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# INSIGHT

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## PAKISTAN'S ALTERNATE ECONOMIC PARADIGM BASED UPON REGIONAL TRADE AND CONNECTIVITY

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Pakistan's location at the convergence of the old Silk Route makes it a unique hub for connecting significant economic and resource-rich regions in the growing multipolar global environment. However, geopolitics poses a high challenge to Pakistan's vision of connectivity. Of Pakistan's neighbours, Afghanistan is isolated, Iran is under sanctions, Pakistan's relations with China are under scrutiny by the West, and with India's ideological mindset bilateral relations are unlikely to improve. Moreover, the Asia-Pacific region being the focus of US-China competition, the smaller states are being forced to become a part of major power contestation. So, how should the smaller states like Pakistan protect their national interests in the geostrategic environment?



The only option in a transient world of major power contestation is to come together through connectivity, interdependence and partnerships. Pakistan and regional countries must create their own paradigm for regional trade and connectivity instead of becoming hostage to a regional paradigm as a result of great power competition. To create this paradigm, economic cooperation, investment and connectivity between Pakistan and Central Asian Republics, Iran, Turkiye and Afghanistan is absolutely critical. The National Security Policy of Pakistan 2022-2026<sup>1</sup> 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 neighbours 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.

The trade potential between Pakistan and its western neighbourhood particularly with the Central Asian Republics is forecasted at several billion dollars by the World Bank and other institutions.<sup>2</sup> 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. Bilateral trade between Pakistan and CARs, however, has remained less than \$ 1billion for the past several years. Pakistan has expanded its worldwide trade and transit routes after signing the TIR (Transport Internationaux Routiers), a UN Convention, in 2015 and making it operational in 2018.<sup>3</sup> The TIR Carnet is a permission to transport goods and cargo on land/train routes across international borders. The ECO members are the highest beneficiaries as most TIR Carnets originate from ECO member countries, particularly Iran, Turkiye and Azerbaijan. Pakistan has so far issued very few (34) Carnets to two Pakistani carriers, one being the National Logistics Cell (NLC) which is transporting goods to Turkiye and Azerbaijan via Iran on land route that takes about a week. For regional and international trade, Pakistan and regional countries still have to meet international standards of transport legislations, ensure smooth visa processes, customs procedures at borders and terminals and install a risk management system to identify risky cargo from the non-risky ones.

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Regional connectivity through Iran is still not fully operational as Pakistan's commercial banks are hesitant to issue Import and Export Forms (essential for clearance of shipping documents under Letter of Credits payments) although the State Bank of Pakistan has clarified that transportation through a sanctioned country does not entail sanctions on the Carrier. Even European countries are using TIR system for transit trade with CAR countries (appr. \$100 billion annually) through Iran. Thus, reservations about transit trade through Iran are misplaced. Iran itself is a major regional beneficiary of TIR as billions of dollars of merchandise transits through the country for other destinations. After the devastating earthquake in Turkiye and Syria, NLC delivered 21 trucks of relief assistance through Iran on 25<sup>th</sup> February 2023.<sup>4</sup>

***“Pakistan and regional countries must create their own paradigm for economic cooperation and regional connectivity instead of being hostage to a regional paradigm as a result of great power contestation.”***

Afghanistan has a natural capacity to become a regional transit crossroad, but it cannot benefit from its potential geographical location without regional cooperation and regional agreements. The security situation in Afghanistan is a challenge although it has eased after the US troop withdrawal in August last year. The Central Asian Republics are keen to complete regional projects such as TAPI, CASA 1000, and road and railway links through Afghanistan. The only impediment is non-recognition of the current government. To keep Afghanistan out of regional transportation networks only serves as the broken link in the connectivity chain. A regional approach will have to be adopted by the neighbouring countries of Afghanistan to go ahead with completion of regional transportation and energy projects.

Yet another challenge is the private sector itself in Pakistan. The business community heavily depends on facilitation by the government and avoids risk taking. The general lack of will and consensus amongst all stakeholders has kept regional transit trade on the slow track. Lack of information about the potential for regional trade and connectivity is another major issue.

These challenges can be addressed collectively by Pakistan and the countries in its western neighbourhood. In this context, following key measures are suggested:

- Robust implementation of international transport conventions TIR, CMR, ADR, etc., implementation of multilateral agreements ECO-TTFA and QTTA; finalization of PTAs/FTAs, transport and transit trade agreements with regional countries; improve systems at place to facilitate cross border trade (sea, air, land), expand warehouse and cold storage facilities; and reduce bureaucratic delays and corruption in cross border trade.
- The policy and regulatory environment, high transportation costs, poor infrastructure, limited customs facilitation at border crossings are all surmountable challenges, as the key transit routes through Afghanistan are presently in reasonably good condition and the overall customs and trade facilitation is improving.
- The reliance on discretionary risk management and resulting rents lead to over-inspection, delays, additional costs, and cargo damages because of mishandling during physical inspections. A risk management system should be installed at the borders to identify risky cargo from the non-risky ones that would cut delays.
- Systematic coordination amongst the border agencies will also add to efficiency at the borders.
- Export-related economic operations conducted by the private sector require closer coordination and facilitation from the public sector regulators particularly from Pakistan Customs, Federal Board of Revenue, relevant federal ministries and provincial departments, and the State Bank of Pakistan.
- Public awareness campaigns through road shows, single or multi-country exhibitions, within the business circles in Pakistan and other countries, will help the private sector specially SMEs to market and export their products.
- The banking related challenges can be resolved through bilateral or multilateral agreements to establish uniform banking and trade practices and opening of bank branches in each other's territories to promote regional trade.
- Existing border markets on Pakistan's borders with Afghanistan and Iran should be expanded with facility for barter trade.
- Trade in regional currencies is permitted, but these transactions do not add to a country's foreign reserve unless they are converted to US dollars. Barter trade and commodity trade are always an alternative to consider as a substitute to dealing in regional currency, and they come with a number of benefits which should be explored.

It has not been easy to change Pakistan's direction from geo-strategy to geo-economics. Strategic developments in Pakistan's neighbourhood have occupied most of its resources to maintain a regional balance of power. Pakistan cannot afford to enter into transactional partnerships once again. At the same time Pakistan can neither insulate itself from the impact of major power competition nor ignore to focus on building economic relations with new partners that it shares cultural affinity with. The recent agreement under China's patronage on 10

March by Saudi Arabia and Iran to resume diplomatic relations after seven years is a welcome development. It offers immense opportunities for Pakistan to realise its geo-economic vision and consolidate trade and connectivity efforts with countries to its west including Iran. Therefore, while recognizing the challenges, Pakistan must find ways and means to construct its own regional paradigm for economic cooperation, trade and connectivity.

## References

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<sup>3</sup> World Road Transport Organisation, TIR goes live in Pakistan, IRU, 19 Apr 2018. <https://www.iru.org/news-resources/newsroom/tir-goes-live-pakistan>

<sup>4</sup> "21-truck relief convoy from Pakistan reaches Turkiye", Radio Pakistan, 26 February 2023. <https://www.radio.gov.pk/26-02-2023/21-truck-convoy-carrying-275-ton-relief-goods-arrives-in-malatya-turkiye>