

# **Pak-Afghan Trade: Potentials and Challenges**

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## **1. Introduction**

Pak-Afghan trade relations and economic cooperation are of immense importance not only for economic development of the two countries but also for a larger regional connectivity in South Asia and Central Asia. Alternatively, the policy of export-led growth can be instrumental in both countries for enhancing domestic employment as well as boosting foreign exchange. Likewise, along with bilateral trade expansion, transit facilities between the two countries could be supportive in connecting South Asia with Central Asia. Being a landlocked country, Afghanistan can use the road, rail and coastal infrastructure of Pakistan to enhance its trade relations with rest of the world. Similarly, Pakistan through its road connectivity with Afghanistan can boost its trade with Central Asian countries. In short, there are huge potentials that are associated with Pak-Afghan trade relations but certainly there are also some stark challenges that need to be addressed in order to reap such potentials in terms of lasting peace, export-led growth, and economic prosperity. In this article, I want to expand on these lines by highlighting the existing trade structure, identifying the trade potentials, and discussing resolving challenges that inhibit trade across the two countries.

## **2. Background of Bilateral Trade**

The history of Pak-Afghan trade has been persistent despite unfortunate happenings that has recurrently been taking place in Afghanistan since the last four decades. Insistent conflict in Afghanistan combined with its landlocked geographical location has caused Pak-Afghan trade structure to remain largely informal. As far as statistics are concerned; bilateral trade between the two countries remains under \$ 2 billion for most of its history despite their geographical proximity and Afghanistan's dependence on Pakistan for its road, rail, and port infrastructure (see Figure 1 and Table 1 for the details). Though Pakistan's trade with Afghanistan has been declining in recent years but still Pakistan is one of the Afghanistan's largest trade partners along with Iran and India. Alternatively, Pakistan's declining trade volume with Afghanistan reflects enhancing shares of the Iran and India during the same period. In 2023, around 11.2% of Afghanistan's imports originated from Pakistan though its share in Pakistan's exports is merely 3.4% which has been declined from 21% in 2016. Likewise, in 2023, around 40% of Afghanistan's exports' destination is Pakistan though its share in Pakistan's imports is around 1.4%.<sup>1</sup> With regard to the composition of bilateral

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<sup>1</sup> These estimates are based on table 2 which shows the International Trade Centre (ITC)'s Trade Map data. The estimates of ITC and State Bank of Pakistan (SBP) have discrepancy. The reason is that SBP's data on trade statistics only reports information which is done through formal banking channels while ITC's calculations are based on partner countries as well as information of the Chamber of Commerce and Industry (CCI) of the respective countries. So, we presume that SBP data on Pak-Afghan trade is under estimated as compared to the ITC data, given a sizeable trade in the informal sector between the two countries.

trade, Afghanistan mainly exports fuels and oils, coal, edible vegetables and fruits, cotton etc. to Pakistan and imports cereals, pharmaceutical products, fruits and vegetables, machinery and motorcycles, aluminum products, electrical storages and batteries, sugars and sugar confectionary, wheat, rice, animal and vegetable fats and oils, cement etc. from Pakistan. This, in other words, implies that Pak-Afghan trade is highly concentrated in few products and, accordingly, there are wide opportunities for product diversification in bilateral trade between the two countries.

**Table 1: History of Pak-Afghan Trade (in Thousands US \$)**

<b>Afghanistan's Exports to Pakistan</b>					
<b>Commodity\Year</b>	<b>2012</b>	<b>2015</b>	<b>2018</b>	<b>2022</b>	<b>2023</b>
<b>Cotton, Not Carded Or Combed</b>	2,898	20,466	40,416	73,647	17,49
<b>Coal, Briquettes, Ovoid etc. Manufactures of Coal</b>	2,387	7,933	58,197	12,847	10,146
<b>Natural Steatite Roughly Trimmed etc.</b>	6,154	5,137	31,889	12,595	2,545
<b>Grapes, Fresh or Dried</b>	0	0	4,743	13,849	0
<b>Apricots, Cherries, Peaches, Plums and Sloes, Fresh</b>	0	0	566	2,500	0
<b>Tomatoes, Fresh or Chilled</b>	0	0	1,941	12,069	0
<b>Other Goods</b>	189,954	193,033	241,357	19,742	837
<b>Afghanistan Imports from Pakistan</b>					
<b>Commodity\Year</b>	<b>2012</b>	<b>2015</b>	<b>2018</b>	<b>2022</b>	<b>2023</b>
<b>Motorcycles and Cycles With Auxiliary Motor</b>	8,866	4,433	0	4,274	15,558
<b>Electrical Storage Batteries and Separators Part</b>	16,553	16,857	13,951	13,930	23,530
<b>Aluminum Casks, Cans, Boxes, Similar Containers</b>	1,748	0	0	16,945	28,721
<b>Tarpaulins, Sails, Awnings, Tents etc.</b>	2,047	4,140	2,067	2,990	12,269
<b>Fiberboard of Wood or Other Ligneous Materials</b>	10,889	12,514	0	16,649	25,279
<b>New Pneumatic Tires of Rubber</b>	4,543	2,476	6,575	6,219	10,009
<b>Tableware, Household Articles, Plastics</b>	4,000	128,842	184,554	32,753	5,460
<b>Polyesters, Epoxides, Polyesters, Primary Forms</b>	11,897	5,545	2,919	14,177	8,970
<b>Portland Cement, Aluminous and Slag Cement</b>	254,244	168,299	81,978	36,783	46,983
<b>Food Preparations NES</b>	2,677	5,249	10,753	50,689	80,699
<b>Sugar Confectionery, White Chocolate not Coco</b>	14,742	24,194	58,202	8,064	22,079
<b>Animal/Vegetable Fats and Oils</b>	148,285	98,770	34,302	79,451	44,187
<b>Rice</b>	5,243	98,770	54,148	6,535	111,578

**Source: State Bank of Pakistan's Annual Reports**

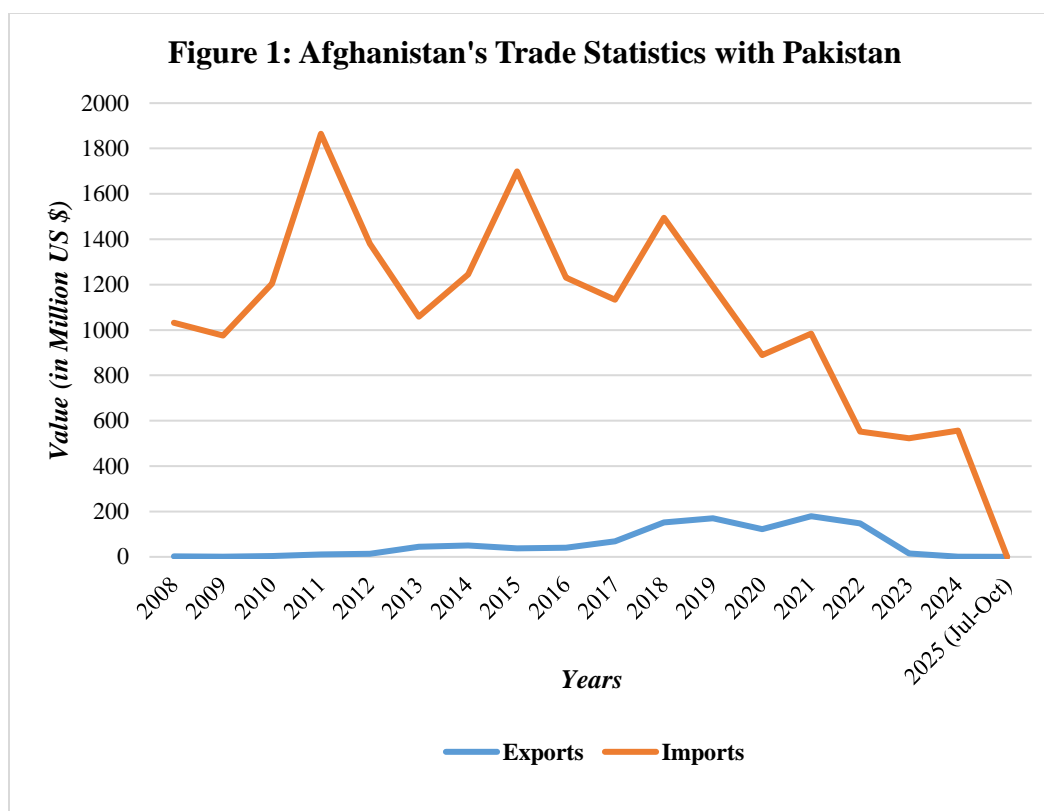
**Table 2: Composition of Pak-Afghan Trade in 2023 (in Thousands US \$)****Afghanistan's Exports to Pakistan**

Product	Value	Share in Afghanistan's Exports (%)	Pakistan's Imports from the World	Share of Afghanistan's Exports in Pakistan's Imports
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral Coal	231396	99	16836299	1.374388
Edible vegetables, roots and tubers	167335	73	1065625	15.70299
Cotton	135870	99	981786	13.83906
Edible fruit and nuts; peel of citrus fruit or melons	106691	17	173633	61.44627
Salt; Sulphur; earths and stone; plastering materials, lime and cement	20363	72	219750	9.266439
Lead and articles thereof	7388	61	40801	18.1074
Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	4960	9	1289899	0.384526
Coffee, tea, spices	3695	4	746475	0.494993
Residues and waste from the food industries; prepared animal fodder	3629	99	186179	1.949199

**Afghanistan's Imports from Pakistan**

Product	Value in 2023	Share in Afghanistan's Imports (%)	Pakistan's Exports to the World	Share of Afghanistan's Imports in Pakistan's Exports
Cereals	217561	63	3229769	6.736116
Pharmaceutical products	113596	35	309078	36.75318
Miscellaneous edible preparations	88451	56	140798	62.8212
Edible vegetables; roots; tubers	76776	36	264428	29.03475
Edible fruit, nuts; peel of citrus fruits or melons	45870	28	287928	15.93107
Sugars; confectionery	38665	42	313558	12.33105
Aluminum and articles thereof	33611	36	151443	22.19383
Animal, vegetable or microbial fats and oils and their cleavage products; prepared edible fats; ...	31358	7	35891	87.37009
Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	31296	9	78412	39.91226
Wood; wood articles; wood charcoal	31028	70	38360	80.88634
Electrical machinery, equipment and parts thereof; sound recorders. reproducers, television	20885	3	78072	26.75095
Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	11890	19	49302	24.11667
Rubber and articles thereof	10955	5	104824	10.45085
Made-up textile articles; sets; worn clothing and worn textile articles; rags	10576	19	5014550	0.210906
Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	10314	8	48642	21.2039

**Source:** International Trade Centre (ITC)'s Trade Map



Source: State Bank of Pakistan's Annual Reports

### 3. Potentials for Bilateral Trade Expansion and Regional Connectivity

As is evident from table 2, Pak-Afghan trade comprise a variety of products, ranging from primary products and raw materials to semi-manufactured and finished goods. Afghanistan mostly import finished goods from Pakistan while export raw materials, minerals and fresh fruits to Pakistan. Still, there are more opportunities for product diversification in the bilateral trade. Given geographical proximity between the two countries, there are wide potentials for Pakistani products to be exported to Afghanistan. For instance, pharmaceutical products, especially the surgical goods and instruments, are highly demanded in Afghanistan and, given Pakistan's specialization in these goods, there is a vast unutilized export capacity to ship such goods to Afghanistan. Second, Pakistan's share in Afghanistan cereals imports is merely 6.74% which can be enhanced given potentials in Afghanistan. Third, leather products and ready-made garments, which are Pakistan's specialized products, can be exported to Afghani markets if Pakistan could reduce carriage, administrative, and logistic costs of shipping such products. Furthermore, soap and washing materials, ceramics, footwear, rubber and plastic products, motorcycles, wheat products, rice, cement, fresh meat are the potentials that Pakistani exporters can avail, given the market in Afghanistan and, even, in Central Asian Republics (CARs) through Afghanistan. Finally, along with trade in goods, there exist opportunities for trade in services with Afghanistan. Afghanistan has huge deficiencies in banking facilities and Pakistani banks can provide banking services to traders in Afghanistan. Similarly, Pakistan can provide Afghanistan with medical facilities, human

capital, and insurance services. In the same way, Afghanistan's exports to Pakistan can be increased in products such as fresh fruits and vegetables, minerals and coal, hand-made carpets, tea, coffee and spices etc. in the coming years. Also, Afghanistan can explore the markets of India, Middle East, Europe, Africa and East Asian countries by using the road, rail and sea infrastructure of Pakistan. However, in this regard, the execution of commitments which are accentuated in the proposed Afghanistan-Pakistan Transit Trade Agreement (APTTA) is of utmost importance.<sup>2</sup> Similarly, Afghanistan can be one of the potential beneficiaries of the opportunities which are associated with CPEC and Gwadar port. For instance, Pakistan can offer incentives to Afghani producers/businessmen for setting up businesses in the recently developed Special Economic Zones (SEZs) where they can produce goods and export back to Afghanistan.<sup>3</sup>

#### **4. Challenges and the Way Forward**

Despite considerable potentials in terms of expansion in trade along with augmenting regional connectivity, there are stark challenges that need to be addressed. The most formidable challenge is that of security, especially in Afghanistan and along the border on both sides, which prevents traders to move fearlessly with regard to purchases, sale of their products and trade fairs.<sup>4</sup> Relatedly, incidents of terrorism on either side have been causing extensive border closure which create additional costs for traders at the border and due to delays and fading quality, especially of fresh products like fruits, vegetables, meat etc. In this regard, trust, information sharing, and other measures of confidence building between the two countries can ameliorate the existing ground realities. Second, absence of appropriate banking system and ambiguous regulations/custom procedures in Afghanistan obstructs trade as traders have to face extra-legal duties and bureaucratic delays to clear their payments and products, respectively.<sup>5</sup> Again, Pakistani authorities must collaborate with the corresponding Afghani authorities to simplify these procedures. Third, non-tariff barriers such as licensing or permits in Afghanistan on import of certain products like pharmaceutical products, cosmetics, biological materials, printed products, pesticides, ammunition, iron, steel etc. inhibit Pakistani exports to enter to the Afghani markets. These requirements can easily be softened through bilateral negotiations. Fourth, bilateral ties in human capital, cultural exchanges, and raw materials driven investments is almost non-existent which, in turn, restrict people-to-people contacts between the two countries. Furthermore, challenges like inadequate road infrastructure in Afghanistan, visa issues, smuggling, and informal bribes create hurdles for the movement of goods and people across the two countries. These issues, in addition to limiting bilateral trade, impede the implementation of APTTA which is extremely essential for regional connectivity.

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<sup>2</sup> The APTTA, originated in 1965, was redesigned in 2010 to allow the transit of Afghani exports through Pakistan to Wagah border with India. and to the seaport cities of Karachi and Gwadar. Pakistani trucks in turn are allowed to move products to all regions of Afghanistan. However, implementation of APTTA is still to be fully realized.

<sup>3</sup> Access to Gwadar port for Afghani exporters is also recommended.

<sup>4</sup> Carriage of goods has been insecure and expensive due to over inspection of the trucks or requirement of extra trackers on the border.

<sup>5</sup> Even dispute resolutions in case of business disagreements are non-existent due to weak legal framework in Afghanistan.

## **5. Conclusion**

Pak-Afghan trade and economic cooperation is not only essential for bilateral trade expansion but also for a larger regional connectivity. However, these potentials can only be realized if both countries pursue strategic policies by controlling challenges such as maintaining decent security, simplifying regulations and custom procedures, avoiding bribes and bureaucratic delays, smoothing out border crossing and visa issues, and ensuring people-to-people contacts among others. This will not only help both the countries in developing more advanced economic base but would also result in peace, stability and prosperity of the overall region.

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