. These rules include the accurate weighing of trucks at BCPs and at in-land weighing stations as well as the checking of contents to ensure they match the description of the goods. Quality control checks now are being conducted on import commodities such as fuel, with material falling below standard being impounded and returned. The Automated System for Customs Data (ASYCUDA), a computerized system designed by the United Nations Conference on Trade and Development (UNCTAD), is being implemented without interference, unlike under the Republic. Likewise, transporters now have to wait their turn at BCPs, with little to no opportunity to make informal payments to fast-track their trucks through BCPs.

These rules were routinely and extensively ignored by officials in the Republic who owed their positions to powerful patrons and were required to pay tribute to remain in post. Officials, transporters and traders interviewed for this research all noted systemic change in the management of cross-border trade following the Taliban takeover. In eliminating the most egregious corruption at the BCPs, the new government could earn as much, if not more, in duties and direct taxes on imports as officially declared by the Republic (see Figure 2). This is despite the dramatic fall in the volume of imports and the lower value of these goods following the Taliban takeover and the ensuing economic crisis.

**High resolution satellite imagery documents the collapse of this entrenched patronage system and points to changing patterns of trade and improved border management.** For example, trade through the official BCP at Aqina in Faryab, a remote outpost bordering Turkmenistan, has all but collapsed with the departure of Abdul Rasheed Dostum, the former Vice President and powerful ethnic leader. In previous years, because of Dostum’s influence, Ministry of Defence contracts required imported goods to be routed through this border crossing point, where tax exemptions and corruption generated significant informal revenues for Dostum and his patronage network. This circuitous route to Kabul and other main population centres no longer



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has a competitive advantage. The little movement of goods that does take place at Aqina requires the material to be manually transferred from one truck to another. At other BCPs, visual signatures also point to the Taliban government’s efforts to control and regulate trade, including the increasingly orderly management of traffic at Islam Qala, see Figure 3, and the confiscation of hundreds of fuel tankers containing poor-quality fuel at Abu Nasr Farahi.

**The Taliban have been particularly adept at understanding cross-border value chains and setting taxes at rates that businesses can absorb.** For example, the Taliban have raised the duties and royalties on the extraction of and trade in minerals. Our calculations suggest that these increases are largely commensurate with the amounts traders are saving with the removal of interior checkpoints and the illegal monies formerly collected (see below). Where new rates imposed by the Taliban have been punitive, there has been some scope for negotiation and, in some cases, the Taliban reduced taxes. In several sectors, the Taliban has required traders to provide advance payments or guarantees, further emphasising the priority the new government gives to improving cash flow at the centre.

# Denying Revenues to Powerbrokers in the Provinces

**The Taliban also dismantled the network of roadside checkpoints that proliferated under the Republic, where substantial amounts of informal rents were collected.** These checkpoints served as valuable real estate for those who controlled them, particularly on the routes from the BCPs at Hairatan and Aqina where supplies for NATO and the former Afghan Ministry of Defence transited. Our research identified over 180 official checkpoints -on the main highways where members of the Afghan National Defence and Security Forces, most notably the Afghan National Police, siphoned off an estimated US \$650 million in bribes on cross-border trade each year, as shown in Figures 2 and 4. In some of the worst cases, tens of millions of dollars were collected by ministers, parliamentarians, provincial

council members, governors and others in state institutions. This roadside predation has stopped under the Taliban government, aided by the rigorous enforcement of regulations on cross-border trade at official BCPs. Figure 4 also shows the dramatic reduction in interior checkpoints.

**The roadside checkpoints removed by the new government included those the Taliban operated as insurgents.** During the Republic, Taliban checkpoints were strategically located to exploit the valuable cross-border trade and earned the insurgency an estimated US \$245 million per year in revenue. This was significantly more than the potential earnings from illegal drugs and minerals<sup>6</sup>, which our research

## Figure 3.

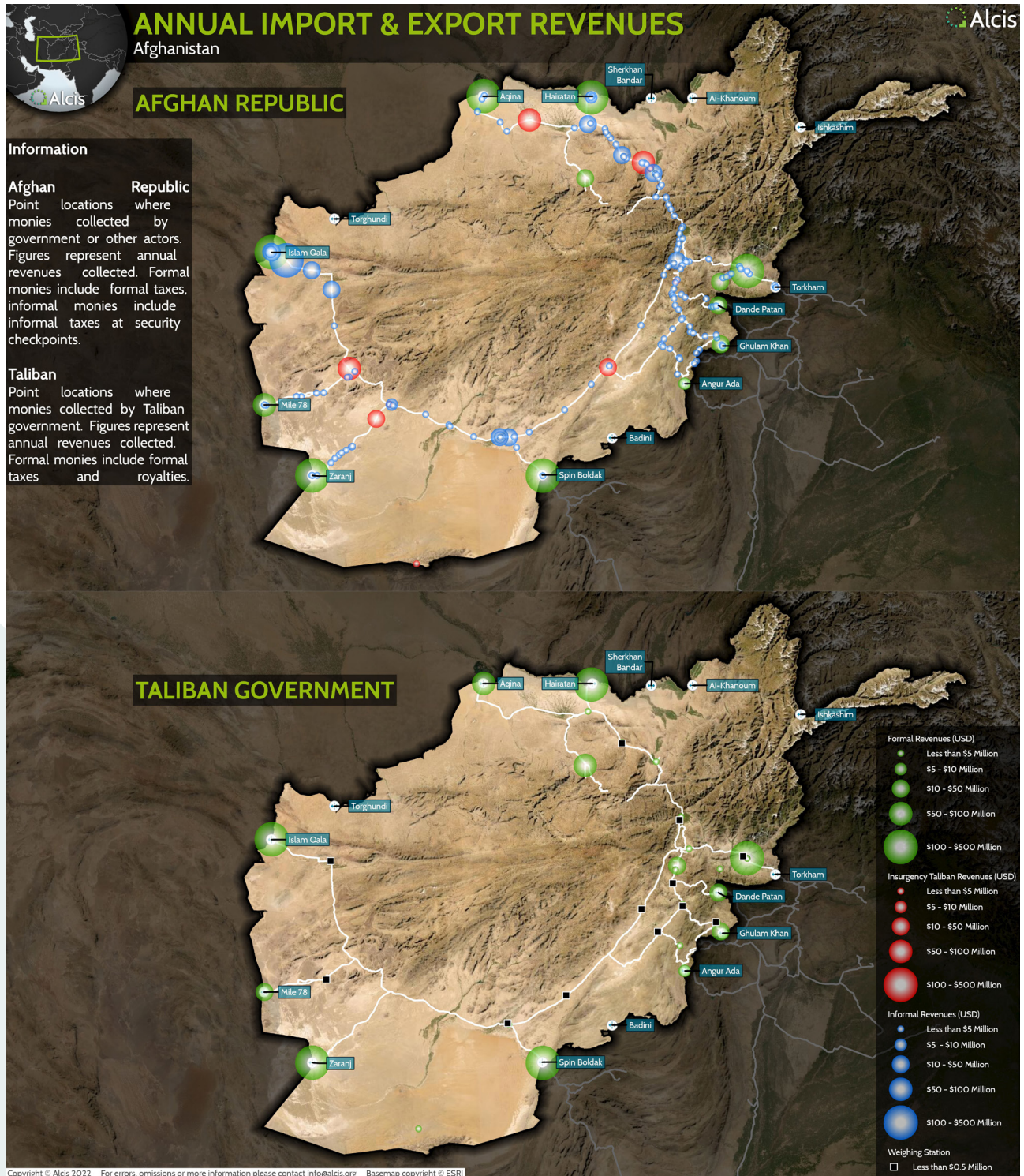
Islam Qala BCP, showing improvements in traffic management under the Taliban government, with trucks now separated and queueing in an orderly and controlled manner.



6. This estimate only includes coal, chromite, talc (soap stone) and marble.

**Figure 4.**

Location and size of revenues accrued at BCPs and roadside checkpoints under the Republic and Taliban Government.



estimates to have been up to US \$35 million<sup>7</sup> and US \$22 million per annum, respectively<sup>8</sup>

**The Taliban government's desire to centralise revenues has also led to the channelling of trade through official border crossings.** To do so, the Taliban government moved to close many of the smuggling routes they exploited as an insurgency and that were a source of revenue for corrupt Republic officials. This is particularly pronounced in the mineral industry. For example, marble and

chromite have been rerouted away from the informal border crossings with Pakistan previously exploited by groups within the Taliban insurgency and directed along the main highways to the official BCPs where the Ministry of Finance and the Ministry of Mines and Petroleum now collect taxes. Sealing the smuggling routes was aided by Pakistan's construction of a border fence which, aside from the six official border crossings, left 18 strategically located gates along its length.

## Redistributing the Benefits of Trade Amongst Neighbours

**Both the Afghan and Pakistani governments are making considerable efforts to improve the flow of trade between the two countries.** The channelling of trade and improved cross-border management by the Taliban has also served the interests of the Government of Pakistan, reducing the revenue lost by its own Ministry of Finance and denying funding to armed groups that oppose the government in Islamabad, including the TTP. Pakistan continues to adopt policies and invest in improvements in cross-border infrastructure that will support further increases in the volume of trade. The Taliban

government have also adjusted trade policies and practices to favour Pakistan. Both governments have benefitted from these efforts. For example, since the Taliban takeover, coal exports to Pakistan are likely to have doubled, providing Pakistan with a cheaper and more reliable source of coal for its important power sector and cement industry than via the sea route from South Africa and Indonesia. As such, the Taliban has benefitted from an estimated annual revenue of US \$160 million in taxes. This stands at almost three times the amount the Republic could have earned, had significant volumes of coal exports not gone unreported.<sup>9</sup>



**Following the Taliban takeover, there was a significant drop in the volume of trade with the Central Asian Republics and Iran.**

**Iran and Central Asia have seen no such advantages, but rather a reversal of the more favourable trade patterns they experienced under the Republic.** Following the Taliban takeover, there was a significant drop in the volume of trade with the Central Asian Republics and Iran. A large part of this is due to the dramatic fall in fuel imports, which fell by as much as 80 percent compared with under the Republic. Further reductions in the volume of trade with Iran can be attributed to policy changes enacted by the Taliban, including the prohibition of some goods, such as frozen meat and heavy machinery, and increased tariffs on others, including vehicle parts and carpets.

<sup>7</sup> David Mansfield, "A taxing narrative: Miscalculating Revenues and misunderstanding the conflict in Afghanistan," AREU, October 2021. <https://areu.org.af/publication/2105/>

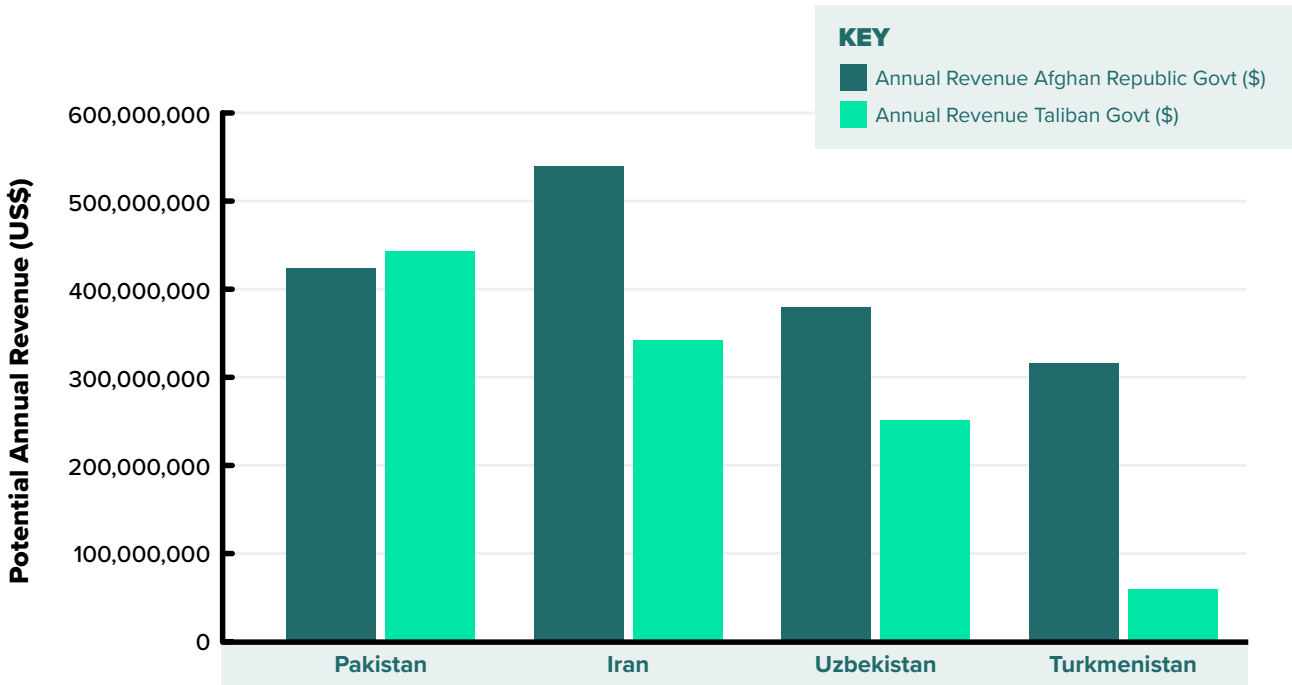
<sup>8</sup> This includes an estimated US\$17 million per annum the Taliban would have earned as an insurgency on the talc industry, when the taxes were collected in Peshawar.

<sup>9</sup> Official Afghan government statistics reported around 1 million metric tons of coal exported to Pakistan each year under the Republic. Using fieldwork, multi-dated satellite imagery and geospatial analysis we estimate that a more realistic volume would be 2.1 million metric tons per annum. Under the Taliban, exports have risen dramatically and could be as much as 4.1 million metric tons per year.



**Figure 5.**

Potential annual revenues generated through BCPs with respective neighbouring countries by the Republic and by the Taliban government.



## A Changing Political Geography

The manner and degree to which the Taliban government has regulated cross-border trade and centralised revenues point to fundamental changes in how politics work in Afghanistan. The rerouting and canalisation of trade, the removal of checkpoints along arterial roads and the rigorous enforcement of regulations at the official BCPs would seem at odds with anecdotal reports of factionalism in the Taliban leadership. These efforts to centralise revenues collected at the BCPs, directing payment through the Ministry of Finance, deny potential splinter groups within the Taliban the revenue they earned as insurgents. For those Taliban commanders looking for a 'war dividend' and to be rewarded for their time on the front line, the opportunities for patronage are more limited under this new dispensation. Currently, potential sources of patronage include:

- **Government appointments**, but with such low levels of corruption, many posts do not offer the financial advantages they did under the Republic.
- **The tendering of contracts in the mineral industry** where significant monies could be made by the Taliban government and, potentially, Taliban-affiliated groups.
- **The delivery of aid** could also offer financial and political advantage for Taliban factions, both in controlling the mechanisms of delivery by establishing NGOs and contracting firms they control, as occurred in the 1990s, but also directing assistance to favoured constituencies.

- **Finally, there is the drugs industry**, whose structure and illegal nature typically defies centralised control and lends itself to rent seeking. However, with the leadership's March 2022 announcement of a ban on cultivation and trade, even here the political and financial interests of some groups within the Taliban may be under threat. If widely implemented, the ban would have significant impact on the rural population. Likewise, some of the Taliban leadership in the south have had direct interests in the trade and would also face the opprobrium of their own constituents in farming villages across the southern provinces.

At this stage, how the Taliban government and leadership will distribute these opportunities for rent and favour among factions within its ranks remains unclear. But ultimately, if over time groups within the Taliban believe the 'war dividend' benefits are insufficient or not adequately distributed, the stability of the new Taliban government could become increasingly threatened.

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