Barriers to Afghan Exports in Pakistani Markets: A Case Study of Fresh Fruit Trade

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ABSTRACT

Bilateral trade between Pakistan and Afghanistan has long been a significant contributor to regional economic activity, yet it remains hampered by numerous challenges that limit its full potential. Chief among these are the non-tariff trade barriers (NTBs), including regulatory obstacles, inconsistent border policies, complex customs procedures, and frequent border closures, which have become major hindrances. This study examines the effects of NTBs on small and medium enterprises (SMEs) involved in cross-border trade between Pakistan and Afghanistan. Utilizing both primary data from traders and secondary sources, the research illustrates how these barriers elevate transaction costs, restricts market access, and encourage informal trade networks. The findings indicate that SMEs which lack the financial institutional resources to manage delays and additional expenses are disproportionately impacted, curtailing their competitiveness and growth prospects. Moreover, the study underscores how persistent NTBs erode trust between trading partners and obstruct broader regional integration. The paper concludes by proposing policy measures to streamline border procedures, enhance transparency, and promote institutional cooperation to reduce NTBs and support SMEs in both countries. Addressing these issues could unlock substantial trade potential, bolster economic resilience, and contribute to long-term regional stability.

Keywords: *Pakistan–Afghanistan trade, non-tariff barriers, SMEs, cross-border trade, informal economy, regional integration, customs procedures.*

INTRODUCTION

Trade relations between Pakistan and Afghanistan have historically been crucial for economic, strategic and socio- cultural reasons in south Asia. As a landlocked nation Afghanistan depends significantly on Pakistani transit routes to reach international markets through seaports like Karachi and port Qasim. Conversely Pakistan gains from exporting foods and enhancing regional economic connections (TDAP, 2022). However, despite this mutual resilience trade between the two countries falls short of its potential due to ongoing political instability border closures and deep- seated mistrust. Non-tariff barriers (NTBs) such as bureaucratic hurdles, frequent border closures regulatory unpredictability and excessive documentation requirement are among the most persistent obstacles to smooth trade (Zia, 2020). Unlike straightforward tariffs, NTBs often act as obscure, ad hoc tools used to limit imports under the guise of protecting domestic interests (Shah & Kayani, 2014). In this setting the Afghanistan-Pakistan transit trade agreement (APTTA) of 2010 was initially designed to improve trade facilitation allowing Afghan cargo access to Indian markets and utilizing Pakistani transit infrastructure. Nevertheless, political instability and inconsistent implementation have greatly diminished its effectives (Rasa & Rlung, 2021; Sididiqui, 2021). Consistently Afghanistan has increasingly shifted its trade through Iran and central Asia reducing its reliance on Pakistani routes (Rasa & Rlung, 2021). Empirical research further highlights the economic impact of NTBs. Wani (2024) discovered that a mere 1% increase in NTBs imposed by importing countries can decrease Afghanistan's exports by about 1.23% resulting in losses of approximately USD 5.7 million or 0.029% of GDP. Additionally, gravity-model analyses indicate that trade between Pakistan and Afghanistan underperforms compared to what geographical proximity and economic potential would suggest; NTBs contribute to trade diversion toward India, Iran, and Uzbekistan. This situation places small and medium enterprises (SMEs) at a significant disadvantage. These SMEs are very crucial for both nations. SMEs are particularly vulnerable due to limited resources, lack of institutional knowledge, and an inability to absorb delays or additional costs. As a result, many resorts to informal or smuggling routes which erode state revenues and further entrench unregulated markets (Watandar et al., 2023).

Meanwhile both countries have explored infrastructural projects to address these issues and enhance connectivity. On Pakistan's side the Khyber Pass Economic Corridor (KPEC) is being developed with world bank support to improve transit infrastructure and promote regional integration. Afghanistan on the other hand is positioning itself as a regional logistics hub particularly in Herat to facilitate energy and commodity flows with central Asia (Reuters, 2024). These projects hold promise but face operational and geopolitical challenges especially on the Afghan side of the border. Against this complex backdrop this study aims to critically examine the effects of NTBs on SMEs involved in Pakistan-Afghanistan cross border trade. Through a dual lens structural (infrastructural policy) and operational (transactions, costs) the research intends to illumine how NTBs impair SME competitiveness, incentivize informal trade and impede broader regional integration. By investigating both qualitative experiences and quantitative data the study aspires to offer actionable evidence-based recommendations.

By reducing non-tariff barriers and enhancing institutional collaboration between the two nations substantial economic opportunities could be unlocked. Strengthening small and medium sized enterprises which are fundamental to both economies could boost resilience formalize supply chains increase government revenues and shift bilateral trade from a source of conflict to a channel for stability and growth.

LITERATURE REVIEW

Introduction

A literature review offers a critical synthesis of past research and places the current study within the context of existing knowledge. This chapter delves into theoretical perspectives on trade barriers, reviews global and regional evidence on non-tariff barriers (NTBs) and investigates their specific effects on small and medium enterprises (SMEs). Special emphasis is placed on studies concerning Pakistan-Afghanistan trade, followed by identification of the research gap. Theoretical foundations of trade and barriers classical trade theories such as Ricardo's theory of comparative advantage and Heckscher-Ohlin factor endowment model highlight those countries benefit from specialization and the free exchange of goods (Krugman & Obstfeld, 2009). However, trade is seldom free governments implement barriers to protect domestic industries, generate revenue, or achieve political goals. Barriers are generally categorized into two types; Tariff Barriers: Customs duties or tax on imports. Non-tariff barriers: measures beyond tariffs that restrict trade, including quotas, licenses, customer procedures, product standards, and administrative delays (Shah & Kayani, 2014). While tariffs have generally decreased due to trade liberalization under the World Trade Organization (WTO), NTBs have become increasingly significant, influencing the structure and flow of international trade (Zia, 2020). Non-tariff barriers in global trade globally, NTBs are acknowledged as significant obstacles to international commerce. Kee. Nicita and Olarreaga (2009) discovered that NTBs impact over 70% of world trade, often more significantly than tariffs. Empirical research shows that NTBs increase costs, reduce export competitiveness, and disproportionately affect firms in developing economies. For SMEs, NTBs create challenges in complying with documentation, standard, and border procedures (OECD, 2018). Large firms can absorb these costs through economies of scale, but SMEs often find themselves excluded from formal trade channels. In Africa, for example, non-tariff restrictions have been shown to divert trade toward informal cross-border activities, reducing state revenues and increasing smuggling (Moyo, 2016). Regional context: south Asia and neighboring countries south Asia presents a paradox: despite geographical proximity and cultural ties, intra-regional trade remains among the lowest globally. Non-tariff barriers such as customs inefficiencies, regulator inconsistency, and inadequate infrastructure play a central role (Kathura, 2018). For Afghanistan, NTBs are particularly costly. Wani (2024) found that a 1% increase in NTBs imposed by importing countries reduces Afghan exports by 1.23% equating to an annual GDP loss of USD 5.7 million. Studies also reveal that Afghan exporters face higher costs and delays at borders compared to regional competitors, undermining their market access (Watandar et al., 2023). Similarly, Pakistani exporters to neighboring countries encounter restrictions in product standards, testing requirements, and border clearance times. These NTBs lead to trade diversion, pushing commerce toward informal or third-country routes.

Trade between Pakistan and Afghanistan has fluctuated sharply over the past two decades. In the early 2010s, annual trade exceeded USD 2.5 billion, but border closures, political tensions, and regulatory disputes have since reduced official flows (TDAP, 2022). The 2010 Afghanistan Pakistan transit trade agreement (APTTA) was designed to facilitate trade but its inconsistent implementation and recurring political frictions limited its impact (Siddique, 2021). As a result, Afghanistan increasingly relied on Iranian ports such as Chabahar, reducing dependence on Pakistan (Rasa & Rlung, 2021).

NTBs disproportionately affect SMEs Afghan trades often depend on brokers to manage customs, raising transaction costs and cutting margins. Pakistani SMEs face similar issues, with delays at Torkham and Chaman creating uncertainty and risk (Shah & Kayani, 2014). Many firms turn to informal channels, causing revenue losses and expanding unrecorded economic activity (Watandar et al., 2023).

SMEs are crucial to both economies, employing over 60% of Afghanistan's workforce and contributing significantly to Pakistan's manufacturing and exports (OECD, 2018). However, NTBs impose transaction costs SMEs struggle to absorb. Excessive documentation, unpredictable regulations, and border delays push many towards informal trade (Moyo, 2016). In this context, smuggling of textile, electronics, and fuel is widespread (Shah & Kayani, 2014), undermining formal business and weakening state revenue collection.

Literature Gaps

Despite extensive research on NTBs key gaps persist:

1. Most studies assess that trade at the macro level rather than at the firm level.
2. SMEs, though central to cross-border trade, remain underexplored.
3. Political and policy issues dominate the literature, with limited empirical evidence on SME- level challenges.
4. Research rarely examines the link between NTBs, SMEs, and informal trade networks.

This study addresses these gaps by analyzing how NTBs affect SMEs in Pakistan-Afghanistan trade, focusing on both structural issues (agreements, infrastructure) and operational realities (costs, delays, procedures).

Overall NTBs present more serious obstacles to trade tariffs, particularly in fragile economies. In the Pakistan-Afghanistan corridor, they constrain formal trade, intensify political frictions, reduce government revenue and disadvantage SMEs. Existing literature acknowledges these problems but lacks empirical focus on SMEs. This study seeks to fill the gap by examining how SMEs adapt or struggle under NTBs contributing both to academic understanding and to policy debates on regional trade facilitation.

METHODOLOGY

Introduction

This chapter presents the methodological framework used to examine how non-tariffs barriers (NTBs) affect small and medium enterprises (SMEs) engaged in Afghanistan-Pakistan trade. It outlines the research design, population, sampling, data collection, research tools. And analytical techniques applied to ensure validity and reliability.

Research Design

A mixed-method design was adopted, integrating quantitative and qualitative approaches. This choice reflects the complex nature of NTBs: quantitative data capture trade volumes, delays and costs, while qualitative insights highlight the lived experiences of trader's and officials.

- **Quantitative:** structured surveys with SMEs involved in cross border trade.
- **Qualitative:** Semi-structured interviews with SME owners, customs officials, and trade experts. This combination ensures both breadth and depth of analysis.

Population and Sampling

- **Population:** SMEs engaged in cross border trade, traders/transporters at Torkham and Chaman Border and key stakeholders (chambers of commerce, customs authorities, trade associations).
- **Sampling:** purposive sampling was used to target relevant respondents with stratified sampling to reflect sectoral diversity (agricultural, textiles, construction and pharmaceutical companies)

Sample size:

- **Surveys:** 200 SMEs (100 Afghanistan, 100 Pakistan)
- **Interviews:** 20-25 informants, including officials and experts.

Data collection:

Primary data

- **Surveys**: structured questionnaires measuring perceptions of NTBs, costs, and coping strategies.
- **Interviews:** open-ended questions on challenges, policy enforcement, and reform proposals.

Secondary Data: Reports from TDAP, ACCI customs statistics, government publications, academic studies, and international organizations like World Bank, WTO, OECD.

Research Instruments

1- **Survey Tool:** Likert-scale items assessing custom procedures, border delays, informal payments, compliance costs, and effects on competitiveness.
2- **Interview Guide:** Open-ended questions exploring experiences with NTBs role of brokers, views on APTTA, and trade facilitation suggestion.

Data Analysis

- **Quantitative:** Descriptive (means, frequencies) and inferential (correlation, regression) analysis using SPSS or Stata.
- **Qualitative:** Thematic analysis of interview transcripts with NVivo coding to identify recurring patterns (e.g., delays, corruption, informal trade)

Validity and Reliability

- Instruments reviewed by experts and pilot-tested with 10 SMEs.
- Reliability checked via Cronbach's Alpha (>0.7) and triangulation of quantitative and qualitative results.

Ethical Consideration

- Informed consent obtained; participants voluntary with withdrawal rights.
- Respondents' anonymity and confidentiality ensured. Data used exclusively for academic purposes.

Limitations

- Limited access to border traders due to security/political issues.
- Possible respondent hesitancy on sensitive issues (corruption and smuggling) Time and resource constraints may reduce sample breadth.

Conclusion

This methodology integrates quantitative rigor with qualitative depth to assess NTBs impact on SMEs in Afghanistan-Pakistan trade.

RESULT AND DISCUSSION

Bilateral trade trends (2017-2024)

Surface Trade between Pakistan and Afghanistan exhibits significant fluctuation over recent years:

Year	Pakistan Exports (USD million)	Pakistan Imports (USD million)	Total Trade (USD million)	Trade Balance (Exports – Imports)
2017-18	1,300.33	450.05	1,750.38	+850.28
2018-	1,270.41	557.70	1,828.11	+712.71

19				
2019-20	857.49	472.53	1,330.02	+384.96
2020-21	1,018.53	577.49	1,596.02	+441.04
2021-22	867.12	801.09	1,668.21	+66.03
2022-23	953.99	892.84	1,846.83	+61.15
2023-24	1,064.84	538.60	1,603.44	+526.24

Observations:

- Trade peaked in 2018-19 with nearly USD 1.83 billion, then sharply declined in 2019-20, recovering somewhat by 2023-24
- The trade balance shows Pakistan consistently exporting more than imports, though the surplus narrowed notably in 2021-22.

Transit Trade Volumes (2017-2024)

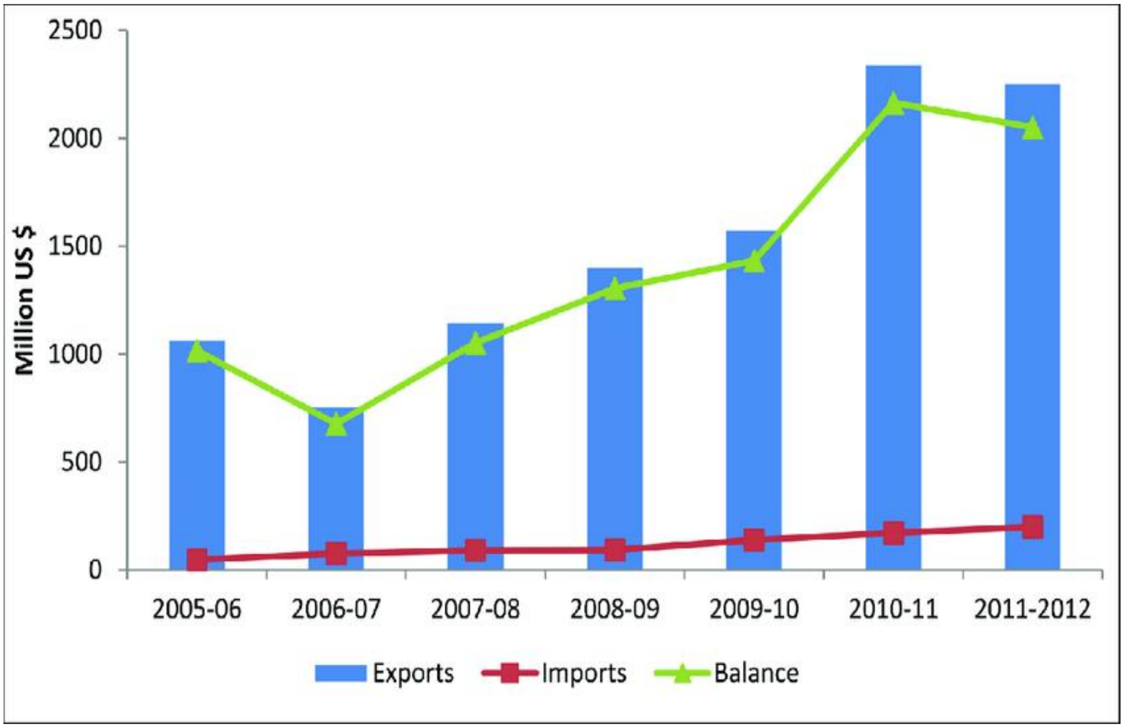
Transit trade reflects more dramatic shifts:

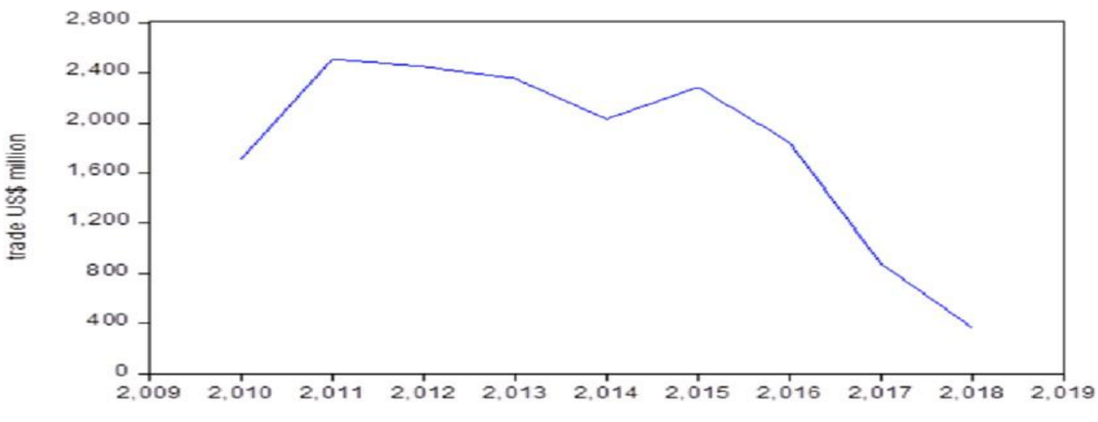
Year	Transit Trade Volume (USD million)
2017-18	3,074
2018-19	5,234
2019-20	5,403
2020-21	4,407
2021-22	4,016
2022-23	6,701
2023-24	2,399

Observations:

- A pronounced peak occurred in 2022-23 at USD 6.7 billion.
- Transit trade dropped to USD 2.4 billion 2023-24, a signal of serious disruptions such as border closures and security interventions.

Graphical Overview:





The graph above displays trade values (exports, imports and balances) from 2005 to early 2010s demonstrating the long-term growth and volatility of bilateral trade with exports consistently outperforming imports.

Impact of Border Disruptions and Closures on Trade

Torkham Closure Highlights

A 20-day closure in 2024 estimated to have caused USD 25 million in cumulative losses. USD 15 million to Pakistan and USD 10 million to Afghanistan

In March 2025, a 10-day closure stranded over 5000 trucks, potentially causing losses in the billions of Pakistani rupees

A 5-day closure in the late February 2025 incurred approximately USD 12 million in losses across both nations.

Reuters reports that such disruptions stranded thousands of trucks and deeply affected food imports, particularly critical during Ramadan.

Transit trade plummeted 84% post anti-smuggling crackdown, from roughly USD 7.48 billion to just USD 1.2 billion with forward cargo down 64% and reverse cargo down 46%.

SME-level impacts: Quantitative and Qualitative insights Quantitative Impacts on SMEs:

Daily losses during border shutdown range in the millions of dollars, translating to loss revenue and severe disruptions for SMEs especially those trading perishables.

Qualitative impacts on SMEs:

Perishables like fruits and vegetables face spoilage due to prolonged delays at border crossings

SMEs bear additional costs from repeated cross border policy shifts high documentation burdens and opaque procedures imparting margins and competitiveness.

Many SMEs are diverting trade routes via Iran's Chabahar port bearing higher logistical costs but gaining reliability.

Summary Table: Macro and SME level consequences

Indicator	Value / Trend	SME Implications
Peak bilateral trade (~2018–19)	~USD 1.83B	Wider market access—though fragile due to instability.
Transit trade collapse (2023–24)	From USD 6.7B to 2.4B	Reduced trade corridors, increased costs, unpredictable flows.
20-day border closure loss	USD 25M total	Severe margin erosion, especially for perishables.
84% decline in transit trade	From USD 7.48B to 1.2B	Supply chain rerouting, added layers of complexity and cost.
Route diversion to	Qualitative shift	SMEs face higher transit costs, longer distances,

Chabahar		and unfamiliar regulations.

Interpretation and Implications

Volatility: bilateral and transit trade are highly sensitive to NTBs with closures having immediate and severe financial consequences

Resilience Costs: SMEs are forced to adapt via alternative routes yet this comes at higher operational expense and reduced predictability

Urgency for Reforms: These findings underscore the urgent need for infrastructure investment, streamlined procedures, and policy stability to support SME competitiveness and regional integration.

Conclusion

This part of the study confirms that non-tariff barriers and border disruptions are not abstract policy concerns, they manifest as daily, real economic shocks for SMEs. From stranded trucks to route diversions and market losses, the data provide compelling evidence for immediate policy and infrastructural interventions.

CONCLUSION

This study set out to investigate the role of non-tariff trade barriers in shaping the dynamics of bilateral trade between Pakistan and Afghanistan with particular focus on their impact on small and medium enterprises. The findings demonstrate that NTBs such as cumbersome customs procedures, inconsistent border regulations, frequent closures at major checkpoints (Torkham and Chaman), and informal payments continue to significantly hinder trade flows and increase transaction cost.

The study found that SMEs due to their limited financial and institutional resources bear a disproportionate share of these costs compared to larger firms. Delays at the border increase spoilage of perishable goods, raise transportation costs, and reduce competitiveness in both domestic and regional markets. The reliance on informal networks and smuggling routes reflects traders' attempts to bypass regulatory hurdles, but this also undermines transparency and weakens formal trade structures.

Empirical evidence from secondary trade data further supports these findings. Afghanistan-Pakistan bilateral trade, which once peaked at nearly US $2.5 billion in 2012, has declined to below US $1.0 billion by 2022, largely due to persistent NTBs, political frictions, and weak institutional mechanisms. The decline of formal trade also highlights the growth of informal and undocumented trade, estimated at nearly 50-60% of actual trade flows (World Bank, 2021).

The results confirm that NTBs not only act as immediate impediments to trade but also contribute to long term issues including:

- Weakening bilateral economic relations
- Reducing trust between the two countries' business communities Limiting the role of SMEs in regional value chains
- Undermining broader goals of regional integration, such as those outlined under the South Asian free trade area (SAFTA) framework.
- Ultimately, reducing NTBs is not only an economic necessity but also a political imperative for

improving Afghanistan-Pakistan relations and strengthening regional stability.

Policy Recommendations

Based on the findings the following recommendations are proposed:

- Streamline customs and border procedures
- Introduce single window clearance system at major border points (Torkham, Chaman-Spin Boldak)
- Digitize customs documentation and enhance electronic data interchange between Afghan and Pakistani authorities.

Institutionalize trade agreements:

- Strengthen the implementation of the Afghanistan-Pakistan transit trade agreement (APTTA) by addressing gaps related to transport restrictions and border access.
- Establish a joint trade facilitation committee with equal representation from chambers of commerce, customs, and SMEs

Support SMEs in cross border trade:

- Provide capacity building programs for SMEs on compliance, export documentation, and logistics management.
- Create financial support mechanisms (e.g., concessional credit, insurance schemes) to help SMEs absorb additional transaction costs.

Combat informal trade and corruption:

- Strengthen anti-corruption measures at customs checkpoints by rotating staff regularly and introducing third party monitoring.
- Formalizing trade routes by reducing excessive checks that incentivize smuggling.

Foster regional and economic integration:

- Explore integration of Afghanistan-Pakistan trade into broader frameworks such as the China Pakistan Economic Corridor (CPEC) and Central Asia Regional Economic Cooperation (CAREC) to expand regional market access.
- Align trade policies with SAFTA objectives to reduce NTBs across the region.

Future Research Directions:

While this study provides valuable insights, future research could:

- Conduct sector specific studies (e.g., Agriculture, textiles, pharmaceuticals) to identify how NTBs affect industries differently.
- Use longitudinal data to examine how NTBs evolve over time and their long term impact on SMEs. Explore the role of geopolitical tensions and security factors as additional constraints on trade.

Final Remarks:

The study concludes that NTBs are among the most significant impediments to Afghanistan-Pakistan trade, disproportionately harming SMEs and constraining regional integration. Addressing these barriers require both technical reforms (e.g., digitization, customs facilitation) and political will (e.g., trust building, institutional cooperation. If properly addressed, the removal of NTBs could revitalize bilateral trade, empower SMEs, and contribute to broader goals of economic growth, stability, and regional connectivity.

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