Focus
March 2025

Challenging Aspects of Pak-Afghan Trade and Potential Solutions

Mohammad Qasim

Challenging Aspects of Pak-Afghan Trade and Potential Solutions

Mohammad Qasim*

Abstract

While crucial for the economic relations between the two countries, various obstacles prevent seamless trade operations between Pakistan and Afghanistan, such as border shutdowns, high customs duties, inadequate customs procedures, poor infrastructure, and unstable political conditions. This review presents an in-depth evaluation of these difficulties, discussing how security issues, unofficial trading channels, and limited visa access influence the trade exchange between Pakistan and Afghanistan. The research highlights how Afghanistan looks toward the Chabahar Port and other alternative commercial routes following trade disturbances with Pakistan. It evaluates Pakistan's policies to understand their potential success at eliminating trade obstacles, particularly focusing on the Afghanistan-Pakistan Transit Trade Agreement (APTTA). The assessment recommends several remedial measures that involve lowering customs duties, enhancing border infrastructure, clear trade regulations, and enhancing political relationships to boost trade efficiency. The improvement of trade relations between Pakistan and Afghanistan acts as a catalyst for regional economic expansion while establishing diplomatic peace in the region.

* Mohammad Qasim is working as an intern with the Afghanistan Program at the Institute of Regional Studies (IRS) Islamabad.

Keywords: *Afghanistan, Pakistan, trade, tariffs, Torkham obstacles, solutions*

Introduction

Afghanistan and Pakistan share a long border with major crossings at Torkham, Chaman, and Ghulam Khan. Afghanistan is a landlocked country at the cusp of Central Asia and South Asia, sharing borders with Pakistan, Iran, Turkmenistan, Uzbekistan, Tajikistan, and China. It is a strategically important location as a crossroads between South and Central Asia has historically made it a hub of trade and cultural exchange. However, the country has experienced decades of conflict and war, which have heavily affected the social and economic lives of its people. The Afghan economy heavily depends upon foreign aid, agriculture, and natural resources. Due to limited economic development, unreliable electricity, and a weak industrial base, Afghanistan has increasingly relied on its neighbors, particularly Pakistan. Furthermore, longstanding cultural and familial ties, especially among the Pashtun and Baloch communities residing on both sides of the border, have deepened interconnections that facilitate economic relations. Most of the population on both sides of the border is Muslim, having a geographical connection such as the deserts of Balochistan and Kandahar, the Kabul River to KPK, the Hindu Kush and Suleiman Mountains, the Khyber Pass, one of the most famous passes that connects Pakistan to Kabul.

After Pakistan's independence, Afghanistan continued to rely on Pakistan as a trade route. However, territorial disputes in the Khyber Pakhtunkhwa region have maintained tensions between the two countries. Bilateral discussions commenced in 1963, and in 1965, and the Afghan Transit Trade Agreement

(ATTA) was signed. The agreement aimed to strengthen relations by addressing export and import challenges, identifying key transit trade points. [1]

To enhance transit trade volume and efficiency, and to address smuggling concerns, the bilateral transit trade agreement was revised. Under the original Afghan Transit Trade Agreement (ATTA), Afghan transit goods are moved by train and via highways through the National Logistics Corporation (NLC). In 2010, Afghanistan and Pakistan updated this arrangement to the Afghanistan-Pakistan Transit Trade Agreement (APTTA). With the removal of the "Negative List" under APTTA, Afghan trucks were permitted to transport export cargo to Pakistani ports and as far as the Wagah border, an area where they were previously barred.[2]

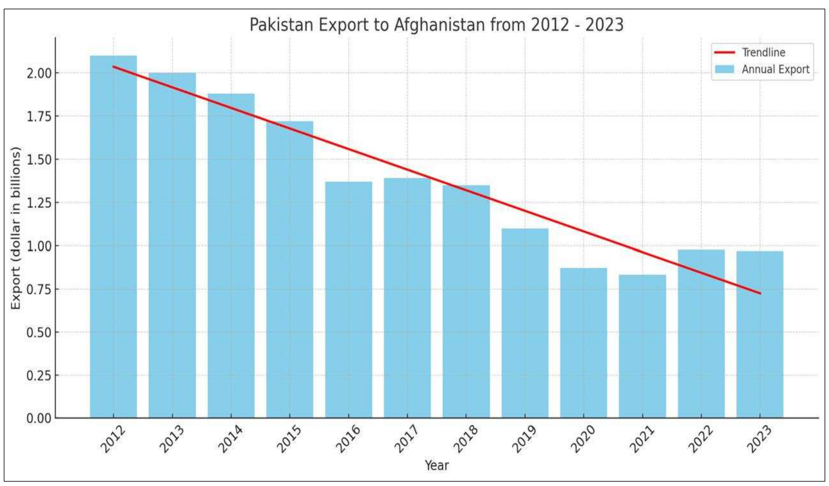
Challenges in Pak-Afghan Trade

Trade between Afghanistan and Pakistan faces several challenges. Expensive travel, slow processing at border points, and difficulties in checking and clearing goods contribute significantly to logistical complications. Frequent border shutdowns due to security concerns disrupt trade flows and create uncertainty for merchants on both sides of the border. Additionally, deficiencies in the customs system, such as inconsistent weight allowances, lengthy paperwork, and excessive customs charges on low-value goods, further complicate trade operations. Afghan importers at Pakistani ports often contend with high tariffs and prolonged processing times. Moreover, the presence of illegal and informal trade channels undermines regulated commerce and reduces government revenue. Challenges within the banking industry slow trade facilitation and complicated financial transactions, particularly for small enterprises facing upfront costs and tariffs. Inadequate infrastructure including poor roads and substandard border facilities, further hampers efficient logistics. Addressing these issues is essential to strengthening commercial ties between Afghanistan and Pakistan and unlocking their economic potential.[3]

A major source of contention is the Durand Line, a border drawn in 1893 that Afghanistan does not recognise as official. This longstanding dispute has significantly hindered trade relations between Pakistan and Afghanistan. Despite their close geographical proximity and shared cultural, religious, and historical ties, the two countries have struggled to convert these links into robust economic cooperation. The potential for strong bilateral trade remains largely unfulfilled, as evidenced by the remarkably low volume of commerce between them.

Table 1

Pakistan Exports to Afghanistan between 2012 and 2023



In 2012, the export peaked at 2.1 billion. From 2019 to 2023, there was a consistent decrease, reaching its lowest in 2021 at 833 million. [4]

Border Closures and Visa Policy Disputes

Torkham, a key trade route, was sealed on January 13, 2024. The Pakistani government cited that Afghan truckers must carry valid passports and visas to enter Pakistan. The border remained closed for a week amid Islamabad's decision to deport all illegal and undocumented foreigners, particularly Afghans. The move, seen as political point-scoring, caused major losses for traders, especially those dealing in fresh fruits and vegetables. Thousands of trucks were stranded on both sides, with daily losses estimated at $100,000. The closure disrupted businesses and deepened mistrust between the two countries.[5]

It is also disrupting the trade between Pakistan and Central Asia, which relies on Afghan routes.

Officials on both sides share responsibility for the border closures, said Abrar Hussain, former ambassador to Afghanistan. He added, "Pakistan should not view Afghanistan merely through a security lens. For Pakistan's own benefit, we must welcome Afghan traders, investors, and business leaders." Meanwhile, the Vice President of the Afghan Chamber of Commerce and Industry claimed that Pakistan is trying to block the trade route due to political reasons, not just economic concerns. A new Statutory Regulatory Order (SRO) has also been made mandatory by Pakistan, further complicating cross-border trade.

In response to Afghan monetary policy, Pakistan has imposed higher duties and restrictions on various imports from Afghanistan. Pakistan has put a range of Afghan imports on a 'negative list,' i.e., products that cannot be imported, and charged a 10 per cent tariff on Afghan goods entering via Karachi port. [6]

Pak-Afghan Joint Chamber of Commerce and Industry (PAJCCI) coordinator, Zia Ulhaq Sardahi said: "The Truck drivers suffer Thousands of rupees loss due to the closure of the Torkham border. Several other crossings into Afghanistan remained closed as well, including Kharlachi in Kurram district, in Ghulam Khan Kelay in North Waziristan, and Angoor Adda in South Waziristan. Afghanistan is seeking alternative trade routes to reduce its reliance on Pakistan. It is thinking about engaging in direct trade with China via the Wakhan Corridor. The road of Wakhan is under construction."[7]

Pakistan remains concerned over misuse of ATTA considering lower Afghan import tariff, products such as textiles, tires, black tea, household appliances, toiletries, and cosmetics are being smuggled back into Pakistan. Pakistan imposed import restrictions on non-essential items, but rather than blocking the flow, these items are now entering through Afghanistan.[8]

Federal Board of Revenue's (FBR's) Suggested Financial Measures

The Federal Board of Revenue (FBR) has proposed two significant financial measures to address this misuse; the Revolving Insurance Guarantee should be replaced. Importers are now required to provide a 100 per cent bank guarantee on the assessed value of goods transiting to Afghanistan, instead of allowing a Revolving Insurance Guarantee. In addition to ensuring financial accountability, this also prevents criminals from misrepresenting items intended for Afghanistan and transferring them to Pakistan. To combat smuggling, a 10 per cent *ad valorem* processing fee should be applied to ATT items. The Commerce Ministry and the FBR have been instructed by the Special Investment Facilitation Council (SIFC) Executive Committee to develop a system to prevent the smuggling of:

(i) fabric of all sorts (respective all headings);
(ii) machinery (chapter 84 & 85);
(iii) tires (PCT 40,11);
(iv) black tea (0902.3000-4090).

Discussion from Both Sides on Banned Items in Afghan Transit Trade (ATT)

The trade associations, customs officials, and stakeholders are involved in the Pak-Afghan trade. Both sides discussed limitations on Afghan transit trade and a ban on specific items. Meeting participants stressed the negative impacts that these restrictions have had on local businesses. During the conference, a key point was raised: some items were included on the banned goods list primarily because they are part of transit trade, despite their total imports being very small. They contended that such goods, which exist only for transit and not local consumption, do not threaten the domestic economy in the slightest. Therefore, they proposed, these goods for transit be reconsidered and taken off the list of banned items. This point was cited as a major complaint of local businesses about the sanctions that Pakistani authorities have imposed, with which Pakistan agreed. In terms of *supply of industrial raw materials*, in Afghan industries, to ensure the flow of an existing or potential industrial establishment, business representatives demanded that the restriction on the use of raw materials be removed. They called for tight monitoring and smuggling production methods instead of a total ban, to enable legal trade to go on uninterrupted without excessive regulation. According to the coordinator of Pak-Afghan Joint Chamber of Commerce & Industry (PAJCCI), Ziaul-Haq-Sarhadi: "The trade activity between both countries sustains a large number of people in Pakistan and Afghanistan, and this ancient trait of trade has a great potential of latent resource if it can be expanded to Central Asian Republics.[9]

He further added that *product quality variation* is one of the gravest challenges in the Pakistan-Afghanistan trade. Without any clarification, a large part of Pakistan produces quality products, even from multinational companies that operate within its borders. Pakistan's products notwithstanding, its merchandise are of high quality. The issue arises when these items are exported to Afghanistan. For the local Pakistani market, several household names such as Dettol, Unilever (Lifebuoy, Lux), and P&G (Head & Shoulders) are at par with international quality levels. However, when the same goods are exported to Afghanistan, they manufacture lower-quality versions of their products exclusively for the Afghan market. This issue stems from a combination of poor manufacturing quality and counterfeit products, creating a significant trust barrier between Afghan consumers and Pakistani products. Unlike Pakistan, countries in the region, such as Iran, Dubai, China, Russia, Turkey, and India, do not lower the quality of their products for export. Whatever they produce for local customers is also offered to foreign customers without alteration. Afghan traders suffer greatly from this change in quality. For instance, if I import a high-quality product from Pakistan that costs 600, 6000,000 AFN, I may only sell it for 620, 620,000 to 630, 000 AFN and hardly make any profit. In contrast, another entrepreneur imports the same brand product specifically made for Afghanistan at just 300,000 AFN and sells it for 500 500,000 AFN, easily making a profit of 200,000 AFN, while I struggle to earn even 20,000 AFN. The disparity between price and quality harms market competition and public confidence in Pakistani products. Afghan consumers assume that all Pakistani products are substandard simply because they are unaware of which products are good and which are not. To address this, the Pakistani government and firms need to implement stricter regulations, ensuring that all products, whether food, cosmetics, or any other type, meet international quality standards. Eliminating this double standard would prompt Pakistani companies to learn from other countries and restore trust with Afghan customers, thereby stabilising the economy. Without these measures, Pakistani products will continue to lose prestige, ultimately harming traders and producers."[10]

Political Influence on Pak-Afghan Trade

Pakistan and Afghanistan have strict border controls, including walls and barricades, which hinder the free flow of trade. Visa complications, border crossing issues, and insecure trade routes have all contributed to declining commercial activity between the two countries. In contrast to regions such as the European Union, ASEAN, and Central Asia—where borders are relatively open and trade flows freely—South Asia remains constrained by such restrictions. For example, Afghan traders importing goods through Karachi port often face excessive taxation, increasing their costs and making their merchandise less competitive. Each year, as the fruit harvesting season begins in Afghanistan, the Pakistani government frequently shuts down border crossings, disrupting commerce and causing Afghan farmers to incur significant losses rather than benefiting from cross-border trade. They are politically fueled actions that impact the economics of both sides of the border in the form of attacks that affect the confidence and balance in bilateral trade. Trade needs to be free from any political interference. Everything has to function independently. Torkham, or any border, should always be opened irrespective of the situation, political issue, or the instability in the region, and both states should develop and establish proper and coherent trade policies that ensure stability and open trade. If Pakistan and Afghanistan truly desire economic prosperity and growth, they must view trade as a profession and an economic matter rather than a political tool.[11]

Transforming Afghanistan into a Key Market for Pakistan

It is in the best interest of Pakistan to make Afghanistan a significant market for its goods. This close relationship can significantly contribute to Pakistan's exports to Afghanistan. The Afghan refugees lived for years in Pakistan and understood Pakistani culture, the language, the markets, the industries, and the people. Indeed, an Afghan trader can rapidly negotiate in the local markets, understand the quality of goods, and also successfully bring the products back to Afghanistan, such recognition by Pakistan of this potential, as well as improvement in trade ties with Afghanistan, would not only open the pathway for exports through Pakistan into Afghanistan, but also improve its status as Afghanistan’s main trading partner. Ensuring laws for fair trade that protection of consumers’ trust in Pakistani products, reducing tariffs and easing cross-border passage will help unlock trade routes. Furthermore, by providing incentives to

Afghan merchants with fewer restrictions Pakistan can realise a significant turnaround in the country by coupling the use of its cultural and economic ties with Afghanistan and making it a major market of export market. This leads to mutual growth of the economy.

Lowering Tax Tariffs to Foster Trade

The tax and tariffs are one of the crucial keys that can help to grow the economy. Hence, decreasing the tax burden would help companies on both sides by increasing the imports and exports. There is a well-known proverb in Pashto, "Consume less but for a long time," which means that sustainable, long-term trade is better than short-term greater net return. This highlights the value of enduring, stable trade over rapid, unsustainable profits.

The Karachi Port vs Chabahar Terminal

Pakistan creates many challenges for the Afghan merchants when they import items from Karachi. These challenges include high tariffs, security concerns, and politics-based trade barriers. These factors compel Afghan traders to shift their trading operations from Karachi port to Iran's Chabahar port. If Pakistan opens its port with simple rules and easy access and reduces tariffs, Afghan merchants would want to trade through Karachi.

Pakistani Police Behavior towards Afghan Traders

The attitude and actions of the Pakistani authorities towards Afghan traders, specifically at the Torkham border, are of concern, which negatively affect their perspective on Pakistan. There is a proverb that says, "First impression is the last impression." Afghan tourists and traders often face unnecessary delays and are frequently disturbed by the Pakistani authorities, who take advantage of them by extorting money (bribery). This misbehavior not only undermines the dignity and respect of Afghan traders but also fosters mistrust and a deep sense of bitterness and hatred, as dignity is the most important aspect of everyone's personal life. Such misconduct can significantly hinder the facilitation of smooth and easy business. In these circumstances, the majority of traders prefer to seek alternatives.

Strengthening Afghanistan–Pakistan Trade for Regional Growth

Several measures have been suggested to improve trade relations between Afghanistan and Pakistan: Reducing Transportation Expenses: Afghan traders have been advised to lower freight rates from bonded transport vehicles while continuing to charge processing fees (for crossing the border) to alleviate the financial burden on traders. The customs departments of both countries need to coordinate in developing security measures, including monitoring tracking devices in trucks to prevent smuggling and enhance border security. Indeed, allowing access for perishable goods in border markets will facilitate trade and ensure a consistent supply of goods. This assumes that financial institutions and government offices operate in a benevolent environment. Dedicated banking corridors between Afghanistan and Pakistan can simplify business transactions for traders on both sides of the border and resolve financial issues. A single window clearance system between Afghanistan and Pakistan would allow customs to clear goods in one stop to cross the border, which would increase the movement of goods. To minimise processing time and enhance trade flow, improving border crossing control lanes, including both building and road components, is crucial.

Barter Trade Facilitation

Formalised structures for barter trade can be a viable alternative to banking methods, providing an avenue for trading without solely relying on foreign currency.

Development of Security

Both countries' customs agencies can work together to install tracking devices on vehicles, so they can make it easier for them to prevent border crossing, and the same with contraband.

Transport Cost Reduction

A single instruction will be to lower goods in transit transportation costs of bonded carrier vehicles while maintaining processing costs to lighten financial pressures on the dealer. Educating and training traders on the official processes and how new technologies can be used for advanced and smooth trade.

Promoting Barter Trade

Instituting an official barter trade system could serve as a substitute for traditional banking methods and thus allow business activities without heavily relying on foreign currency. Updating border points' infrastructure, such as roads and structures, against the new security challenges is an important measure to accelerate trade flow and reduce processing time.[12]

Conclusion

Despite numerous challenges, including customs, security, transportation, and banking obstacles, trade between

Pakistan and Afghanistan remains vital for the economic growth of both countries. Strengthening trade links could not only boost commerce but also enhance diplomatic relations between the two neighbours. Afghanistan continues to rely heavily on Pakistan, its largest trading partner, with Pakistan accounting for 59 per cent of Afghan exports. However, various issues continue to stifle trade potential. These include banking transaction difficulties, cumbersome customs regulations, high transportation expenses, and broader logistical constraints. While the Afghanistan-Pakistan Transit Trade Agreement (APTTA) is designed to facilitate smoother trade, recurring border closures and other challenges have significantly impacted its effectiveness. To address these challenges, it is essential to reduce bonded carrier shipping costs and enforce robust security measures along trade routes. Establishing dedicated border markets for perishable goods, creating specialised banking channels, and exploring alternative currency models can help resolve financial and payment issues. Moreover, improving infrastructure and implementing a single-window clearance system will be critical in streamlining border processes and supporting sustainable bilateral trade.

Notes and References

[1] Wolfgang-Peter Zingel, "The Economics of Pakistan-Afghanistan Relations: Implications for the Region," *India Quarterly* 70, no. 1 (2014): 1–14, https://www.jstor.org/stable/45072839.

[2] Sayed Hussain et al., "The Causes of Transit Related Pak-Afghan Cross Border Smuggling," *The Dialogue* 3 (January 1, 2014): 39–66.

[3] Elke Grawert, Rabia Nusrat, and Zulfiqar Ali Shah, *Afghanistan's Cross-Border Trade with Pakistan and Iran and the Responsibility for Conflict-Sensitive Employment*, *Bonn International Center for Conversion (BICC)*, (2017).

[4] "Pakistan Exports to Afghanistan - 2025 Data 2026 Forecast 2009-2024 Historical," https://tradingeconomics.com/pakistan/exports/afghanistan.

[5] Siân Herbert and Iffat Idris, "Effects of Pakistan-Afghanistan Borderlands Instability on Stability and Security in Pakistan," n.d.

[6] Aqaiòandò Ausheenò, "Pakistan Afghanistan Relation," n.d.

[7] "China and Afghanistan's Jousting Over the Wakhan Corridor," *Observer Research Foundation,* accessed 24 April 2025, https://www.orfonline.org/research/china-and-afghanistan-s-jousting-over-the-wakhan-corridor.

[8] Tahir Khan, "Situationer: Border Closures, Broader Implications," *Dawn*, 22 January 2024, https://www.dawn.com/news/1807662.

[9] Amjad Ali Shah, "Traders, Officials Discuss Banned Items in ATT," *Business Recorder*, https://www.brecorder.com/news/40282383.

[10] "Barriers to Afghanistan's Critical Private Sector Recovery," *NRC*, https://www.nrc.no/resources/reports/barriers-to-afghanistans-critical-private-sector-recovery.

[11] "Protecting Pak-Afghan Trade by Decoupling Trade & Politics," *Paradigm Shift*, https://www.paradigmshift.com.pk/protecting-pak-afghan-trade/.

[12] Maheen Rehan, Abdullah Khalid, and Ahad Nazir, *Pak-Afghan Trade: Addressing Challenges to Enhance Economic Potential*, 2024.