Trade between Pakistan and Central Asian Republics: Prospects, Issues and Way Forward

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Abstract

Pakistan has limited trade with Central Asian Republics (CARs). Facing with stagnant exports and widening trade gap, CARs offer a great opportunity to Pakistan to diversify and expand its trade. The study analyzed the existing trade profile of Pakistan generally and with Central Asian states particularly. Additionally, the potentials for trade with CARs were also explored. The analysis suggests that trade with the CARs has not been encouraging as trade volume with these countries is nominal as total exports to CARs rose from US$ 40.4 M in 2016 to US$109 M in 202. Similarly imports also grew at nominal rate from US$ 28.0 M IN 2016 to US$ 59.1 M in 2021. Great trade potential exists for trade with Central Asian Countries. Pakistan has comparative advantage in different products like cotton and cotton products, pharmaceuticals, sports items, surgical items, cement, sugar, IT and telecommunication etc. and can export cheaper goods to the Central Asian states. Moreover, Central Asian Republics are rich in natural resources and Pakistan can import a number of products to meet local needs and accelerate economic development. However, Pakistan's trade with the CARs has been facing upheavals, mainly due to continuous insecurity in Afghanistan, money exchange issues, banking and transaction problems, tariff issues and absence of direct flights. It is recommended that trad with Central Asian states shall be improved through transit and free trade agreements. Moreover, rationalization of tariff and provision of banking facilities in CARs, trade exhibitions, simplification of processes, tourism and cultural and educational exchange programs facilitated by direct flights and easy visa processes can help boost mutual trade. Construction of road and railways infrastructure in Afghanistan and extension of CPEC project to Afghanistan will connect Afghanistan and CARs to Pakistan which will reduce time and cost of transportation and hence will improve trade among Pakistan, Afghanistan and Central Asian Republics.

Keywords: Pakistan, Central Asian Republics, Trade, potential, Free Trade Agreement, transit, CPEC

Introduction

International trade performs a significant role in the economic development of a country as it contributes to GDP, creates employment opportunities, stimulates economic development and reduces poverty (Okenna & Adesanya, 2020). Like other countries, Pakistan has been able to expand its economy by exporting the agricultural surpluses and introduce new technology to improve

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overall productivity. Pakistan's economy is heavily dependent on exports earnings as the same are used to finance imports, arrange resources for debt payments and bridge the balance of payment gap (Khan & Khan, 2021).

The trade performance of Pakistan is dismal as increase in exports is far below the increase in imports, resulting in ever expanding current account deficit (Hanif, 2018). Trade with neighboring countries always benefits both sides of the border being easier to transport goods through land and Pakistan has great potential to expand trade to east-west borders (Choudhri , Marasco, & Nabi , 2017). The declining exports have many reasons like limited external demand, decrease in international commodity prices, increasing cost of production domestically, strong competition and limited market base (Gul & Ahmad, 2018).

Central Asian Republics (CARs) comprising Tajikistan, Uzbekistan, Kazakhstan, Kyrgyzstan, and Turkmenistan are landlocked states and the region is considered the heart of Asian continent. These states have remained a junction for various ancient civilizations connecting East, West and South Asia and Europe through Silk Road (Javaid & Rashid, 2016). The CARs have abundant energy resources and their huge population and expanding markets offer a great trade potential for trade. However, Pakistan has a low trade with the CARs despite the fact that Pakistan enjoys normal political relations and share religious and cultural similarities (Hanif, 2018).

Pakistan has been witnessing an ever-widening trade gap as export expansion lags behind the import growth. Heavily relying on few markets mostly in developed countries, the prospects of expanding exports are still grim. This warrants the need for exploring new openings so as to diversify the exportable market. The Central Asian Republics offer such opportunity as a healthy potential market for Pakistani products. However, the precarious geo-political situation in the region particularly in Afghanistan has affected these relations, complicating the efforts to develop stronger trade ties with these countries. This intricate situation calls for stringent efforts on part of the Government of Pakistan to expand trade ties with the Central Asian Republics.

Pakistan has been facing the challenge of export growth and is looking for new markets with comparative advantage. Central Asian Republics and Afghanistan can offer best potential for boosting trade which is beneficial for all the trading partners. The available research has attempted to examine Pakistan's trade from various perspectives with Central Asian Republics. However, the new political scenario particularly, CPEC and the new Afghan setup, have significant implications for commerce and the economies of the region, especially for Pakistan. Therefore, a new research study is required to analyze Pakistan's current trading condition, the opportunity of trade growth, and the effects of the region's continuously shifting political and economic landscape. The study has analyzed the existing foreign trade composition of Pakistan viz a viz the Central Asian Republics. Reviewing the existing trade structure with these countries, the paper has identified potential areas of trade and the impediments to trade with these countries and will put forward policy recommendations for boosting trade ties with CARs.

Literature Review

Samad (2006) analyzed Pakistan's trade potentials with Central Asian countries and finds the existence of export potential as the export intensity index for Pakistan since 2000 is less than one. The study argues that a Free Trade Agreement with the Central Asian countries may not be beneficial for Pakistan. The paper, however, proposes that Pakistan should tape the explored market of Central Asian economies to develop and diversify its export market. This way both Pakistan and the Central Asia economies may benefit as Pakistan offers a short access to sea.

Khan et al. (2013) analyzed Pakistan's bilateral trade with major trading partners and used panel data for 1990 to 2010. According to the result, the traditional variables of gravity model, i.e., GDP, distance and GDP per capita have shown their significant impact on bilateral trade with expected signs. However, the variable of cultural similarities is negatively related to trade volume whereas the variable of cultural similarities is negatively related to trade volume. Gul &

Ahmad (2018) investigated the overall trade pattern with the help of a gravity model using panel data from 2005 to 2015 regarding Pakistan's ten main trading partners. Results of the study suggest that size of the economy, development level and trade are positively related. The study finds a negative relation between trade and distance. The study suggests that Pakistan should focus on both product and market diversification. For this purpose, trade agreements shall be signed so as to further expand trade.

Hanif (2018) analyzed Pakistan's international trade particularly exports with different perspectives like traded goods, partners, regions and Economic Cooperation Organizations. Data on Pakistan trade was collected for 12 years from 20003 to 2015. Findings of the study suggest that despite Pakistan's trade relations with multiple countries, over different regions, the actual size of exports is far below the potential volume and resultantly, it faces a trade deficit.

The paper suggests that Pakistan can utilize the available cheap young population through skill formation, the cheap local raw material, natural resources, existing industrial infrastructure and agricultural potential to boost economic growth and hence, exports.

Khan et al. (2019) examined the trade intensity, its volume and direction between Pakistan and the Central Asian Republics i.e., Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan using the data of 1995-2017. The export and import intensity indices and trade complementarity were worked out during the study. The research findings indicate that Pakistan has a greater export intensity in overall trade and low import intensity and is more specialized than CARs. It further highlights that Pakistan has enough potential to diversify exports and boost trade with the CARs by signing more trade agreements with countries in the region.

Rauf (2021) analyzed the growing economic corridors and regional connectivity in Pakistan and CARs and opines that these developing infrastructures help in connecting inaccessible regions which may lead to boost regional trades. The paper further argues that all such efforts in the past for connecting South Asia and Central Asia did not succeed due regional instability and internal differences among the states. However, the study suggests that as China has been financing the new infrastructure in Pakistan and CARs and increasing accessibility to the remote areas, the region has embraced political changes which may promote regional trade.

World Bank (2021) in its report on Pakistan Development Update: Reviving Exports analyzed the significant reasons for decline in Pakistan’s exports and finds competitiveness as a major element behind Pakistan’s continuous trade deficit. According to the report, the contribution of exports to GDP has reduced from 16% in 1999 to 10% in 2020 which has higher effects on foreign exchange, jobs creation, and increase in productivity. In the absence of a sustained strong growth in exports no diversification or sophistication is achieved in the export basket. Major challenges to Pakistan’s exports are higher tariffs, insufficient services to exporters and market intelligence, and low productivity. The report recommends that for the revival of exports coordinated efforts are needed at federal and provincial level and support from the society is also crucial.

Abbas (2022) reviewed the potential non-traditional export markets for Pakistan’s exports and argued that western countries, China and the Gulf region are the biggest market for Pakistan’s exports as Pakistan has been exploring new markets including CARs for market diversification. However, being landlocked and having less infrastructure for land transportation, trade with CARs is facing difficulties. The only option is to transport goods through Afghanistan by availing support of an Afghan trade partner. The paper suggests that Pakistan should focus on resolving the logistics issue and the establishment of formal payment channels to facilitate trade with the Central Asian region.

Khan (2023) analyzed Pakistan's transit trade relations with the Central Asian Republics (CARs), focusing on the challenges associated with accessing these landlocked countries via Afghanistan, Iran, and China. It underscores the significance of soft infrastructure issues, such as bureaucratic bottlenecks and regulatory obstacles, which impede the smooth flow and cost-effectiveness of trade between Pakistan and CARs. The paper has highlighted that while Afghanistan historically served as the primary land bridge between the Indian subcontinent and CARs, its political instability and unrest have hindered efficient transit trade, despite the historic Afghanistan-Pakistan Transit Trade Agreement (APTTA) of 2010. The paper further underlines the bureaucratic and regulatory hurdles that have hindered transit trade with CARs through Afghanistan and China and has suggested policy reforms and diplomatic initiatives to renegotiate and effectively enforce the existing transit agreements. It has emphasized the productive utilization of the alternative routes through Iran and China.

The above-mentioned research studies have analyzed Pakistan’s trade with Central Asian Republics from different angles. However, the research papers have failed to adopt a holistic approach to critically analyze the existing trade scenario, the potential trade areas with facts and figures, the impediments and the suggest a way forward. Moreover, the rapidly changing politico-economic situation in the region in the shape of CPEC and new Afghan setup has sound bearings upon the economies and trade in the region, particularly on Pakistan which the existing literature has least examined. Hence, a detailed study is required to investigate the latest trade scenario of Pakistan vis a vis Central Asian Republics, the potential for trade expansion and the implications of the ongoing changed political and economic situation in the region.

Research Methodology

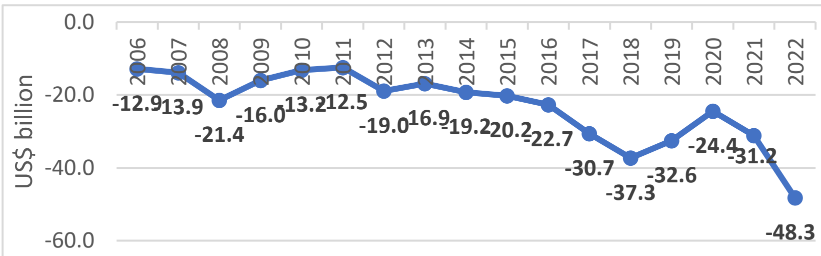
During the research study descriptive approach has been adopted to analyze the existing trade profile of Pakistan with CARs. The data regarding Pakistan’s trade with Central Asian Republics has been collected from secondary sources including State Bank of Pakistan, World Bank, Pakistan Bureau of Statistics and other online sources.

. Historical data has been used to identify trend in trade with these countries and to analyze the trade gap over the years. Additionally, major factors impeding Pakistan's trade with Afghanistan and CARs have also been identified. A detail analysis has been done to explore possible potential areas of trade for Pakistan with these countries and suggest possible policy options.

Trade Profile of Pakistan

Pakistan's international trade has been increasing over the years. Total volume of trade raised from US$ 53.5 billion in 2006 to US$ 78.4 billion in 2012 and US$ 98.6 billion in 2018. The trade figures recorded by end June 2022 was US$ 111.779 billion (SBP, 2022). However, the increase in skewed in the sense that the rate of increase in imports is more than the rate of increase in export and resultantly, the trade deficit has increased. As shown in Figure-1 the trade deficit was US$ 12.9 billion in 2006 which increased as much high as US$ 48.3 billion in 2022. This situation has put much pressure on Pakistani Rupee and the result is rapid depreciation despite bailout package from the IMF.

Figure 1



Source: PBS, 2022

Pakistan's exports are facing many challenges including higher tariffs policy that have proved anti-export, inadequate support services for exporters and market intelligence provision, and low productivity nationally. Coordinated efforts are required for export revival at federal as well as provincial level and support from the society is also crucial (World Bank, 2021).

Major Trading Partners of Pakistan

Pakistan's exports are limited to few markets mostly western developing countries including USA, UK and Germany, and China and UAE. As shown in the Table-1 Pakistan has very limited trade with its neighbors except for Afghanistan. Trade with Central Asian

Republics is negligible. With limited market, Pakistan' exports are either stagnant or declining over the period.

Table 1
Major Exports Markets of Pakistan (Rs. In Billion)

Country	2018-19		2019-20		2020-21	
	Rs	% Share	Rs	% Share	Rs	% Share
USA	532.8	17	585.4	17	823.6	20
China	259.6	8	273.4	8	388.0	10
UK	226.8	7	239.6	7	324.7	8
Germany	173.4	6	199.0	6	241.2	6
Afghanistan	176.4	6	134.3	4	163.8	4
U.A.E.	125.8	4	178.9	5	160.9	4
Bangladesh	101.8	3	102.6	3	104.1	3
Italy	107.4	3	115.0	3	125.9	3
Spain	126.5	4	130.3	4	140.3	3
France	53.9	2	87.1	3	101.8	3
All Others	1,243	40	1,324	39	1,467	36
Total	3,128	100	3,369	100	4,041	100

Source: Economic Survey of Pakistan, 2022

Export Structure of Pakistan

Major export items include primarily cotton manufactures, leather & leather manufactured goods and rice as shown in Table-2. These three products constituted 68.7 % of the total exports in 2015-16, 73.6% in 2017-18 and 70.4% in 2020-21 (SBP, 2022). Exports of Pakistan increased by 13% from 2020 to 2021, by 7.3% from 2019 to 2020 and by 10% from 2017 to 2018 (Macrotrends, 2022).

Table 2
Pakistan's Major Exports (%age share**)**

Commodity	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Cotton	55.0	56.5	61.7	56.4	56.6	59.0
Rice	8.8	8.8	7.7	9.0	10.2	8.1
Leather	4.9	4.1	4.2	3.7	3.6	3.3
Sub-Total	68.7	69.4	73.6	69.1	70.4	70.4
Other items	31.3	30.6	26.4	30.9	29.6	29.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economic Survey of Pakistan (2022)

Imports' Trend

Like exports, Pakistan's imports are also restricted to few countries as shown in Table-3. The share of imports from China is on the rise from 23% in 2018-19 to 28% in 2020-21. Share of imports from UAE has on the decline from 14% in 2018-19 to 10% in 2020-21. Share of imports from Indonesia is on the rise from 4% in 2018-19 to 6% in 2020-21 (Pakistan, 2022).

Table 3
Major Import Markets, (Rs. In billion)

Country	2018-19		2019-20		2020-21	
	Rs.	% Share	Rs.	% Share	Rs.	% Share
China	1734.3	23	1909.2	27	2473.8	28
UAE	1020.1	14	812.7	12	878.6	10
Saudi Arabia	401.3	5	273.6	4	426	5
Kuwait	185.8	2	178.7	3	247.4	3
Indonesia	327.3	4	339.6	5	506.9	6
India	204.8	3	59.95	1	50.67	1
U.S.A.	368.9	5	396.7	6	459.4	5
Japan	246.1	3	174.7	2	249	3
Germany	142.6	2	124.2	2	162.2	2
Malaysia	145.5	2	148.8	2	175.8	2
All Other	2666.5	36	2611.5	37	3352.6	37
Total	7,443.3	100	7,029.8	100	8,982.4	100

Source: Economic Survey of Pakistan (2022)

Import Structure of Pakistan

Major import commodities of Pakistan comprise five major categories as explained in Table-4. Machinery and Transport equipment constitute major part and its share dropped from 28% in 2016-17 to 23% in 2020-21. Similarly, manufactured goods make 10-13% of total imports of Pakistan. Chemicals are another major part of import bill which is 14% in 2016-17 and raised to 17% in 2020-21. Minerals, fuel lubricants are 23% of the total imports of Pakistan showing a declining trend since 2019-20. Vegetable oils also is a major expense in terms of import payments and constitutes 5% of the total import bill during 2020-21. Imports of Pakistan increased by 20% from 2020 to 2021, by 16.4% from 2019 to 2020 and by 16% from 2017 to 2018 (Macrotrends, 2022).

Table 4
Major Imports (%age share)

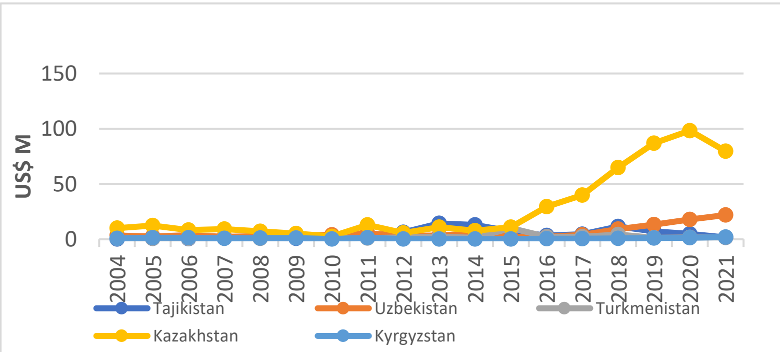
Year	Machinery and Transport equipment	Manufactured goods classified mainly by material	Food and Live animals	Chemicals	Minerals, Fuel Lubricants and related material	Animal or Vegetable oils & fats
2016-17	28%	13%	6%	14%	22%	4%
2017-18	26%	12%	4%	15%	26%	4%
2018-19	22%	12%	4%	16%	29%	4%
2019-20	23%	10%	5%	17%	26%	4%
2020-21	23%	10%	7%	17%	23%	5%

Source: Pakistan Bureau of Statistics (2022)

Trade with Central Asian Republics (CARs)

Pakistan exports to the CARs as reflected in Figure-2 show that exports are either stagnant or decreasing over the years except for a sharp increase in exports to Kazakhstan since 2015. Moreover, exports to Uzbekistan also slightly increased since 2017 (SPB, 2022).

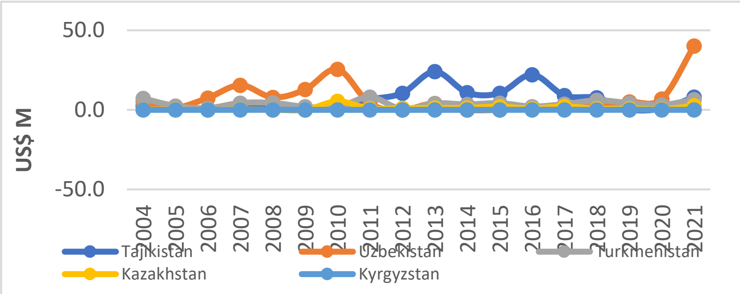
Figure 2
Pakistan's Exports to CARs



Source: SBP (2022)

Similarly, the volume of imports by Pakistan from the CARs as shown in Figure-3 also gives a dim look as imports in most cases have reduces except for a sharp increase in imports from Uzbekistan.

Figure 3
Pakistan's Imports from CARs.

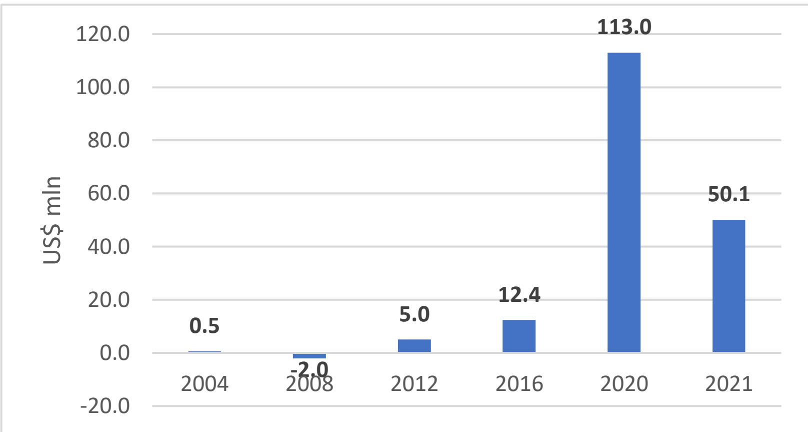


Source: SBP (2022)

Balance of Trade with CARs

Pakistan has limited trade relations with CARs except for Tajikistan, Kazakhstan and Uzbekistan. The overall trade volume with CARs remained 0.21% of the total international trade of Pakistan in 200-21 (SPB, 2022). However, the Balance of Trade (BoT) remain favorable with respect to Pakistan except for 2008 as shown in Figure-4. There is a sharp increase in Balance of Trade in 2020 which came down in 2021.

Figure 2
Pakistan's Balance of Payment with CARs



Source: SBP (2022)

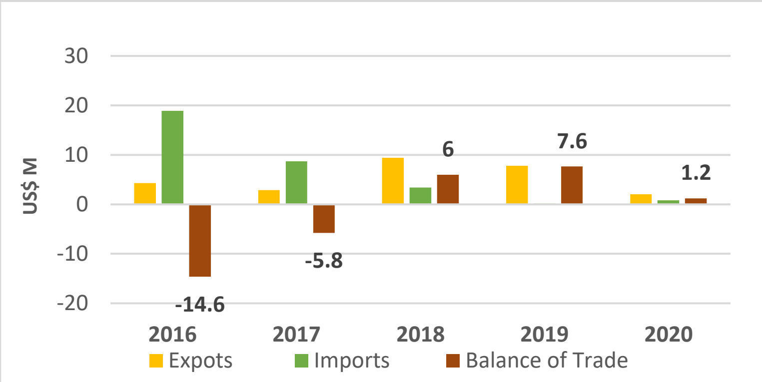
Bilateral Trade

Pakistan's Trade with Tajikistan

In 2020, Pakistan's exports to Tajikistan were worth US$ 2.1 million whereas its imports from Tajikistan were US$ 836,000

Pakistan had a trade surplus of roughly US$ 1.2 Million with Tajikistan in 2020. During 2020, total exports from Pakistan to Tajikistan amounted to US$ 2.0 million. From 2018 to 2020 Pakistan's exports to Tajikistan

Figure 3
Pakistan's Trade with Tajikistan



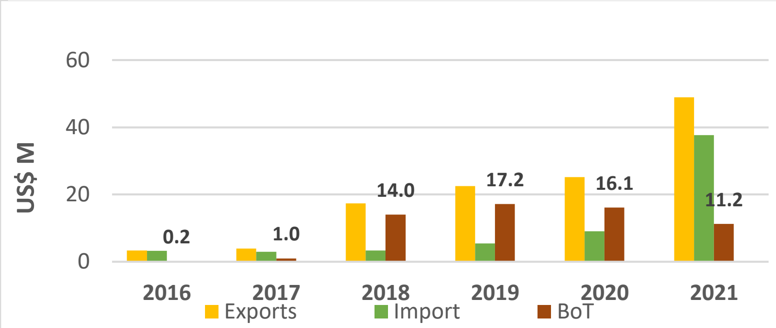
Source: TDAP (2021)

decreased by 78% and exports products are restricted to 12 only (TDAP, 2021). Main exports to Tajikistan are pharmaceutical and dairy products. fruits, organic chemicals, cereals and sugar. Imports, on the other hand, from Tajikistan during 2019 amounted to US$ 0.8 million. Pakistan, since 1995, has been importing only seven items from Tajikistan including cotton yarn, vegetables, electrical machinery and equipment and parts of aircraft (TDAP, 2021). Pakistan has surplus trade with Tajikistan over the years. However, trade surplus has decreased in 2020 as compared to 2018 and 2019 as shown Figure-5. Pakistan's exports to Tajikistan reduced by 53.1% while imports from Tajikistan decreased by of 95.6% percent during 2016-2020. Hence the trade deficit with Tajikistan reduced by 108.3% during the same period, turned the deficit into a surplus (PBC, 2022). During the last 17 years the exports of Pakistan to Tajikistan have increased at an annualized rate of 23.7% and imports by 36.6% (OECD, 2022).

Pakistan's Trade with Uzbekistan

Like Tajikistan, Pakistan also has surplus trade with Uzbekistan as shown Figure-6. During 2020 Pakistan's export to Uzbekistan were over US$ 25 million while Pakistan imported

Figure 4
Pakistan's Trade with Uzbekistan



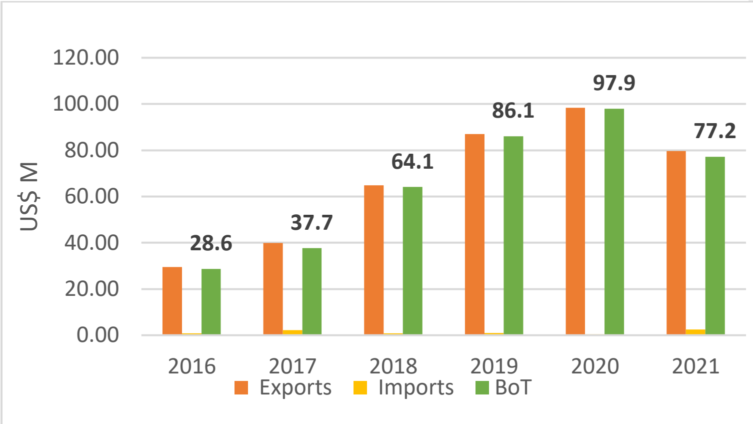
Source: TDAP (2021)

products from Uzbekistan worth US$ 9.0 million. Pakistan's exports to Uzbekistan significantly increased almost by 78% during 2016-2020 whereas during the same period growth in imports was recorded as 31%. Major exports items include pharmaceutical, fruits and vegetables which constitute over 80% of the total exports reflecting a small export basket. Pakistan's imports from Uzbekistan have also increased by approximately US$ 5.0 million since 2018. Major imports of Pakistan comprise beans, legumes, zinc, cotton yarn, salt, vegetables, silk and machinery (TDAP, 2021). Trade between Pakistan has been unpredictable though Pakistan exports to Uzbekistan remain a bit stable. Major variation was found in exports between US$ 25.0 million to US$ 0.5 million during the last ten years. Political instability in Afghanistan has significant reduced Pakistan's exports as the same are routed from through Afghanistan. Trade deficit was US$ 0.15 million in 2016 as imports almost equal to exports (PBC, 2017). During the last seventeen years Pakistan's exports to Uzbekistan have increased at 15.2% annually while imports by 29.6% during the same period (OECD, 2022).

Pakistan's Trade with Kazakhstan:

In 2021, Pakistan's total exports to Kazakhstan were amounted to US$ 79.6 million and imports as US$ 2.5 million leaving a surplus of US$ 77.2 million. Total exports of Pakistan, in 2019, amounted to US$ 87.0 million whereas imports were US$ 0.89 million, as shown in figure-7, fetching a trade surplus of about US$ 86.1 million (SPB, 2022). Pakistan's exports to Kazakhstan were double the amount of its total amount exported to the rest of the Central Asian countries for the period 2017-19. During the period 2015 to 2019, Pakistan's exports to Kazakhstan enhanced by 550% whereas its imports from Kazakhstan reduced by 77% percent, resulting into surging trade surplus by 805% (PBC, 2021)

Figure 5
Pakistan's Trade with Kazakhstan



Source: SBP (2022)

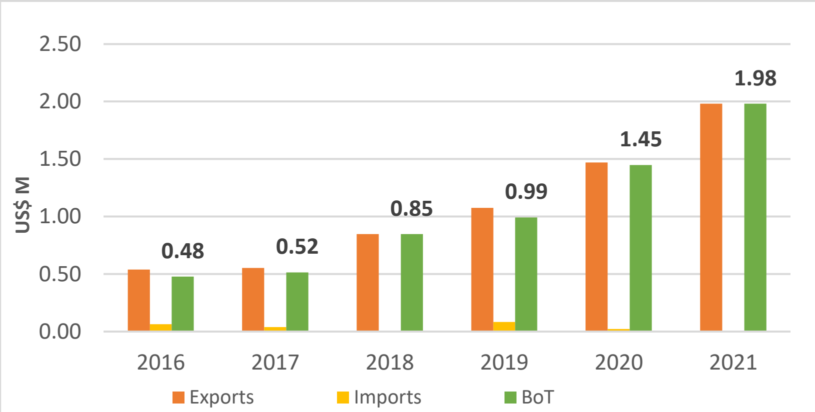
Major export products of Pakistan to Kazakhstan comprise pharmaceutical products, cereals, fruits, vegetables, and oil seeds. Similarly, Pakistan's major imports from Kazakhstan include chemicals, coffee, tea, spices, vegetables, oil seeds raw hides and skins, fruits and live animals (PBC, 2021). Kazakhstan may take benefits of Pakistan's vast economy and large consumer market by exporting products like energy, electricity and agricultural products, particularly wheat and meat. Similarly, Kazakhstan is also getting advantage by importing Pakistani products including textile, cotton, leather, sanitary engineering equipment, medicaments and surgical instruments. Trade relationship between the two countries needs to be improved by effective trade diplomacy by both countries (Khan, 2020).

Pakistan's Trade with Kirghizstan

Pakistan and Kyrgyzstan have low trade over the years and this identifies weaker trade ties between the two countries. Pakistan exports to Kyrgyzstan during 2021 were US$ 1.98 million and imported nothing from Kyrgyzstan (SPB, 2022). In 2019 Pakistan's exports to Kyrgyzstan stood at US$ 1.1 million against imports of 0.083 million, again indicating low trade between the two countries. The graph in firure-8 shows trade surpluses for Pakistan throughout and a rise in exports in observed over the years.

Major exports to Kyrgyz Republic include pharmaceutical products, furniture & bedding and toys. Major imports by Pakistan from Kyrgyzstan are edible meat offal, raw hides and machinery. Pakistan's exports to Kyrgyzstan during the last 25 years have increased at an annualized rate of 2.07% while imports have increased by 4.91%. during 2020, Pakistan did not export any services to Kyrgyzstan (OECD, 2022).

Figure 6
Pakistan's Trade with Kyrgyzstan



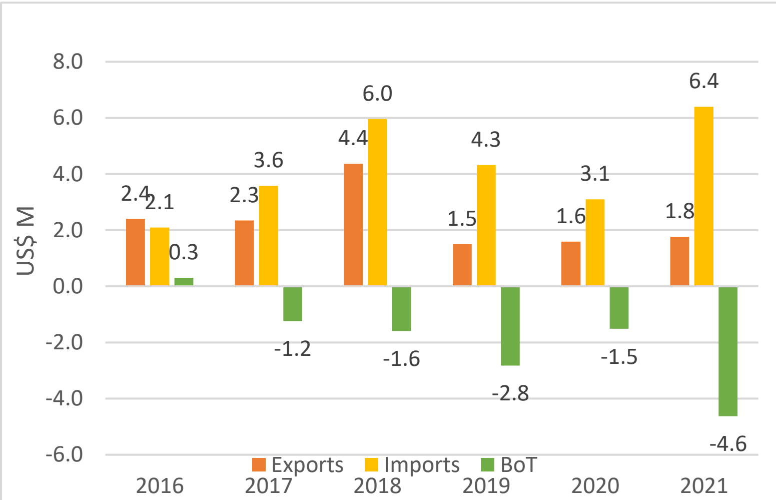
Source: SBP (2022)

Trade with Turkmenistan

Pakistan and Turkmenistan, though have low trade, but the latter always had a surplus as shown in figure-9. Pakistan's imports from Turkmenistan always surpass its exports and thus had a negative balance of trade. In 2021, Pakistan exported products to Turkmenistan to the tune of US$ 1.8 million and imported products amounting to

US$ 6.4 million, having a trade deficit of US$ 4.6 million. Trade deficit was US$ 2.8 million in 2019 and import payments increased a higher rate than export earnings. The trade deficit of Pakistan against Turkmenistan was only US$ 0.31 million in 2016. During 2016 and 2021 exports of Pakistan to Turkmenistan decreased by 26% while imports during the same period grew by 205% (SPB, 2022). Major

Figure 7
Pakistan's Trade with Turkmenistan



Source: SBP (2022)

export of Pakistan to Turkmenistan includes animal or vegetable fats and oils, explosives, pyrotechnic products, matches, pyrophoric alloys, and other vegetable textile fibers. Similarly, major imports of Pakistan form Turkmenistan include cotton, salt, Sulphur, earths and stone,and plastics and related articles (PBC, 2017).

The trade between Pakistan and Turkmenistan remains low mainly due non-secure trade route passing through Afghanistan. Some other factors also affect trade between the two countries including problems in getting visa, difficult regulations to goods entering Turkmenistan, higher custom duties, and language barrier (PBC, 2017). Pakistan has major trade partners in East and South Asia, Gulf countries, European and North American states whereas has low trade with Central Asian Republics, Middle East, Australia, Africa and South American states (Hanif, 2018). Pakistan's trade with CARs also suffered due to shrinking economic activities globally and in CARs. During 2020, total global merchandise trade shrunk by 5.3% and its value was reduced by 7.5%. During the same period, merchandise trade of CARs reduced except for Tajikistan (CAREC, 2021).

Potentials for Trade with Cars

The Central Asian Countries are rich in natural resources including fossil fuel reserves, minerals, gas and metal deposits. Despite being affluent in natural resources yet, the economies of CARs could not prosperous as such mainly due to their geographical location. Being land-locked the Central Asian States do not have access to rest of the world and hence couldn't utilize their available resources for economic uplift. These states have close cultural, religious and economic ties with South Asian Countries, particularly with Pakistan (Bano & Sohail, 2014). However, despites all these assimilations economic cooperation between Pakistan and CARs did not flourish. Pakistan has comparative advantage in many areas including agriculture, pharmaceuticals, sports products, cotton and cotton items, sugar, cement etc. which are direly needed in CARs to meet their needs and support economic development. Pakistan, on the other hand needs access to natural resources particularly, oil and gas, petroleum products, metals, raw cottons etc. which are abundantly available in Central Asian Republics. More importantly, Pakistan offers an easy and short access to these countries to the sea and South and South East Asia through Afghanistan. The potentials for trade with the CARs are discussed in details below:

Pakistan's Trade Potential with Tajikistan

Pakistan exported only 24 products to Tajikistan with total amount of US$ 2.05 million in 2020. Pakistan's total export of worn clothing to the world is US$1.9 billion. Tajikistan is a great market for this product as Pakistan is its 5th trading partner. Potential can be materialized by negotiating 15% tariffs for this product applied by Tajikistan to capture more of market share, beating Finland and Poland with competitive price. Additionally, Tajikistan is importing semi-milled or wholly milled rice worth US$ 11.0 million. This is top exporting commodity of Pakistan and Pakistan has enough supplying capacity and with less value as compared to India. Lowering the price and removal of tariffs will make Pakistan competitive to supply in Tajikistan. Buttermilk, currently exported to Tajikistan, has a great potential for further growth in export (TDAP, 2021).

Pakistan has great potentials to improve exports to Tajikistan in ten major products including medium oils and preparations of petroleum or bituminous minerals, Medicaments, wheat or meslin flour, trousers, bib and brace overalls, shirts of man-made fibres, stockings, socks and other hosiery, structures and parts of structures of iron or steel, sugar, linen, cotton and other cotton products. Pakistan exported these products to Tajikistan amounting to US$ 4.37 million in 2016 against the export potential of worth US$ 3,237.83 million (PBC, 2017).

Pakistan is importing more than US$ 55 million worth of cotton from USA at the cost of 1.6 million dollars per ton. Tajikistan is exporting the product at 1.3 million per ton to Pakistan. If compared with other export destinations of Tajikistan, Pakistan is getting a competitive better price even after 3% tariffs applied. However, price difference of Pakistan's imports from almost every other destination is higher than what Tajikistan is offering (TDAP, 2021). From Tajikistan, Pakistan imported products of US$ 18.97 million in 2016 against the import potential of US$ 725.47 million. Major import potential products include aluminum, cotton, unwrought aluminum alloys, gold, incl. gold plated with platinum, fresh or chilled onions, waste and scrap of copper, unwrought antimony; antimony powders, motor vehicles for goods transport, storage units for automatic data-processing machines, and single cotton yarn, of uncombed fibers (PBC, 2017).

Pakistan's Trade Potentials with Uzbekistan

Medicament, Portland Cement, cane or beet Sugar, and wheat are highly demanded products in Uzbekistan. But increasing local demand for wheat and sugar do not allow exports of these items. On equivalent ad valorem tariff basis major products for potential exports to Uzbekistan are medium oils and preparations of petroleum or bituminous minerals, Portland cement, sugar confectionery, road tractors for semi-trailers, wheat or muslin flour, lead-acid accumulators for starting piston engine, tractors' parts and accessories, motor vehicles for transport, flat-rolled products of iron or non-alloy steel, petroleum oils and oils obtained from bituminous minerals and polyethylene terephthalate. Indicative trade potential of the exportable products comes to US$ 609.7 million in 2021. Combined trade potential of cement, sugar, wheat, machinery parts, and vegetable fats come to US$ 338.2 million (TDAP, 2021).

Pakistan currently imports products to the tune of US$ 3.2 million worth from Uzbekistan whereas there is import potential of US$ 6,980 million. Pakistan's Potential Imports from Uzbekistan include polyethylene, cotton, copper, fresh grapes, polypropylene, tomatoes, motor cars and other motor vehicles principally designed for the transport of persons, electric conductors, tubes and pipes of refined copper, gold, incl. gold plated with platinum, unwrought, for non-monetary purposes (PBC, 2017). There is huge potential for exports of services to Uzbekistan and Tajikistan as both countries have market for services of US$ 3.5 billion and US$ 0.5 billion respectively. Another big potential is telecommunications, Computer and

Information technology, Financial Services, Construction and Tourism which Pakistan can benefit of (TDAP, 2021).

Uzbekistan desires to diversify its trade and the Hairatan-Mazar-i-Sharif rail line is vital to improve connectivity between Uzbekistan and Afghanistan. This railway line was constructed in 2011 with financial assistance for Asian Development Bank and now Uzbekistan wants to extend to Kabul and further to Peshawar. This project could help to reduce the transit time from Central Asia to Pakistan from 30 and 15 days with much reduced cost. The planed rail line will also connect with the 112 km Atamyrat, Turkmenistan-Akina-Andkhoy cross-border line, connecting Turkmenistan and Peshawar. However, the support of Taliban government in Afghanistan would be crucial to ensure its implementation and security (Gupta, 2021)

Pakistan's Export Potential with Kazakhstan

Pakistan's exports to Kazakhstan, in 2019 amount to US$ 87.0 million only against the export potential of US$ 270.8 million consisting of top 25 export commodities. Potential items for export expansion with Kazakhstan include pharmaceutical products, surgical instruments, rice, wheat, black tea, guavas, mangoes, wilkings, oranges, bananas, onions, tamarinds, gloves and textile items. Similarly, there is great potential to develop market in Kazakhstan for other products like sugar and confectionery, polyethylene, Portland cement, articles of bedding, mandarins, footwear, T-shirts, food preparations, trousers and products of iron (PBC, 2021). Pakistan has great potentials to import certain products from Kazakhstan including raw hides, wheat, cotton yarn, mineral products, metals such as uranium and copper, chemicals and agriculture products (PBC, 2021).

Pakistan's Export Potential with Kyrgyzstan

In 2016, Pakistan's actual exports to Kyrgyzstan stood at US$ 3.0 million against the potential import value of US$ 3.8 billion. There is a vide gap between the actual and potential trade values between Pakistan and Kirgizstan which indicates a significant trade potential between the two countries. Major potential exports to Kyrgyzstan include petroleum products, medicaments, telephones for cellular and wireless networks, products of iron or non-alloy steel, trousers, overalls, shorts of cotton, stockings, socks and other hosiery, sugar and sugar confectionery (PBC, 2017). In 2016, Pakistan's imports were US$ 0.3 million against potential exports of US$ 1.4 billion. Potential imports to Pakistan from Kyrgyzstan include dried beans, dumpers for off-highway use, cotton, gold, waste and scrap of copper, parts and accessories for tractors, motor vehicles, carboys, bottles, flasks and similar articles used for transportation or goods packaging (PBC, 2017).

Pakistan's Trade Potential with Turkmenistan

In 2016, Pakistan's export potentials to Turkmenistan's for ten products amounted to US$ 186.68 million including medicaments, cement, iron and iron structures, wheat or meslin flour, rice, tractors, frozen boneless meat, food preparations, instruments and appliances used in medical, surgical and veterinary and parts and accessories for tractors and motor vehicles. In terms of imports from Turkmenistan, in 2016, Pakistan's imports' potential from Turkmenistan for top ten products amounted to US$ 322.32 million. The potential products include cotton, polypropylene in primary forms, urea, sulphur of all kinds, single cotton yarn of uncombed fibres, parts for boring or sinking machinery, line pipe of a kind used for oil or gas pipelines, single cotton yarn, denim, raw hides and skins (PBC, 2017).

Transit Opportunities

In its report on infrastructural development and road linkages of Central Asian region with South Asia, the Asian Development Bank in 2010 identified more than fifty potential roads connecting Tajikistan, Turkmenistan and Uzbekistan with five seaports of Iran and Pakistan through Afghanistan. The ports include Bandar Abbas, ChahBhar, Karachi Port Qasim and Gwadar. Cost of the project was estimate to US$5 billion in 2010 and the road corridor was identified to be 13,586 kilometers long. According to the report, ports in Pakistan can be connected with Central Asia by 31 roads which was expected to increase the regional trade by 160%. The proposed road corridor was intended to benefit Pakistan as well as CARs by boosting economic diversification for rest of the whole region (Javaid & Rashid, 2016). The proposed transport routes from Pakistan and CARs were the following:

Karachi – Taftan (Iran) - Zahidan – Tehran – Astara- Baku or
Taftan (Iran) – Zahidan- Mashad –Badjagiran- Ashkabad
Karachi - Chaman –Peshawar- Gilgit
Chaman – Khandhar- Heart- Kushka
Peshawar- Kabul- Termiz or
Gilgit- Kunjerab- Bishkek- Alma Ata.

The distance between Pakistan and Uzbekistan is around 1,295 km whereas Tashkent is about 2,950 km away from Karachi and 1,917 km from Lahore (TDAP, 2021). Following are various shipping options from Pakistan to Uzbekistan on the basis of various factors:

a. Lowest Cost Shipping Alternative:

Freight rate index: 6 615, transit time estimates: 5.2 days, CO2 emission index: 3 640

It is a cheaper alternate is to transport the consignment from Lahore to Tashkent. It gives freight rate index of 4,406 and estimated transit time of 3.7 days

b. Shipping alternative with cost advantage:
Freight rate index: 9 214, transit time estimates: 38.3 days, CO2 emission index: 3 422

There can be an alternate route from Lahore to Tashkent. It will have freight rate index of 11334 but shipping time will be reduced to 5.1 days. The shipment moves from Lahore to Kabul International Airport to Dushanbe airport finally reaching Tashkent in Uzbekistan.

c. Shipping alternative with transit time advantage:

Freight rate index: 11 005, transit time estimate: 34.3 days, CO2 emission index: 4 009

d. Environmentally friendly shipping alternative:

Freight rate index: 9 869, transit time estimate: 36.3 days CO2 emission index: 3 165 (TDAP, 2021)

Gwadar and its Importance for Trade with CARs

Gwadar, the deep-sea port of Pakistan is located in Baluchistan Province, on the great Arabian Sea, around 460 km west of Karachi, about 75 km east of Pak- Iran border and 400 km away from the Strait of Hormuz, the only sea route to the Persian Gulf. The strait of Hormuz is the main sea route for oil trade as about 80% of world oil carriers travel from Persian Gulf out of which 45% moves via the Strait of Hormuz (Khan, 2013). Makran Coastal Highway connects Gwadar to Karachi and it has been planned to link Gwadar port through Indus Highway with Ratodero and Karakorum Highway (KKH). This route leads to Kashgar which is about 414 km away from Sost-Tashkurgan, Pak-China border and further extends to Tajikistan, Kyrgyzstan and Kazakhstan. It is pertinent to mention that Pakistan, China, Tajikistan, Kyrgyzstan and Kazakhstan have signed and are members of the quadrilateral trade agreements for the utilization of this land route for regional trade. With the first movement of goods exported to Almaty, Kazakhstan through KKH and Kashgar for the first time in 2004, this agreement got operational. Khunjrab, the Chinese border is 2,627 km away from Gwadar while moving through Ratodero, Dera Ghazi Khan, Peshawar, Abbottabad and Gilgit. The more important Gwadar-Turbat-Ratodero Highway was constructed in 2012 costing Rs. 18 billion (Khan, 2013). The Hakla-D I Khan Motorway, which is 292.5 km long is another milestone to increase connectivity and extend the KKH to Gwadar through Zhobe to Quetta, was completed in January 2022 at a total cost of Rs. 81.0 billion (Pakistan Today, 2022).

Gwadar Port is a potential transit shipping and trade route connecting about 20 countries in the region including China, Central Asian Republics, Afghanistan, Bangladesh, Sri Lanka, UAE, Saudi Arabia, Oman, Qatar, Iran and Iraq among others. Being located in Persian Gulf, the chances of blockade is rare. The development of Gwadar Port will not only enhance Pakistan's economy but also will attract foreign investment in trade and will promote tourism (Javaid & Rashid, 2016).

Additionally, Torkham border crossing point is a main gateway to the landlocked Afghanistan and Central Asia and is a biggest transit station for Afghan Transit as around 75% of cargo passes via Torkham border crossing. Chaman Border Crossing Point is a gateway to Central Asia through Afghanistan and is the next biggest transit station for Afghan Transit Cargo after Torkham. Being closest land Customs station to Sea-ports of Karachi & Gawadar Chaman border crossing may prove a hub for commercial trade twin CARs, Iran, China and Far East. Similarly, through Wagah Border Crossing Point, Pakistan is the most economical transit route for northern India however, the benefits of crossing are yet to be realized by both countries because of security concerns (Khan, 2017).

Issues in Trade with CARs

Pakistan, being strategically located, serves as a gateway to the landlocked Afghanistan and Central Asian Republics. With the independence of CARs in 1992 and looking at the potentials for development due to abundant natural resources, it was generally believed that 21st century would be the “century of Central Asia”. However, this dream did not come true due to various factors like political and economic instability in CARs, continuous unrest in Afghanistan, and ongoing war against terrorism in wake of 9/11 incidence. Pakistan being in the proximity of the CARs can directly benefit from openness and accessibility to the region and can serve as an economic and trade corridor for CARs (TDAP, 2021). Some of the impediments to trade with CARs are explained below:

Major Issues in Trade with Central Asian Republics

a. The CARs are landlocked countries; however, little attention has been given to the development of logistic facilities for land transportation. The only rout for Pakistan's exports to the CARs is Afghanistan and due to multi-faceted issues, it is almost impossible to take cargo directly from Afghanistan to the CARs. An Afghan counterpart is therefore required for Pakistani transporters to transport their cargos. Resultantly, Pakistani products are normally smuggled into these countries using Afghan transport (Abbas, 2022).

b. Currency Exchange: Exchange rate is a major hurdle in trade with Uzbekistan as trade is done in local currency Som which has three different exchange rates. This is common issue with other CARs. Due to tough government regulations, the businessmen are not allowed to carry US dollars. Additionally, currency exchange rate in informal market is almost double the actual exchange rates.

c. Banking Issues: The absence of international banking system in Uzbekistan and Tajikistan is another big hurdle in bilateral trade. Only State Bank of Pakistan through National Bank was functioning in Tajikistan which wrapped up its services by the end of 2021. The absence of formal banking channels also obstruct trade because it is difficult for Pakistani exporters to make payments via formal channels and Letters of Credit (LC).

d. Transit/ Supply Lines: The absence of transit agreements and not finalizing of APTTTA does not allow to open the corridor for Pakistan's trade with Uzbekistan, Tajikistan and Commonwealth of Independent States (CIS).

e. Language Barrier: Language barrier also obstructs trade expansion between Pakistan and CARTs as generally the local don't understand and speak English. For communication purpose services of the professional translators are needed.

f. Bureaucratic Hurdles: Delays and red tapism are common in government system of Tajikistan and Uzbekistan and Pakistani exporters have to go through lengthy and cumbersome process for simple registrations or documentations.

g. Documentation Process: Requirements of bioequivalence or biosimilar compliance from exporters of pharmaceutical products by the CARs is another impediment as the exporters are unable to afford its cost of US$ 250,000 to US$ 500,000 (TDAP, 2021).

h. Most of the Central Asian states require packaging in their local languages or Russian language whereas Pakistani exporters usually use English language printed on the packaging (PBC, 2021).

The Afghan Corridor

Afghan Corridor, the only logistics route for Pakistan's exports to Central Asian Republics is a major impediment in expanding the regional trade. Alternative routes not only increase transit time but result in high transportation cost. Absence of direct flights from Pakistan to certain courtiers of Central Asia does not allow the trade of perishable goods (PBC, 2021). The nearest trade route from Pakistan to Uzbekistan is Karachi to Quetta and to Chaman and entering into Afghanistan connecting Kandahar to Kabul to Mazar-i-Sharif before entering into Uzbekistan at Termez. Similarly, the trade route between Pakistan and Kazakhstan is the Regional Cooperation for Development Highway which passes through Afghanistan and reaches Almaty Kapshagay Highway in Kazakhstan (PBC, 2021). Being unsafe and unreliable trade route, Afghanistan corridor creates several problems during trade transit. A stable and safer region is important for bilateral trade between Pakistan and Uzbekistan and other regional countries (PBC, 2017).

Conclusion

The trade potential between Pakistan and the Central Asian Republics (CARs) remains largely untapped despite shared cultural affinities and comparative advantages. Both sides have much to gain from increased trade, with Pakistan able to access CARs' abundant natural resources and the CARs gaining entry to Pakistan's markets and the Eurasian Economic Union. However, several obstacles have hindered the development of trade relations. Foremost among these challenges is the volatile security situation in Afghanistan, which serves as the most convenient transit route to CARs. Stability in Afghanistan is pivotal for fostering trade with CARs.

Furthermore, various other impediments, including currency exchange issues, banking and transaction complexities, tariff challenges, language barriers, and the absence of direct flight connections, have hindered trade relations. Efforts to improve connectivity, particularly through initiatives like the China-Pakistan Economic Corridor (CPEC) and the establishment of the Gwadar deep-sea port, offer potential solutions to these obstacles and could facilitate trade among Afghanistan, CARs, and Pakistan. In summary, enhancing trade relations between Pakistan and CARs necessitates addressing security concerns, mitigating logistical barriers, and bolstering connectivity through infrastructure projects such as CPEC. Both sides stand to benefit significantly from closer economic cooperation, underscoring the importance of seizing the opportunity for mutual advancement.

Way Forward

Pakistan's trade with Afghanistan and CARs has a mixed history of increase and decrease over the decades. However, Pakistan needs to explore new dimensions to expand its trade relations within the region and other countries with low trade volume particularly the CARs. Following are some of the recommendations for improving of Pakistan's trades particularly exports.

Firstly, Pakistan needs extensive efforts, both on economic and political fronts to maintain the existing markets and make stringent efforts to explore new markets, particularly in South Asia, Central Asia and the Middle East to broaden the base of products through negotiation. Secondly, Pakistan has absolute advantage in agricultural production, in the production of sports goods, surgical instruments, textiles, defense-related production, leather goods, basic electrical appliances and cement which can be exported to Afghanistan and CARs. Thirdly, the development of Wakhan Corridor can improve regional connectivity and has a huge trade benefit for adjoining countries; Afghanistan and CARs.

Fourthly, transit agreement with Uzbekistan, Kazakhstan and Tajikistan may be finalized soon and tariff may be rationalized to increase exports to CARs. Additionally, banking facilities in CARs should be provided to remove hurdles of currency exchange and the exporters especially SMEs must be provided loans and subsidies to encourage the trade in new market in CARs. Trade exhibitions in Tajikistan, Uzbekistan and other countries may be arranged specially on edible agricultural products, textile, chemical and allied products will help in expanding trade opportunities in these countries. Moreover, tourism and cultural and educational exchange programs shall be launched to develop a soft target in growing young population of Uzbekistan, Tajikistan and other Central Asian Countries. The same must be facilitated by direct flights.

Lastly, Pakistan shall focus on construction of road and railways infrastructure in Afghanistan and extend the CPEC project to improve trade by reducing time and cost of transportation. This will allow Pakistan a cost-effective trade with CARs.

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