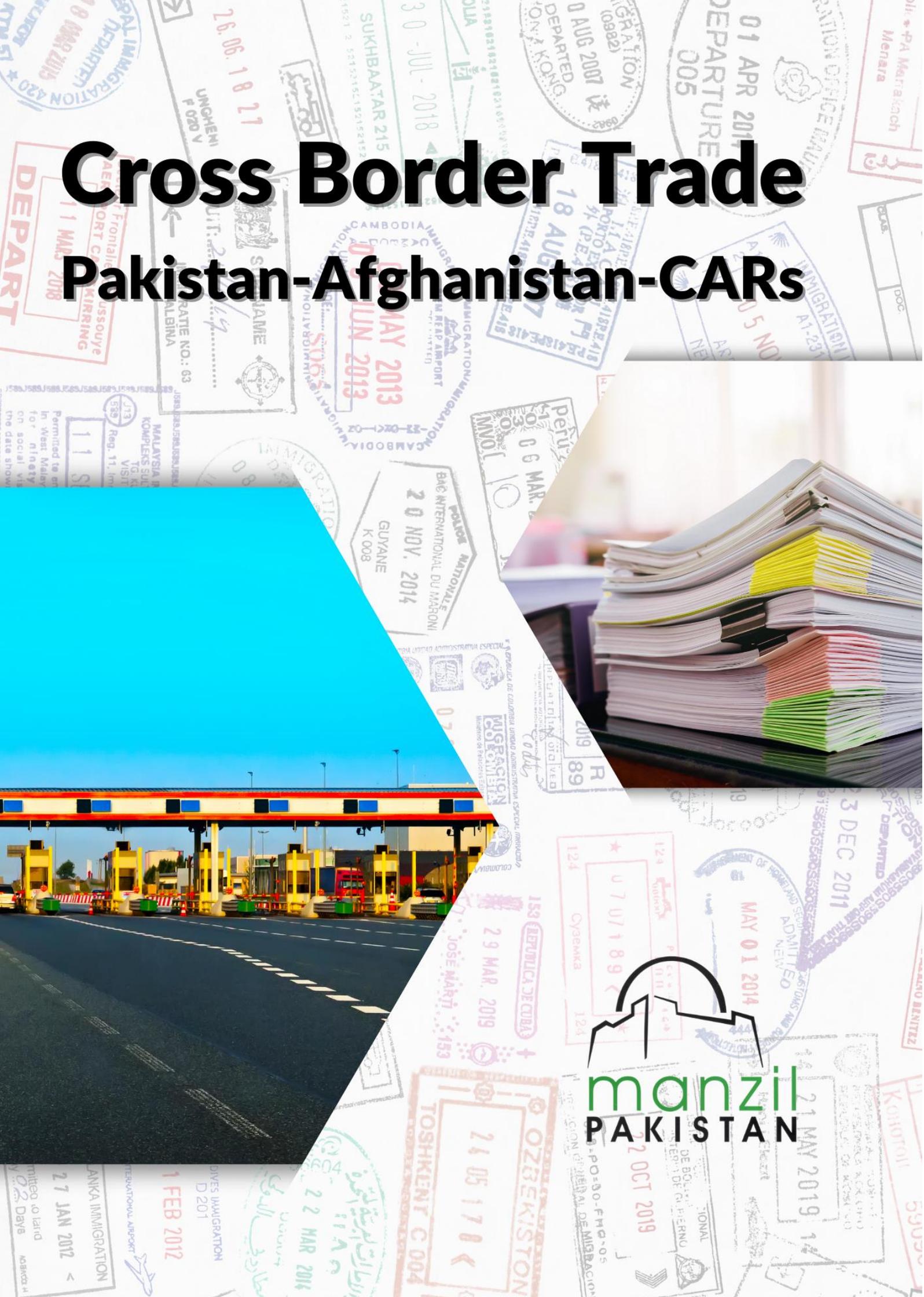


Cross Border Trade

Pakistan-Afghanistan-CARs



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Introduction

There are a lot of common features that are shared by the economies with the most efficient trading environments. The most common features that enhance the trading atmosphere include electronic exchange of information with customs and other control agencies and use of risk-based assessments to limit physical inspections. It is also observed that these economies tend to trade within customs unions or engage in other forms of bilateral and multilateral trade agreements, further curtailing the time and cost for complying with border formalities. The handling of the shipment can change substantially depending on the type of border. In economies with better cross-border trade, efficient and cost-effective practices can be observed in both seaports and land borders.

Trade facilitation has been integral to international trade because it reduces trade costs and raises the efficiency of moving goods across borders. Broadly speaking, trade facilitation simplifies, harmonizes, and standardizes trade procedures to expedite the flow of goods [1]. The most commonly observed and suggested Trade facilitation measures are as under:

Electronic Submission to Customs

Electronic systems for filing, transferring, processing and exchanging customs information have become important tools for managing flows of information in complex trading environments. The most advanced web-based systems allow traders to submit relevant documents and pay duties online. When implemented effectively, such systems provide long-term benefits: they save time and money while streamlining procedures, limiting direct interactions with government officials and reducing opportunities for bribery. Furthermore, the economies can benefit from customs electronic data interchange systems as they can help governments promote cross-border trade, combat fraud and track statistical information on foreign trade transactions. [2]

Launching electronic single windows

Countries are taking a step further to electronically connect but all agencies involved in international trade through an online single window system. The system is supposed to allow traders to file standard information and documents through a single-entry point to fulfill all import, export and transit-related regulatory requirements. The single window then shares relevant information with all parties involved in trade, including private participants such as banks and insurance companies, as well as public agencies including immigration and vehicle registration authorities.

Due to the complex nature of electronic interchange systems, national governments and international organizations face numerous obstacles in coordinating the implementation of comprehensive single window platforms despite the substantial long-term benefits. [2]

Using risk-based inspections

Overly strict inspections can be a serious obstacle to efficient trade. Over the years, customs administrations around the world, working in coordination with other border control agencies, have developed systems for establishing risk profiles that allow them to perform physical inspections in proportion to potential risks of consignments. Investing in equipment is another way to help expedite the processing of cargo.

The use of scanners is also among the measures taken by the countries to limit the need to physically open containers. In some cases, however, inefficient use of scanners has led to an additional burden on traders, as customs agents often scan all containers, creating delays and incurring mandatory scanning fees on traders. [2]

Deepening regional cooperation

Deepening regional cooperation through agreements has been observed to be helpful for eradicating the obstructions in cross-border international trade. It may also lead to the creation of regional markets, generating economies of scale for local firms and increasing competition, increasing trade flows between cooperating partners, improving processes at the borders, correcting information asymmetries and regional externalities, and interconnecting transportation. [2]

Upgrading trade logistics infrastructure

Inadequate infrastructure is one of the main burdens in international trade, and it can severely impact trade facilitation. The importance of infrastructure is most evident when considering the efficiency of ports. Automation improves the reliability, predictability, safety and competitiveness of operations. [2]

The UN Global Survey on Digital and Sustainable Trade Facilitation has a methodology of calculating the trade facilitation in a country by observing the measure taken by a country in this regard. The Survey leads to the production of a Global Report and Regional Reports, which aim at providing insightful information for policy makers to harness trade as a key means of implementation of the 2030 Agenda for Sustainable Development. [3]

Cross Border Trade Facilitation in Pakistan

Like all the countries striving to develop their economies and cross-border trade, Pakistan is also taking significant measures to facilitate cross-border trade and to curb the losses therein. Pakistan did not have the most optimistic image in terms of cross border trade smoothness but the country is determined to change that outlook. Pakistan's overall trade facilitation score in 2023 stood at 70.97% while the country's score in Cross-Border Paperless Trade stood at 44.44%.



Source: UNTF survey

Pak-China border Trade

Khunjerab Pass is a mountain pass situated at an elevation of 4,693 meters (15,397 feet) above sea level. It is located in the Karakoram and is positioned on the southwestern border of China, within the Xinjiang region. The Khunjerab Pass holds several distinctions, including being the highest paved international border crossing globally and serving as the highest point along the Karakoram Highway.

Despite the decades old, friendly ties between the two countries, cross border trade has faced a number of issues that need to be addressed for a more sustainable cross border trade.

- Absence of Trade Agreement with the Trading locale

There is no government level trade agreement between Government of Gilgit Baltistan and Government of China that can facilitate Pakistani border traders. [4]

- Over Inspection and Low Quality Products

One of reasons of low demand of our product in China is because of standardization issue with Pakistani products. Our products are not up-to the international standards whereas, China is currently following quarantine laws strictly. During inspection of Pakistani products at border, most of them damage due to low quality of printing and packaging. [4]

- Weather Obstacle

The Khunjerab Pass remains closed for four months (December-March) each year due to heavy snow falling the area. More recently the Chinese government had closed the Khunjerab Pass from Nov 30 2024 for four months in winter and the Pass was opened temporarily on 2nd January 2024 for 14 days for trade activities [5].

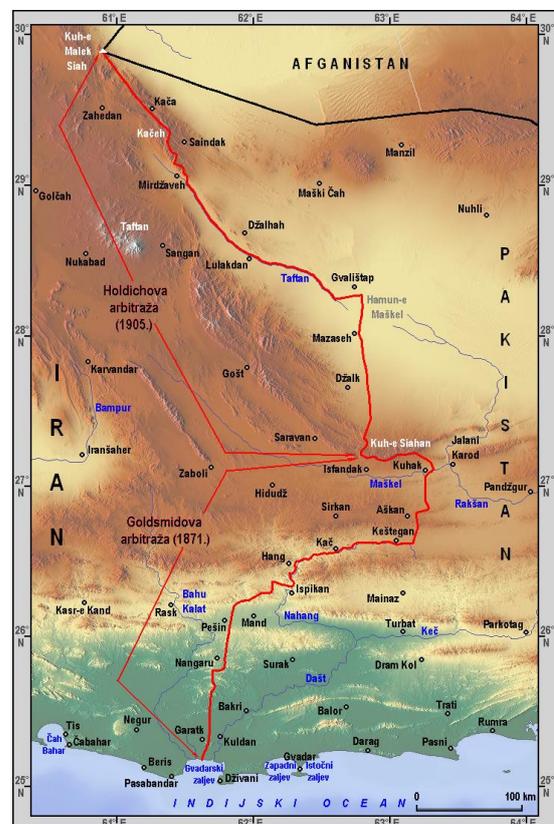
- Absence of Chinese Consulate in GB

In the absence of Chinese consulate in GB, the local traders find hardships regarding processing of their visas. They have to travel to Islamabad for completing visa formalities, which causes strain on time and resources.

Pak-Iran Border Trade

Pakistan-Iran shares four official border crossings. The two official border crossings Taftan and Gabd can be used for the pedestrian as well as for the trade. While Mand and Chadgi are only reserved for the trade. The two countries have been striving to enhance the bilateral border trade but there are some impediments therein that need to be addressed.

The biggest obstruction in the way of sustainable trade with Iran are the international sanctions imposed on the country. The first sanctions were imposed by the United States in 1979, which were lifted in 1981, but they were re-imposed by the United States in 1987. The sanctions were expanded in 1995 to include firms dealing with the Iranian government. Pakistan, being a US ally, plays carefully around the US and European interests. In some cases, one can say that over cautiousness kills any chances of trade enhancement between the two countries. The over restrictions on trade often lead to illicit activities like



in September 2023 when Pakistan cracked down on the smuggling of Iran origin oil which led to protests in the border areas [6].

Pak-India Border Trade

To Pakistan's east is India, which has a 2,912 km border with Pakistan. Pakistan and India have a trade potential significant enough to change the economic trends on either side of the border. The hindrances in the trade between the two countries are no secret.

The biggest impediment faced by the bilateral trade is the political turmoil and the trust deficit between the two countries for the reasons that are well known. The bridging of this Deficit is not easy, will take some time and will depend upon a series of positively reinforcing measures taken unilaterally by both sides in a consistent manner. There is a palpable fear of collective punishment and sanctions on Trade against Pakistan if something goes wrong on the security and political front [7]. The South Asian political parties change their stances in accordance to their power status They may cause the hard work to go down the drain just for petty point scoring.

Pak-Afghan Border Trade

The Pakistan-Afghanistan border or Durand Line stretches 2,640-kilometers (1,640-miles). It's the result of an agreement between Sir Mortimer Durand, a secretary of the British Indian government, and Abdur Rahman Khan, the emir, or ruler, of Afghanistan [8]. Pakistan's trade with Afghanistan had never been well documented but it has touched rock bottom. Pakistan cracked down on the illegal border crossing and smugglings from the Pakistan-Afghanistan border in the second half of 2023, which resulted in the bilateral trade becoming stagnant. There are some obstacles in developing the transit trade between the two countries.



- Security risks

It is no secret that the biggest problem faced by Afghanistan that causes its economy to plummet is the security situation of the country. The security situation impacts trade both in Pakistan and Afghanistan. An unwanted security incident leads to perishable items being stopped at the border. [9]

- Lack of Facilities at the Border Checkpoints

The border crossing checkpoints lack basic facilities like trained, Pushto speaking and hospitable staff. Healthcare centers and emergency services should also be maintained at border crossings. [9]

- Too Many Clearances

There are a lot of security clearance issues at trade points like dealing with customs, FIA, IB, and ISI. There must be proper utilization of a single force mechanism to deal with this division of the security mechanism at the border [9]. Registration of certain products including Pharmaceuticals in Afghanistan takes a lot of time often years. [10]

- Customs Procedures

Customs practices on the Afghan side of the border are arbitrary and far from optimal. Afghan officials evaluate the products arbitrarily at Gumrak border. The allowed Truck weight keeps varying for various reasons. [10]

As of January 2024, Trade between Pakistan and Afghanistan has reached a stalemate following prohibition of transit trade in specific goods, imposition of 10% processing fee on ordinary commodities and conversion of revolving insurance guarantees into bank guarantees. [11]

Cross Border Trade in Central Asian Republics

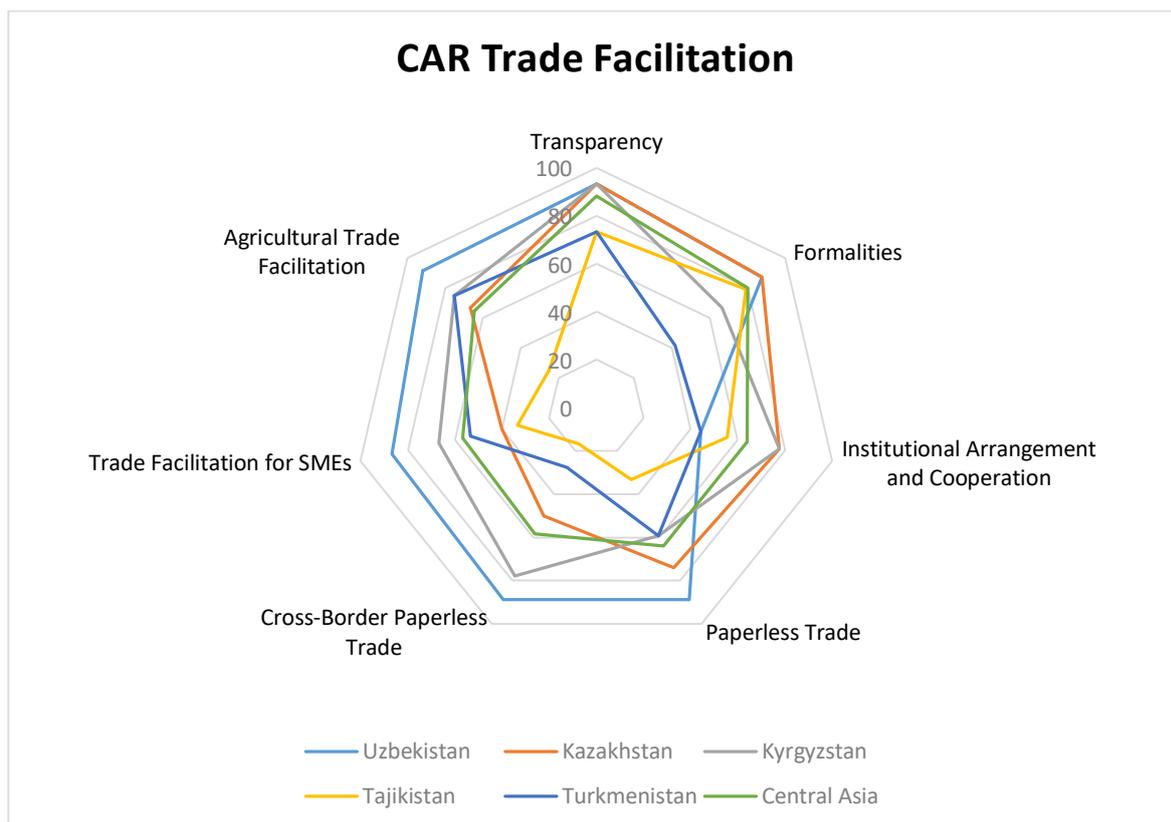
Central Asian '-stan' countries, namely, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, have chosen various transition paths from centrally planned to the market-based economic system, but share the same problem since their independence, in the early 1990s: high trade costs due to land-locked geographical environment. The Republics suffer from poor hard-infrastructure and insufficient soft-infrastructure. On top of the geographical factor, the unfortunate economic infrastructure legacy from the Soviet Union has led to high trade costs in the region. The high cost of trade eventually undermined the competitiveness of both domestic and foreign exporters. The Central Asian region, after the Soviet collapse, was left with a lack of trade-favorable infrastructure. The land-locked feature along with inefficient infrastructure has increased trade costs due to the higher logistics expenses. On top of these existing issues, the Central Asian governors, except the Kyrgyz Republic, postponed trade-liberalizing reforms after their independence. [12]

Trade costs in the Russian Federation and Central Asia remained high but have declined dramatically and steadily over the past decade, putting them nearly at par with those of the South Asian economies. [13]

The UN Global Survey on Digital and Sustainable Trade Facilitation in CARs

Uzbekistan's overall Trade Facilitation score stood at 84.95%. Among the indicators, Uzbekistan's score lagged behind the average score of the Central Asian Republics in only one indicator which was Institutional Arrangement and Cooperation. Uzbekistan's score stood at 44.44% while the average score of the CARs in the indicator stood at 63.88%. Uzbekistan had a phenomenal score in paperless trade and Cross-Border Paperless trade standing at 88.88% at each indicator. Uzbekistan's scores in Agricultural Trade Facilitation, Trade Facilitation for SMEs, Cross-Border Paperless Trade and Cross Border Paperless Trade stood the highest among the CAR countries. Kazakhstan's overall Trade Facilitation score stood at 76.34%. Kazakhstan's score in Women in Trade Facilitation stood the highest in the CARs. Kyrgyzstan's overall score in Trade facilitation stood at 72.04% and the country's score in the Institutional Arrangement and Cooperation was the highest among its Central Asian peers. Tajikistan's and Turkmenistan's overall scores stood at 50.54% and 49.46%. The indicators that are basis of the evaluation can be found in the link in the footnote¹.

¹ <https://www.untsurvey.org/region?id=ESCAP>



Source: UNTF Survey

Barriers to Cross-Border Trade' Development in CARs

The CAR region has multiple borders representing diverse communities, with unique historical legacies and sociopolitical environments.

Border areas play an important role in the cross-border political economy and people-to people contacts. Dynamics in borders are contingent on institutional frameworks, reflecting the interest of national policies, technical and physical barriers, and standards held in different countries. [14]

Although CAREC borders have unique characteristics, they have certain common barriers to enhanced people's movement across borders, such as the following:

Inadequate physical infrastructure

Central Asian Countries countries are characterized by vast distances with difficult access, and many of the region's borders are equally hard to cross due to mountainous or remote terrain. These factors contribute to high costs of physical connectivity in the region.

Restrictive visa and border control procedures

Each CAREC member country uses its own system of visa and border entry arrangements. Visa dispensing is subject to various requirements between CAREC countries and depends on the origin of the visitors. Significant progress has been made by many CAREC countries in reducing the entry requirements for foreign and CAREC country visitors. For example, Uzbekistan launched the 30-day visa waiver to 45 countries (from 1 February 2019), and Pakistan plans to ease visa restrictions for visitors from 55 countries. In addition, the system of border controls at almost all land border crossings frequently involves lengthy queues and processing times. [15]

Case of Afghanistan

The decades of never ending wars and continuous terrorist attacks, along with other long standing problems, have left the economy and trade of Afghanistan crippled. The country is trying different strategies to overcome the obstacles faced in the path of trade facilitation. Afghanistan's overall Trade facilitation score in the year 2023 stood at 43.01%. The country struggled in the area of Paperless Trade and Cross-border Paperless Trade securing only 18.5% and 16.7% in the fields respectively. [16]



Source: UNTFsurvey

Following are the some of the biggest problems faced by the cross-border trade of the country:

Security/Politics

The foremost issue faced by Afghanistan in the way of sustainable trade facilitation, is the security and political uncertainties. The uncertainty discourages the investors to trust the system of the country. The main exports of Afghanistan have been fresh fruits, medicinal herbs, saffron and other traditional Afghan exports such as carpets. In the recent past, the fresh fruits sector has suffered significant losses due to delays at the Pakistan border stemming from political challenges [17].

Infrastructural Facilities

The Government of Afghanistan has invested billions of dollars in roads construction, transit corridors, ICT, and border-crossing points to facilitate Trade between CARs and Subcontinent, the results have not been satisfactory [18].

Alternative transportation modes such as railroad are beginning to emerge for connecting the country with China, Europe, middle eastern countries. One of such modes is Khaf-Sangan-Herat Railroad making up approximately 191 km railway from eastern Iran to western Afghanistan's Herat province. Afghanistan's Minister of Finance Eklil Hakimi said the railway would boost the volume of trade between Iran and Afghanistan from USD2m annually to USD6m per annum [19].

Trade/Transit Facilities (TF)

It is well known that trade and transport facilitation measures can reduce transactional costs through simplified procedures and the use of modern technology. This task has become more complex in light of increasing security concerns faced by Afghanistan.

Inadequate legal/Procedural framework

Inadequacy in procedural framework is also among the problems haunting the cross-border trade regime of Afghanistan. Lack of modern and required laws & rules, shortage of skilled and professional staff, less awareness about transit, customs and trade issues, lack of transparency and weak law enforcement [18].

Lack of Border Coordination & Harmonization

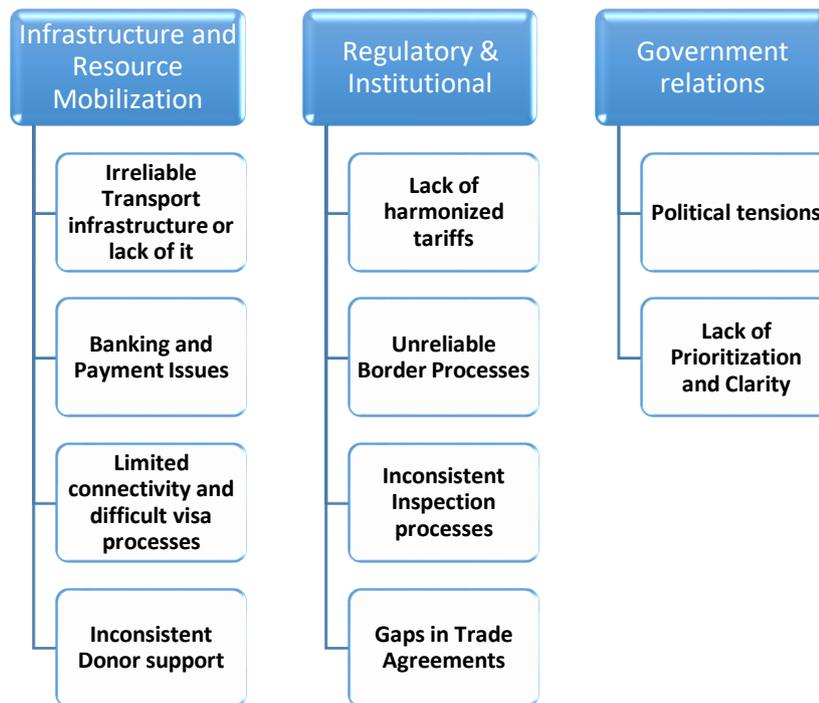
The simplification, standardization and harmonization of procedures, especially across the border are the important ingredients of trade facilitation.

However, it was found in the TF Assessment Needs Workshop sponsored by UNCTAD in Afghanistan, that the country's uncoordinated existing border crossing point procedures making crossing Afghan borders slow, burdensome and restrictive [17].

Afghanistan to CARs

Afghanistan shares its border with three Central Asian countries i.e. Turkmenistan, Uzbekistan and Tajikistan, however, trade activity remains extremely limited. Afghanistan's imports from Central Asia overwhelm the exports. A large chunk of Afghanistan's trade with its neighbors is undocumented as it is informal. A study of Afghanistan's border trade with the neighboring CARs revealed that the trade with Uzbekistan and Tajikistan passes through only two crossing points, namely, Hairatan and Sher Khan Bandar respectively. In general, border trading was found to be underdeveloped on account of several obstacles to the free flow of people and goods [20]. The first shipment reached Pakistan from Uzbekistan via Afghanistan in 48 hours [21].

There are various impediments in the regional trade among the CARs, Pakistan and Afghanistan. Some of which are mentioned below:



Source: Central Asia, Afghanistan and Pakistan Trade Review 2019 (World Bank)²

Pakistan's Path to Uzbekistan Border Trade

Pakistan has been striving to form trade ties with the Central Asian Republics for a while. But if Pakistan wants to trade with the CARs, it must travel through Afghanistan despite all the challenges. In early 2021, Pakistan made a breakthrough in the realm of trade with the CARs when Pakistan and Uzbekistan exchanged goods through war-torn Afghanistan for the first time which was hailed as a milestone for regional economic integration.

A Pakistani cargo truck transported medicine from the port city of Karachi to the Uzbek capital via Kabul. An Uzbek cargo truck then took a shipment of leather products from Tashkent and arrived at the Afghan-Pakistani border [21]. The trade route can be seen in the figure in **Appendix A**.

Conclusion

In short, the challenges faced in the transit trade and border trade in most cases are common. Institutional obstructions, less than optimal cargo inspection practices and lack of bilateral understanding are the most common issues faced by the countries in the region. The first shipment from Uzbekistan arrived in Pakistan via Kabul after taking **48 hours** in transit. In terms of Trade facilitation score, Uzbekistan is way ahead of its Central Asian peers. The country has the best score in paperless trade and cross-border paperless trade among the CARs. Since Pakistan's trade with the Central Asian Republics is dependent on the Trade status and facilitation in Afghanistan, it is imperative that Pakistan enters into new trade agreements with Afghanistan, fully implement the prevalent agreements and join hands with Afghanistan for regional trade facilitation.

² <https://documents1.worldbank.org/curated/en/163831604904149823/pdf/Central-Asia-Afghanistan-and-Pakistan-Trade-Review.pdf>

Appendix A



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