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## Afghan Connection

### Taliban Banned TV But Collected Profits On Smuggled Sonys

Big Manufacturers Decry  
Illicit Traffic to Pakistan  
But Do Little to Stop It

Mr. Khan's Trips to Karkhano

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PESHAWAR, Pakistan—During their five years in power in Afghanistan, the Taliban raged against modern culture and values. But the regime profited from traffic in Sony televisions, Gillette shaving cream and Marlboro cigarettes, among other products.

None of these consumer goods from the West and Asia are made in Afghanistan, and under the Taliban government, they didn't have much of a market there. Watching television, for instance, was banned.

But for decades, whoever has run Afghanistan has exacted tolls on smugglers who ship foreign-made goods through the country and then illegally move the merchandise over the border to Pakistan. The products end up in places such as Peshawar's sprawling Karkhano market, where vendors' shelves are packed with cartons of smuggled Marlboro and Dunhill cigarettes and sidewalk carts offer bright Korean fabrics. Stacks of mud-stained cartons of Sony Trinitron televisions line courtyard after courtyard.

By smuggling these items through Afghanistan, traders evade Pakistan's stiff taxes and duties on foreign goods. This allows consumers at Karkhano and other markets to enjoy large discounts compared to legally imported products.

#### Boosting Sales

Smuggling also effectively boosts Western and Asian manufacturers' sales volume by allowing goods to be retailed at lower prices in Pakistan, a poor nation overall, but one with 140 million inhabitants and a substantial consumer class. The manufacturers all condemn smuggling but say they can't stop it once products leave their direct control. But a close look at the behavior of one major manufacturer, Sony Corp., reveals that some company representatives appear to have tolerated smuggling as part of Sony's marketing strategy in the region.

The fees the Taliban collected on shipments of goods manufactured by Sony and other foreign companies provided one of that harsh regime's biggest sources of earnings. A United Nations study released last year estimated that "unofficial" exports from Afghanistan to Pakistan in 2000 totaled \$941 million, with merchandise worth another \$139 million moving illegally from Afghanistan to Iran. The U.N. estimated the Taliban's annual take at \$36 million. The World Bank, in a 1999 report, said it was \$75 million.

The prospect of exacting similar tolls on the smuggling business helps explain why the Taliban's successors are now wrestling for control over Kandahar, Jalalabad and other cities that are important transit points on smuggling routes. U.S. bombing and poor security have discouraged smuggling for the last three months, but it is expected to resume as relative calm returns.

#### Employment Opportunity

Beyond providing potential revenue to those in charge, smuggling offers employment to poor inhabitants of tribal areas along the Afghan border. That is one reason Pakistan—eager for stability in that area—has made only feeble attempts to compel vendors at Karkhano to pay taxes.

Smuggling economics are simple: A smuggled 21-inch Sony Wega TV typically costs the equivalent of about \$400 in Pakistan. The same legally imported television costs the equivalent of \$440, after duties and taxes. Sony receives the same payment—about \$220—from the distributor either way. Manufacturers thus have little financial incentive to crack down on smuggling.

During most of the 1990s, Sony imported few TVs through legal channels into Pakistan and assembled no sets locally, according to Sony Gulf FZE, Sony Corp.'s wholly owned subsidiary and sales office in Dubai, United Arab Emirates. But that doesn't mean Sonys were unavailable. The Pakistan Electronics Manufacturers Association, a trade group that includes local TV assemblers hurt by sales of smuggled goods, found in a 1996 survey that 500,000 televisions were smuggled into the country that year. At least 70%, or 350,000, of them were Sonys, the survey found.

Today, Sony TVs remain one of the most prominent consumer-electronics products in Pakistani smuggled-goods markets. Sony Gulf's authorized distributor in Dubai sells sets to traders who often ship them to the Iranian port of Bandar Abbas. From there, some of the goods head northeast to the Afghan border near Herat, then southeast on the highway to Kandahar, on to Jalalabad, and then typically enter Pakistan illegally along the Khyber Pass near Peshawar.

Twice a month, Khalid M. Khan, a manager with Sony Gulf, visits the Karkhano market in Peshawar, which is widely

known as a major retail center for smuggled goods. He says he makes the trips merely to see which models are popular and should be supplied legally by the local assembly plant in Pakistan that Sony opened in 1999. Mr. Khan acknowledges, though, that none of the locally made Sonys are sold in Karkhano. All of the TVs he sees changing hands here have been smuggled from Afghanistan, he says.

Dealers in the Karkhano market who acknowledge they sell smuggled TVs say that for years they have routinely ordered Sony products from the traders in Dubai who obtain the goods from the authorized Sony distributor there, Jumbo Electronics Co. One of the Karkhano dealers, Abdul Basir Khan, manager of Muslim Electronics, says Sony Gulf's Khalid Khan (no relation) "doesn't come here to book orders, but he gives ideas." For instance, the Sony Gulf man points out that "such-and-such model is available," Abdul Basir Khan says. The Muslim Electronics shop is filled with Sony Trinitron TVs and has a large Sony sign above the door. "Khalid usually presses us hard to dispose [of inventory] as quickly as possible," Abdul Basir Khan says.

#### No Apology

For his part, Khalid Khan makes no apology for telling black-market dealers here that certain Sony models are available in Dubai or Singapore. "There is no harm" in this encouragement, he says. "They are making our brand popular in the country."

But he denies promoting smuggling in any way. He says that when Sony Gulf discovers traders selling through unauthorized channels, it threatens to punish them. The company has fined one trader and briefly cut off another one, he says. Smuggling hurts sales of the Sony televisions assembled in Pakistan, he says. But, he adds, smuggling is "beyond our control."

Ram Modak, a spokesman for Sony Gulf, also denies his company has knowingly shipped any goods intended for Pakistan through Afghanistan. He says, "Sony Gulf is not aware of the routes the [Dubai-based traders] use for their shipments to Pakistan." Kei Sakaguchi, a spokesman at Sony's headquarters in Tokyo, says the parent corporation has nothing to add to Mr. Modak's comments.

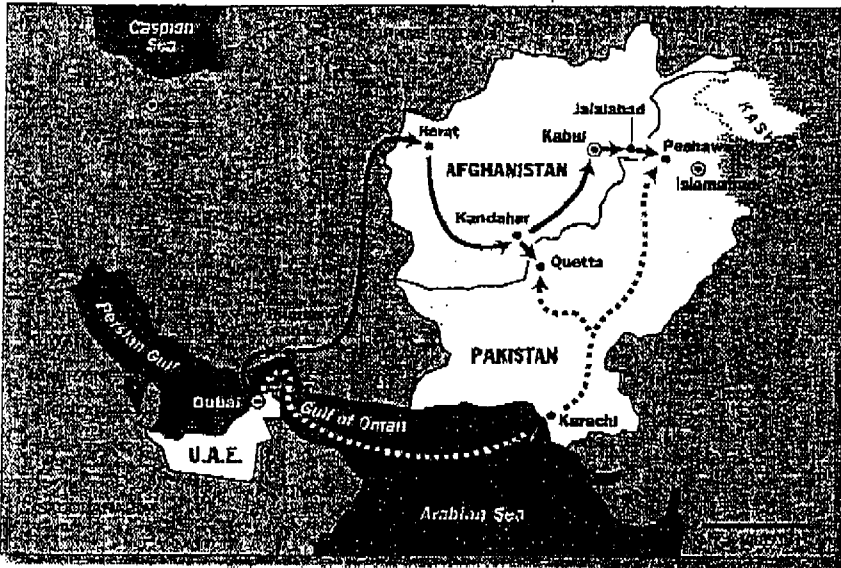
Vishesh L. Bhatia, director of Jumbo Electronics, says his company isn't allowed by Sony Gulf to sell goods directly in Pakistan, and it often can't control what traders do. "Duty barriers always encourage smuggling," he notes.

Minoru Kubota, Japan's ambassador to Pakistan from 1997 through early 2000, says he heard complaints from Pakistani businessmen during that period about the smuggling of Japanese goods. But he says the smuggling issue "is a business matter," not a concern of governments. "If trade shrinks, it will not benefit anyone," he adds.

Smugglers have operated across the Afghan-Pakistani border since Pakistan be-

# The Afghan Connection

Collecting payments from smugglers has provided critical revenue to the Taliban and earlier Afghan rulers. Smugglers move televisions, cigarettes and other consumer goods manufactured by Western and Asian companies through Afghanistan and over the border for sale in Pakistan, avoiding Pakistani taxes and duties.



..... Traders in Dubai ship goods to Karachi, which then move by truck to Peshawar or Quetta and then over the border into Afghanistan. Then, the goods are taken by pack animal back into Pakistan, where they are sold tax- and duty-free at retail.

— A second route goes through Bandar Abbas, Iran, into Afghanistan and then over the border to markets in Quetta or Peshawar.

came independent in 1947. In the 1980s, huge amounts of U.S. money flooded the region, as the Central Intelligence Agency used Pakistani proxies to fund the *mujahideen* resistance to Afghanistan's Soviet-

backed government. Smuggling of electronics, tires, crockery and textiles gave some mujahideen commanders a way to enrich themselves and keep supporters employed. For its part, "the government of Pakistan encouraged people to invest in this business," even supplying telephone and electricity connections for the Karkhano market, recalls Rafique Shinwari, a longtime distributor of smuggled goods in Peshawar who says he now imports only legally.

## Shipping TVs

In 1994, after the Soviets had left Afghanistan and the country was divided among rival commanders, Abdul Haq, an ex-mujahideen Afghan leader living in Peshawar, approached Sony Gulf about distributing TVs in Afghanistan. Sony Gulf's Khalid Khan says he negotiated a deal under which Mr. Haq's company, Khyber-Afghan International, began sending televisions by his family's airline from Dubai to Jalalabad, in eastern Afghanistan. "Whatever he did [with the TVs] inside Afghanistan, we don't know," Mr. Khan says.

Black-market dealers in Pakistan say Mr. Haq's family was prominent in the cross-border television trade in the mid-1990s. Mr. Haq was killed in October try-

ing to organize anti-Taliban forces. His nephew, Abdulrahim Zaimai, says, "The family itself was not involved by any means," in smuggling. But he says that traders in Jalalabad who bought TVs from his uncle may have smuggled them into Pakistan.

Pakistani officials say they haven't cracked down aggressively on smuggling markets such as Karkhano. "We have been working over the last two or three years to start curtailing smuggling," says Abdul Razak Dawood, Pakistan's commerce minister, but "through economic means rather than coercion."

Pakistan has been reducing import duties to diminish the price advantage of smuggled products. It has also ended duty-free access through the Pakistani port of Karachi for Afghanistan-bound goods, such as TVs, that often end up being smuggled back into Pakistan. Smugglers responded to the new obstacle in Karachi, however, simply by shipping through Iran and then across Afghanistan.

Traversing Afghanistan is by no means a simple trip. During the country's civil war in the early 1990s, various mujahideen set up more than a dozen checkpoints along the country's major roads. Truckers had to pay small fees at each stop, and sometimes had their whole cargo expropriated by fighters or roving bandits.

The Taliban first gained prominence in Afghanistan in 1994 by eliminating most of

the highway checkpoints and robberies. Afghan traders based in Dubai and Singapore poured money into the Taliban's coffers, as the regime extended its control from Herat to Jalalabad and enforced more orderly

transportation, according to Pakistani officials who were also assisting the Taliban at the time.

## Simplified Fees

After conquering Kabul in 1996, the Taliban simplified the fees for passage through Afghanistan, exacting a single payment determined by weight and other factors. For example, the Taliban sometimes imposed fees equivalent to roughly five-to-10 cents a kilogram, regardless of the merchandise, says one Dubai-based freight forwarder. "These guys didn't want to use calculators," he says. The 1999 World Bank study estimated that televisions valued at \$367 million were smuggled into Pakistan from Afghanistan in 1997.

Traders say they quickly adjusted to the Taliban's spiritually motivated rules. To get around the ban on packages with depictions of humans or living animals, traders put boxes in larger, blank cartons or simply reminded Taliban authorities that the packages were moving on to Pakistan.

The smuggling of American-made goods was hindered in July 1999, when former President Clinton signed an antiterrorism executive order prohibiting U.S. companies from exporting any goods, except for humanitarian aid, to Afghanistan. But Pakistani traders say they still could obtain products smuggled from Afghanistan—such as Gillette shaving cream, Head & Shoulders shampoo and Marlboro cigarettes—if the goods came from distributors outside of the U.S.

Manufacturers of these goods say they discourage any smuggling but can't always control it in distant lands. "It is obviously something we don't sponsor or endorse," says Eric Kraus, a spokesman for Gillette Co. Linda Urey, a spokeswoman for Procter & Gamble Co., maker of Head & Shoulders, says the company lacks specific information about smuggling through Afghanistan.

A spokesman for Philip Morris Cos., which makes Marlboros, says the company can't comment because it doesn't do any business in Afghanistan. British American Tobacco PLC, maker of Dunhill cigarettes, says in a written statement that it doesn't condone or encourage smuggling.

Dubai's emergence as a major trading hub has helped fuel the expansion of smuggling through Afghanistan. In the mid-1990s, many large U.S., Japanese and European consumer-goods manufacturers opened operations that brought products through the duty-free zone of Jebel Ali, along the Dubai coast. Official Dubai customs records show that such "re-exports" from Dubai to Afghanistan jumped 73%, to \$819 million, in 1996, the year the Taliban took over, compared with 1995.

Much of this trading relies on the illegal *hawala* currency-exchange system. (Hawala means "change" in Arabic.) Black-market consumer-electronics deal-

ers in Pakistan say that after they place orders with traders in Dubai, they pay for the goods by giving Pakistani rupees to a hawala dealer in Peshawar. The hawala dealer telephones a counterpart in Dubai, who hands over United Arab Emirates dirhams to a consumer-electronics trader in Dubai. The hawala dealers settle their accounts later, splitting the commission.

Most of the victims of Afghan smuggling receive benefits as well. The Pakistani government has lost tax revenues, but border tribes engaged in smuggling are less likely to resort to kidnapping or drug-running. Authorized Pakistani dealers of foreign goods lose sales to black-market competition, but in the capital of Islamabad, many such dealers stock smuggled and legally imported goods on the same shelves.

The biggest losers have been local manufacturers that have assembled TVs but found their products consistently undercut by smuggled goods. Several local-assembly factories stopped production in the mid-1990s.

These difficulties prompted the Pakistan Electronics Manufacturers Association to conduct its 1996 survey. The trade group found that for every TV legally imported or assembled locally, more than two were smuggled in.

Sarfrazuddin, the association's chairman, who goes by one name, says he subsequently showed Sony officials and Japanese diplomats copies of documents indicating that in 1997 Sony Gulf was promoting service guarantees that retailers could offer to buyers in Pakistan. Since at the time Sony TVs were "neither being manufactured in Pakistan nor being imported" legally, "we wonder how the guarantees" could be offered, he wrote in a July 1997 letter to the Japanese Embassy in Islamabad, Pakistan.

Faiz Rahim Khan, chief executive of Data Electronics, a Lahore, Pakistan-based company that provided service under Sony Gulf's guarantees in Pakistan until 1999, says the Sony unit routinely reimbursed his firm for repairs on TVs sold in the Middle East and used in Pakistan. "How it got there was not our concern," he says.

Sony Gulf's Mr. Modak confirms the company had an agreement in the 1990s with Data Electronics to repair Sony products in Pakistan. He also says Sony Gulf's authorized Dubai distributor, Jumbo Electronics, has offered warranties on Sony products that are good in Pakistan. He adds that Sony Gulf didn't make the Pakistan warranties available to Dubai-based traders who bought products from Jumbo.

In 1999, Sony began assembling televisions in Pakistan, contracting with a Pakistani-Korean joint-venture company. Tahir Arshad, the venture's finance manager, says smuggling of Sony TVs has been reduced in recent years. Still, the local-assembly plant is running at only half capacity, and the venture's officials are worried about whether their contract will be renewed this year. Sony Gulf declines to comment on whether it will renew the contract.

Televisions are legal again in Afghanistan, and if Sony closes down local production in Pakistan, it "can still sell" in Afghanistan, says Mr. Arshad. In fact, the late Abdul Haq's brother, Haji Abdul Qadir, is back in power in Jalalabad as provincial governor, and he is trying to revive the family's Dubai-Jalalabad air-cargo service.

Khalid Khan of Sony Gulf says he has begun scouting for authorized Sony dealers to operate in Afghanistan. One place he intends to recruit is in Peshawar, although he says that any TVs imported into Afghanistan would be sold to Afghan buyers, not smuggled into neighboring countries. Mr. Modak, the Sony Gulf spokesman, says it hasn't authorized Mr. Khan to do this recruiting.

Some dealers of smuggled goods in Karkhano say they are eager to be recruited. "If we manage to work from Afghanistan, we can export to Russia, to Iran, to other neighboring countries"—if possible, without paying taxes and duties, says Muslim Electronics's Abdul Basir Khan. "We will have a much greater market."

—Peter Landers in Tokyo  
contributed to this article.