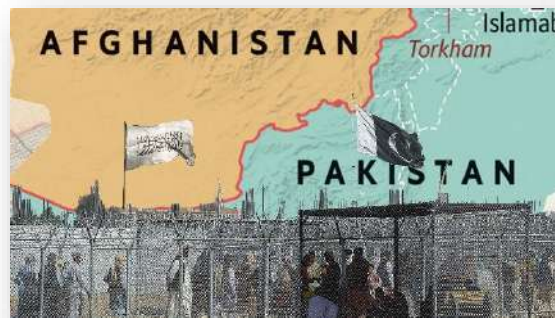


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AFGHANISTAN–PAKISTAN TRADE AMID POLITICAL COMPETITION: AN ECONOMIC ANALYSIS OF RECENT TENSIONS



Weekly Analysis is one of the CSRS publications analyzing significant weekly political, social, economic, and security events in Afghanistan and the region. The prime motive behind this is to provide strategic insights and policy solutions to decision-making institutions and individuals in order to help them design better policies. Weekly Analysis is published in Pashto, Dari, English and Arabic languages.

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AFGHANISTAN–PAKISTAN TRADE AMID POLITICAL COMPETITION: AN ECONOMIC ANALYSIS OF RECENT TENSIONS

Introduction

Afghanistan and Pakistan are two neighboring countries bound by deep cultural, religious, and linguistic ties, yet divided by the 2,640-kilometer Durand Line. Despite these shared characteristics, bilateral trade relations have remained tense from the very beginning of Pakistan's establishment in 1948, experiencing repeated cycles of conflict and cooperation. During Pakistan's early years, trade and transit relations between the two countries were governed by Article 5 of the General Agreement on Tariffs and Trade (GATT), signed in 1947 under the United Nations framework.

The restrictive trade and transit measures imposed by the newly formed Pakistani government in the 1950s placed significant pressure on landlocked Afghanistan. As a result, Afghanistan—alongside Bolivia and Czechoslovakia—advocated for guaranteed free access to the sea for landlocked states. These efforts culminated in the 1965 United Nations Convention on Transit Trade of Land-Locked States. Following this development, the first Afghanistan–Pakistan Transit Trade Agreement (ATTA) was signed in 1965. Under ATTA, Afghanistan could import and export goods through Pakistan's ports in Karachi and Qasim, using Chaman and Torkham as exit points.

With the formation of Afghanistan's republican government and evolving regional trade needs, ATTA was replaced by the Afghanistan–Pakistan Transit Trade Agreement (APTTA) in 2010. The new agreement expanded Afghanistan's access to Pakistani ports—including Karachi, Qasim, Gwadar, and Sust—although Indian goods were barred from entering Afghanistan through the port of Gwadar. Although APTTA officially expired in 2021, the two countries continue to regulate their trade and transit under its framework. It is worth noting that both Afghanistan (2016) and Pakistan (1995) are members of the World Trade Organization (WTO), which further reinforces their commitments to international trade norms.

Despite these bilateral and international obligations, and contrary to the principles of good neighborliness, Pakistan has repeatedly exploited trade and transit routes as a tool of pressure, particularly during Afghanistan's peak export seasons for fresh fruits and vegetables, which form a major portion of Afghanistan's agricultural exports. Pakistan has closed its borders to Afghan goods on multiple occasions, including in 2017, 2021, 2023, and most recently since 12 October 2025. Each closure has resulted in millions of dollars in losses for Afghan traders.

For the first time in the modern history of bilateral relations, the Afghan government responded by officially advising traders to shift their imports and exports to alternative routes



and explore regional substitutes for reliance on Pakistan. Due to concerns over the low quality of Pakistani pharmaceuticals, the Afghan authorities also granted drug importers a three-month deadline to settle their accounts, after which all pharmaceutical imports from Pakistan must cease.

These events demonstrate a clear pattern: Pakistan has consistently used trade and transit restrictions as political leverage. Its recent actions likewise appear politically motivated rather than economically justified. Ultimately, Pakistan's discriminatory and unlawful practices compelled Afghanistan to adopt reciprocal measures. Both countries have shown that they are unwilling to compromise their political and security interests for economic cooperation.

The newly announced trade and transit policies on both sides are expected to carry significant economic, political, and social consequences. The following sections analyze the economic implications of these policies for both countries and conclude with recommendations for easing tensions and promoting sustainable regional trade.

ECONOMIC IMPLICATIONS FOR PAKISTAN

According to available data, the total value of trade between Afghanistan and Pakistan reached USD 1.6 billion during the 2023–2024 fiscal year, comprising USD 1.06 billion in Pakistani exports and USD 538 million in imports from Afghanistan. In the first six months of Afghanistan's fiscal year 1404, bilateral trade totaled USD 1.1 billion, approximately USD 400 million lower than Afghanistan's trade with Iran during the same period. Pakistan currently ranks as Afghanistan's third-largest trading partner after Iran and China, while also serving as the primary destination for Afghan exports and the third-largest source of imports.

The closure of border crossings and suspension of trade directly threaten Pakistan's access to the Afghan market—one that, for decades, has consistently absorbed a large volume of Pakistani goods, many of which are relatively low in quality and lack competitive demand in broader regional markets. In Pakistan, several factories operate almost exclusively to supply Afghanistan. A decline in Afghan demand poses a serious risk of shutdown and bankruptcy for these industries.

Such disruptions are likely to reduce Pakistan's gross domestic product (GDP), decrease tax revenues, and increase unemployment, particularly in regions such as Peshawar, Balochistan, and Lahore, where many of these production facilities are concentrated. Additionally, a reduction in exports will further widen Pakistan's already fragile trade deficit, resulting in lower inflows of foreign currency. This decline in foreign exchange earnings may weaken the Pakistani rupee even further, contributing to heightened inflationary pressures within the country.



The absence of low-cost Afghan fruits, vegetables, and both mineral and non-mineral raw materials will also drive up prices and create instability in Pakistani markets. Given the long and porous nature of the Afghanistan–Pakistan border, prolonged tensions may escalate smuggling, informal trade, and other illegal cross-border activities.

Moreover, as Afghanistan redirects its trade flows through alternative corridors, Pakistan stands to lose substantial transit revenue and the associated economic benefits linked to transport, logistics, and service-sector activities. Collectively, these factors could accelerate Pakistan's regional isolation, complicating and increasing the cost of the country's access to the rapidly growing markets of Central Asia.

ECONOMIC IMPACTS ON AFGHANISTAN

The reciprocal and increasingly hostile trade policies have also imposed significant pressures on Afghanistan's economy. For a country that suffers from a trade deficit exceeding 75 percent, these pressures manifest through multiple channels: declining exports, reduced transit revenues, the difficulty of finding new markets and trade corridors, and the potential erosion of Afghanistan's strategic commercial and transit position in the region. Collectively, these developments can negatively affect the country's economic stability, political posture, and social well-being.

As noted earlier, Pakistan is the largest importer of Afghan goods. In the short and medium term, losing access to this market represents a major setback for Afghanistan's economy. The loss primarily appears through reduced export earnings—revenues that enter the country in the form of much-needed foreign currency. Lower export proceeds risk diminishing national foreign exchange reserves and weakening Afghanistan's gross domestic product. Afghan entrepreneurs, farmers, and workers engaged in the production chain will be among the first to bear the brunt of this downturn, as declining demand will cost many of them their livelihoods.

Reduced exports lead to further depletion of Afghanistan's foreign exchange reserves. This scarcity of foreign currency may exert downward pressure on the value of the afghani, thereby fueling inflation. Rising inflation, in turn, disproportionately affects low-income and fixed-income households by eroding purchasing power and lowering living standards.

In the long term, through cooperation between the government and the private sector, Afghanistan can seek new regional and international markets, improve product standards, and diversify export destinations to mitigate the current adverse impacts. However, uncertainty caused by border closures and inconsistent trade policies also slows Pakistan's access to Central Asian markets and deprives Afghanistan of critical transit revenues. For a country like



Afghanistan, where every revenue stream—especially transit-related income—is vital, such reductions directly affect employment along major corridors, ports, and logistics hubs.

Moreover, Central Asian countries that incur losses due to disrupted Afghan transit routes may eventually shift to alternative corridors, such as the Pakistan–Iran–Central Asia or Pakistan–China–Central Asia routes. In the short term, these paths are unlikely to fully replace Afghanistan. But if Afghanistan’s trade and transit challenges remain unresolved for an extended period, these routes could become permanent substitutes in the medium and long term. This prospect represents a strategic risk to Afghanistan and contradicts its broader policy objectives of becoming a regional trade and transit hub.

Afghanistan’s dependence on imports—combined with its large trade deficit—means that maintaining the welfare of its population requires importing goods through the shortest and least expensive routes. Otherwise, shipping costs will increase, raising final market prices. Under current conditions, if Pakistani goods are imported via Iran, the cost of logistics will rise significantly. This not only harms Afghan consumers but also indirectly undermines the Islamic Emirate’s stated strategy of reducing dependence on Pakistan, because reliance would persist, but at a higher cost.

If imports through Iran are restricted while Afghan traders fail to secure replacement suppliers from other countries, the market could soon face shortages, leading to price increases for essential commodities. Such inflation would place additional pressure on vulnerable and middle-income households. The same logic applies to Afghan exports destined for Pakistan if routed through Iranian ports.

Currently, Afghanistan relies heavily on Iranian corridors—through the ports of Chabahar and Bandar Abbas—as well as Central Asian routes for both imports and exports. While the Iranian route offers Afghanistan the shortest access to the sea, its medium- and long-term reliability remains uncertain due to international sanctions. Shipping companies and financial institutions often avoid these corridors to reduce exposure to U.S. sanctions. However, the U.S. has recently extended the exemption for Chabahar Port until early next year, and the Afghan government is working to ensure its continuation.

Although Iran’s ports offer immediate relief, Afghan goods previously exported to Pakistan generally lack a comparable market in Iran. Nevertheless, Afghanistan can still leverage Central Asian trade routes to reach China and Europe. To address export challenges, the Islamic Emirate has actively pursued new air corridors and adjusted transport tariffs—most recently reducing air freight charges.



Despite these new air and land alternatives, their costs are substantially higher, leading to an increase in the final price of imported and exported goods. Air corridors, while fast, cannot replace land and sea routes and are practical only for specific products under exceptional circumstances. The successful shift from Pakistani wheat and flour to Central Asian supplies over the past decade demonstrates Afghanistan's capacity to reduce dependence on Pakistan. Yet the absence of standardized logistics infrastructure and modern transport networks continues to complicate the implementation of new trade strategies.

CONCLUSION

Afghanistan and Pakistan share deep historical ties, yet their political and economic relations over the past seven decades have been persistently strained and marked by a lack of mutual trust. Despite bilateral agreements and international norms, Pakistan has repeatedly closed its borders to Afghan commercial and transit goods—particularly during Afghanistan's fruit export season—resulting in millions of dollars in economic losses for Afghanistan. In addition, Pakistan has imposed unnecessary bureaucratic procedures, discriminatory regulations, and measures that violate the norms of bilateral agreements. Examples include the closure of ports to Afghan traders' goods, restrictions on trade with India through Pakistani territory, inefficient risk-management systems at border points, unjustified and excessive charges for delays, extortion, and overly stringent security practices at border crossings. These actions have significantly increased the cost of Afghan products. Such repeated violations, combined with the political instrumentalization of trade, have been major drivers behind the Islamic Emirate of Afghanistan's desire to reduce the country's trade dependency on Pakistan.

For decades, Pakistan has served as Afghanistan's primary trade corridor—for both exports and imports—and has provided the shortest and least costly route to India and the Gulf States. Suspension of trade and transit relations between the two countries harms both sides; however, because Afghanistan's economy is considerably weaker than Pakistan's, the negative impacts are more severe and more immediately felt in Afghanistan. Nevertheless, the current situation presents both opportunities and challenges for Afghanistan. The opportunity lies in the government's ability, with support from the private sector, to explore new trade routes and alternative partners, thereby reducing long-standing dependence on Pakistan. Yet this transition will not be easy. Afghanistan must endure a difficult adjustment period and withstand external pressures—something achievable only through strong coordination between the government and the private sector, as well as broad public support.



RECOMMENDATIONS

1. Separate political considerations from economic decisions, and pursue Afghanistan's trade diversification gradually and strategically to avoid creating new forms of dependency.
2. Use pressure-based policies—such as suspending trade relations with Pakistan—only temporarily, with clear objectives, and in consultation with the private sector and economic experts.
3. The government should identify and develop alternative trade corridors, streamline trade procedures, and provide support packages for those most affected—particularly farmers and exporters.
4. To safeguard Afghanistan's transit position, proactive diplomacy with Central Asian countries and serious engagement in transport corridors and infrastructure projects are essential.
5. The Islamic Emirate should broaden regional partnerships, utilize existing opportunities to reduce dependence on Pakistan, and simultaneously take firm measures to prevent the entry of low-quality Pakistani goods.

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