



ADVANCE SOCIAL SCIENCE ARCHIVE JOURNAL

Available Online: <https://assajournal.com>

Vol. 05 No. 01. January-March 2026. Page# 3780- 3793

Print ISSN: [3006-2497](https://doi.org/10.5281/zenodo.21188703) Online ISSN: [3006-2500](https://doi.org/10.5281/zenodo.21188703)Platform & Workflow by: [Open Journal Systems](https://doi.org/10.5281/zenodo.21188703)<https://doi.org/10.5281/zenodo.21188703>

Ethnic Identity, Border Conflict, and Trade Disruption in Post-2021 Afghanistan: A Neoclassical Realist Perspective

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Abstract

International trade underpins economic growth and regional stability, yet in South Asia's most troubled bilateral relationships, it has become a casualty of unresolved historical grievances, competing ethnic loyalties, and institutional dysfunction. This paper examines the chronic disruption of Pakistan-Afghanistan trade through the theoretical framework of neoclassical realism, arguing that the rapid decline in the bilateral trade, which is more than two-fifths of the trade volume, is the most dramatic single-year decline since independence, and cannot be explained by structural factors alone. Drawing on Gideon Rose's (1998) foundational articulation of neoclassical realism and subsequent systematisation by Lobell, Ripsman, and Taliaferro (2009), the paper demonstrates that the Durand Line's unresolved status, shared Pashtun ethnic identity, elite threat perceptions around the Tehrik-i-Taliban Pakistan (TTP), and institutional weaknesses in regulating transit trade collectively function as intervening domestic-level variables that translate systemic pressures into suboptimal foreign policy outcomes for both states. The paper traces the causal chain from the colonial legacy of the Durand Line in 1893 through the post-2021 Taliban resurgence, the collapse of bilateral diplomacy, and border closure, to the present trade paralysis. It concludes that without meaningful elite reorientation and institutional reform on both sides, ethnic compulsion will continue to override economic rationality, perpetuating a cycle of mutual impoverishment.

Keyword: Neoclassical realism, Pakistan–Afghanistan Relations, Durand Line, Pashtun Identity, Bilateral Trade, Transit Trade, Ethnic Compulsion, Foreign Policy

Introduction

Pakistan and Afghanistan are two countries bound together by geography, religion, language, and centuries of intertwined tribal history, and have spent most of their shared existence in a state of strategic hostility. This hostility is not a product of abstract enmity; it is

institutionalized, reproduced, and subsequently fuelled by every government in Kabul and Islamabad, and, as this paper argues, is structurally embedded in the unresolved question of the ethnic identity of the Pashtun people. The consequences of this dilemma are not merely political; they have spread across all spheres of transboundary relations between the two states.

Bilateral trade between Afghanistan and Pakistan dropped by forty percent in 2024–2025, falling from \$2.461 billion to \$1.766 billion, as border crossings remained closed in the aftermath of the October 2025 military clashes (Kabul Now, 2026). Pakistan's exports to Afghanistan fell by 56% in early 2026 according to Pakistan's central bank, while Pakistani exporters were estimated to be losing approximately \$177 million per month (Abbasi, 2026). These numbers reflect the most acute expression of a chronic pathology: a bilateral trade relationship that has repeatedly been sacrificed on the altar of political and ethnic contestation.

The central puzzle this paper addresses is not simply why the October 2025 clashes occurred, but why Pakistan and Afghanistan have been structurally unable to insulate their economic relationship from their political disputes, even when the economic costs of doing so are enormous and mutually destructive. The answer, this paper argues, lies in the intersection of systemic pressures, domestic-level intervening variables, and the particular way in which shared Pashtun identity operates simultaneously as a political compulsion and a strategic constraint. Accordingly, neoclassical realism is applied as a multilevel framework that combines structural analysis with unit-level variables, elite perceptions, state-society relations, institutional capacity, and strategic culture, providing the most analytically productive lens to examine this relationship.

Theoretical Framework: Neoclassical Realism

From Structural Realism to Neoclassical Realism

Kenneth Waltz's structural realism offered an international relations theory based on a compelling explanation: states are functionally undifferentiated units that respond to the incentives and constraints of the anarchic international system, and their behaviour can be predicted from the distribution of capabilities across that system (Waltz, 1979). However, the appeal of this framework is its simplicity. Its limitation, as a growing body of scholarship has demonstrated, is its inability to explain why states with similar structural positions make dramatically different foreign policy choices, or why the same state behaves differently at different points in time despite facing similar structural pressures.

Neoclassical realism emerged as a response to precisely this explanatory gap. The term was coined by Gideon Rose (1998) in a review essay that identified a cluster of scholars, among them Fareed Zakaria (1998), William Wohlforth (1993), and Randall Schweller (1998), who retained realism's commitment to the primacy of the international system while insisting that domestic-level variables are indispensable for explaining actual foreign policy outcomes. As Rose observed, the relative power position of a state sets the parameters of its foreign policy ambition, but domestic factors determine how much of that potential is actually translated into policy (Rose, 1998). Zakaria similarly argued that a good account of a nation's foreign policy should include systemic, domestic, and other influences, specifying what aspects of policy can be explained by what factors (Zakaria, 1998).

This multilevel architecture was systematized by Lobell, Ripsman, and Taliaferro (2009), who brought together neoclassical realism's key theoretical claims in a single comprehensive framework. They argue that neoclassical realism focuses on the interaction of the international system and the internal dynamics of states to explain the grand strategies of individual states (Lobell et al., 2009). Over time, the appeal of neoclassical realism has expanded to explain state foreign policy, and four classes of unit-level intervening variables have been identified: state structure, domestic politics, leader attributes, and strategic culture (Ripsman et al., 2016). Each of these mediates between systemic incentives and foreign policy outputs in ways that structural realism cannot capture.

Core Variables and Their Application

Neoclassical realism holds that the relative distribution of power in the international system constitutes the independent variable, the structural context within which states operate. However, the theory insists that domestic variables function as intervening mechanisms that filter, delay, distort, or amplify systemic signals before they are translated into policy. These include the perceptions and misperceptions of the foreign policy executive, the capacity of state institutions to extract resources and implement decisions, the influence of societal actors on policy choices, and the ideational frameworks through which elites interpret threats and opportunities (Ripsman et al., 2016).

The Pakistan-Afghanistan dyad is a particularly fertile site for neoclassical realist analysis because it exhibits each of these mechanisms in unusually clear form. The systemic context of an asymmetric bilateral relationship between a nuclear-armed state with great-power patronage and a fragile, unrecognized polity is simple and clear. But the actual foreign policy outputs of both states are anything but straightforward, and they consistently diverge from what either structural realism or liberal interdependence theory would predict. The reason, as this paper demonstrates, is that the domestic intervening variables, above all, the question of Pashtun identity and its institutional entanglements, exercise extraordinary influence over the foreign policy executives of both Islamabad and Kabul.

Historical Background: The Colonial Architecture of Conflict

The Durand Line and Its Consequences

Any serious analysis of Pakistan-Afghanistan relations must begin with the Durand Line, because the line is not merely a historical fact; it is the constitutive condition of the relationship's pathology. Signed on 12 November 1893 between Sir Mortimer Durand, representing British India, and Amir Abdur Rahman Khan of Afghanistan, the agreement demarcated the boundary between British-controlled territories and Afghanistan, cutting through the Pashtun-inhabited tribal areas in the process. The border was a product of British strategic calculation during the Great Game with Tsarist Russia, designed to establish a buffer zone and secure the northwestern frontier of the Indian Empire (USIP, 2021). It was not designed with the interests of the Pashtun communities in mind.

The consequences for those communities were immediate and lasting. As USIP notes, the Durand Line politically divided ethnic Pashtuns, Baluch, and other ethnic groups, separating communities that had maintained cohesive social, economic, and political relationships for generations (USIP, 2021). The line was, in the assessment of many Afghan governments from 1947 onward, an imperial edge of British India, a boundary that violated the principle of self-determination by separating populations without their consent (Malkasian, 2017; USIP,

2021). Pakistan, as the legal successor to British India, inherited both the line and the resentment it generated.

Baqai's analysis captures the paradox that defines the relationship to this day: the Durand Line, as a symbol of both colonial arrogance and Pakistan-Afghan enmity, also implied a sense of commonality (Baqai, 2021). It was so contested precisely because Pashtuns on both sides of the border felt a shared history, culture, and family and tribal identity that made the boundary feel artificial. Commonality and enmity flowed from the same source. This paradox means the border is, simultaneously, a wound and a bond and, in neoclassical realist terms, a unit-level variable of the first order. It constrains the foreign policy executive on both sides from institutionalizing the border's legitimacy, while simultaneously preventing either side from simply ignoring it, keeping relations in a state of adhocism.

Pakistan's Inheritance and the Pashtunistan Question

Pakistan's entry into the international system in 1947 was shadowed from the outset by Afghanistan's refusal to accept the Durand Line. Afghanistan was the only country to vote against Pakistan's admission to the United Nations (Malkasian, 2017). The Afghan government immediately raised the Pashtunistan demand, an aspiration for an independent or autonomous Pashtun state carved from Pakistani territory, as a cornerstone of its foreign policy. From Islamabad's perspective, this was an existential challenge. Pakistani foreign policy analysts saw in Afghanistan's Pashtunistan stance a direct threat to the country's territorial integrity, particularly after 1973, when Pakistani strategists believed that President Sardar Daoud was sponsoring Pashtun separatists within Pakistan (USIP, 2021).

This threat perception, whether rational or exaggerated, genuine or manufactured, became institutionalized within Pakistan's military establishment. It shaped the doctrine of strategic depth, the idea that a compliant Afghanistan could serve as Pakistan's hinterland in the event of a conflict with India. It informed Pakistan's support for the Afghan mujahideen during the Soviet occupation in the 1980s, its backing of the Taliban in the 1990s, and, paradoxically, its eventual disillusionment with the Taliban after 2021. The strategic depth doctrine is a simple illustration of neoclassical realism's elite perception variable: a domestic ideational framework through which systemic pressures were translated into a foreign policy posture that has proven consistently counterproductive.

Post-2021: The Taliban's Return and the Collapse of Strategic Calculation

When the Taliban swept back into Kabul in August 2021, many in Pakistan's establishment celebrated. The Taliban's victory was seen as the fulfillment of decades of investment in Afghan Pashtun political networks, and strategic depth was finally achieved. This euphoria was brief. The Taliban government, far from being a pliant instrument of Pakistani policy, proved to be an assertion of Afghan sovereignty (USIP, 2021). Like every Afghan government before it, the Taliban refused to recognize the Durand Line, with some leaders dismissing it as imaginary and insisting that the Pashtun lands inside Pakistan rightfully belong to Afghanistan (USIP, 2021). Meanwhile, the Taliban declined to take meaningful action against the TTP, which continued to use Afghan soil as a base for attacks on Pakistani military and civilian targets.

The Atlantic Council (2022) identified the structural logic of this alignment early: the Afghan Taliban and TTP are both Pashtun organizations, share Deobandi ideological roots, and, crucially, the Taliban's domestic legitimacy rests partly on its Pashtun nationalist credentials.

Acting against the TTP at Pakistan's request would undermine that legitimacy. This is precisely the kind of domestic constraint on the foreign policy executive that neoclassical realism predicts: the Taliban government cannot deliver what Pakistan demands because doing so would erode the societal coalition on which its authority depends.

The Neoclassical Realist Analysis

The Systemic Variable: Asymmetric Power in a Contested Region

At the structural level, the Pakistan-Afghanistan dyad is characterized by significant asymmetry. Pakistan is a nuclear-armed state of some 240 million people, with a professional military, a complex if troubled economy, and, critically, the strategic patronage of China through the China-Pakistan Economic Corridor (CPEC) (Lobell et al., 2009; Ripsman et al., 2016). Chinese investment in Pakistan since 2005 is estimated at \$62–65 billion, of which 74% comprises energy projects, with a further \$8.5 billion in agreements signed by 2025 (IEEFA, 2025). This external great-power backing insulates Pakistan from the worst consequences of its regional confrontations.

Afghanistan, by contrast, is a landlocked state of some 40 million people governed by a regime that no state officially recognizes, entirely dependent on informal trade networks for its economic survival, and increasingly isolated as bilateral trade routes are disrupted. The IMF's country assessments of Afghanistan since 2021 document a catastrophic economic contraction: GDP fell by approximately 20–30% in the two years following the Taliban takeover, and the humanitarian situation remains severe (IMF, 2021; IMF, 2022; IMF, 2023; IMF, 2024). This structural vulnerability shapes everything about Afghanistan's foreign policy, including its unwillingness to directly antagonize Pakistan over trade corridors it cannot afford to lose entirely.

Yet structural asymmetry does not produce the clean hierarchy of outcomes that pure structural realism would predict. Afghanistan has not simply deferred to Pakistani preferences. Instead, it has pursued a strategy of calibrated defiance, refusing to recognize the Durand Line, declining to suppress the TTP, and increasingly redirecting trade toward Central Asian alternatives (USIP, 2021). Afghan exports to Central Asian states rose from \$122 million in 2024 to \$216 million in 2025 as border closures made Pakistani routes unreliable (Xinhua, 2026). This is precisely the kind of foreign policy mistake from the standpoint of structural rationality that neoclassical realism is designed to explain: a weaker state acting against structural incentives because domestic variables, such as Taliban legitimacy and Pashtun nationalism, override the calculus of material interest.

Elite Threat Perceptions: The TTP and the Security-Trade Dilemma

The most consequential unit-level variable in the Pakistan-Afghanistan dyad is elite threat perception, specifically Islamabad's assessment of the TTP threat. The TTP ended its ceasefire with Pakistan in late 2022 and resumed attacks that escalated sharply through 2023 to onwards, this resumption of militant attacks in Pakistan increased from 658 in 2022 to 2,425 in 2025, with Khyber Pakhtunkhwa recording 2,331 fatalities in 2025 alone, a 44% increase from the previous year (Dawn, 2026). Pakistan's military and political establishment attributed these attacks, with significant evidential basis, to TTP leadership and infrastructure operating from Afghan territory.

The October 2025 crisis was the culmination of this threat perception reaching a breaking point. Following deadly TTP attacks in Pakistan's Orakzai district, Pakistan launched airstrikes on October 9 targeting TTP leadership in Kabul city, a significant escalation, as previous Pakistani military operations had been confined to border regions (Routers, 2025). Afghanistan responded by firing on Pakistani military posts, and armed clashes spread along the length of the Durand Line, engulfing all but one border province. Pakistan then closed all eight border crossing points. The trade consequences were immediate and severe: bilateral trade fell by 53% in the first half of fiscal year 2025–26 compared to the same period of 2024–25 (Al Jazeera, 2025).

What is most revealing from a neoclassical realist perspective is the domestic political context within which Pakistan's military made these decisions. The decision to conduct airstrikes on Kabul, unprecedented in the modern history of the relationship, was driven not only by the severity of the TTP threat but also by the Pakistani military's institutional need to be seen as taking decisive action amid domestic political pressure. Khyber Pakhtunkhwa's provincial government, dominated by the Pakistan Tehreek-e-Insaf (PTI) and with significant Pashtun constituency interests, was simultaneously demanding both security action against the TTP and continued economic engagement with Afghanistan. This internal contradiction between security imperatives and ethnic constituency management is a classic expression of the domestic politics variable in neoclassical realist theory.

Ethnic Identity as Structural Constraint

Pashtun identity operates as an intervening variable of unusual complexity in this relationship because it simultaneously compels and constrains both states. For Afghanistan, the Pashtun question is existential: the Taliban's political legitimacy rests on its identity as a Pashtun nationalist movement, and recognizing the Durand Line would constitute a betrayal of that identity that could fracture the coalition sustaining the regime. For Pakistan, the Pashtun question is both a threat and a domestic constituency: the approximately 30–40 million Pashtuns within Pakistan's borders are citizens whose political interests cannot simply be dismissed (Boni, 2021), even as their cross-border ethnic solidarities create security dilemmas for the state.

A look on Pak-Afghan borderland trade shows that the trade does not begin at the customs gate; it begins in social connections, family ties, language, credit, and preexisting business relationships. Traders from Khyber and Peshawar maintain homes and networks in Kabul; transport networks are built on ethnic trust rather than formal commercial infrastructure. This social economy of ethnic kinship is economically vital; it has sustained bilateral trade volumes that formal institutional frameworks alone could never have generated (Asia Foundation, 2020). But it also makes the trade relationship impossible to regulate effectively, because any serious regulatory intervention cuts across the ethnic social fabric that sustains it.

Neoclassical realism's analytical value here is, its insistence that this is not merely a cultural observation but a structural one: the ethnic identity variable constrains the foreign policy executive's room for maneuver. Pakistan cannot impose stringent border controls without alienating its own Pashtun population; Afghanistan cannot suppress TTP networks without dismantling the ethnic solidarity that underpins Taliban authority. Both states are trapped in a structure of mutual constraint that their own domestic politics help to reproduce.

State Institutional Weakness and the Failure of Trade Formalization

The fourth unit-level variable, state institutional capacity, is perhaps the most under-analyzed dimension of the Pakistan-Afghanistan trade relationship. Both states lack the institutional infrastructure to effectively regulate their shared border economy. The Afghanistan–Pakistan Transit Trade Agreement (APTTA), signed in 2010, was intended to provide a formal framework for the movement of goods between and through both countries, superseding the 1965 Afghanistan Transit Trade Agreement (Owais & Rahman, 2018). It was, in principle, a significant advance: it allowed Afghan exporters to use their own trucks to transport goods to Pakistani seaports, implemented vehicle-tracking systems, and introduced customs harmonization measures.

In practice, APTTA has been systematically abused. Informal traders exploit the agreement's transit provisions to import goods duty-free into Afghanistan and then smuggle them back into Pakistan through informal channels, taking advantage of the substantial tariff differential between the two countries. Pakistan imposes a 17% General Sales Tax, a 6% withholding tax, and a 10% import duty on goods entering its formal market, while transit goods passing through Afghanistan are duty-free; the resulting arbitrage opportunity is structural and persistent. Estimates of the annual revenue loss to Pakistan from this informal re-import range from \$2 billion to \$3 billion, with one World Bank report estimating that smuggling through this mechanism cost Pakistan \$35 billion in revenue loss between 2001 and 2009 alone (Zeb, 2025).

This institutional failure is not incidental. It reflects a deeper problem: both states' formal institutions are built on top of rather than instead of ethnic and tribal governance structures. The Federal Board of Revenue (FBR) has repeatedly attempted to tighten APTTA implementation, but enforcement at the Torkham and Chaman crossings has been compromised by the very social networks that make the trade economy function. Corrupt customs officials, tribal intermediaries who broker informal goods movements, and a transportation industry built around informal practices are not externalities to the formal trade system; they are its actual operating infrastructure.

The 2025 Crisis: A Neoclassical Realist Case Study

The October 2025 border crisis brings into sharp focus all four neoclassical realist variables acting simultaneously. Understanding it requires attention not only to the immediate trigger of TTP attacks and Pakistan's retaliatory airstrikes but to the structural and domestic context within which these events unfolded.

Pakistan had, by mid-2025, exhausted its diplomatic options. Bilateral negotiations with the Taliban over TTP sanctuaries had repeatedly failed. As reported in policy analysis and conflict reporting, both sides entered talks with asymmetric expectations and domestic constraints: Pakistan demanded that Kabul curb the TTP and allow cross-Durand Line verification, while the Taliban's Defense Minister, Mullah Yaqoob, had declared publicly that Afghanistan would not fight someone else's war and that the Taliban would not allow any country to violate Afghan sovereignty (Reuters, 2022). For Pakistan's military establishment, these positions were not negotiating postures but fundamental incompatibilities.

The decision to escalate to airstrikes on Kabul was a product of elite threat perception reaching the point where domestic institutional norms, the preference for bilateral diplomacy, were overridden by the calculation that only coercive demonstration would change Taliban behavior. This mirrors the neoclassical realism perfectly: the strategic culture variable,

Pakistan's preference for coercive deterrence rooted in its military doctrine, combined with elite threat perception to produce a foreign policy output that was, from a structural standpoint, suboptimal. Pakistan's exports were losing \$177 million per month due to the border closure. This is not a cost that a rational unitary actor would choose to impose on itself.

For Afghanistan, the response was equally shaped by domestic variables. The Taliban's fierce counterresponse, clashes spanning the entire length of the Durand Line and refusing a ceasefire for weeks, was not purely a military calculation. It was a domestic legitimacy performance. The clashes occurred precisely as Taliban Foreign Minister Amir Khan Muttaqi was making his first trip to New Delhi, a visit that signalled Afghanistan's effort to diversify its diplomatic relationships away from Pakistan (Amin & Mashal, 2025). Each Pakistani airstrike reinforced the Taliban's domestic narrative as a defender of Afghan sovereignty, strengthening its political position at home even as it deepened the economic crisis. This is the strategic culture variable in operation: the Taliban's ideological commitment to Afghan sovereignty and its cultivation of Pashtun nationalist identity made de-escalation domestically costly, even when the economic incentives for de-escalation were overwhelming.

The economic toll of the crisis was borne most heavily by precisely those populations, Pashtun borderland communities, whose ethnic ties had originally animated the dispute. After the border closure, profit margins for traders and transporters fell sharply, in some cases by more than 50%. Thousands of containers carrying food, raw materials, and commercial goods remained stranded at borders and at Karachi port. Prices for staples, including flour, cooking oil, rice, and fuel, rose significantly in Afghan markets, deepening a humanitarian situation already under severe strain. Pakistan's formal manufacturing sector, dependent on access to the Afghan market for exports of textiles, pharmaceuticals, and processed foods, saw its order books collapse. The mutual character of the economic damage was not incidental; it is a structural feature of a relationship where economic interdependence has developed in the shadow of political hostility, making both sides simultaneously dependent on and resentful of one another.

The Political Economy of Illegal Transit Trade

Any account of Pakistan–Afghanistan trade that focuses only on the formal bilateral relationship misses a crucial dimension: the massive informal economy that has developed in parallel to and at the expense of formal trade institutions. This informal economy is not a peripheral phenomenon. It is arguably the dominant mode of economic exchange across the Durand Line, and it is structurally inseparable from the ethnic and political dynamics analyzed above (Hussain, 2014; USIP, 2021).

The scale of informal trade is considerable. Legal and policy estimates indicate that smuggling through Afghan transit trade mechanisms costs Pakistan between \$2 billion and \$3 billion annually, while broader illicit trade losses are far larger (Hussain, 2014; Reuters, 2026; Dawn, 2025). The goods involved range from consumer items, cellphones, clothing, toiletries, and tea to more significant economic concerns: petroleum products smuggled from Iran through Afghanistan into Pakistan, narcotics, and weapons (Dawn, 2025; The News, 2022). Between September 2023 and June 2024 alone, Pakistani officials seized 1,043 metric tons of drugs, a figure that likely represents only a fraction of actual trafficking volumes (Pakistan Today, 2024).

The weapons dimension is particularly significant for understanding the security-trade nexus. Research and reporting on cross-border arms movement show that weapons from Afghanistan continue to circulate into Pakistan through porous border areas, contributing to insecurity in Khyber Pakhtunkhwa and Balochistan (Dawn, 2025; Small Arms Survey, 2024; The Express Tribune, 2012). This creates a vicious cycle: informal trade networks carry both legal and illegal goods; the same social infrastructure of ethnic trust, tribal intermediaries, and corrupt border officials that sustain legitimate cross-border commerce also facilitates weapons and narcotics flows (Small Arms Survey, 2024; USIP, 2021). Pakistan cannot shut down the informal networks without shutting down the borderland economy; it cannot regulate the borderland economy without confronting the tribal governance structures embedded within it.

The APTTA regime's failure to contain this informal economy reflects the deeper institutional problem identified above. As research on Pakistan-Afghanistan transit trade shows, informal traders systematically exploit tariff differentials between the two countries, routing goods through Afghanistan to avoid Pakistani duties (Hussain, 2014; MPRA, 2024). Pakistan Business Council data showed that Pakistan remained the dominant transit route for Afghan imports as recently as 2016, accounting for over 50% of Afghanistan's transit trade, but this dominance was built partly on the back of informal trade practices that undermined the formal revenue base the agreement was designed to protect (Hussain, 2014). Every attempt by Pakistan's FBR to tighten enforcement has been met with accusations from Afghanistan of discriminatory treatment and bureaucratic obstruction, further poisoning the bilateral diplomatic climate (USIP, 2021).

From a neoclassical realist perspective, this political economy of informal trade clearly illustrates the state structure variable. Both Pakistan and Afghanistan lack the state capacity to impose their formal institutional preferences on the border economy because the actual governance of the border is exercised by tribal, ethnic, and commercial networks that predate both states and that those states have never fully displaced. The foreign policy executive in both Islamabad and Kabul operates, in this domain, with severely constrained freedom of action. Trade policy is not simply a matter of elite choice; it is bounded by the limits of what the state can implement.

Pakistan's Strategic Incoherence: A Neoclassical Diagnosis

One of neoclassical realism's most useful contributions to foreign policy analysis is its account of strategic incoherence: the condition in which a state's foreign policy outputs are inconsistent over time or simultaneously contradictory, not because of irrational leadership but because competing domestic-level variables pull policy in different directions (Ripsman et al., 2016). Pakistan's Afghan policy is a near-perfect illustration of this condition.

For decades, Pakistan's military establishment pursued strategic depth in Afghanistan, the idea that a Pakistan-friendly government in Kabul would give Pakistan strategic security against India and an ally in any regional confrontation. This doctrine led Pakistan to support the Taliban through the 1990s and to maintain covert channels of communication and influence with the movement even after 2001 (Rehman, 2024; USIP, 2021). When the Taliban returned to power in 2021, Pakistan's initial response was something approaching jubilation, as Brookings analysts noted at the time (Brookings, 2022). Strategic depth appeared to have been achieved.

The incoherence of this position became visible almost immediately. Pakistan's strategic depth doctrine rested on the assumption that the Taliban could be managed as a client; the Taliban's assertion of Afghan sovereignty demonstrated that it could not (USIP, 2021). Pakistan simultaneously needed the Taliban to suppress the TTP because the TTP was the most immediate security threat to Pakistani territorial integrity, and yet for the Taliban to do so would require it to act against its own Pashtun nationalist base. As the Atlantic Council noted, the Afghan Taliban and TTP share ethnic Pashtun identity, Deobandi ideological roots, and a common interest in challenging Pakistani state authority over the tribal areas (Atlantic Council, 2022; Zahid, 2026). Pakistan had, in effect, created conditions that made its primary strategic asset complicit in its most serious security threat.

Felbab-Brown had identified the logic of this trap in the narcotics-insurgency nexus: Pakistan preferred an unstable Afghanistan to a strong Afghanistan aligned with India, but Afghan instability inevitably produced militant spillover into Pakistan itself (Felbab-Brown, 2016). The preference for a weak, manageable Afghanistan generated the conditions for an unmanageable one. This is the strategic culture variable in its most dysfunctional form: an ideational framework, strategic depth, that was institutionally embedded within the Pakistani military establishment to the point where it continued to shape policy even after its empirical premises had been falsified.

The 2025 crisis represented the point at which this incoherence became fully visible. Pakistan was conducting airstrikes on a country with which it maintained diplomatic relations and substantial annual trade; it was closing borders with a population partially dependent on Pakistani food imports for its survival; it was escalating militarily against a government it had backed for three decades. The costs of this escalation fell not only on Afghans but on Pakistani exporters, borderland communities, and the broader Pakistani economy. The foreign policy executive, trapped between the institutional imperatives of the military establishment, the ethnic constituency interests of Khyber Pakhtunkhwa's Pashtun population, and the economic interests of the trading and manufacturing sectors, was unable to formulate a coherent strategy. This is precisely the condition that neoclassical realism is designed to explain: foreign policy suboptimality as a product of domestic constraint rather than irrationality.

Pathways Forward: Neoclassical Realist Prescriptions

Neoclassical realism is sometimes criticized for its predominantly explanatory rather than prescriptive orientation: it tells us why states behave badly but offers limited guidance on how to improve. This criticism has some validity, but the framework's identification of domestic-level variables that produce suboptimal outcomes also, by implication, points to the levers through which change might be achieved.

The most fundamental requirement is elite reorientation in Pakistan. As long as Pakistan's military establishment continues to frame the Afghan relationship primarily through the lens of strategic depth and territorial security, the trade relationship will remain hostage to security imperatives. A genuine shift toward a geo-economic rather than geo-strategic orientation would require the military to accept that Pakistan's long-term security interests are better served by Afghan economic stability than by Afghan political compliance. This is not an impossible shift; it is a recalculation of interest that a change in leadership perceptions, the leader attributes variable, could facilitate. The question is whether the institutional culture of Pakistan's military establishment permits it.

On the institutional side, both states need to develop the administrative capacity to separate formal trade from informal networks without simply destroying the social infrastructure of the border economy. The APTTA framework, despite its limitations, provides a starting point. An enhanced agreement that addresses the tariff differential driving informal re-exports, perhaps through a preferential trade arrangement that reduces the arbitrage incentive, could bring a significant portion of the informal economy into formal channels. ISSRA estimates that a comprehensive free trade agreement could expand bilateral trade to \$5 billion, nearly three times the 2024 figure, by formalizing existing informal flows (ISSRA, 2025). This is not a technical fix; it requires political will on both sides to decouple trade from the Durand Line dispute and treat economic cooperation as a functional matter, separate from territorial sovereignty.

Third, the multilateral dimension should not be underestimated. The Shanghai Cooperation Organization, of which Pakistan is a full member, and which has engagement mechanisms relevant to Afghanistan, provides a framework within which bilateral economic normalization could be embedded and externally incentivized (USIP, 2021). China's interest in stability along CPEC routes, combined with its economic influence over both Pakistan and Afghanistan, makes it a potential facilitator. Beijing's concern about TTP and BLA attacks on Chinese nationals and CPEC infrastructure gives it a direct stake in Pak-Afghan de-escalation, an external great-power interest that could, if mobilized, shift the domestic political calculus in Islamabad (USIP, 2021).

Finally, and most fundamentally, the Pashtun question needs to be addressed not as a security threat but as a political reality. The borderland communities on both sides of the Durand Line are not simply a security problem to be managed; they are the human infrastructure of the bilateral relationship (USIP, 2021). Policies that recognize these special economic zones in the border regions, relaxed visa arrangements for traders, and joint investment in cross-border infrastructure could begin to convert ethnic compulsion from an obstacle into a foundation. The ethnic bond between Pakistan and Afghanistan is not going away; the question is whether states choose to treat it as a threat to be suppressed or a reality to be accommodated.

Conclusion

This paper has argued that the Pakistan-Afghanistan trade relationship, marked by chronic disruption, institutional dysfunction, illegal commerce, and periodic crisis, is best understood through the lens of neoclassical realism. The 40% trade collapse of 2025 and the border closure that produced it are not anomalies caused by a particular set of leaders making particularly bad decisions. They are the predictable output of a system in which systemic pressures toward economic cooperation are consistently overridden by domestic-level intervening variables: elite threat perceptions rooted in the TTP problem, the Pashtun ethnic identity that simultaneously compels and constrains both states, state institutional weaknesses that sustain the shadow economy, and a strategic culture, above all in Pakistan, that continues to prioritize territorial security over economic rationality (Kabul Now, 2026; Reuters, 2025; USIP, 2021).

Neoclassical realism's contribution is to show that these domestic variables are not incidental distortions of an otherwise rational system; they are structural features of both states that systematically mediate between systemic incentives and actual policy outcomes. Pakistan is not a unitary rational actor that has miscalculated its interests; it is a state whose foreign-policy executive is constrained by institutional legacies, ethnic constituency pressures, and a military culture built for a different strategic environment. Afghanistan under the Taliban is

not an irrational actor that refuses to see the benefits of trade; it is a movement whose domestic legitimacy rests on precisely the ethnic and ideological commitments that make compliance with Pakistani demands impossible.

The Durand Line remains the master variable not merely as a territorial dispute but as the prism through which every systemic pressure and domestic constraint is refracted into policy. The line divided a people and created two states that have been, in important respects, unable to fully accept one another's legitimacy ever since. Until both states develop the elite consensus and institutional capacity to manage the ethnic question separately from the trade question and to treat economic cooperation as a matter of functional interest rather than political identity, the cycle of mutual impoverishment is likely to continue. Neoclassical realism does not offer optimism about this prospect, but it does identify precisely where the levers of change are to be found: not in the international system, but in the domestic politics of two states that are, despite everything, more economically dependent on one another than either is yet prepared to admit.

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