

Conditional Interdependence and Stable Bilateral Relations: The Limits of Trade-Led Stabilization in the Pakistan-Afghanistan Case (2015-2025)

Muhammad Salim and Maria S. Effendi

National Defense University, Islamabad

This paper examines the relationship between economic interdependence and bilateral stability through Pakistan-Afghanistan trade and transit relations during 2015-2025. A basic assumption of Liberal theory is that expansion of trade promotes peace and cooperation by raising the cost of conflict. However, long-term economic exchange persisted alongside recurring political tensions and security concerns in the Pakistan-Afghanistan context. This paper employs a qualitative approach to analyze trade patterns, policy developments and institutional arrangements and develops the concept of conditional interdependence to explain why trade did not produce stable bilateral relations. It finds that structural economic factors like geographic proximity, market demand and Afghanistan's reliance on Pakistan's transit routes were instrumental in sustaining trade and transit whereas political tensions, security incidents, mistrust, asymmetrical dependence, issues with institutional reliability and security-driven governance limited its stabilizing effects. The paper argues that without credible institutions and environment of political trust and accommodation, economic interdependence alone is insufficient to ensure peace and stability.

Keywords: economic interdependence, conditional interdependence, Pakistan-Afghanistan relations, trade and transit Governance, bilateral stability.

Economic interdependence has been an important lens of analysis in international relations (IR), especially within the framework of liberalism, which links expansion of trade between two states with promotion of peace. The core proposition is that sustained economic cooperation increases the cost of conflict, which incentivizes states to continue a peaceful relationship. However, a considerable body of scholarship suggests that the ability of economic interdependence to promote this stable relationship is neither automatic nor linear, rather shaped by political, institutional and structural conditions. Accordingly, the main enquiry of this paper is to examine why sustained trade and transit relations between Pakistan and Afghanistan during 2015-2025 did not translate into stable bilateral relations despite persistent economic interdependence?

In this paper, stable bilateral relations refer to consistent diplomatic engagement, predictable trade flows, institutionalized dispute management mechanisms and reduced frequency of interstate tensions that disrupt bilateral interaction. The conditions under which economic interdependence meets success or failure, as an instrument of bringing stability to interstate relations, is the broader theoretical and empirical question being raised by this enquiry.

If liberal theory posits that trade lowers the risk of conflict, then why did Pakistan and Afghanistan experience diplomatic crises and security tensions despite continued economic relations? To what extent did factors such as asymmetrical dependence, political mistrust and weak institutional implementation constrain the stabilizing impact of trade? These questions challenge the conventional belief that trade leads to peace and are not only central to explaining the Pakistan-Afghanistan case, but also to developing the concept of

conditional interdependence, which contends that economic relations may continue without producing political stability in the absence of necessary political and institutional conditions.

Substantial literature examines the trade-peace relationship in different regional and global contexts, whereas relatively limited research focuses on conflict-prone environments which are characterized by low political trust and weak institutional reliability. In such environment, the potential of economic interdependence is constrained by political and institutional conditions, as uncertainty, policy volatility and strategic considerations shape the functioning of cross-border exchange. Thus, economic interdependence may persist but may not produce stabilizing effects.

This paper argues that economic interdependence between Pakistan and Afghanistan during 2015-2025 was conditional and reliant on the existence of political trust and institutional reliability. These enabling conditions are necessary for economic interactions to contribute to stable bilateral relations. Despite being vulnerable to changes in policy, administrative decisions and evolving political climate, trade continued because of structural and market-based factors.

The paper proceeds as follows: the next section reviews relevant literature, followed by the development of analytical framework of conditional interdependence in the third section; fourth section carries out analysis of Pakistan-Afghanistan trade and transit relations from 2015 to 2025, whereas the last section elaborates broader implications of the research findings, followed by the conclusion.

Literature Review

Economic interdependence occupies a central place in liberal theories of IR, which argue that when trade expands between states, it contributes to peace and cooperation among them. The core assumption is that increased economic exchange raises the opportunity costs of conflict, thereby discouraging the use of force. Early formulation of the concept can be traced back to Classical liberal thought. Kant contends that commercial interdependence creates structural disincentives to war as the costs of disruption outweigh the benefits of destabilization (Kant, 1795/ 1917), pioneering the trade-peace thought.

Building on this foundation, empirical scholarship sought to systematically test the trade-peace relationship. Polachek's research shows that higher trade volumes lower the probability of conflict by increasing the opportunity costs of using force; disruption of mutually beneficial economic relations brings real losses that rational actors try to avoid (Polachek, 1980). Similarly, Oneal and Russett confirm Kant's trade-peace assumption through an analysis of the international politics between 1885 and 1992. They opine that greater trade interdependence may lower the likelihood of militarized disputes, especially if it is reciprocal and supported by institutional framework (Oneal & Russett, 1999).

However, these liberal arguments attracted significant criticism. A key challenge is regarding the assumption of a linear relationship between interdependence and peace. Barbieri argues that under certain conditions, especially where trade relations are asymmetric, high levels of interdependence may increase the chances of conflict (Barbieri, 1996). This type of interdependence can create vulnerabilities and strategic incentives that may exacerbate tensions instead of mitigating them.

The more recent scholarship, which emphasizes the role of power and network structures, further challenges the liberal narrative. Farrell and Newman argue that states can exploit asymmetric control over key nodes in global economic networks. Trade networks, in this perspective, are viewed as instruments of power and conflict, where institutions serve as controlling tools (Farrell & Newman, 2019). Therefore, trade no longer reduces conflict in such situations, rather, it becomes an instrument of power politics pursued through economic means (Drezner, 2003). This argument is more applicable to politically contested transit trade-dependent dyads.

Beyond structural asymmetry, a growing body of literature highlights the importance of institutions in shaping the effects of interdependence. Mansfield and Pollins emphasize that stabilizing potential of economic interdependence depends on existence of institutions that can manage conflicts, reduce uncertainty

and help the parties to behave in a more predictable way (Mansfield & Pollins, 2001). Predictable and efficiently implemented institutions are the key factors that determine if interdependence will result in cooperation or remain vulnerable to conflict.

Non-Western and Global South approaches challenge liberal assumptions about trade and peace by emphasizing on asymmetry, hierarchy and regional context. For instance, Prebisch, a dependency theorist, argues that the international division of labour placed “peripheral” economies in subordinate position to the industrial “centre” while they supplied food and raw materials, whereas the advantages of technological progress were not shared equally between centre and periphery (Prebisch, 1950, pp. 1-2). Similarly, Acharya's Global IR approach argues that IR should be studied through pluralistic perspectives, taking into account regional histories, non-Western agency and a wide variety of sources of knowledge (Acharya, 2014). These perspectives are relevant to the Pakistan-Afghanistan case because interdependence operated under unequal conditions, with Afghanistan facing greater structural vulnerability and institutional weakness, while the political effects of trade remained dependent on the regional, historical and institutional context in which economic exchange took place.

While the existing literature acknowledges that interdependence is not an automatic cause of peace, it does not explain cases where commercial exchange continues along with persistent instability. Particularly, the mediating role of political trust deficit and institutional inconsistency remains underexplored. This article, therefore, addresses this gap by developing the concept of conditional interdependence, emphasizing that stabilizing effects of economic interactions are largely dependent on the existence of enabling political and institutional conditions.

Analytical Framework

While liberal theories highlight the peace-building role of trade, the relationship between economic interdependence and political stability remains contested. In this section, the analytical framework has been formed by combining liberal assumptions about trade-peace relationship with economic interdependence, neoliberal institutionalism and trade-conflict literature. Building on these insights, interdependence is conceptualized as a context-dependent process, rather than an inherently stabilizing force.

In IR, interdependence refers to situations in which reciprocal effects are produced among states or actors of different states. Keohane and Nye conceptualize interdependence as a condition in which states are dependent on cross-border exchanges to such an extent that disruption of these would bring great losses to both sides (Keohane & Nye, 2012). In this paper, interdependence is operationalized as the extent to which Pakistan and Afghanistan are dependent on sustained trade, transit and border-related economic activities such that if disruptions occur, these would produce tangible economic and political losses for both states. This includes trade volumes, shared infrastructure, institutional arrangements and expectations of continuity.

Keohane and Nye's distinction between sensitivity and vulnerability interdependence is particularly relevant to this paper. Sensitivity refers to the immediate effects of changes in one state's policies or external conditions on another state, whereas vulnerability is concerned with costs of alternative options after disruption occurs (Keohane & Nye, 2012). In the Pakistan-Afghanistan case, both states have been sensitive to disruptions of trade and transit, as border closures, regulatory restrictions and delays impose costs on traders and state revenues. However, Afghanistan has shown greater vulnerability due to its reliance on Pakistan's transit corridors and higher costs associated with alternative routes. This asymmetry helps explain why interdependence did not generate equal incentives for stable cooperation.

Farrell and Newman argue that interdependence may generate strategic leverage when states occupy critical nodes within international economic networks. This enables states to influence the behaviour of interconnected actors by restricting access to network flows (Farrell & Newman, 2019). The case of Pakistan-Afghanistan illustrates how Pakistan's position as a principal transit corridor for Afghan trade provides it with a degree of structural leverage. However, rather than treating this leverage as a central explanatory factor, this paper argues that its effects were conditioned by broader political trust and institutional reliability.

Economically interdependent states have been found to produce a range of results, from cooperation to conflict, highlighting the ambivalent nature of interdependence (Vries, 1990). Keohane and Nye caution that interdependence may not necessarily eliminate international conflict. “On the contrary, conflict will take new forms, and may even increase” (Keohane & Nye, 2012, p. 7). Taken together these views, this framework challenges deterministic liberal assumptions and emphasizes the contingent nature of the trade-peace relationship.

Neoliberal Institutionalism provides a significant extension to the concept of interdependence by emphasizing the role of institutions in facilitating cooperation under anarchy (Stein, 2008). Keohane argues that international regimes, which he defines as principles, norms and rules, establish rules and expectations that make compliance more attractive, reduce information asymmetry and uncertainty and lower transaction costs by making interactions among states easier (Keohane, 1984). These features of regimes make it possible for states to cooperate even when there is no central authority.

However, the effectiveness of institutions varies. Their potential to sustain cooperation is substantially constrained if they are weak, implemented inconsistently or politically contested. This issue is particularly relevant to conflict-prone environments, where formal institutional arrangements may exist but face enforcement challenges.

Constructivist IR also provides theoretical basis for understanding trust in conditional interdependence. It emphasizes that state behaviour is not shaped only by material interests but also by identities, meanings and expectations that evolve out of interaction. Wendt argues that identities provide the basis for interests (Wendt, 1992), while Adler and Barnett associate regular interaction and institutions with the development of trust and expectation of peaceful change (Adler & Barnett, 1998). In Pakistan-Afghanistan relations, historical mistrust, contested border narratives and conflicting views on security issues prevented the development of trust, which validates the argument that trade can support stability only when accompanied by trust-building and reliable institutions.

Building on these insights, this paper recognizes political trust and institutional reliability as major conditioning variables that shape the effect of economic interdependence. Political trust refers to the degree to which a state believe that the other state is a credible and predictable partner. Empirically, it is reflected in the observable patterns like recurring border closures, trade restrictions and use of economic policy as a strategic instrument. When trust is low, states are likely to interpret economic interdependence from a security perspective and adopt restrictive policies. According to Keohane, the existence of common interests and the trust that partners will keep their commitments are essentially required for cooperation (Keohane, 1984). In an environment of low mutual trust, the perceived risk of being exploited increases, undermining interdependence’s stabilizing potential.

Institutional reliability, referring to institutional consistency and predictability in applying rules in economic interactions, is central to the effectiveness of institutions. Indicators of institutional reliability include stability of trade procedures, uniform application of regulations and the degree of coordination among regulatory agencies. As cooperation facilitation potential of regimes is closely linked with credible and consistent enforcement (Keohane, 1984), inconsistent implementation and procedural variability can produce uncertainty, higher transaction costs and discourage long-term engagement. These variables are mutually reinforcing. Low political trust diminishes institutional credibility while less/ unreliable institutions erode trust.

The framework underlines two mechanisms through which interdependence is shaped by political trust and credibility of institutions. First, the policy restriction mechanism, caused by trust deficit in the shape of border closures or regulatory controls, which disrupt economic flows. Second, the uncertainty mechanism, which is caused by institutional inconsistency, makes rules unpredictable, increases transaction costs and discourages long-term engagement. In the Pakistan-Afghanistan context, these mechanisms are observable in fluctuations in trade, delays in customs clearance, higher costs and diversion of trade to informal or alternative routes.

Based on this framework, the paper advances three analytical expectations: first, trade is likely to persist even under conditions of political tension in the presence of strong structural economic incentives; second, under conditions of low political trust, interdependence will be accompanied by frequent policy-induced disruptions; third, in case of weak institutional reliability, trade will operate under conditions of uncertainty, which will result in higher transaction costs, informality and constraints on long-term integration.

Conditional interdependence can thus be defined as economic interdependence whose contribution to stable bilateral relations is reliant on political trust and institutional reliability. It conceptualizes interdependence as operating within political and institutional constraints that determine its outcomes. When such conditions exist, interdependence may lead to stable cooperation; however, in their absence it remains fragile, vulnerable to disruption and lacks the potential to produce sustained political stability, even when economic exchange continues.

Method

This paper employs a qualitative case study design to examine Pakistan-Afghanistan trade and transit relations during 2015-2025. Since the paper seeks to explain the political and institutional mechanisms through which economic interdependence influences interstate relations, rather than establishing statistical causality, a qualitative approach is deemed more appropriate. In the Pakistan-Afghanistan case, the coexistence of sustained trade and recurrent political tensions provides a suitable setting that makes it a critical case for evaluating the constraints of trade-led stabilization.

The paper relies on multiple sources of evidence, including bilateral trade and transit agreements, official policy documents, government notifications, international organization reports, trade statistics and academic literature. These sources serve the purpose of highlighting long-term patterns and identifying major turning points in Pakistan-Afghanistan trade and transit relations; use of multiple data sources allows triangulation of evidence and strengthens credibility of the analysis.

Analytically, the paper employs process tracing as the principal strategy to examine how changes in the political setting, institutional arrangements and security conditions have shaped economic interdependence over time. Instead of treating trade volumes as a sufficient indicator of interdependence, the paper traces the causal sequence that connects political trust, institutional reliability and trade governance to the observed patterns of bilateral economic interaction.

For analytical clarity, the empirical discussion is organized into two phases: 2015-2021, covering the period of the Islamic Republic of Afghanistan and the implementation challenges of trade arrangements; and 2021-2025, covering the return of the Taliban to power and the subsequent evolution of trade governance under changing political and security conditions. The post-2021 transition is treated as a critical juncture that altered the political and institutional environment of interdependence, while continuing some pre-existing patterns of security-driven trade governance. This periodization facilitates a comparison of how changes in the political and security environment influenced the outcomes of economic interdependence.

Empirical Analysis of Pakistan-Afghanistan Trade Relations (2015-2025)

While operating within the broader environment of political and security tensions, trade and transit relations exhibited a pattern of continuity. This persistence was mainly due to structural economic factors, which primarily include geographical proximity, market demand and Afghanistan's dependence on Pakistan's transit routes.

Persistence of Trade Despite Political Tensions

Being a landlocked country, Afghanistan remained heavily dependent on transit trade through Pakistan (Khalil et al., 2025). This structural condition created incentives for sustaining the trade flows even during periods of political uncertainty. This was further supported by complementarities in production and the existence of historically established trading networks.

Empirical trends further illustrate this pattern of resilience. According to Table 1 (World Integrated Trade Solutions (WITS), 2015-2023; World Trade Organization (WTO), 2015-2024 & Trading Economics,

2026), Pakistan-Afghanistan bilateral trade continued throughout 2015-2025. However, its volume as well as the relative shares of both states changed over time. Pakistan's exports to Afghanistan, which were US\$ 1.722 billion in 2015, declined to US\$ 1.110 billion in 2025. This reduced Afghanistan's share in Pakistan's total exports, reducing it from 7.80 percent in 2015 to 4.66 percent in 2024. Similarly, Pakistan's share in Afghanistan's total imports declined from 17.43 percent in 2015 to 10.75 percent in 2024. The table highlights that Pakistan's relative position in Afghanistan's import market weakened over the decade.

Table 1*Pakistan-Afghanistan Bilateral Trade and Relative Dependence (2015-2025)*

Year	Pakistan's Exports to Afghanistan (million US\$)	In %age of Pakistan's Total Exports	In %age of Afghanistan's Total Imports	Afghanistan's Exports to Pakistan (million US\$)	In %age of Pakistan's Total Imports	In %age of Afghanistan's Total Exports
2015	1,722.22	7.80	17.43	415.92	0.92	39.65
2016	1,369.77	6.67	18.35	369.9	0.79	47.5
2017	1,390.08	6.35	16.6	414.87	0.72	42.94
2018	1,347.93	5.7	14.67	508.36	0.84	42.86
2019	1,180.11	4.97	12.87	492.44	1.05	34.31
2020	871.27	3.87	12.02	602.85	1.09	24.89
2021	833.42	2.89	15.75	875.54	1.00	31.15
2022	976.02	3.17	12.34	1,056.56	1.61	35.54
2023	969.04	3.37	11.14	571.03	1.03	23.92
2024	1,513.05	4.66	10.75	658.72	1.17	31.47
2025	1,110.00	-	-	459.36	-	-

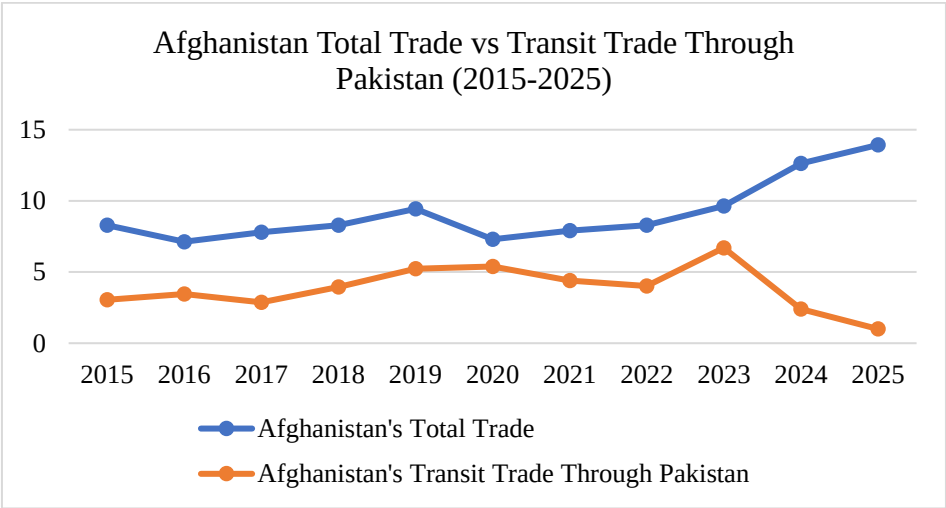
Such downturns coincided with political mistrust, border closures, stricter documentation and regulatory controls. After 2020, Afghanistan's exports to Pakistan increased, however, this rise was temporary and should not be interpreted as stable bilateral economic exchange; the increased Afghan sales of coal and other raw materials in the post-2021 period was probably the main reason behind this.

Unlike bilateral trade, Afghan transit trade through Pakistan witnessed significant surge until 2023. As Figure 1 (WITS, 2015-2023; WTO, 2015-2024; *PAJCCI*, 2021; Embassy of Pakistan, Kabul-Afghanistan, n.d.; Khan, 2025 & "Afghanistan's trade volume surges," 2026) illustrates, trade flow through Pakistani corridor increased from approximately US\$ 3.05 billion in 2015 to US\$ 6.7 billion in 2023. This indicates continued reliance of Afghanistan on Pakistan for access to international markets.

However, the data show an increasing divergence in the next two years. Afghanistan's overall trade expanded from US\$ 9.64 billion in 2023 to US\$13.93 billion in 2025, indicating surge in Afghanistan's external trade despite the Taliban takeover in 2021. However, its transit trade through Pakistan sharply reduced from US\$ 6.7 billion in 2023 to just US\$ 1 billion in 2025 (see Figure 1).

This divergence indicates that the decline in Afghan transit trade through Pakistan was not the result of reduced trade demand, rather it was associated with Pakistan's anti-smuggling measures, import restrictions and Afghanistan's increased use of alternative routes, including Iran's Chabahar route (Khan & Iqbal, 2025). These restrictions came after Pakistan's implementation of October 2023 regulatory measures, including SRO 1397(I)/2023 which set limits on several transit items prone to smuggling and SRO 1380(I)/2023 which imposed a 10 percent processing fee on certain Afghan transit commercial goods. This significant decline exemplifies the essence of conditional interdependence: trade persisted, yet its volume, trade route and institutional factors became exceptionally sensitive to security concerns.

Figure 1
Afghanistan Total Trade vs Transit Trade Through Pakistan (2015-2025)



Overall, Table 1 and Figure 1 illustrate that even though Pakistan-Afghanistan economic interdependence persisted, its direction, intensity and route structure changed significantly. These patterns support the argument of conditional interdependence that geographical and market complementarities sustained economic exchange but political mistrust, security-driven regulations and regional route diversification limited the stabilizing potential of economic interdependence.

Regional Context and Route Diversification

The changing dynamics of Afghan transit trade should also be viewed within the wider regional infrastructure landscape since Afghanistan’s access to global markets has increasingly been shaped by competing regional corridors and the involvement of external actors. India’s engagement through Chabahar provided Afghanistan with an alternative maritime outlet (“Trilateral transit pact,” 2016) and Central Asian routes (Seerat & Hamdard, 2025) offered additional access to international markets, thus, reducing Afghanistan’s reliance on Pakistan. China’s regional interconnectivity initiatives through the Belt and Road Initiative and possible extension of the China Pakistan Economic Corridor added the dimension of regional interdependence. However, these initiatives remained contingent on improvements in Afghanistan’s security and political environment (Khan et al., 2023). Despite providing partial diversification options, Pakistan’s geographical importance for Afghan trade remained significant.

Political and Diplomatic Constraints on Trade

Bilateral political relations between Pakistan and Afghanistan during 2015-2025 played a decisive role in shaping the functioning of trade and transit arrangements. Economic exchange remained embedded within a diplomatic environment that fluctuated between periods of engagement and confrontation. This embeddedness underscored the central role of political trust as a conditioning variable influencing stability and predictability of economic interdependence.

Efforts for expansion of trade cooperation were generally associated with periods of diplomatic rapprochement. For example, after former President Ashraf Ghani took office, there was clear signaling of moving away from past grievances and taking a fresh start in bilateral relations (Sial, 2016). Diplomatic initiatives emphasized trust-building, enhancement of security cooperation and promotion of regional economic connectivity, while the setting of ambitious bilateral trade expansion targets (raising trade volume to US\$ 5 billion) (Idrees & Naazer, 2022) reflected not only the expectation that economic interdependence could contribute to stabilizing relations, but also highlight that the period of rapprochement had a positive impact on bilateral trade.

This phase of political rapprochement, however, turned out to be very short. The relations between the two states deteriorated after several high-profile attacks were carried out in Afghanistan in June 2015. The breakdown of relations caused by these incidents and the subsequent blame game from both sides eroded mutual trust and disrupted diplomatic engagement. Although these engagements continued through bilateral and regional platforms, the capacity of these engagements to translate into deeper economic cooperation was limited.

Inconsistent functioning of the institutional mechanisms is another indication of the impact of volatile relationship between the two states on trade governance. For example, draft amendments of APTTA were to be discussed in seventh meeting of Afghanistan-Pakistan Transit Trade Coordination Authority (APTTCA) scheduled in March 2016 (“Pakistan, Afghanistan to Revise”, 2016). However, diplomatic tensions and border closures undermined continuity of this very important revision process. Postponement of such planned engagements indicates that institutional continuity was contingent upon the prevailing diplomatic climate, thereby weakening the predictability of trade governance.

Trade flows between the two countries were significantly affected by episodes of heightened tensions. The closure of border crossing points, in response to security incidents in Pakistan, illustrates how political and security concerns influenced trade governance, like the disruption of supply chains, the increase in transaction costs and reinforcing the perception among traders that cross-border commercial exchanges were subject to political contingencies. Similarly, the announcement of the expiry of APTTA by Afghanistan during 2017 (The World Bank Group, 2019) also highlights the fragility of institutional arrangements under conditions of mistrust.

Subsequent efforts to stabilize relations, such as establishment of the Afghanistan-Pakistan Action Plan for Peace and Solidarity (APAPPS) framework in 2018 (Ahmed, 2021), the Shared Vision in 2020 (PR 74, Situation in Afghanistan, 2020) and the seventh and eighth APTTCA meetings in the same year, revived the dialogue process on trade facilitation and APTTA revision. These initiatives restored channels of dialogues, although progress on trade facilitation and APTTA revision remained slow.

When the Taliban returned to power in August 2021, the prevailing political environment was further complicated (Popalzay, 2021). Pakistan favoured engagement with Afghanistan’s de facto authorities while balancing broader international concerns and domestic security considerations. The following years witnessed periods of escalated tension between the two countries, mainly due to security issues and disputes over management of the border. These frictions resulted in periodic border closures and disruptions of trade activity.

The evidence clearly illustrates that trade and transit relations were highly sensitive to the fluctuations in bilateral political relations. Even though economic exchange continued mainly due to structural factors, its expansion was greatly hindered by diplomatic instability and trust deficits. This supports the claim that without political trust, interdependence remains vulnerable to disruptions and cannot function as an independent driver of stability.

Institutional Reliability and Governance Constraints

Institutional reliability determines how economically interdependent states can harness trade to support stable relations. Keohane argues that institutions facilitate cooperation by reducing information asymmetry and transaction costs and by making states’ behaviour more predictable (Keohane, 1984). In Pakistan-Afghanistan context, APTTA and APTTCA provided formal frameworks; however, inconsistent rule application, delayed meetings, sudden procedural changes and weak inter-agency coordination made trade costly and unpredictable.

APTTA, designed to provide a rule-based system to manage Afghanistan’s transit trade through Pakistan, introduced formal procedures for the routes, transport modalities, guarantees and documentation. However, a number of provisions were either delayed, partially implemented or became subject to political and security conditions. According to the World Bank, APTTA faced persistent implementation issues such as Afghanistan’s restriction of Pakistan’s access to Central Asian Republics by Afghanistan on the grounds that Pakistan denied Indian access to Afghanistan and Afghanistan’s unilateral withdrawal from APTTA in 2017,

which weakened the agreement's purpose (The World Bank Group, 2019). Similarly, Ahmed highlights that even with a formal trade framework in place, Pakistan-Afghanistan economic collaboration was constrained by procedural hurdles, mistrust and inconsistent policy implementation (Ahmed, 2021). Such shortcomings weakened APTTA's credibility as a predictable institutional mechanism and increased transaction costs.

Reliability of institutions was further weakened by the delayed revision of APTTA and the irregular functioning of APTTCA. APTTCA was designed as the principal coordination mechanism to review implementation problems, resolve operational disputes and update the transit procedures. However, its meetings were irregular and at times impacted by the broader diplomatic environment. For example, the draft amendments of APTTA were to be deliberated upon in the seventh meeting of APTTCA. However, due to diplomatic tensions, border closures and the contentious issue of Indian exports to Afghanistan, this meeting was delayed for four years and finally held in November 2020 ("7th APTTCA Meeting Held in Kabul," 2020). This delay demonstrates that the institutional mechanism was not capable of operating independently of the broader diplomatic environment, weakening its effectiveness as a dispute-management forum, delaying institutional reform and increasing uncertainty among traders.

Governance fragmentation also constrained the reliability of Pakistan-Afghanistan trade and transit arrangements (Bukhari & Zaidi, 2025). On the domestic front, several agencies with overlapping border management roles, including customs, security, immigration and anti-narcotics were involved (CAREC, 2023). At Torkham, for instance, coordination problems surfaced and duplication of procedures occurred because of involvement of several agencies, which led to procedural delays and increased costs (Hussain, 2019). Even though reforms like Web Based One Customs, Pakistan Single Window and Integrated Trade and Transit Management System facilitated greater digitalization, they could not completely address the inter-agency interoperability gaps (Bukhari & Zaidi, 2025).

On the Afghanistan side, governance was fragmented due to weak state capacity, competing authority structures and parallel revenue collection even outside formal control of the state (prior to August 2021) (Custers, 2020). Thus, the formal institutions' coordination capacity was weakened by fragmentation, which made Pakistan-Afghanistan transit governance less predictable and less capable of contributing to stabilization.

Overall, formal mechanisms for trade and transit existed, but poor enforcement, lack of coordination and procedural ambiguity limited their effectiveness in fostering stable and predictable bilateral cooperation.

Security Constraints and Security Logics of Trade Governance

The perspective of security is significant because initiation and escalation of terrorism in Pakistan had resulted from fallout of the Afghan war (Parveen et al., 2023). Therefore, security considerations emerged as a pivotal factor that influenced management of Pakistan-Afghanistan trade and transit relations during 2015-2025. Although these measures increased transaction costs and reduced predictability, policymakers considered them necessary responses to militancy, smuggling and irregular cross-border movement, turning trade and transit corridors into potential conduits for security risks.

This process increasingly aligned trade facilitation with security objectives. Formal trade-related frameworks such as APTTA continued to provide institutional basis for economic exchange; however, their implementation became dependent on prevailing security assessments. Thus, risk management and threat mitigation progressively became central to the regulatory environment governing trade.

Security-oriented trade governance was driven primarily by concerns over militancy, smuggling, illicit trade and irregular cross-border movement. To translate these sensitivities into tangible actions, measures like tightening of visa regimes (Herbert & Idris, 2024), documentation requirements and stringent inspection procedures were implemented (Jones & Rosenblum, 2013). Although intended to enhance security and regulatory oversight, implementation of these measures often blurred the distinction between legal and illegal trade, which led to increased scrutiny of legitimate trade, reduced procedural efficiency and raised transaction costs.

These controls also created wider domestic political economic effects. Due to higher compliance costs and procedural uncertainties, informal channels became more attractive for traders (Momand & Ahmadzai, 2025). Instead of eliminating illicit flows, such regulations could displace them while increasing administrative discretion and rent-seeking opportunities.

Security dynamics affected trade outcomes through tighter administrative procedures, increased compliance requirements, extended clearance times and periodic border closures, which disrupted supply chains, increased transaction costs and reduced predictability of trade flows; these disruptions were more damaging for traders dealing in perishable goods. Expansion of administrative discretion in trade governance, decisions on inspections, clearances and border operations, relied on context-specific security evaluations rather than standardized procedures. This introduced a high degree of uncertainty because anticipating changes in regulatory practices, introduced in response to security concerns, was difficult for economic actors.

These mechanisms illustrate how security considerations translated into economic outcomes. Security issues did not halt trade entirely, but the altered conditions under which trade operated made it more costly, less predictable and more vulnerable to disruption. This corresponds to the “uncertainty mechanism” outlined in the analytical framework, whereby institutional inconsistency and discretionary enforcement increase transaction costs and discourage long-term engagement.

Reassessing Trade-Peace Linkages through Conditional Interdependence

The empirical analysis of Pakistan-Afghanistan trade from 2015 to 2025 highlights significant insights into the broader debate on the contribution of economic interdependence to the stability of relations between states. In this section, findings of the paper have been situated within the existing theoretical debate and their implications have been highlighted so as to fully understand the limits of trade-led stabilization.

The key finding is that sustained economic exchange coexisted with political instability. Even though bilateral and transit trade continued owing to geographic proximity, Afghanistan’s landlocked geography and dependence on Pakistan’s transit routes at the structural level, this reflected trade was occurring out of necessity rather than political cooperation between the two sides. Instead of deepening cooperation, trade activities remained exposed to disruptions due to security incidents and political contingencies. This finding is in agreement with the argument advanced by critical scholarship, arguing that interdependence does not automatically reduce conflict.

The asymmetric structure, particularly in the domain of transit trade, was instrumental in determining these outcomes. During most of the study period, around 45 percent of Afghan transit trade passed through Pakistan’s corridor (WTO, n.d.; WITS, n.d.; PBC, n.d.). This heavy dependence on Pakistan made Afghanistan’s trade vulnerable to policy shocks. The use of Pakistan’s transit facilities by a significant share of Afghan transit trade, despite the availability of alternative routes, underlines that structural dependence is still a major factor in their relationship.

Theoretical literature on interdependence suggests that asymmetry can result in power differentials capable of enabling the less dependent state to exert leverage (Keohane & Nye, 2012). Since Pakistan had a more diversified trade structure, it was less vulnerable to disruptions than Afghanistan, which had to bear higher adjustment costs when borders were closed or regulations changed.

Nevertheless, asymmetry did not result in enduring dominance. Rather, it contributed to volatility as the two countries periodically altered policies in line with evolving political and security situations. This suggests that an asymmetrical structure of interdependence, without robust institutional mechanisms, might result in increased uncertainty and instability.

Institutional reliability and political trust were the main mediating factors. Transit agreements provided formal channels for exchange, but inconsistent implementation and procedural gaps constrained effectiveness of these agreements in lowering uncertainty and transaction costs. Deep-rooted mistrust and security concerns led to the frequent overshadowing of economic incentives by strategic

considerations. This pattern illustrates that security factors may take precedence over economic gains, thereby restricting the potential of interdependence as a source of stability.

From theoretical perspective, these findings support the concept of conditional interdependence as a more accurate framework for understanding the trade-peace relationship in this context. The effects of interdependence were mediated by political mistrust, institutional inconsistency and security imperatives, constraining it from evolving into a stabilizing force.

Overall, the Pakistan-Afghanistan case demonstrates the constraints of trade-stability linkage in conflict-prone environment. Although economic interdependence played central role in sustaining commercial exchange, its potential for stable interstate relations proved insufficient. The concept of conditional interdependence offers a more context-sensitive explanation by accounting for the influence of political and institutional factors in determining the outcomes.

Conclusion

This paper examined the link between economic interdependence and bilateral stability in Pakistan-Afghanistan trade and transit relations from 2015 to 2025. It argued that interdependence remained conditional as its stabilizing potential remained reliant on political trust, institutional reliability and security-driven disruption. Trade continued because of geographic proximity, market demand and Afghanistan's transit needs, but its political effects were constrained by mistrust, asymmetry, weak institutional implementation and security-driven border governance.

The policy implication is that Pakistan and Afghanistan should not treat trade cooperation dependent as solely on a comprehensive political settlement. In fragile bilateral environments, stable relations may be advanced through low-politics measures such as customs digitalization, prior notification of regulatory changes, joint handling of perishable goods, provision of emergency trade lanes during border closures and regular technical meetings under the existing transit frameworks. These measures may not remove political mistrust; however, they could reduce uncertainty, improve predictability and strengthen institutional reliability.

Highlighting that interdependence can persist without promoting cooperation is a major contribution of this paper. In conflict-prone regions, economic exchange by itself will not be enough to guarantee cooperation. Effective stabilization requires supportive political and institutional conditions. When these conditions are missing, trade will continue but will not be able to transform interstate relations.

References

- Acharya, A. (2014). Global International Relations (IR) and Regional Worlds: A New Agenda for International Studies. *International Studies Quarterly*, 58(4), 1-13. <https://academic.oup.com/isq/article-abstract/58/4/647/1807850?redirectedFrom=fulltext>
- Adler, E. & Barnett, M. A (1998). Framework for the study of security communities. In E. Adler & M. Barnett (Eds.), *Security Communities* (pp. 29-66). Cambridge University Press
- Afghanistan's trade volume surges to nearly 14 bln USD in 2025. (2026, January 5). *Xinhua*. <https://english.news.cn/20260105/868791b56ec9452b8ad6d5168aa02ab9/c.html>
- Ahmed, V. (2021). Pakistan-Afghanistan Economic Relations: Basis for Cooperation. In H. Baqai & N. Wasi. (Eds.), *Pakistan-Afghanistan Relations: Pitfalls and Way Forward* (pp. 89-114). Friedrich-Ebert-Stiftung. <https://ir.iba.edu.pk/cgi/viewcontent.cgi?article=1004&context=faculty-research-books>
- Barbieri, K. (1996). Economic Interdependence: A Path to Peace or a Source of Interstate Conflict? *Journal of Peace Research*, 33(1), 29-49. <https://www.jstor.org/stable/425132>
- Bhutta, Z. (2021, June 9). APTTA extended as revised trade deal to take time. *Express Tribune*. <https://tribune.com.pk/story/2304233/aptta-extended-as-revised-trade-deal-to-take-time>
- Bukhari, S. A. A. & Zaidi, S. S. Z. (2025). An Analysis of the Challenges Faced by Customs for Trade Facilitation in Pakistan. *Contemporary Journal of Social Science Review*, 3(3), 1539-1556. <https://contemporaryjournal.com/index.php/14/article/view/1140/975>
- Custers, A. (2020). Case Study 11: Customs Reforms in Afghanistan. In R. Bajpai & B. Myers (Eds.). *Enhancing Government Effectiveness and Transparency: The Fight Against Corruption* (pp. 140-

- 151). The World Bank Group. <https://www.cmi.no/publications/file/7321-corruption-in-customs-how-can-it-be-tackled.pdf>
- De Vries, M. S. (1990). Interdependence, Cooperation and Conflict: An Empirical Analysis. *Journal of Peace Research*, 27(4), 429-444. <https://www.jstor.org/stable/424266>
- Drezner, D. W. (2003). The Hidden Hand of Economic Coercion. *International Organization*, 57(3), 643-659. https://www.researchgate.net/publication/4854170_The_Hidden_Hand_of_Economic_Coercion
- Farrell, H. & Newman, A. L. (2019). Weaponized Interdependence. *International Security*, 44(1), 42-79
- Herbert, S. & Idris, I. (2024). *Effects of Pakistan-Afghanistan Borderlands Instability and Security in Pakistan*. University of Birmingham. <https://www.xcept-research.org/wp-content/uploads/2024/08/20240802-Borderland-Pak-stability-clean-for-typeset-.pdf>
- Hussain, J. R. (2019). Border Management: Case Study of Torkham Border, Pakistan. *Global Politics Review*, 5(1-2), 121-137. https://www.globalpoliticsreview.com/publications/2464-9929_v05_i1-2_p121.pdf
- Idrees, M. & Naazer, M. A. (2022). The dynamics of Pak-Afghan relations: an analysis of (mis)trust between the two countries from 2001-2018. *Journal of Humanities, Social and Management Sciences*, 3(1), 525-539. <https://doi.org/10.47264/idea.jhsms/3.1.36>
- Iran, India, Afghanistan pen trilateral transit pact. (2016, May 24). *Tehran Times*. <https://media.mehrnews.com/d/2016/05/23/0/2085177.pdf>
- Jones, V. C. & Rosenblum F. M. R. (2013). *U.S. Customs and Border Protection: Trade Facilitation, Enforcement, and Security*. Congressional Research Service. <https://ecommons.cornell.edu/server/api/core/bitstreams/818204ef-3bf4-41d0-9fbf-4904dac87b3b/content>
- Kant, I. (1795/ 1917). *The Perpetual Peace: A Philosophical Essay*. Translated by M. C. Smith. George Allen & Unwin Ltd. <https://dn790007.ca.archive.org/0/items/perpetualpeaceph00kant/perpetualpeaceph00kant.pdf>
- Keohane, R. O. (1984). *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton University Press
- Keohane, R. O. & Nye, J. S. (2012). *Power and Interdependence*. Pearson Education
- Khalil, N., Shah, Q. A. & Imtiaz, F. (2025). Trade Corridors and Cross-Border Threats: An Analytical Study of Afghanistan's Reliance on Pakistan. *Global Foreign Policies Review*, 8(3), 51-61. <https://gfprjournal.com/article/trade-corridors-and-crossborder-threats-an-analytical-study-of-afghanistans-reliance-on-pakistan>
- Khan, H. U., Dawar, A. I. & Khan, M. M. (2023). Quest for Peace in Afghanistan: Analysis of China's Regional Policy after US Withdrawal. *FWU Journal of Social Sciences*, 17(1), 27-42. DOI: <http://doi.org/10.51709/19951272/Spring2023/3>
- Khan, M. A. & Iqbal, N. (2025). *Pak-Afghan Trade: Policy Proposals and Confidence-Building Measures for Institutional Arrangement*. Pakistan Institute of Development Economics (PIDE). <https://pide.org.pk/research/pak-afghan-trade-policy-proposals-and-confidence-building-measures-for-institutional-arrangements/>
- Khan, Mubarak Zeb. (2025, December 31). Trade suspension costing Afghanistan dearly. *Dawn*, <https://www.dawn.com/news/1964233#:~:text=THE%20volume%20of%20Afghan%20Transit,importers%20to%20tap%20alternative%20markets>
- Mansfield, E. & Pollins, B. (2001). The Study of Interdependence and Conflict. *Journal of Conflict Resolution*, 45(6), 834-859. <https://www.jstor.org/stable/3176160>
- Momand, H., & Saeed, A. A. (2025). Barriers to Afghan Exports in Pakistani Markets: A Case Study of Fresh Fruit Trade. *International Journal for Social Sciences* 4(4), 239-250. <https://academia.edu.pk/index.php/Journals/article/view/881/1362>
- National Security Policy of Pakistan 2022-26* (2022). <https://nsd.gov.pk/SiteImage/Misc/files/NSP%20summary.pdf>
- Omid, M. H. S. (2017, October 22). Ghani Bans Pakistani Trucks from Entering Afghanistan *Tolo News*. <https://tolonews.com/business/ghani-bans-pakistani-trucks-entering-afghanistan>
- Oneal, J. R. & Russett, B. (1999). The Kantian Peace: The Pacific Benefits of Democracy, Interdependence, and International Organizations, 1885-1992. *World Politics*, 52(1), 1-37. https://www.jstor.org/stable/25054099?read-now=1&seq=1#page_scan_tab_contents

- Pakistan, Afghanistan to revise transit trade agreement. (2016, March 4). *Dawn*.
<https://www.dawn.com/news/1243372>
- Pakistan Exports to Afghanistan. (n.d.) Trading Economics.
<https://tradingeconomics.com/pakistan/exports/afghanistan>
- Pakistan Imports from Afghanistan. (n.d.) Trading Economics.
<https://tradingeconomics.com/pakistan/imports/afghanistan>
- Parveen, S., Aman, S. & Aman, S. (2023). The Multinational Approach to Peace and Stability in Afghanistan: Divergence and Convergence between Pakistan, United States and China. *FWU Journal of Social Sciences*, 17(4), 109-123.
 DOI: <http://doi.org/10.51709/19951272/Winter2023/9>
- Polachek, S. W. (1980). Conflict and Trade. *Journal of Conflict Resolution*, 24(1), 55-78.
https://www.researchgate.net/publication/258144983_Conflict_and_Trade
- Popalzay, A. W. (2024). The Evolving Dynamics of Afghanistan–Pakistan Relations: Implications of the Taliban’s Resurgence Post-2021. *Chinese Journal of International Review*, 6(2), 2450006-1 - 2450006-26. <https://doi.org/10.1142/S2630531324500069>
- Prebisch, R. (1950). *The Economic Development of Latin America and Its Principal Problems*. United Nations Department of Economic Affairs
- Seerat, A.H., & Wasiq, U. H. (2025). Lapis Lazuli Route and its Importance for Afghanistan. *Tabesh International Journal of Social Sciences*, 1(1), 1-12.
https://www.tabeshiir.org/storage/journal_file/177305108212.pdf
- 7th APTTCA Meeting Held in Kabul. (2020, November 19). Afghan Studies Center.
https://www.afghanstudiescenter.org/7th-apttca-meeting-held-in-kabul/?utm_source=chatgpt.com
- Unknown Author (2016)
- Sial, S. (2016). Pakistani-Afghan relations after Karzai. Norwegian Peacebuilding Resource Centre.
<https://www.files.ethz.ch/isn/196706/3d81e63e01f3a0c6adb2c5af2d0a74ac.pdf>
- Stein, A. A. (2008). Neoliberal Institutionalism. In C. R. Smit & C. Snidal. (Eds.). *The Oxford Handbook on International Relations* (pp. 201-221). Oxford University Press.
<https://www.grandstrategy.net/Articles-pdf/11-Smit-Snidal-c11.pdf>
- Wendt, A. (1992). Anarchy is what States Make of it: The Social Construction of Power Politics. *International Organization*, 46(2), 391-425. <https://www.jstor.org/stable/2706858>
- The World Bank Group. (2019). *Pakistan at @100: Regional Connectivity*. The World Bank
- The World Bank. (2015-2023). *WITS: Tariff and trade data* (Pakistan and Afghanistan bilateral trade data from 2015-2023) [Data set]. worldbank.org
- WTO. (2015-2024). *WTO Tariff & Trade Data* (Pakistan and Afghanistan bilateral trade data from 2015–2024) [Data set]. <https://ttd.wto.org/>