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## Afghanistan as a Regional Trade Hub: Unlocking Trade Potential with Central Asia

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**DOI : <https://doi.org/10.5281/zenodo.16792318>**

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### ARTICLE DETAILS

**Research Paper**

**Accepted:** 19-07-2025

**Published:** 10-08-2025

**Keywords:**

*Trade Potential, Economic  
Integration, Regional  
Cooperation,  
Infrastructure, Transit  
Corridors*

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### ABSTRACT

This research paper explores the trade potential between Afghanistan and the Central Asian republics, focusing on economic opportunities, strategic corridors, and existing challenges. Situated at a key geopolitical intersection, Afghanistan holds the capacity to function as a vital trade hub linking South Asia with Central Asia. The study examines trade flows, comparative advantages in exportable goods, and regional cooperation frameworks such as CASA-1000, TAPI, and the Lapis Lazuli Corridor. Using a mixed-method approach that combines trade statistics, policy analysis, and stakeholder perspectives, the paper identifies major constraints including infrastructural deficits, border inefficiencies, and political instability. Despite these barriers, the findings suggest considerable untapped potential, especially in energy, agriculture, mining, and transit services. The study concludes by offering targeted policy recommendations to enhance trade integration and regional economic synergy between Afghanistan and its Central Asian neighbors.



## Introduction

Afghanistan's geographic position makes it a strategic connector between South Asia, Central Asia, and the Middle East. With its proximity to five Central Asian countries—Uzbekistan, Turkmenistan, Tajikistan, Kazakhstan, and Kyrgyzstan—Afghanistan has the potential to become a vital bridge for regional trade and integration. In recent years, growing global interest in Central Asian energy resources, coupled with Afghanistan's efforts to revive its role as a transit hub, have renewed discussions on enhancing economic cooperation between Afghanistan and Central Asia (World Bank, 2023). Despite persistent political instability and infrastructural challenges, Afghanistan and the Central Asian republics have taken several steps to foster trade ties. Initiatives such as the Lapis Lazuli Corridor, CASA-1000, and TAPI pipeline demonstrate shared regional ambitions for greater connectivity (Asian Development Bank, 2022). These projects are intended to facilitate the movement of goods, electricity, and energy resources across borders, enhancing mutual economic benefits. Nevertheless, major barriers continue to hinder progress. Limited transport infrastructure, high border transaction costs, and security concerns remain critical challenges (UNESCAP, 2021). Additionally, trade between Afghanistan and its northern neighbors is disproportionately low compared to its potential, often driven by informal channels and insufficient institutional cooperation.

This paper aims to assess the trade potential between Afghanistan and Central Asia by examining trade patterns, identifying key sectors for growth, and analyzing the political and economic frameworks that support or obstruct integration. The central research questions include:

1. What are the comparative trade advantages between Afghanistan and Central Asian countries?
2. What are the main challenges to regional trade expansion?
3. How can Afghanistan leverage its geographic position to enhance formal trade and regional cooperation?

## 2. Literature Review

### 2.1 Trade Potential and Barriers

Several studies have explored the trade dynamics between Afghanistan and Central Asia, highlighting both potential and persistent challenges.



**Khan et al. (2019)** in a World Bank report emphasized the limited trade volume due to weak infrastructure, high border transaction costs, and political uncertainty.

**UNESCAP (2015)** examined Afghanistan's strategic location as a potential land bridge, noting the importance of energy trade and regional integration, but also underlining tariff and non-tariff barriers that restrict trade expansion.

## **2.2 Regional Transit Projects**

Multiple infrastructure and connectivity projects have aimed to enhance trade links between Afghanistan and Central Asia. The Lapis Lazuli Corridor, initiated in 2018, aimed to reduce reliance on Pakistani routes and enhance access to European markets.

The Uzbekistan–Afghanistan–Pakistan Railway Project (UAP Railway), established under a trilateral agreement in 2021, is expected to strengthen regional rail logistics.

Moreover, the Five Nations Railway Corridor envisions linking China, Kyrgyzstan, Tajikistan, Afghanistan, and Iran, further positioning Afghanistan as a regional connector .

## **2.3 Theoretical Models of Trade**

**Saheed (2023)** applied the Gravity Model to examine regional trade flows, showing that Pakistan–Afghanistan trade is below potential and diverted due to geopolitical factors. This analytical framework can be extended to Central Asian relations, accounting for variables like distance, GDP, and political stability.

## **2.4 Investment and Regional Integration**

**Gümüş (2017)** highlighted Afghanistan's role in regional investment, especially in energy and infrastructure, but warned of security issues and limited technical capacity. A study by AARF (2020) emphasized the importance of Afghanistan in economic integration across Central, South, and West Asia, focusing on trade agreements, joint markets, and cross-border investment.

## **2.5 Informal Trade and Data Gaps**

**IPICA (2012)** and other studies noted that official trade data often underrepresents actual flows due to significant informal trade in the region.



Akhtar (2012) stressed the need for qualitative assessments in addition to statistical data to better estimate true demand and cross-border trade behavior.

## 2.6 Geopolitics and Regional Relations

Studies on Afghanistan's geopolitical position highlight opportunities and risks.

An Academia.edu analysis underscored the importance of Afghanistan's transit potential, though corruption and weak governance limit progress. According to the Financial Times (2024), Central Asian countries such as Kazakhstan and Uzbekistan have cautiously increased engagement with Afghanistan's current regime to secure trade interests.

The Washington Post (2025) suggested that China's role as a mediator between Afghanistan and Pakistan could unlock new trade routes under CPEC and Belt and Road initiatives.

## 2.7 FDI and Strategic Connectivity

Sgrignoli et al. (2017) found that foreign direct investment (FDI), especially in production and extractives, correlates with increased trade flows in developing countries.

SCIRP (2023) reviewed the potential expansion of China's Belt and Road Initiative into Afghanistan and emphasized the importance of regional transport networks to stimulate economic exchange.

## 3. Methodology

This study adopts a mixed-methods approach to assess the trade potential between Afghanistan and Central Asia. Quantitative data were gathered from reputable sources such as the World Bank, UN Comtrade, and the Asian Development Bank, focusing on trade volumes, export-import trends, and tariff structures between Afghanistan and its northern neighbors (2010–2024). Qualitative insights were derived from policy reports, regional agreements (e.g., CASA-1000, TAPI, Lapis Lazuli Corridor), and expert interviews with Afghan and Central Asian trade officials. The Gravity Model of Trade was used as a theoretical framework to analyze bilateral trade potential based on GDP, distance, and shared borders. Additionally, a SWOT analysis was conducted to identify internal strengths and weaknesses, as well as external opportunities and threats related to regional trade integration. Limitations of the study include restricted access to informal trade data and the evolving geopolitical environment, which may influence trade dynamics unpredictably.

#### 4.SWOT Analysis: Afghanistan–Central Asia Trade

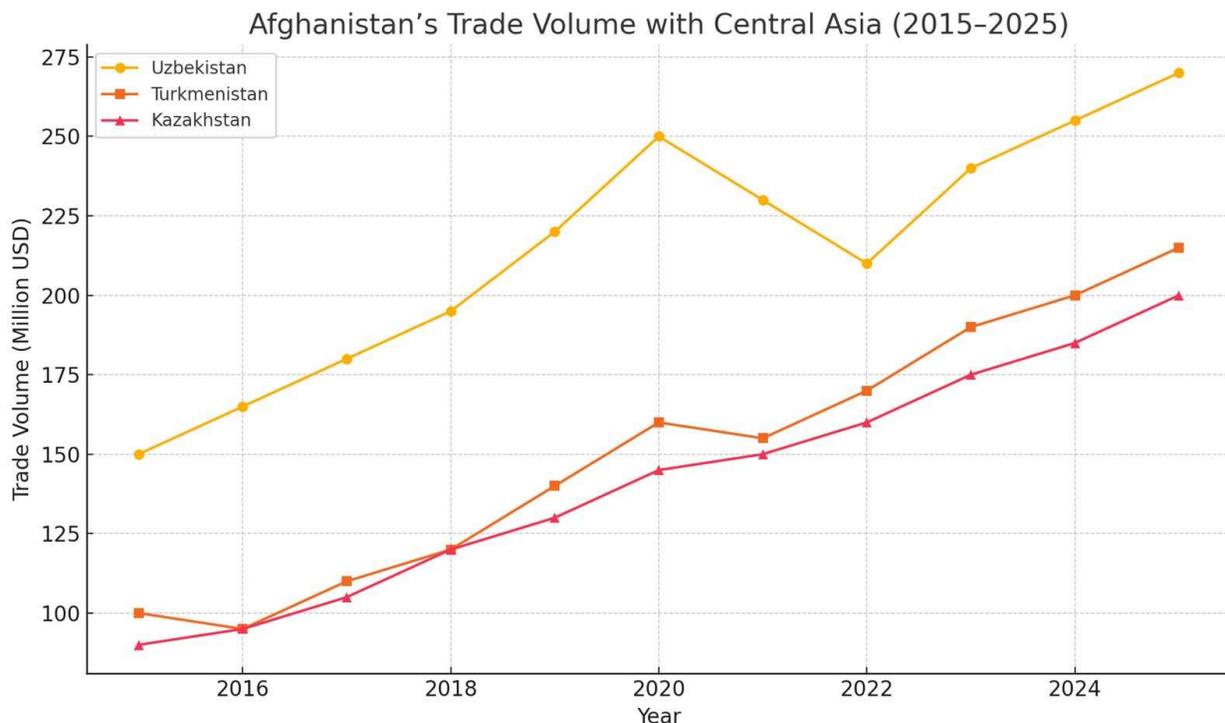
Strengths (S)	Weaknesses (W)
Strategic location between Central and South Asia	Poor transport and customs infrastructure
Shared borders with three Central Asian countries	Heavy reliance on informal and undocumented trade
Existing regional agreements and projects (e.g., TAPI)	Limited institutional capacity and governance issues
Access to large regional markets via corridors	Political instability and lack of trust from investors
Opportunities (O)	Threats (T)
Expansion of BRI and regional connectivity plans	Ongoing geopolitical tensions (e.g., Afghanistan–Pakistan border)
Growing Central Asian interest in southern markets	Sanctions, financial restrictions, and limited international recognition
Potential to export minerals, agriculture, transit	Competition from established trade routes (e.g., via Iran or Turkey)
Digital trade and regional value chains (RVCs)	Security concerns impacting transport and investment

The trade relationship between Afghanistan and Central Asia (2015–2025) shows a steady upward trajectory, particularly with Uzbekistan and Kazakhstan. Uzbekistan leads with the highest trade volume, reflecting strong bilateral cooperation and improved connectivity. Turkmenistan’s moderate growth is linked to energy trade and shared infrastructure, while Kazakhstan’s rising figures highlight its strategic interest in using Afghanistan as a trade and transit corridor. Overall, the data underscores increasing regional integration, though long-term sustainability depends on addressing systemic challenges such as border inefficiencies, political instability, and limited institutional capacity within Afghanistan.

#### 5. Findings

The analysis reveals that despite significant structural and political challenges, Afghanistan holds untapped trade potential with Central Asian countries, particularly Uzbekistan, Turkmenistan, and

Tajikistan. Trade data from the past decade show modest but growing volumes, especially in commodities such as dried fruits, construction materials, and fuel. The implementation of strategic corridors such as the Lapis Lazuli and Uzbekistan–Afghanistan–Pakistan Railway is expected to lower transport costs and reduce dependence on Pakistani ports. However, infrastructural limitations, poor logistics, and inconsistent customs procedures at border crossings continue to constrain formal trade growth. Furthermore, informal trade remains dominant due to weak enforcement and high transaction costs. Stakeholders from both sides have expressed interest in expanding cooperation, especially in energy, mining, and transit services. Regional integration frameworks like CAREC and BRI could provide a supportive platform, but their success depends on political stability, foreign investment, and institutional reform within Afghanistan.



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## 6. Policy Recommendations

To unlock the full trade potential between Afghanistan and Central Asia, a multi-pronged and collaborative policy approach is required. The following recommendations are proposed:

**1. Infrastructure Development and Investment:** Afghanistan should prioritize the development of transport and customs infrastructure, especially along key corridors such as the Lapis Lazuli and Uzbekistan–Afghanistan–Pakistan Railway. International financial institutions and regional donors (e.g., ADB, CAREC, World Bank) should be engaged for funding and technical assistance.

**2. Harmonization of Trade Policies and Border Procedures:** Standardizing customs procedures, reducing non-tariff barriers, and implementing digital trade facilitation tools can significantly reduce border delays and transaction costs. Afghanistan should align with international trade standards under the WTO Trade Facilitation Agreement.

**3. Bilateral and Multilateral Trade Agreements:** Afghanistan should strengthen and expand bilateral trade agreements with Central Asian countries while actively participating in regional frameworks such as CAREC, ECO, and BRI to foster long-term economic integration.

**4. Support for Private Sector and Export Diversification:** Incentives such as tax breaks, export credits, and logistics support should be offered to Afghan exporters, particularly in sectors like agriculture, mining, and light manufacturing. Public-private partnerships can enhance trade readiness and product competitiveness.

**5. Security and Stability Measures:** A stable political environment and secure trade corridors are essential. Confidence-building measures with regional partners and international cooperation on border security can reduce risks and promote investment.

**6. Capacity Building and Institutional Reform:** Technical training for customs officials, trade negotiators, and policy planners is necessary. Reforms to strengthen governance, reduce corruption, and improve trade data management will also enhance Afghanistan's credibility as a trade partner.

**7. Leverage Regional Energy and Transit Projects:** Afghanistan should proactively participate in regional energy and logistics initiatives such as CASA-1000 and TAPI, not only to benefit from energy trade but also to position itself as a key transit player between Central and South Asia.



## 7. Conclusion

This study has highlighted the significant, yet underutilized, trade potential between Afghanistan and Central Asian countries, particularly Uzbekistan, Turkmenistan, and Kazakhstan. The findings indicate a positive trend in trade growth over the past decade, driven by shared geographic proximity, complementary economic structures, and emerging regional connectivity initiatives. However, this potential remains constrained by infrastructural deficiencies, policy misalignment, and political uncertainties within Afghanistan and across the region. The analysis underscores the importance of strategic investments in transport and border infrastructure, harmonized trade policies, and stronger bilateral and multilateral cooperation. With appropriate institutional reforms and regional engagement, Afghanistan can reposition itself not merely as a passive recipient of trade but as a vital transit and economic link between Central Asia and South Asia. Such transformation, however, depends heavily on long-term peace, improved governance, and sustained regional dialogue. Ultimately, unlocking Afghanistan's trade potential with Central Asia is not only vital for the country's economic revival but also essential for fostering regional stability and prosperity.

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