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Research Article

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Pak-Afghan Bilateral Trade and Its Impact on Pakistan's Economy

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ABSTRACT

Pakistan and Afghanistan are two neighboring countries and have enjoyed a long period of trade relations, and have a long history of being trade partners, they signed a bilateral transit agreement in 1965, and the agreement recognized the right of Afghanistan to access the seaports of Pakistan. Since 2001 the bilateral trade between Pakistan and Afghanistan has shown an increasing trend except for one year 2007-2008, during this year a decline has been registered which can be attributed to the strict measures taken immediately to the emergence of the information that a huge amount of smuggling and illegal trade was rampant under the cover of the provision of the facility of the transit trade. The study examined Pak-Afghan bilateral trade and its impact on Pakistan's economy. Different factors like exchange rate (ER), inflation (INF), exports to Afghanistan (EXP), and imports from Afghanistan (IMP) were considered independent variables. Similarly, annual data from 2001 to 2023 were utilized and the Autoregressive Distributed Lag (ARDL) model was used to analyze the cointegration between variables of the model. Empirical analysis suggests that the exchange rate of Pakistan is deprecated and Afghanistan is dependent on Pakistan in terms of trade, so it is affecting Pakistan's economy positively, the exports to Afghanistan are more than imports from Afghanistan and trade is surplus with Afghanistan, which is benefiting Pakistan's economy. Imports are affecting GDP Per capita negatively, but the effect is very low because the exports are more than imports from Afghanistan which absorb the imports value. The study recommends that Pakistan need to boost exports to capture the market. The exchange rate and inflation are not stable for many reasons, which is affecting Pakistan's economy and bilateral trade with Afghanistan. So, Pakistan needs to stabilize the exchange rate and inflation. Secondly, the study suggests that Bilateral trade with Afghanistan should be in Pakistani currency, as it will strengthen Pakistan's economy and exchange rate.

INTRODUCTION

In 1965, Pakistan and Afghanistan signed a bilateral transit agreement that acknowledged Afghanistan's right to access Pakistan's sea ports but did not address Pakistan's access to Central Asia via Afghan territory. Despite the bilateral Afghanistan Transit Trade Agreement (ATTA) inked in 1965, Pakistani interests sought wider market access to the Central Asian Republics via Afghanistan after the CARs attained independence in 1991. These two factors were crucial in convincing Pakistan's government to approve a new transit agreement with Afghanistan. Afghanistan was also keen to renew the present accord due to its growing need for commerce and transit through Pakistan's sea ports, which provide the shortest and most cost-effective route for global trade. Afghanistan also desires more access to the rapidly rising Indian market. The 1965 Treaty merely provided Afghanistan access to Pakistan's ports and did not include any provisions allowing rights to trade with India through Pakistan's land routes (S. Amir & Attar Wala, 2015). Negotiations between Pakistan and Afghanistan on a new transit treaty began in 2008 when a visiting Afghan delegation delivered a draught text for Pakistan's consideration. After more than two years of negotiations, the new transit accord was signed on July 18, 2010. in Islamabad by the secretaries of commerce of Pakistan and Afghanistan in the presence of the Pakistani Prime Minister and the US Secretary of State. The APTTA replaced an obsolete transit trade agreement formed in 1965. In brief, it establishes a legal framework that allows Afghan businesses to easily export commodities via aircraft and sea ports to India, China, and beyond. According to the agreement, Afghanistan would also be allowed to import items from Pakistan with less delays and prices. Similarly, Pakistani businesses will be able to export goods through Afghanistan with minimal customs and administrative trouble (Husain & Elahi, 2015). Pakistan and Afghanistan are neighboring nations with a long history of trading relations and trading partners. In recent years, due to Afghanistan's unique development condition, it has been a favorable market for Pakistani products ranging from food items to light industrial and technical goods. In recent years, mutual commerce has shown an optimistic and expanding tendency. Pakistan has traditionally benefited from bilateral trade. Over the years, bilateral trade has increased to US $2.3186 billion in 2015-2016, with a positive trade balance of US $1.4940 billion in favor of Pakistan (PAJCCI, 2017).

When conducting any form of trade between countries, it is critical to adhere to international norms. To ease cross-border commerce, industrialized nations have set specific international standards. These criteria are outlined in the Revised Kyoto Treaty (RKC), which is a trade facilitation Customs convention aimed at facilitating trade by unifying and streamlining customs processes. RKC recommends the following key principles: transparency and predictability of Customs actions; standardization, simplification of the goods declaration and supporting documents; simplified procedures for authorized persons; maximum use of information technology; minimum necessary Customs control to ensure compliance with regulations; use of risk management and audit-based controls; coordinated interventions with other border agencies.

Afghanistan is Pakistan’s neighboring country and, in the world, neighboring countries' trade has a low cost and has a huge impact on trade, but unfortunately, the relations are not good in terms of economics and politics. Thus it is significant to study its effect on the economy of trading countries as it can be useful for policymakers in designing policies for policy intervention. Thus, this research will focus exclusively on the impact of Pak-Afghan bilateral trade on the economy of Pakistan.

Objectives of the Study

The study has two main objectives, first to find the impact of Pak-Afghan bilateral trade on the economy of Pakistan. Secondly to find the impact of trade on the overall economy by focusing on Pakistan's perspective. Similarly, the study has two hypotheses, first Pak-Afghan bilateral trade has a significant impact on Pakistan's Economy, and against Pak-Afghan bilateral trade has no significant effect on Pakistan's Economy.

LITERATURE REVIEW

Wang (2017) investigated the influence of US-China bilateral trade on the economy of the United States using (ARDL). They concluded that exports to China do not influence the economic progress of the United States. Instead, imports from China boost the United States' economic growth. (Asia & Llanto, 2010) studied those countries with efficient customs and solid transportation

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infrastructure benefit from huge amounts of commerce, increased wealth, and quick expansion. Similarly, the World Bank believes that requiring more documentation leads to lengthier border delays and, as a result, raises the likelihood of corruption at customs, which may lead to criminal activities such as smuggling.

Zingle (2014) studied the Pak-Afghan economic relationship, both countries are allies in the anti-terrorism war, which has serious economic ramifications. Relations between the two nations have soured as Afghanistan accuses Pakistan of meddling in its domestic affairs and the Afghan conflict has moved to Pakistan. Plans to exploit natural resources in both nations, connect gas and oil resources to Central Asia and the Sea, and capitalize on expanding market prospects in Central Asia are doubtful as long as turbulence in Afghanistan and western Pakistan persists. Economic and non-economic aspects are equally weighted. As the United States and its allies removed their troops from Afghanistan, neighbors should find a new way to coexist.

Rahim (2018) Investigated Afghanistan's dependency on Pakistan, Afghanistan's transport trade problems are more common than in any other closed country a landlocked country, and Afghanistan's foreign trade is mainly reliant on Pakistan. However, Afghanistan's transportation trade remains unpredictable due to escalating political tensions between the two countries. Afghanistan was at the forefront of finding solutions to the challenges that remote regions experience due to a place for the underprivileged, with Bolivia and Czechoslovakia. Efforts at the United Nations resulted in international norms and treaties guaranteeing that countries have unfettered access to the sea and that neighboring countries do not exploit their unfavorable position. International laws and treaties provide the legal foundation for economic agreements between Afghanistan and Pakistan. Despite international regulations, treaties, and bilateral agreements, transit business between Afghanistan and Pakistan faces challenges. These challenges have influenced both commerce and business between the two countries. (Higginson, 2013) discussed some common cross-border issues, such as long and unpredictable delays at the border due to inadequate border infrastructure, complex clearance procedures, and technological malfunctions. This results in the increasing cost of trading activity. Moreover, the unpredictable delays at the borders disturb the trade relationships between the countries engaged in cross-border trade. For instance, in the case of the Pak-Afghan transit trade, Pakistan provided Afghanistan with a transit route. Still, issues such as repeated border closure and complex clearance procedures have resulted in high transit costs for Afghan traders. As a result, Afghanistan signed various transit agreements with other countries like Iran and Turkmenistan. Due to the high transit cost across the Pakistani territory, Afghanistan shifted its priorities towards Iran for transit trade, as it offered comparatively cheap access. On the contrary, the shifting of Afghanistan transit trade towards Iran is not merely due to harsh terms of APTTA but other factors like inefficient infrastructure, deteriorating law and order situation in Pakistan, and waning relations between Pakistan and US/NATO. Moreover, unnecessary delay and the high transit cost via Pakistan, have shifted Afghanistan's inclination towards Iran for transit trade. (Wilson & Otsuki, 2007) discussed that the low level of intra-regional trade has resulted in the weak export performance of South Asia. They highlighted issues related to infrastructures such as poor road and transportation systems and argued that to promote intra-regional trade and economic integration in South Asia, measures must be taken to lower the logistics costs and facilitate trade as trade facilitation provides tremendous opportunities for intra-regional economic integration. Similarly (Higginson, 2013) discussed the most common issues related to cross-border logistics and transportation that impact traders, shippers, and carriers. He

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categorized the cross-border trade issues into three general categories: firstly, the high dollar cost of border crossing, which includes both direct border crossing costs consisting of the administrative fee and indirect border crossing costs consisting of warehousing and demurrage costs due to the unpredictable delays during border crossing. Secondly, long and unpredictable waiting at border crossing points due to inadequate border infrastructure, and redundant or complex clearance procedures. Inadequate staffing of border personnel and technological or systemic malfunctions, thirdly miscellaneous issues, including cost and delays due to multiple jurisdictions and overlapping regulations.

(Shams et.al, 2017) analyzed Pak-Afghan trade and its impact on Afghanistan's economic growth. It is believed that there is a positive relationship between economic growth and increasing levels of international trade. By using the Gross Domestic Product to promote the economic growth of Afghanistan and the amount of trade between the two countries to be a trade representative between Afghanistan and Pakistan, the Johansen integration test and error correction model were used to estimate the impact of bilateral trade on Gross Domestic Product. Foreign exchange rate variables are also included in the analysis as they cannot be ignored in international trade. The analysis was based on data from the World Bank and the IMF. Integration testing suggested the existence of a long-term relationship between the variables, while the ECM demonstrates that bilateral trade and the exchange rate have negative and insignificant implications for Gross Domestic Product in a short time. In addition, its value also suggested a short-run conversion in time.

Kosar (2021) studied Pak-Afghan ties historically. Tensions between Afghanistan and Pakistan have long existed and can be traced back to five key issues: security considerations, border crossings and communications, national transformation, national sovereignty concerns, and regional and international relations. These forces will contribute to the prospects for long-term stability in Afghanistan and surrounding areas if they work together. A strong eye will be kept on the battlefield, given the potential for escalation following the withdrawal of US and foreign troops. As relations between Afghanistan and Pakistan deteriorate, any remaining hopes regarding the negotiations will likely be compromised. Once the war is over or a new administration is established, bilateral relations will have an impact on the security, political, and economic conditions of the region over the medium to long term. Having strong ties with Pakistan can help promote stability and progress. However, because of the hatred on both sides, which has intensified as a result of the conflict, the opposite can happen. The most promising way forward in Afghanistan and Pakistan is to expand their border crossings to achieve regional peace and prosperity so their people to acknowledge and try to resolve each other's security concerns and sovereignty peacefully and constructively, the way through dialogue.

The countries that possess efficient customs, good transportation systems, and fewer document requirements enjoy remarkable advantages in regional and global trade. Such countries score high in indices of ease of doing business and competitiveness, these indices are translated into large quantities of trade, higher income, and rapid growth. Similarly to the World Bank, the perception of more documentation required to move the goods leads to lengthier waits, which increases the potential for corruption in customs, which might result in illicit actions such as smuggling by suffering opportunity costs in terms of foregone taxes (Llanto & Gilberto, 2010).

Sisay (2016) conducted a study on Ethiopia cross border trade (both informal and formal trade) with its neighboring countries. The primary data was collected through household surveys and key informant interviews with retail traders, exporters, experts, and officials from different levels of government (federal, regional, and

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local) as well as officials from the Ministry of Trade and Agriculture. They found that cross-border trade played an indispensable role in the livelihood of pastoralists, as it helped them obtain food and clothing and generate capital. They also identified several problems in the cross-border trade which include the contention between illegal/informal traders and the government, the absence of standard quarantine service, the absence of foreign exchange services, poor road infrastructure, and the lack of transportation vehicles.

Shabbir & Ahmed (2015) conducted a study on the welfare impact of Afghan trade on Pakistan's Baluchistan and KPK provinces to examine the impact of post-2014 Afghanistan on Pakistan, they used three different methodologies, both qualitative and quantitative. They used the Household Income Expenditure Survey (HIES) from 2004-05 and 2010-11 to provide a descriptive study of the well-being of households in the Trade, Transport, Warehousing, and Communication (TTWC) sectors. They utilized the same data to develop an econometric time series link between family income and its factors. They also had two focus group talks with government officials as part of their qualitative research. They discovered that the number of households affiliated with TTWC industries has increased significantly in both provinces and that the monthly per capita consumption of homes linked with these sectors has more than doubled.

Vaqar and Shabir (2016) investigated how to begin developing commerce in Afghanistan, and then discussed trade-related processes and procedures that may be streamlined to lower the cost of doing business (with Afghanistan). Using the export company's level survey, merchants, transporters, and distributors are interviewed, and the author examines how the Pakistani business community might gain a better understanding of the diverse economic realities in Afghanistan. It also doubts how raising the cost of doing business has already harmed Pakistan's competitive manufacturing and commerce. Aside from underlining forthcoming competition from Iran and India, the study contends that minimal development of Afghan goods (through Pakistan) may lead to more trade opportunities between the two nations.

Cochran (2013) looked into the Pakistan-Afghan trade. Afghanistan and Pakistan signed the Afghan-Pakistan Transit Trade Agreement in 2011. (APTTA). Although APTTA promises to be financially feasible, streamlining the transportation of products across borders may aid the rebels, whose labor transcends borders. Karachi, Quetta, Chaman, and Torkham in the Khyber Pass are key transit destinations in Pakistan that are also connected with identity tropical regions. The combination of the distribution of products with the presence of terrorists promotes terrorist activity and regional instability. To guarantee that enhanced freedom of movement of products is not exploited by rebel forces, a regional and coordinated security plan is required. Political action must be made promptly to build a complete security feature that will turn APTTA into an economic success once again, rather than a security failure between Afghanistan and Pakistan. (Owais et al., 2018) analyzed the two transit trade agreements between Pakistan and Afghanistan. A comparison between the two agreements was drawn to highlight the salient features of both the transit trade agreements i.e. ATTA (1965) and APTTA (2010). The study highlighted various important articles of both treaties and their relevance to both countries. The study also highlighted the major differences between the two transit trade agreements. The comparison of the two agreements led to the conclusion that both of the time while finalizing the agreement laborious efforts were made to finalize these transit agreements so that both the contracting parties could get benefits as much as possible. (Grawert & Bicc, 2017) conducted a study “Afghanistan’s Cross-border Trade with Pakistan and Iran and the Responsibility for Conflict-sensitive Employment” to understand the employment trends,

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strategies, and practices adopted by Pakistani and Iranian companies engaged in cross-border trade and transportation. The study employed qualitative methods by conducting key informant interviews and focused group discussions with transport companies, representatives from the Afghan-Pak Joint Chamber of Commerce, and Industries and self-employed individuals who were involved in cross-border trade. The study found that the obstacles and restrictions on official trade between Afghanistan and Pakistan, are principally caused by political tensions which results in frequent border closure. The long delays at the border cause great losses to the transport companies. The study points out that the decline in formal trade between the two countries increased informal trade and the rise of Iran as a potential partner.

Shams et al. (2017) study Afghanistan's trade and economic growth. They evaluated the influence of Pak-Afghan dual trade on Afghan economic growth from 2008 to 2016. Using GDP to support Afghanistan's economic growth and the volume of commerce between the two nations to be a trade representative between Afghanistan and Pakistan, the Johansen integration test and error correction model were used to evaluate the influence of bilateral trade on GDP. Foreign currency rate factors are also considered since they cannot be overlooked in international trade. The research relied on data from the World Bank and the IMF. Integration testing indicated the presence of a long-term link between the variables; however, the ECM shows that bilateral trade and the exchange rate have negative and minor short-term effects on Gross Domestic Product. Furthermore, its value implied a quick time conversion. As a result, the study supports the hypothesis that bilateral commerce has a direct influence on strong connections and economic growth, as opposed to having a negative impact but being less significant and flexible than long-term partnerships.

Usman and Khan (2017) examined the Pakistan-Afghan trade via the prism of the prisoner dilemma. In the post-Taliban period, Pakistan-Afghan ties remain fraught with distrust and expressions of the Prisoner's Crisis. Despite its efforts to preserve good ties with its neighbors, Pakistan has been accused of exacerbating the situation in Afghanistan, providing safe havens for offenders in FATA, sponsoring terrorism, and ultimately suicide bombers. Pakistan, on the other hand, blames Afghanistan-based policies that are centered on India for fueling insurgency and bloodshed in FATA, Baluchistan, and other regions of the country. Despite the many parallels and the two nations' unwillingness to cooperate in the battle against terrorism, the trust gap is so large that both countries are unable to settle their issues. As a result, both have become a prescription for continuing bloodshed and allowing regional powers to intervene in their affairs and exploit the situation. Mistrust and antagonism in Pakistan-Afghan relations have frequently resulted in harmful repercussions. The study employs the Prisoners' Dilemma technique to investigate the nature of Pakistan-Afghan interactions and concludes that trust may be built via repeated efforts. Furthermore, the theoretical framework suggests that if reconciliation techniques are implemented, Pakistan and Afghanistan will be able to break the prisoner crisis, retain confidence, and turn their restricted collaboration into a full-fledged trust-based relationship. (Khan et al., 2017) tried to compare transit trade before and after the APTTA era in their article. The study suggested that the move in Afghanistan's transit commerce to Iran is due to issues such as ineffective infrastructure, worsening law and order in Pakistan, and deteriorating ties between Pakistan and the US/NATO as a result of the Salala and Abbottabad incidents. Furthermore, excessive delays and expensive transit costs via Pakistan have moved Afghans' preference for transit commerce to Iran.

Qayum et al,(2016) discussed the trade relations between Afghanistan and Pakistan, which remained unusual, under the grip of allegations and counterallegations due to political differences and issues. Despite these hostile relations, trade relations between the two continued and the landlocked Afghanistan relied on Pakistani territory for its exports to the world market. Pakistan also granted access to Afghan goods to export to India and did not allow imports from India via the same route as Pakistan has security concerns over India as well as the threat of losing its share of Pakistan's exports to Afghanistan. However, the newly signed agreement APTTA allowed Pakistan's access to the central Asia. Afghanistan can provide direct routes to the Central Asian Republics as well as to be a regional hub for trade with the Middle East. The transit trade provided leverage and stakes to regional players like India. Trade has great potential for all three South Asian countries Afghanistan, India, and Pakistan but it requires security and sincerity for the implementation of such agreements.

Amin, Awan, and Rahim (2020) investigated Afghanistan's transit trade deal. Afghanistan, Asia's Cockpit, is not only a geopolitical neighbor, but also has intellectual, geographical, cultural, and diplomatic ties with Pakistan. The lengthy yet problematic border between Pakistan and Afghanistan has been a source of commerce, personal contacts, and economic integration. Closed Afghanistan aspires to trade with Pakistan under the terms of GATT Article V, the United Nations Maritime Act of 1981, and the New York Convention of 1965. This study was carried out to investigate the history of Pakistan-Afghan Transit Trade. The study explains it naturally using data taken from available government sources and scholarly journals. According to the report, Pakistan and Afghanistan signed two trade transit agreements: the Afghan Transit Trade Agreement in Kabul on March 2, 1965, and the Afghan-Pak Transit Trade Agreement in Islamabad on October 28, 2010. Pakistan agreed to utilize the territory for transit of persons coming via Karachi Port and Port Qasim and leaving via Chaman and Torkham. The study discovered that these agreements were mutually beneficial. Still, research has shown that the volume of trade in Afghanistan has declined due to unusual border closures over the years, leading Afghanistan to seek trade opportunities with Turkmenistan, Iran, Uzbekistan, and Tajikistan as agreed. The shift of Afghan transportation away from other routes severely implications for Pakistan's strategic and economic interests. Because international commerce and economic integration provide peace and prosperity, both nations must take a realistic approach to deal with each other's sentiments and worries. Afghanistan must take severe steps to combat human trafficking and terrorism from Afghanistan to Pakistan. The report suggests revising the agreement and realigning it with the evident benefits of CPEC. Afghanistan should let and assist Pakistan in using Afghanistan to trade with Central Asia and beyond. The report also suggests that both nations guarantee that other countries' interactions do not influence their ties.

Literature on Cross-border trade has revealed that issues such as poor infrastructure and complex clearance procedures result in long unpredictable delays at the border, which impedes regional economic integration. Hence the potential benefits of cross-border trade are not achieved. Most of the literature has suggested efforts to facilitate cross-border trade, which will pave the path for regional economic integration. In the case of Pak-Afghan cross-border trade, literature suggested adopting international best practices to facilitate cross-border trade. Ghulam Khan Border being relatively a new border, has not yet been studied to assess the cost of cross-border activity via Ghulam Khan. An insignificant amount of literature is available on the Ghulam Khan border its issues and prospects of cross-border trade.

RESEARCH METHODOLOGY

Conceptual Framework

The conceptual framework defines how different factors affect Pakistan's economy with the Pak-Afghan bilateral

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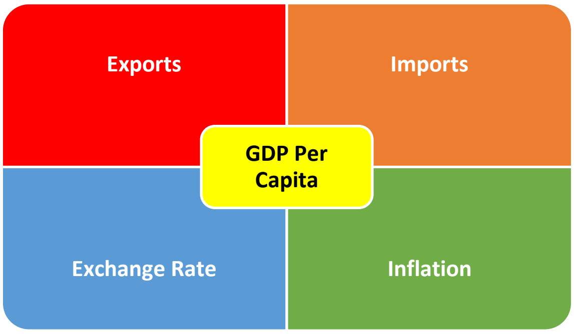
trade scenario. Different factors like Exchange rate, Inflation, exports, and imports are key variables that significantly impact the economy. We can say that these variables give direction to the economy.



Econometric Model

The econometrics model is based on a Conceptual frame of dependent and independent variables, presented in Equation 1.

$$\mathbf{GDP\ PCI_t = \alpha_0 + \alpha_1 ER_t + \alpha_2 Exp_t + \alpha_3 Imp_t + \alpha_4 Inf_t + \varepsilon_t \ldots\ldots\ldots\ldots\ldots\ldots (1)}$$

Where GDP PCI is Gross domestic product per capita income and is the dependent variable of the study, ER is the exchange rate, Exp is the export to Afghanistan, Imp is imported from Afghanistan and Inf is inflation, all these are independent variables. Epsilon t (εt) is normally distributed error terms that capture the impact of other factors on dependent variables.

The study estimated GDP PCI over a certain period. The time series econometric equation 1 analysis mainly consists of three steps, like ADF unit root test, co-integration, and error correction model in the presence of non-stationarity of data.

A time series data from 2001 to 2023 are utilized, the data of GDP PC, Export to and Import from Afghanistan are taken from Word Development Indicator (WDI), Exchange rate data is taken from State Bank of Pakistan, while Inflation data is taken from Pakistan Bureau of Statistics (PBS).

Unit Root Test of Stationarity

Tabe 1: ADF Test Result

Variable	No Trend & Constant	Constant	Constant & Trend	Order of Integration
GDP PC	-1.96(0.93)	-3.02(-.40)	-3.67(.99)	I (1)
EXP	-.53(0.36)	-3.02(.47)	-3.67(98)	I (0)
IMP	-1.96(.43)	-3.04(.63)	-3.67(.95)	I (1)
INF	-2.70(.42)	-2.65(.20)	-3.27(.48)	I (1)
ER	1.60(.99)	2.68(99)	3.28(.54)	I (0)

_ Significance at 10%

The test indicates that all the variables have different orders of integration. We can also observe from the table that variables like Gross domestic product per capita (GDP PC), IMP (Imports), and Inflation (INF) are stationary at level means have an order I (1). While variables like Exports (EXP) and Exchange rate(ER) are non-stationary and have an order of I (0) at the level. The result also shows that no variables have ordered I(2), which gives a direction that all the variables are I(1) or I(0). As a result, the Auto-Regressive Distributed Lag (ARDL) approach suggested by (Peseran and Shin,1995) is a good fit for such variables.

Lag Length Criteria

Tabe 2: Lag Length Criteria

Lag	AIC	SIC
1	86.88	87.35
2	84.76*	86.59

***Indicate the selection of lag criteria

The lag length criteria were selected by Akaike information criteria (AIC) and Schwarz information criteria (SIC). The table shows both and according to AIC, the selected lag is 2.

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Diagnostic Test

Table 3: Diagnostic test

Normality Test		Auto Test (BG)		Hetero Test (BPG)	
Jarque-Bera	-3.17	F-statistic	1.61	F-statistic	0.44
Probability	.85	Obs*R-squared	4.62	Obs*R-squared	3.41
-	-	Prob. F(2,10)	0.25	Prob. F(6,12)	0.84
-	-	Prob. Chi Square(2)	0.10	Prob.Chi-Square(6)	0.76

A diagnostic test is applied to check auto-correlation, multi-collinearity, and heteroscedasticity, after the bound test we also check the auto-correlation, multi-collinearity, and heteroscedasticity of the result.

Bound test

Tabe 4: Bound test

Test	Value	Significance level	I(0)	I(1)
F Stat	6.11	10%	2.696	3.898
		5%	3.276	4.63
		1%	4.59	6.368

The bound test result shows that the F statistics value is 6.11 which is greater than the upper critical bound value at 10% and 5% significance levels. This means that a long-run relationship exists among the variables of the mode.

ARDL Long run Result

Table 5: ARDL Long run Result

Variable	Coefficient	Std. Error	t-stat	Probability
ER	9.54	3.38	2.82	0.01
EXP	0.09	0.18	0.48	0.08
IMP	-0.58	1.54	-0.38	0.10
INF	-38.84	50.96	-0.76	0.46
C	49.48	85.77	0.58	0.57

_ Significance at 10% level

The result shows that the value of the Exchange rate(ER) is 9.54 which is positive and significant, the one-unit increase in the Exchange rate will bring a 9.54 percent increase in GDP Per capita. According to (Khan, 2010) there is a positive relationship between exchange and GDP per capita because the exchange rate of Pakistan is deprecated and Afghanistan is totally dependent on Pakistan in terms of trade, especially in food items, so it is affecting Pakistan's economy positively. The value of the Exports(EXP) coefficient is 0.09 which is insignificant and positive, it means that a one-unit increase in Exports (EXP) to Afghanistan will bring a 0.09 increase in the GDP Per capita of Pakistan. According to (Basu et.al, 2011) there is a positive and significant relationship between export and GDP Per capita in developing countries. In the case of Pakistan and Afghanistan, the exports are more than imports to Afghanistan and trade is surplus with Afghanistan which is benefiting Pakistan's economy. Imports (IMP) value is 0.58 which is negative and insignificant, it means that one unit increase in imports will bring a 0.58 unit decrease in the GDP Per capita of Pakistan. (Bakari & Mabrouki, 2017) Found that imports affect GDP Per

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capita negatively, but in the case of Pakistan it is also the same but the effect is very low because the exports are more than imports from Afghanistan which absorb the imports value. Similarly inflation coefficient is 38.84, which is negative and insignificant.

CUSUM Test

The stability of the parameter of the model cumulative sum of recursive residual (CUSUM) is suggested by Pearson (1997).

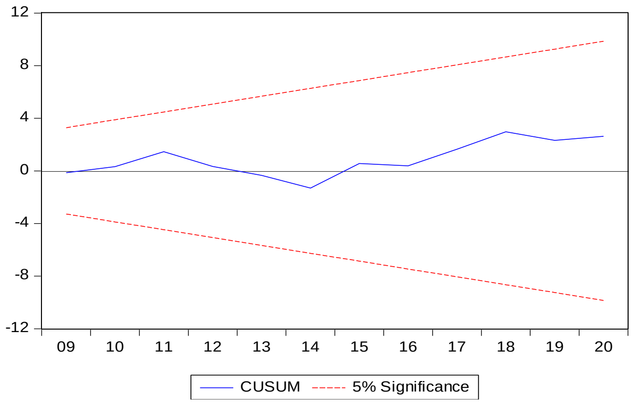

Figure 1. CUSUM TEST

CUSUM Square

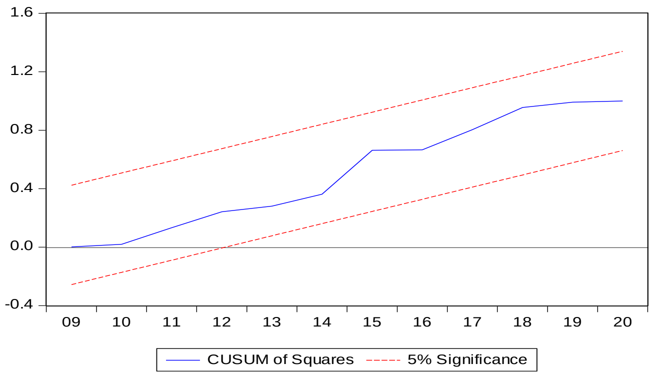

Figure 2. CUSUM Square

We can observe from the graph of CUSUM AND CUSUM square that the plot of CUSUM falls inside the critical band under the 5% critical interval, which means that the results of the models are stable.

Error Correction Model (ECM)

Table 1 ECM Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(ER)	-9.09	1.36	-6.66	0.00
CointEq(-1)*	0.08	0.01	7.14	0.00

The table shows the result of the error correction model and the value of CointEq (-1) is .08 which means that the 8% error of the dependent variable was corrected in a single period.

CONCLUSION

The study has examined the impact of Pak-Afghan bilateral trade on the economy of Pakistan and utilized time series data ranging from 2001 to 2023. Gross domestic product per capita (GDP PC) was used to measure the impact on the economy of Pakistan, while exchange rate, exports to Afghanistan, imports from Afghanistan, and inflation in Pakistan were used as independent variables. Based on the results, it can be concluded that Afghanistan and Pakistan have a long history of being trade partners. The bilateral trade is affecting Pakistan's economy, there are opportunities that Pakistan can take advantage of. Afghanistan has been a good market for Pakistani products ranging from food items to light machinery and engineering goods. The mutual trade has demonstrated an encouraging and rising trend in the recent past. The exchange rate and inflation are unstable for many reasons, affecting Pakistan's economy and bilateral trade, especially with Afghanistan. So Pakistan needs to stabilize the exchange rate and inflation. Similarly, exports to Afghanistan have a positive impact on Pakistan's economy, while imports from Afghanistan hurt Pakistan's economy. Overall we can conclude that bilateral trade is in Pakistan's favor and has a positive impact on Pakistan's economy.

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Recommendations

Based on the results and conclusion the study recommends that the bilateral trade should be in Pakistani currency, as it will strengthen Pakistan's economy and exchange rate. Secondly, Pakistan needs to boost exports to capture the market as soon as possible otherwise the market gap can be filled by other competitors.

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