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RESEARCH ARTICLE

Afghanistan in the shadow of tensions: Analyzing the economic consequences of the Iran–Israel conflict on domestic prices

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ABSTRACT

The current paper observes the direct economic impact of the Iran-Israel conflict on Afghanistan's domestic prices, a landlocked, aid-dependent, and weak economy. Even though Afghanistan has no direct connection to the conflict, it suffers immensely because of its high dependence on the Iranian trade routes and imports. The study currently evaluates inflationary pressures on key commodities like flour, rice, cooking oil, and diesel using a pre- and post-conflict analysis of the high-frequency retail prices of these commodities in Kabul. The results show that sharp price increases week on week occurred as a result of cross-border trade being disrupted, increased fuel prices, and price speculation. This inflation has also contributed to poverty, undermined the purchasing power, and highlighted such structural problems as a high unemployment rate, exchange rate variability, and an increasing trade deficit. Also, the war has resulted in the inflow of returning Afghan refugees from Iran, which has raised the pressure on the labor market and the services that are already strained. As it is demonstrated in the study, the reliance on one side in a conflict may damage the neutral, weak states such as Afghanistan. It contains evidence on indirect conflict impacts and the consequent request of trade diversification, domestic production, and regional cooperation in order to enhance resilience.

KEYWORDS

Afghanistan, Iran-Israel conflict, domestic price volatility, geopolitical economic impact

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1. Introduction

The economy of Afghanistan is in a very desperate position, on the brink of a small-scale recovery, despite structural vulnerabilities, political instability, and the dearth

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of foreign financial aid underlying it (Najam et al., 2023). In 2024, there was a modest growth of GDP at 2.5 percent, and it is expected to grow at 2.6 percent in 2025, primarily due to agriculture, mining, and trade, but dwarfed by the high unemployment rate (13.99), insipid investment, and the influx of millions of migrants back to the country. Despite the deflationary patterns that were observed in the previous quarters, there was a slight gain in inflation rates in the month of March 2025, and the growth was 0.3 percent on a year-on-year basis, mainly because of the 1.3 percent monthly increase in food prices and energy charges (World Bank Group, 2025). At the same time, external expenditure is showing the increasing susceptibility: exports dropped by 2 percent compared to the increase in imports that rose by 32 percent- with most of it going through the 75 percent rise in importation of intermediate goods and the dramatic escalation in the quality of dependence on Iranian trade that now makes up more than 31per cent of all its importation. Such imbalances are evidence of the increased vulnerability of Afghanistan to regional geopolitical instability. Being one of the poorest countries of the world and having a per capita GDP of just $500 in comparison with Pakistan, languishing at the $3000 mark, the economic stability of Afghanistan is precarious, urgently requiring academic as well as policy action (Heravi, 2022).

The macroeconomic context in the country in 2025 continues to characterise itself as highly volatile and prone to external dependence, climate-related shocks, and low productivity. The unstable food prices that have been further affected by the droughts and floods have overwhelmed household consumption, with some small inflation experiencing a revival over the stagnant demand and a little appreciation of the currency (WFP, 2025). Though a stronger Afghan currency has enabled the country to pay less for imports, it has also led to worse export competitiveness, which has aggravated the trade gap. The level of unemployment is still considerable, as it is catalyzed by poor performance of the private sector, low levels of government expenditure, and the restriction of female labor against the force. With more than 2.7 million migrants repatriated back to the country, in addition to the pressure on an already poor labor market (Hassan, 2024). Secondly, dependence on Iran and Pakistan for trade, extended isolation in the international financial market, and worsened liquidity have further undermined the capacity of Afghanistan to withstand external shocks and stabilize after the shocks. These circumstances highlight the extreme sensitivity of the Afghan economy towards geopolitical risks, especially to those that inflate regional trade patterns and energy commodities.

Although the literature about conflict economics and regional instability is extensive and has not been ignored, the issue of how geopolitical events that do not take place directly in Afghanistan may still yield a direct and significant economic impact on the country remains sparse in terms of the available empirical evidence (Meng et al., 2024). The Iran-Israel conflict, which is geographically extraneous, depicts a strong test case regarding such indirect transmission. To explore this, the study is guided by the pre-post comparative research design, where the same data of weekly market prices in Kabul are going to be used to distil short-term fluctuations of the prices of the most essential necessities, the flour, rice, cooking oil, and diesel, taken from (TOLOnews, 2025). Having established the absolute price changes and percentage change in prices, before and after the outbreak of the conflict, and by considering the shifts in the context of Afghanistan, and its absolute reliance on Iranian transit hubs and imports, the research highlights how the conflict in the region can create both direct inflationary pressure, and undermine the purchasing power of the already vulnerable groups. It is not only the price fluctuations that are investigated, but the analysis also evaluates some socioeconomic effects, such as the breakdown of the supply chains and poor household resiliency.

The current paper will contribute to the literature of conflict economics, fragile states, and regional interdependence in three main ways. First, it introduces new empirical findings of the economic transmission of the Iran-Israel conflict to an otherwise non-belligerent but intensely vulnerable state, namely Afghanistan, by examining price volatility in the immediate post-conflict phase. Secondly, it offers a theoretical framework that represents how regional geopolitical shocks can influence the aid-constrained, low-income economies through trade and energy dependencies. Third, the paper combines both macroeconomic signals and geopolitical contextualization in order to give a complex analysis of indirect conflict spillovers, and thus, breaks the traditional belief system that any warfare that is far away would raise minimal threat to those economies that are not involved in the wars. In view of the increasing instability in different parts of the Middle East and South Asia, this issue is both critical and timely. The rest of the article is organized as follows: In Section 2 literature and theoretical background are reviewed and in Section 3 the research methodology is outlined; in Section 4 the economic vulnerabilities of Afghanistan and trade patterns are discussed; in Section 5 the results and discussion are presented and in Section 6 the conclusions including key policy recommendations are provided.

2. Literature and theoretical analysis

2.1. Literature review

Regional conflicts in a more globalized world fail to keep the effects of disputes within their boundaries, but have ploughed far-reaching and disproportionate economic spillovers to the neighboring states. An increasing number of studies point to the unsettling effects of such conflicts on the regional patterns of trade, the breaking of the chain supply, as well as nationwide market instability in non-belligerent and geographically close powers (Qureshi, 2009). The external wars, which take the form of indirect economic costs, are usually more significant than internal conflicts, and international wars have been revealed to cause up to a third more trade harm than intrastate conflicts. The transmission of these trade shocks is via several routes, which include damage to the physical infrastructure, commodity price instability, risk contagion through the financial market, and business interruptions within the complex production networks (Blomberg et al., 2004).

One of the most visible impacts of conflict is the breakdown of roads, bridges, and systems of logistic supply. More devious economic effects, however, are more likely to happen in terms of network effects: the supply chains break, production networks shatter, and companies have to find new buyers and suppliers even when they are not directly involved in the battlefield (Korovkin et al., 2022). Such shocks are even experienced during the post-conflict period, and research shows that the trade flows normally take three to five years to come back to normal, depending on the type of conflict (Qureshi, 2009). In addition, regional instability has often caused the clampdown of or shift away of crucial trade corridors, such as what happened in the case of Jordan when export channels involving exports of agricultural products were disrupted during times of unrest in the Middle East (Santos et al., 2020) and when the global energy and grain markets suffered a severe shock on the onset of the Russia Ukraine war (Li, 2023).

Another transmission mechanism that has been documented well is price volatility in primary commodities, particularly food, fuel, and raw materials. During disruptions in production and irregularities in export sources of important producers, surrounding economies see price increases that are destabilizing and fast. An example of this is the Russia-Ukraine conflict, which has caused energy prices worldwide to skyrocket and significantly increase inflation rates globally. Additionally, it has posed a threat to global food security by blocking the export of Ukrainian grain (Khudaykulova et al., 2022). At the same time, the judgment of local threat by international investors tends to cause unexpected withdrawal of assets by neighboring countries, additionally aggravating weak economies (Gartzke et al., 2003). Such effects are compounded in the current globalized markets, where geopolitical fluctuations would have a strong influence on investor response to them, with the reactions being fast and extreme (Li, 2023).

Although the majority of spillovers are negative, there are cases when regional conflicts create temporary trade substitute effects or growth in local economies and a rise in demand due to inflows of refugees or export of military technology (Zallé, 2017). These effects are, however, uneven and typically do not come in adequate numbers to counter the overall destruction to trade and investment confidence. Furthermore, entrenched hatred between the nations does not augur well with trade fragmentation that results in continued regional economic integration distortion (Rudy, 2020).

Again, one of the more critical aspects in measuring conflict spillovers is the geographic proximity. As has been widely agreed, there is no doubt about a transparent sequential geographical gradient; countries that are neighbors to conflict regions tend to be most impacted by an economic spillover, with the effects reducing further away (Gartzke et al., 2003). This proximity penalty has been seen as capital flight, lower exports, economic infrastructure damage, and stifled confidence of investors. To use an example, neighbors of various violent conflicts are likely to suffer contraction in growth. In contrast, a far-off state is expected to be immunized or even enriched at the expense of trade diversion (Federle et al., 2024). The evidence here supports the famous description by Paul Collier and the confirmation of the so-called conflict neighbors trap, where the economic softness of the countries affected by conflict spreads to their neighbors, destroying the regional growth synergies (Rudy, 2020).

Based on empirical evidence, it has been determined that at least every percentage point of growth in a non-belligerent neighbor would cause the adjacent economies to rise in growth by 0.4% and during conflicts, an inverse effect is seen where GDP of neighboring states shrink down by an average of 2.3 percent per annum (Rudy, 2020). New (methodological) progress in this area- including deriving knowledge employing physical distance as opposed to political contiguity - has enabled researchers to better observe diffusion of war zone-related economic expenses within not only the spatial, but also the time domain (Dao, 2011; Murdoch et al., 2004). Additionally, during the initial periods of hostility, a financial market undergoes a period of contagion, followed by various responses as country-specific fundamentals eventually take hold (Li, 2023).

Religious or ethnic strife that causes mass displacement is also characterized by complicated economic effects on individual cases in certain particular situations. Generally, this is because although refugees may be initially a burden on the resources of the host countries, the effect of an increased demand in the domestic economy can produce a short-term stimulus effect on the economy and increase the GDP per capita due to the multiplier effects (Zallé, 2017). These contrasting results highlight a complex conflict spillover trade-off in the fragile areas.

Although the body of research is significant, a substantial research gap still exists: a limited body of research has focused on the modalities of transmission through which conflicts in a region, especially those that do not directly engage the country in question, affect highly vulnerable economies, as is the case in Afghanistan. The Iran-Israel confrontation is one of the most enlightening ones. Contrary to the other countries, Afghanistan is not part of the conflict, but its structural dependence on the Iranian trade route, high reliance on imports, and low production indicators mean the likelihood of the transmission of an external shock is high. The proposed study will fill such a gap by examining the causes and effects of such immediate price and trade upset due to the Iran-Israel conflict, and therefore, this research will provide empirical evidence and conceptual understanding on how remote geopolitical tension can lead to unsettling fragile economies along the borderlines of war.

2.2. Theoretical analysis

Regional conflicts these days are seldom contained within national borders. Instead, they cause far-reaching economic and humanitarian consequences that spill into other countries and in most of them, even a whole region. Such spillover effects, which were long known in the economics of conflict, form one of the most disruptive externalities of war. Like Gordon et al. (2019) insist, these effects occur directly via the impact on neighboring states to the zone of conflict with a high degree of economic, geographic, or social interaction, as well as indirectly when the secondary effect reverberates in the international markets and the investor network.

Conflict has far-reaching macroeconomic effects, and these are persistent. According to Novta & Pugacheva (2020), the average GDP per capita decreases by approximately 28 percent a decade after the war broke out in the areas where the war occurred. Importantly, those consequences do not only apply to belligerent states. As Fang et al. (2020) mention, wars often pull economic activity within other countries by increasing uncertainty, crippling investor confidence, cutting trade routes as well as regional capital flight. This regional transmission forms a plethora of indirect harm that is mainly absorbed by the weaker states.

Perhaps the most evident and imminent spillover effect here is the mass displacement of the Afghan refugees, and such a problem has risen to an acute level against the backdrop of the Iran-Israel conflict. Chosen as the primary source of the conflict, Iran is the country that hosted millions of Afghan refugees for more than forty years, and now is facing the moment of the backflow of this migration process. The reports of 2025 (VOA, 2025) tell that more than 8,000 Afghan migrants arrived in their native country every day after rising tensions and the worsening socio-political situation in Iran. This surging spate of returns gives unimaginable pressure on the already overstressed Afghan labor markets, public service systems, and food webs, and at the same time denies the returned refugees access to relatively improved systems of infrastructure and employment opportunities. There have also been historical cases when such mass returns also resulted in a rise in security threats and competition for resources in weak states (Salehyan, 2008; Hamati, 2019).

Hypothetically, an inflow of a forcibly displaced population causes fiscal and institutional pressure, which in many cases intensifies political weakness and overloads the administrative capacity of hosting states (Le et al., 2022). Such expenses tend to be limited to the first group, with host countries (or, in the given case, the country of return) being drawn into larger geopolitical confrontations, as the flow of refugees may be transformed into points of geopolitical tension and local mayhem. The situation in Afghanistan especially presents a good example: with hundreds of thousands of returning people crossing borders within weeks, there lies a threat of the potential destabilization of local governmental systems, especially the ones in the border-related provinces close to Iran.

The fiscal prices of the spread of regional warfare are not all that unique. These comprise a significant drop in trade volume, high government spending on guarding its boundaries and on supporting refugees, interruption of regional value chains, and indirect inflationary signals made by supply volatility. The studies show that over 58 percent of regional export trade and 34 percent of regional import trade can fail within 10 years of the beginning of conflict (Novta & Pugacheva, 2020). To conflict adjacent states which depend on transit trade and commodity export, e.g., Afghanistan and its strategic dependence on Iranian imports, such imbalances can create abrupt price shocks and increase the threat of balance-of-payment vulnerabilities.

Energy price shocks caused by the conflict, as well as having many international ramifications, are also enormous in the natural resource-rich areas, such as those in the Middle East and North Africa (MENA), which together own more than 55 percent of the planet's oil reserves (Hamati, 2019). In the case of oil importers to the world, e.g., Afghanistan, these shocks are passed on quickly as the cost of fuel and transport increases, further increasing costs at home on food and other essential commodities, especially to households who are already vulnerable, and exacerbating the problem of inflation.

Spatial clustering of conflicts is another essential perspective through which regional spillovers should be viewed. In line with the argument developed by Hegre et al. (2017), conflicts do not take place arbitrarily in space and time; instead, they appear to concentrate in areas that are excessively extrinsically unstable because of weak institutions, transnational animosities, or interdependence in the economy. The majority of violent activities have this clustering effect, whereby, despite the countries involved in this violence not experiencing violence directly, they still have the impact at the same expense as they would have had they experienced violence. The empirical literature indicates that it is possible to observe the cumulative slowdowns triggered by the economies that are encircled by various conflicts (Kasych, 2023).

These mechanisms of transmission have been intensified with the process of globalization. Although the establishment of interlinked markets has made it easier to grow and collaborate, it has also increased exposure to political volatility and political insecurity in its neighboring political jurisdictions. The fact that the markets react rapidly to geopolitical shocks, either in the form of flight in capitals, loss of currency, or changes in the movement of goods and services, implies that weak economies have minimal time or policy cushion to deal with the shocks (Boussard, 2024). Consequently, not only is cross-border economic frailty in conflict-prone areas, like South West Asia, a hypothetical construct, but it is a reality on the ground and has daily implications on millions of people.

Against this theoretical backdrop, the current study provides a narrow empirical inquiry into one of the least studied yet pressing questions in conflict economics, which is the economic destabilization of vulnerable neighboring states by the means of indirect regional wars, such as the Iran-Israel confrontation imposed upon Afghanistan. This study offers a novel background to the impact of modern regional conflict-based economic contagion, which has ceased to unleash solely on the battlefield but spreads to borders, institutions, and markets through the combination of the macroeconomic disruption theory, the displacement dynamics, and the modalities of trade-based spillover.

3. Methods

3.1. Research design and data source

In order to investigate and empirically assess the immediate economic consequences of the Iran-Israel conflict on the domestic market situation in Afghanistan, the present study uses a pre-post research design. In the analysis, short-run price movements of basic commodities, namely flour, rice, cooking oil, and diesel, are looked at, all of which constitute major items of household consumption in the city of Kabul. The reason behind this selection was the high level of import dependency, sensitivity to transport costs, as well as acting as an indicator in fragile settings of economic stability.

The retail price data was already obtained weekly through (TOLOnews, 2025), with two high-priority reference weeks recorded before and after the breakout of the Iran-Israel conflict in June 2025. The timeliness of this framing allows an explicit investigation of the price shocks and allows for the disentangling of the conflict-related effects of inflationary processes. The data used is related to the prices at the market level (Kabul's central wholesale and retail stores), which offers a super-high-frequency window to observe the consumer-level effects in an early stage of the increase in regional tensions.

The approach of real-time data and a small observational window used in this methodology enables the timely determination of the susceptibility of import-based economies, as was the case in Afghanistan, to geopolitical shocks. It also helps fulfill the bigger purpose of this study, which is to capture how regional conflict-induced shocks have passed through essential commodity markets in one of the most fragile economic settings in the entire world.

3.2. Analytical approach and contextualization

The analysis will look into the price dynamics by calculating the absolute and percentage change in the actual prices of some of the critical commodities in the market prior to and after the beginning of the Iran-Israel conflict. This two-metric construct will enable a more detailed rendering of the magnitude and the immediacy of economic jolts at the consumer level. The findings are analyzed on the broader scope of macroeconomic contingencies of Afghanistan, or rather its structural weaknesses, such as a high level of reliance on imports, weak local production capabilities, and dependency on Iran as the key transit and commercial hub.

In addition to the level of price comparison, the research contextualizes these oscillations in Afghanistan's more general socioeconomic vulnerability, marked by the ever-present inflationary stress, widespread underemployment, exchange rate fluctuations, and weakening buying power of low-income households. The analysis also takes into account possible disruption of the supply chains with increased insecurity in the region, such as disruption or closure of international transportation routes, networks, and logistics. The interaction of quantitative changes with contextual socioeconomic realities is what the study is going to explore so as to bring out the ease with which an event occurring in a geopolitical geography that appears to be distant and remote can lead to instant and concrete economic impact on susceptible and aid-reliant economies like Afghanistan.

4. Afghanistan's structural vulnerability and strategic dependence on regional trade corridors

4.1. Demographic sample distribution

Being among the least developed countries, which are landlocked and dependent on aid, the economy of Afghanistan is easily affected by external interference, particularly when it is the result of a geopolitical shock in the region. The country is in a long-standing state of underdevelopment, with a GDP of only 17.2 billion dollars in 2023 and an average income of 363.7 dollars per capita in 2021. High levels of poverty that cover almost 97 percent of the population and humanitarian needs by more than 22.9 million people portray the extent of the crisis. Low pre-productive farming dominates the economy and is characterized by 60-80 per cent of the population, but under one-third of the GDP, a feature indicating structural inefficiency, underinvestment, and poor access to technology and capital (World Bank, 2025; Sirat, 2025).

The severe reliance of Afghanistan on imports, especially of food, fuel, and manufactured goods, makes the local price system very susceptible to disturbances in the supply chain and vulnerabilities to fluctuations in currency. In 2023, the importation of some major staples, including wheat flour ($826 million), palm oil ($340 million), and rice ($213 million) was a principal constituent of Consumer Price Index (CPI). It linked local price stability with the occurrence in the international market (Jingjing et al., 2025). Meanwhile, the trade deficit of the country jumped to 6.8 billion dollars in 2023 and is expected to rise to 8.9 billion dollars in 2024, the ratio of which to GDP is nearly 44 percent and currently occupies one of the leading places among countries in the world. Although Pakistan and India continue to be the major export destinations, Afghanistan has intensively pursued trade diversification through trade ties with Iran, Kazakhstan, and Uzbekistan. But such moves have failed to cut down on structural imbalances in trading as well as create resilience against the external price fluctuations (Gul, 2025).

In 2024, Iran became the most significant import partner of Afghanistan (around 30 percent of the imports). The two countries recorded bilateral trade, which was $3.14 billion, and it represented an 83 percent year-on-year rise. Nonetheless, disaggregated data demonstrate that the direct contribution of Iran to the provision of basic foodstuffs is modest: in particular, it comes in fifth and sixth place in the export of edible oil and flour, and third place in rice. Instead, Iran is mainly important in two overlapping ways. To start with, it is providing essential non-food imports like refined fuel, steel, cement, and building inputs. Second and probably more importantly, Iran is a major strategic transit route to major domestic importers of goods, such as those of Central Asia, Malaysia, and other nations. Such a transit role implies that the interruption of Iranian territories, be it as a result of war, sanctions or instability of the political regime, can strongly limit access of Afghanistan to essential imports and could happen to the country of origin of the good, be it neighboring country or to any other country (WFP, 2025).

These disturbances were manifested after the eruption of the Iran-Israel conflict. Sudden disruptions at border crossings in the south and west severely slowed the shipment of goods and overwhelmed the fragile logistics chain of Afghanistan. There was the most direct result of domestic fuel prices rising significantly as diesel will be 67.1 AFN (0.95$) per liter by June 2025, a weekly growth rate of 14.7%. This rise in transportation fees caused a chain reaction on the local supply chains that increased the prices of food and other essential commodities, in addition to jeopardizing the buying power of the most vulnerable households (WFP, 2025).

In the meantime, the macroeconomic environment in Afghanistan is unstable and highly dependent on external factors. In spite of the GDP increasing to 2.5 percent in the year 2024, it is forecasted to decrease to 2.2 percent in the year 2025, much lower than the population growth, and this means that the per capita income will continue to decline. The price level is also maintaining inflation at only 0.3%, but below the surface, the situation is somewhat tenuous. The central bank interventions improved the value of the Afghan afghani (AFN) slightly at the start of 2025, but it is still susceptible to extreme fluctuations, which saw it lose more than 10 percent of its value in late 2024. This volatility is dangerous: the AFN has a positive correlation to inflation of 73.79, which implies instant amplification of the price of imports upon depreciation and an increased price fluctuation (Sirat, 2025).

Add to these dynamics the general political and financial isolation of Afghanistan. Fiscal space has been made very tight given the dwindling international aid combined with the suspension of major humanitarian aid initiatives. This has diluted the shock management strength of the institutions and has not made the economy robust enough to adapt to external influences. Also, the pressure added to the local markets, solvency of labor, and humanitarian goods logistics due to a daily outflow of more than 8,000 Afghan migrants forced to leave Iran because of the rise in Iran-Israel confrontations has added this complication to the already problematic maintenance of prices and supply balances (VOA, 2025).

A combination of these elements creates an unstable economic situation wherein external impacts, like the Iran-Israel conflict, may quickly be transferred through the channels of trade and transit, fuel supply chains, and migration flows. As the subsequent discussion indicates, such structural vulnerability takes the form of short-term and quantifiable changes in the prices of key commodities, which precludes the practical necessity of expedited diversification and strengthening of the Afghan trade and economic infrastructure.

5. Results and discussion

The recent spiral in the Iran-Israel tensions, just as various economic elements of the world were already struggling to deal with deepened uncertainty: further U.S. trade protectionism, post-pandemic global supply chain distortion, and levels of government debt rocketing higher, the new element of geopolitical uncertainty may have punctuated everything. Our Geopolitical Risk Index (GPR), one of the best indicators of geopolitical turmoil, reached its highest single-day figure since Russia invaded Ukraine in early 2022 (Caldara et al., 2022). Though the epicenter of the conflict is thousands of miles away in the land of Afghanistan, the economic effects of the epicenter are strongly felt within the market and along the border gates of Kabul, teasing the reality that even at such a distant location, infection can spread through the bloodstream and weak economies based on imports.

As in the case of Afghanistan, the repercussions are neither retrospective nor abstract. This makes the country more vulnerable to disruptions than before, especially since it is highly reliant on regional corridors of trade where Iran is usually involved. Almost immediately after the conflict flared up, the markets in Afghanistan were recording sudden changes in the prices of basic commodities as they faced both immediate shocks of supplies and speculation. These events highlight a salutary lesson: in the globalized economy, geography no longer provides any protection against financial infection. On the contrary, it is the circumstances of structurization, such as high dependency on imports, macroeconomic vulnerability, and limited policy space, that dictate the force with which such shocks become effective.

The subsequent section reviews the empirical evidence of these effects based on real-time pricing to chart the transmission process of geopolitical conflict to the household level in inflation and exchange market volatility. Beyond the knowledge of exposures experienced by the economic frameworks of Afghanistan, this discussion gives an insight into the understandings of fragile states being victims in the crosswinds of regional rivalries.

The data provided in Table 1 shows that the structure of trade in Afghanistan has changed rigidly in the period from 2023 to 2024, as Iran gained the status of the leading trade partner of the country. Afghanistan: The proportion of Afghanistan imports as a whole, taking Iran as a source, increased significantly between 2023 (9.1%) and 2024 (30.0%), making Iran the major trading partner of Afghanistan. The impact of this shift in structure is not only a short-run distraction but a trade realignment.

Table 1. Afghanistan's imports of essential commodities and their primary sources (2023–2024), in USD

Commodity-2023	Value of imports (USD)	Primary sources (Country, Value)	Share of Iran (%)-Rank
Wheat Flour	826 million	Uzbekistan (334.597), Kazakhstan (334.151), Russia (54.812)	0.040%- (Rank 6)
Cooking Oil	340 million	Malaysia (28.9), Kazakhstan (27.6), Uzbekistan (20.3%)	8.202%- (Rank 6)
Rice	213 million	Pakistan (57.5), Uzbekistan (17.4)	0.000844% - (Rank 3)
Total imports-2023	8.576 billion	China (25%), Pakistan (20%), India (15%), Iran (9.1%)	9.1%, - (Rank 4)
Total imports-2024	10.619 billion	Iran (30%), UAE (19%), Pakistan (16%), China (7%)	30%- (Rank 1)

Source: The Observatory of Economic Complexity (OEC), 2025 and Imad Roustai, 2025.

Although in 2023 the volume of Iranian supply of staple materials such as wheat flour, rice, etc. was low, which is why it only supplies 0.04 percent and 0.0008 percent of their imports respectively, the figure in the market of cooking oil is higher. In 2023, Iran had an 8 percent share. These numbers indicate a diversified but strengthening dependency where Iran is gaining more and more positions in the bundle of goods of essentials in Afghanistan. The speed and the magnitude of this transition have many economic and political implications, considering the worsening state of security in the region.

Importantly, this increment in the dependency presents a supplementary degree of systemic risk. The vulnerability of the current trade structure in Afghanistan, evidenced by the breakout of the Iran-Israel conflict, is that any interference persisting to Iranian trade routes resulting out of either a direct hostilities, sanction, or internal strife could have spillover effects that are destabilizing and instant in implications on the costs of various commodities traded, supply chain, and household well-being within Afghanistan. Such external shocks have disproportionately large effects on a post-conflict economy struggling to overcome structural imbalances, humanitarian need, and fiscal limits, intensifying food insecurity and derailing the process of recovery.

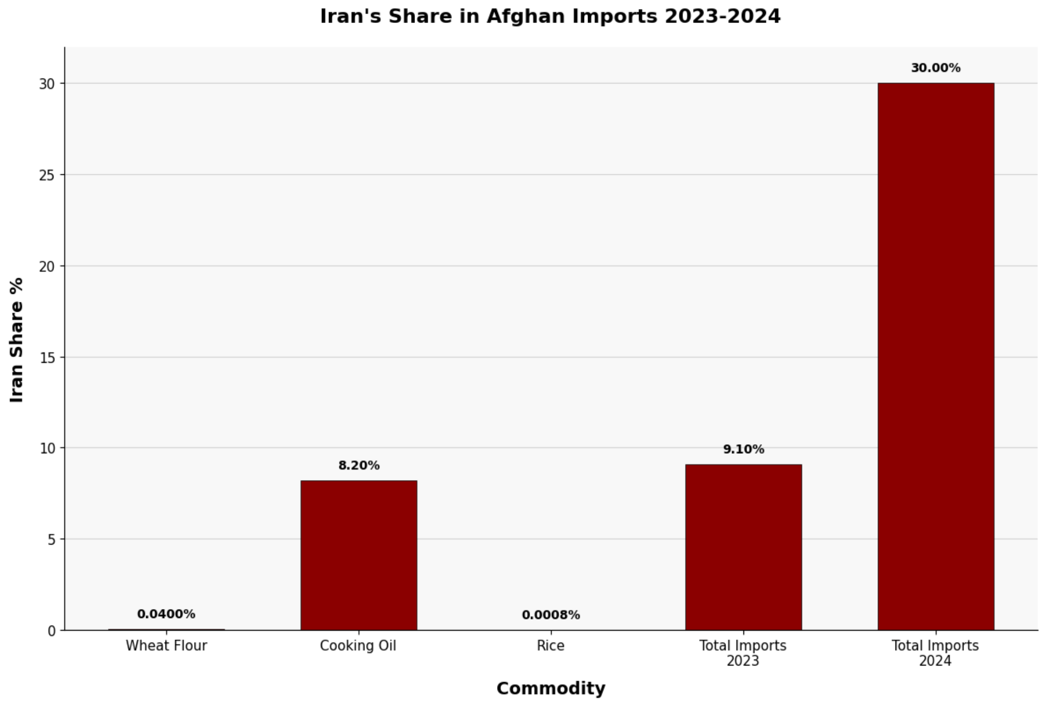

Figure 1. Iran's share in Afghanistan's imports by commodity (2023) and total imports (2023-2024). *Source*: author's calculations based on primary data

This fact represents a compelling policy objective. Afghanistan has to diversify its import basket, liberalize its logistic dependency on one trade route, and invest in longer-lasting supply chains. To protect the national economy against any possible weakening, it is necessary to strengthen the potential of local production, expand the level of transit cooperation with Central Asian states and the South Asian region, and recalculate the trade policy in favor of rationality. Such a dynamic is not only justified, but necessitates the academic need and policy focus, thus explaining why such an analysis is highly strategic not only in terms of scholarly timing, but also in the larger academic consideration of conflict economics and development planning, overarching the study.

Figure 1 shows the share of Iran in the imports of some of the essential commodities of Afghanistan in the years 2023 and 2024. Although the direct contribution made by Iran to the importation of foods like wheat flour (0.04%) and rice (0.0008%) could be considered modest during the year 2023, it was relatively significant in the importation of cooking oils (8.2%). In 2024, however, Iran was the largest trading partner of Afghanistan overall, with 30 percent of the total imported goods. Such a notable change represents a more profound strategic transformation in trade relations and points to the increased exposure of the country to the threat of geopolitical conflict and logistical imbalances through Iranian pathways.

Table 2. Recent price changes of essential goods in Kabul (June 19, 2025)

Item	Current Price in Afghanistan (USD)	Last Week's Price in Afghanistan (USD)	Weekly Change in Price (USD)	Weekly Change (%)
1 Bag of Flour	21.78	18.97	+2.81	14.81%
1 Bag of Rice	35.14	30.95	+4.19	13.53%
10 liters of cooking oil	15.46	13.35	+2.11	15.81%
1 liter of diesel	0.95	0.83	+0.12	14.69%

Source: TOLOnews (2025)

Table 2 shows the sharp increase in the cost of essential supplies in the city of Kabul week on week, which makes up an interesting summary of how quickly geopolitical upheaval, especially the Iran-Israel confrontation, can turn into the reality of real economic pressure on the weak countries, such as Afghanistan. In seven days alone, basic goods that constitute the staple in households and in national economic operations recorded terrifying spiraling of prices, an indicator of dire market crunch in the short term, and a structural weakness in the long run.

In particular, the unit cost of flour (a single bag) rose by 14.81 percent, that is, by USD 2.81 to USD 21.78. On the part of rice, which is a staple food, increased by 13.53 percent, that is, USD 30.95 to USD 35.14. The steepest rise was in cooking oil, which increased by 15.81 percent to USD 15.46 against an opening price of USD 13.35. The diesel used in transport and agricultural purposes increased by 14.69 percent, which further increased operational costs in these sectors. Such pricing dynamics are not accompanied by mere waves and fluctuations but become manifestations due to the accumulated pressure of external dependency, domestic supply shortages, and speculative tactics in the Afghan market.

Structural overdependence on Iran, both as a source of critical non-food imports and, more importantly, as a strategic transit node, is at the root of this inflationary shock. As seen above, in 2024, Iran had a share of 30% of all the imports of Afghanistan, which was 9.1% in the previous year. Iranian logistics crunch (provoked either by sanctions, infrastructure blockade, or the volatility of war) lays a direct dent in the flow of goods to supply the Afghan markets, causing a swift shortage and ensuing hoarding and the eventual transfer of the expenses into the hands of the final users.

This is more than a sign of trade-based upheaval associated with such developments, though; it is a demonstration of economic vulnerability. The lack of domestic production, small fiscal room, and unstable governance setup of Afghanistan imply that even the slightest foreign shock may ripple through the rest of the nationwide economy with out-of-proportion strength. Such price upward trends present an existential crisis to low-income Afghan families, many of which were subsisting at the threshold of poverty. This is highly borne by the rural communities that rely on diesel to irrigate and transport their food, and the urban families whose food security is determined by the prices of food sold in the informal markets.

These inflationary pressures, without timely, coordinated responses (such as diversification of sources of imports, mobilization of emergency reserves, and suppression of speculative business practices), run the risk of becoming larger humanitarian as well as political crises. Furthermore, these tendencies demonstrate that even the geopolitically based tensions of conflicts that are not associated with direct borders could quickly move to the other parties in the chain due to the interdependencies of the supply chains, which harm the weak post-war recuperation periods.

These numbers in Table 2 are not only economic numbers; however, in essence, they are early warning signs. They depict the vulnerability of a financial system that is too open to the regional uncertainties and thus not adequately cushioned by internal checks. In case of geopolitical tensions and Afghanistan being strategically motionless, there is a possibility that these tremors of inflation can graduate into a complete socioeconomic crisis. As such, safeguarding the market of Afghanistan against future external shocks becomes merely a policy choice, but it is a national need.

Figure 2 shows the steep week-on-week price change of four critical commodities: flour, rice, cooking oil, and diesel in Kabul as of June 19, 2025. These sudden price rises are the direct economic consequence of the conflict between Iran and Israel, which is washed through the breached trade routes, escalating fuel prices, and hoarding in the Afghan markets. The prices of flour increased by 14.81%, rice by 13.53%, cooking oil by 15.81% and diesel by 14.69% in only a period of seven days. The almost consistent rates of rise in all categories point to some systematic vulnerability to external shocks, especially because Afghanistan is too dependent on imports through Iran. Such inflationary forces reinforce the weak nature of Afghanistan's supply chains and poor domestic market resistance to geopolitical uncertainty. To policymakers and humanitarian actors, the information is a warning indicator of a deteriorating food insecurity and household economic distress situation.

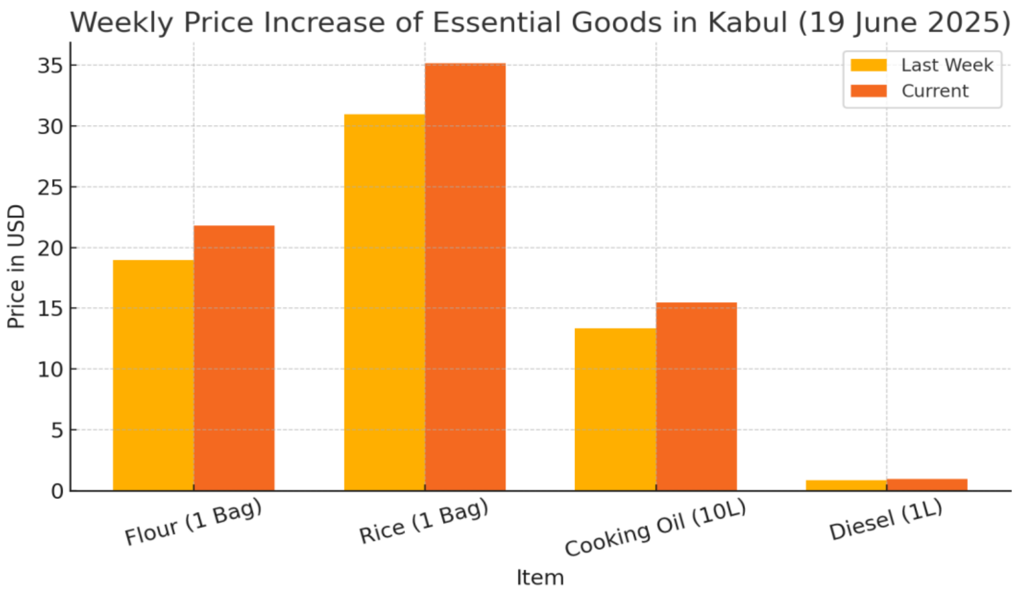

Figure 2. Weekly price surge of essential goods in Kabul following the Iran–Israel conflict (June 2025). *Source*: author's calculations based on primary data

5.1. Socioeconomic ramifications of the Iran-Israel conflict for Afghanistan

5.1.1. Crumbling purchasing power and widening food insecurity

The analyses mentioned above are much more than a market activity and reflect more like a growing emergency of a hopeless humanitarian nature. With the prices of basic commodities skyrocketing, the purchasing capacity of average Afghan families is crumbling down, and millions will now be too poor to afford their basic needs. Within that country, almost half the population is at any time already below the poverty line, and even minor fluctuations in the cost of food and fuel have out-of-proportion and disastrous impacts.

Though small increases in the labor options during seasons have been noted, there is no increase in nominal daily wages. The level of stagnation combined with high prices has wiped out real wage levels, especially among the people who derive their living through the daily wages and those who find employment in the informal sector, who constitute the pillar of the weak labor market in Afghanistan. The consequence is that the household consumption ability will plummet sharply and instantly, and the susceptible families will have to cut on the number of meals or proceed to sell productive assets or drop out children from school. Estimates produced by WFP show that 14.8 million Afghans were experiencing acute food insecurity at the beginning of 2025, with the prevailing state of inflation likely to drive additional populations to emergency levels of hunger.

The backdrop of decades-long fragility is being experienced through recurring droughts, floods, political instability, as well as isolation from the global markets. The Iran-Israel conflict has been a shock multiplier in direct threat to livelihoods because they have been compounding malnutrition (especially in women and children), and moving the already fragile society towards the point of humanitarian collapse. With the actual humanitarian aid flows themselves in danger of decline or even cessation, Afghanistan is caught in the predicament of becoming ever more vulnerable, a fine predicament where geopolitical forces completely out of its reach are determining the survival prospects of many of its people.

5.1.2. Fragile financial stability and a retreat from development crumbling

Alternative implications of such a crisis go beyond household well-being; they are systematically hurting the macroeconomic well-being and development path of Afghanistan. Whereas the collection of domestic revenues increased by 12 percent in the fiscal year 2024 2025, this slight growth cannot even be compared to the steep drop in foreign assistance that normally subsidized more than 70 percent of the Afghan budget.

The fiscal room is getting smaller at a fast rate. As the cost of debt servicing rises and donor withdrawal gathers pace, the ability of the government to manage any crisis or invest in infrastructure, education, and health has been made all the more complicated. As illustrated in the foregoing section, inflationary pressures are pushing budgetary funds towards the immediate containment of prices, distribution of emergency food, and emergency energy solutions at the expense of long-term development expenditure.

Furthermore, financial seclusion continues to hinder Afghanistan's access to external banking systems, limiting foreign direct investment and the transfer of remittances. Coupled with the economically unfriendly measures on female participation, one of the biggest drivers of growth has been suppressed, and the labor pool has been reduced, hampering productivity.

The result is a perilous paradox: the nation that desperately needs to change its structure is now dragged further into economic stagnation by a regional conflict over which the country has had no say, nor even a say in its inception. Not only has the Iran-Israel war destabilized trade routes and prices, but the war has also offset the economies of Afghanistan towards a negative future influence and tightening conundrum of dependency, underdevelopment, and instability.

Unless there is a dramatic and concerted national and international effort, these multiplier effects will soon exceed the local organizations and the world's aid responses to contain. The price of not doing so will not be quantified in foregone growth; it will be the blood of innocent civilians, social discord, and the destruction of the hard-earned post-conflict development gains.

6. Conclusion and recommendation

As is evidenced in this research, the Iran-Israel conflict has also led to rapid and dramatic economic implications on Afghanistan, in spite of the geographical remoteness of Israel. The sudden price rises in basic commodities, flour, rice, cooking oil, and diesel over the past few weeks, revealed the high cases of vulnerability of Afghanistan to outside shocks, primarily since it depends intensively on Iran both for trading and transportation. These pressure forces are aggravating food instability, undermining household spending capacities, and revealing structural flaws to the Afghan economy, such as poor levels of poverty, reliance on imports, and fluctuations in the value of local currency. Unless there are prompt and strategic measures, these shocks have the risk of morphing into a long-term humanitarian and developmental crisis.

To mitigate these effects, Afghan leaders are advised to diversify their trading routes, establish strategic reserves, promote domestic manufacturing, and increase social assistance. Coordinated fiscal and monetary actions should also be implemented to stabilize the markets and the country's currency. In the long term, it will be essential to improve infrastructure and regional trade relations to develop greater resilience in economies and insulate them against potential future geopolitical shocks.

Conflict of interest

The author declares that there are no conflicts of interest regarding this publication.

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