

Competitiveness and Exportability of Pakistani Products in the context of Export Policy and Trade Relations with Central Asian Republics: Challenges, Impacts and Way-forward

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Abstract: Pakistan's geographic location holds immense strategic significance, making it a vital player in regional and global trade. Situated at the crossroads of South Asia, Central Asia, and the Middle East, Pakistan serves as a crucial gateway for trade and connectivity. Its proximity to major maritime routes and its land border with Iran, Afghanistan, China, and India further enhance its geo-economic significance. By leveraging its geographical position, Pakistan can unlock substantial economic benefits by becoming a reliable and efficient trade corridor for the land-locked Central Asian Republics and beyond. Moreover, Pakistan can establish itself as a pivotal energy corridor, facilitating the transportation of oil, gas and electricity from the resource-rich regions of Central Asia to energy-deficient countries in South Asia including Pakistan itself. Furthermore, its access to the Arabian Sea provides an opportunity for the development of maritime trade and the establishment of modern port facilities, fostering increased regional and international trade. With proper infrastructure development and conducive policies, Pakistan can become a vibrant hub for commerce and investment, fostering economic growth and prosperity for its people. This Paper aims to investigate the competitiveness and exportability of Pakistani products in the context of Export Policy and trade relations with Central Asian countries. It seeks to identify the challenges faced by Pakistani exporters, assess the impacts of the current export policies and trade relations on the export performance, and propose a way forward to enhance the competitiveness and exportability of Pakistani products in the Central Asian markets. The Paper aims to analyze the specific challenges faced by Pakistani exporters while exporting to Central Asian countries and their impacts on the export performance. It will explore the dynamics of trade relations between Pakistan and Central Asian countries, examining the existing export policies, trade agreements, and institutional frameworks governing the trade between Pakistan and Central Asian Republics. Based on the analysis of challenges, impacts, and market opportunities, the research will propose a way forward to enhance the competitiveness and exportability of Pakistani products in the Central Asian markets. This may include recommendations for policy reforms, trade facilitation measures, capacity building initiatives, market intelligence systems, and strategic partnerships with Central Asian stakeholders. The findings of this research will provide valuable insights to policymakers, trade organizations, exporters, and other stakeholders involved in Pakistan's export sector. It will contribute to the development of evidence-based policies and strategies to boost export performance, diversify export markets, and strengthen trade relations between Pakistan and Central Asian countries. Ultimately, this research aims to support Pakistan's economic growth and contribute to the sustainable development of the region.

Keywords:

Tax, Amnesty, Schemes, Compliance, Economic, Performance, Revenue, Collection, Evasion

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Introduction

The Central Asian Republics hold significant importance in the world economy due to their strategic location and abundant natural resources. Situated at the crossroads of Europe, Asia, and the Middle East, these landlocked nations - Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, and Tajikistan - act as a bridge connecting the major economies of Asia and Europe. Their geographical position makes them a crucial part of various regional economic initiatives, such as the Belt and Road Initiative (BRI) and the

Eurasian Economic Union (EAEU), fostering trade and infrastructure development. Moreover, the region possesses vast reserves of oil, natural gas, minerals, and other valuable resources, making it a key player in the global energy and commodity markets (Eurasian Development Bank, 2022). As the world increasingly seeks diversification of energy supplies and trading partners, the Central Asian Republics have emerged as attractive destinations for foreign investment and business collaborations. By harnessing their economic potential and strengthening regional cooperation, these nations can contribute significantly to global economic growth and play a pivotal role in shaping the future of international trade and development.

This policy paper explores the potential impact of transit trade agreements with Central Asian countries and preferential market access in Central Asian countries on Pakistan's exports. By analyzing the economic dynamics and trade patterns of Pakistan and Central Asian countries, this study aims to shed light on how such agreements can contribute to transforming Pakistan into a regional hub for trans-shipment and regional connectivity. The paper emphasizes the significance of enhanced trade relations, improved transportation infrastructure, and streamlined customs procedures for maximizing the benefits of transit trade agreements and achieving sustainable economic growth in the region.

An overview of Pakistan's Strategic Trade Policy Framework (STPF)

Until 2008, the Ministry of Commerce had been formulating Annual Trade Policies (ATPs). However, the ATPs failed to bring any substantial change to our dismal export performance due to cross-cutting issues faced by the export sector needing involvement of all stakeholders in Public and Private sector. Therefore, the ATPs were replaced with a holistic medium term policy framework – Strategic Trade Policy Framework – to broaden the scope of the policy, besides bringing continuity and predictability to the policy. The first STPF was launched for the years 2009-12, the second for 2012-15 and the third for 2015-18. The current STPF is for the 2020-25 period.

In order to achieve a sustainable rapid export growth a comprehensive strategy has been devised to optimize the growth of existing sectors in the short term, diversify into the new sectors to be identified through stakeholders' engagement in the medium term, and identify the innovation-driven export sectors for support interventions in the long term (Ministry of Commerce, 2020).

Pillars of STPF

The STPF 2020-25 is based on the following pillars:

1. Rendering exports, a national priority and the primary driver of economic growth, that is both inclusive and sustainable, and is the main viable source of foreign exchange earnings;
2. Enhancement of exports via a collaborative and cohesive national effort engaging all relevant ministries, departments, government agencies and private sectors so as to ensure policy coherence;
3. Introduction of strategic interventions in priority sectors under 'Make in Pakistan' initiative.
4. Alignment of Trade Policy in tandem with macro-economic framework and other national policies such as Taxation, Revenue, Textiles & Industrial Policy, etc.

Policy Measures to Enhance Exports

The following policy measures have been adopted to achieve the goals of STPF;

- Export Market Diversification
- Export Product Diversification
- Product Sophistication
- Regionally Competitive Energy Prices
- Ease of Doing Business
- Simplifying and Expediting Export Enhancement Initiatives/Incentives

- Focus on Services Exports

Pakistan's Trade with CARs

Despite sharing deep-rooted socio-cultural heritage and geographic proximity, relations between Pakistan and Central Asian Republics could not flourish after the fall of USSR. Due to diverse strategic reasons and policy choices, diplomatic as well as trade relations remained lukewarm during the 1990's and 2010's. Central Asian Republics also faced economic & social challenges from the very outset especially the choice of an economic model keeping in view the rapidly evolving global economy during the last two decades. Therefore, trade relations between Pakistan and Central Asian Republics, especially the volume of bilateral trade, has remained far below its true potential as is evident from the trade figures given below.

Table 1

Pakistan's Exports to CARs

Countries	FY 2022-23	FY 2021-22	FY 2020-21	FY 2019-20	FY 2018-19
Kazakhstan	132.73	148.29	103.52	64.11	86.10
Uzbekistan	88.18	56.60	30.81	21.50	23.74
Tajikistan	23.63	3.52	2.05	4.19	8.14
Azerbaijan	12.09	9.22	3.35	11.08	14.37
Kyrgyzstan	10.99	4.04	1.91	1.75	1.81
Turkmenistan	2.234	1.62	3.46	2.07	1.69
Grand Total	299.86	216.69	145.10	104.70	135.85

Source: PRAL(FBR) June, 2023

Table 2

Pakistan's Imports from CARs

Countries	FY 2022-23	FY 2021-22	FY 2020-21	FY 2019-20	FY 2018-19
Kazakhstan	5.58	56.65	0.45	0.81	2.35
Uzbekistan	37.87	35.12	26.77	5.52	4.54
Tajikistan	1.05	4.60	0.77	0.57	0.13
Azerbaijan	24.38	0.78	3.76	0.26	0.82
Kyrgyzstan	0.248	0.179	0.04	0.114	0.06
Turkmenistan	6.17	10.54	7.59	3.95	9.52
Grand Total	75.298	107.869	39.38	11.224	17.42

Source: PRAL(FBR) June, 2023

Historically, Pakistan's main focus in economic and trade diplomacy throughout the world was to seek preferential market access for a few sectors and products without any focus on research based analysis of every market and area and then evolve our strategy in line with the need of the market. Therefore, our text book style export policy failed to yield any result in non-traditional markets like Central Asia. Central Asia is not a market for our textiles, leather, or sports goods, nor do people of the area have rice as their staple food. Whereas, the size of market also renders most of our fruit & vegetable exports less profitable. However, it does not mean that trade between Pakistan and Central Asian Republics is not profitable. Some Pakistani companies and products have successfully established themselves in Central Asian Markets due to their continuous engagement and by engaging in bilateral and transit trade via land route. In fact the sea route is so much prohibitive in terms of cost and time that it renders trade between Pakistan and Central Asian Republics uneconomical.

Moreover, Pakistan offers the shortest land route to Central Asian states (2600 km) as compared to Iran (4500 km) or Turkey (5000km) to a seaport (Shabbir, 2023). Therefore, bilateral trade cannot be enhanced in the absence of a reliable and efficient road connectivity.

Pakistan's Recent Trade & Connectivity Engagements with CARs

Connectivity as Pillar of National Security Policy

The National Security Policy of Pakistan 2022-2026 visualizes Pakistan's geo-economic advantage with three pillars: Connectivity, Partnerships, and Peace within and around Pakistan to cooperate and create economic interdependence with its neighbors to the West. The potential for trade and cooperation is such that it will open up a whole host of avenues and opportunities for connectivity, enabling Pakistan to become a regional trans-shipment hub, in the long run.

Regional Connectivity and Transit Trade Initiatives

In order to increase exports to the non-traditional markets of Central Asia and beyond, Pakistan is vigorously perusing signing of Transit Trade Agreements with Central Asian Republics. Uzbekistan-Pakistan Transit Trade Agreement, Pakistan's first with a Central Asian Country, was signed on 15th July 2021. The agreement is operational since March, 2022 and transit containers from both sides are transiting through each other's territory. Pakistan-Tajikistan Transit Trade Agreement was signed during the visit of the Tajik President to Islamabad on 14th December, 2022. The Agreement will be operationalized after notification of its rules by both sides. Furthermore, Pakistan has shared draft Transit Trade Agreements with Kazakhstan, Turkmenistan and Kyrgyzstan. Kazakhstan has conveyed its willingness to the draft Kazakhstan-Pakistan Transit Trade Agreement. Two rounds of Technical Level Negotiations have been held so far to finalize the draft of the Agreement. Pakistan-Turkmenistan Transit Trade Agreement is also under negotiation currently.

Pakistan-Uzbekistan PTA

Uzbekistan and Pakistan signed Preferential Trade Agreement on 3rd March, 2022. The Agreement was operationalized on 13th March, 2023 after notification of Rules of Origin and Tariff Concessions by both sides. Bilateral trade between the two countries has substantially increased after signing of the Transit Trade Agreement and operationalization of the PTA. An analysis of bilateral trade data shows that the trade volume increased more than 300% in a short time after signing of the AUPTT and Pak-Uzbekistan PTA underlining the significance of the connectivity backed by institutional and government support.

Pakistan-Azerbaijan PTA

Pakistan is negotiating a Preferential Trade Agreement with Azerbaijan. The two sides have finalized the Rules of Origin and draft of the Agreement after six rounds of Technical Level Negotiations. In December, 2022 Ministry of Commerce completed stakeholders' consultations to finalize the Request List from Pakistan side. Both sides will share their respective Request Lists for negotiations to finalize the Agreement.

Trans-Afghan Railway

This project alone has the potential to increase bilateral trade between Pakistan and CARs as well as the regions beyond manifold. As the agreement to construct the railway line has already been signed among Afghanistan, Pakistan and Uzbekistan, the project will bring a new era of shared prosperity for the whole region keeping in view establishment of a stable government in Afghanistan. In coming transit cargo of Afghanistan and CARs will move hassle free through Pakistan and Afghanistan reaching destinations throughout Central Asia in much shorter time and with 30-40% of the cost by sea route.

TIR

The TIR (Transports Internationaux Routiers) system is a globally recognized customs transit procedure that facilitates the movement of goods across international borders. TIR is particularly beneficial for

landlocked countries like those in Central Asia, as it helps streamline and expedite cross-border trade, reducing transit times and costs, and enhancing the overall efficiency of international trade. By expediting customs clearance and reducing transport delays, TIR encourages greater trade volumes. Pakistan has commenced TIR operations in 2018 and with gradual adoption of Trade Facilitation Procedures, and Seamless Cross-Border Transport, Pakistan's trade with the region and Pakistan's share in regional Transit trade is increasing.

Conclusion

Due to its location at the crossroads of the historical Silk Route, Pakistan holds a distinctive position as a vital hub for linking significant economic and resource-rich regions within the ever-expanding multipolar global landscape. Nevertheless, Pakistan faces considerable challenges to achieve its vision of regional connectivity due to geopolitical factors as well as internal policy and infrastructure constraints. In this rapidly evolving geostrategic environment, smaller states like Pakistan safeguard their national interests in seeking unity through connectivity, interdependence, and partnerships in a constantly changing world dominated by major power rivalries. By forging such regional ties, Pakistan can navigate the complexities of the geopolitical environment while safeguarding its national interests and fostering mutual development and prosperity in the region.

This policy paper has provided an overview of the competitiveness and exportability of Pakistani products in the context of exports policy and trade relations with CARs. The paper has come to the conclusion that Pakistan has to adopt need based and research based trade policy measures for different markets and regions. We have to tailor-make our trade promotion policies keeping in view our strengths vis-à-vis the target markets and their needs. By implementing the recommended measures, Pakistan can strengthen its trade relations with CARs, diversify its export markets, and stimulate economic growth. It is crucial for policymakers and stakeholders to work together to create an enabling environment that supports and promotes trade and connectivity with Central Asian Republics.

Recommendations

(Short to Medium Term)

Signing of bilateral Transit Trade Agreements

Ministry of Commerce has been negotiating bilateral Transit Trade Agreements with Kazakhstan, Kyrgyz Republic and Turkmenistan but the progress is slow. Finalization of these Agreements be expedited to increase the volume of bilateral trade besides attracting more transit traffic towards Pakistani ports.

Operationalization of Pak-Tajikistan Transit Trade Agreement

The Agreement was signed in December, 2022 but the same is yet to be operationalized due to lack of notification of the required rules by the Tajik authorities. Ministry of Commerce, Ministry of Foreign Affairs and Pakistan's Mission at Dushanbe are required to follow up with the Tajik authorities for timely operationalization of the Agreement.

Simplification of TIR operations

Utilization of TIR facility in Pakistan is very low due to exorbitant cost of License and guarantees besides the cumbersome procedures and requirements for the operators. Therefore, only eight local firms are operating TIR cargo. To increase TIR operations from Pakistan, Directorate General of Transit Trade, FBR has to simplify the procedure in consultation with the Private Licensees.

Efficient Border Crossing Points

The construction work on the ongoing Integrated Transit Trade Management System (ITTMS) projects at Torkham and Chaman be expedited for timely completion keeping in view the increased transit traffic at both the border terminals.

Preferential Trade Agreement with Azerbaijan

Despite eagerness shown by Azerbaijan, the Agreement is not being finalized on priority basis by the Ministry of Commerce. The Agreement will reduce trade barriers, including tariffs and non-tariff for some export sectors of Pakistan especially rice and medical instruments. The agreement can provide for enhanced trade relations, promote investment, and facilitate the movement of goods and services.

Customs and Border Facilitation

Streamlining customs procedures and improving border infrastructure can help facilitate trade between Pakistan and Central Asian Republics. Simplifying customs documentation, reducing transit times, and implementing efficient border clearance mechanisms can contribute to a more conducive trading environment. Allowing Cross-Stuffing facility to transit cargo will help attract more transit cargo towards Pakistani ports.

Trade Promotion

Trade Development Authority of Pakistan to organize trade delegations, exhibitions, and business forums to promote trade and investment opportunities between Pakistani and Central Asian businesses. These events allow entrepreneurs and investors from both sides to interact, explore potential partnerships, and identify areas of mutual interest.

(Short to Medium Term)

Regional Transit Trade Agreement

Bilateral Transit Trade Agreements do help increase trade volume but it is not the need of two or three countries but of the entire region. Therefore, Pakistan is required to push the idea of a multilateral regional transit Trade Agreement through SCO or ECO.

Construction of Trans Afghan Railway and MI-1

Improving transport infrastructure and connectivity is crucial for enhancing trade relations. Pakistan has recently signed agreement for construction of Trans-Afghan Railway. While ML-1 is a project of strategic nature for Pakistan. Ministry of Railway and Planning Division to ensure timely arrangement of funds for both the projects to help become a real hub of regional connectivity and agent of economic prosperity for the country.

Sector-specific Collaboration

Identifying and focusing on specific sectors of mutual interest can help strengthen trade relations. Pakistan and Central Asian Republics can explore opportunities for cooperation in areas such as energy, logistics, agriculture, textiles, pharmaceuticals, and information technology. Joint ventures, technology transfer, and knowledge sharing can be beneficial in developing these sectors.

Trade and Investment Support Institutions

Establishing trade and investment support institutions can play a vital role in enhancing trade relations. These institutions can provide information, guidance, and assistance to businesses interested in exploring trade opportunities with Central Asian Republics. They can also facilitate matchmaking between potential buyers and sellers.

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