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Advancing Agrifood Trade between Kyrgyzstan and Pakistan

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Current Situation and Trends

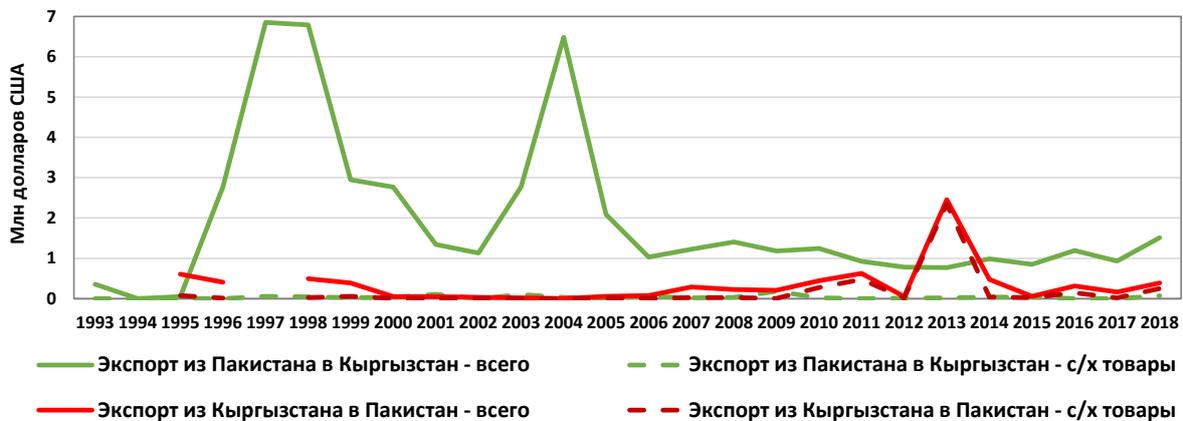
The Kyrgyz Republic (Kyrgyzstan) and the Islamic Republic of Pakistan (Pakistan) are close neighbours: the distance between these two countries' capitals is about 1,000 km. Despite their geographical proximity, economic ties between the two countries are weak, and bilateral trade flows are minimal (Figure 1); in 2018, the trade turnover between both countries was below 0.1% of total trade turnover for both Kyrgyzstan and Pakistan. This reflects a more general situation in trade between Central Asia and South Asia. However, since Kyrgyzstan and Pakistan aspire to diversify their product and geographical trade structure, advancing new trade opportunities among South and Central Asia neighbours seems obvious.

In addition to the opportunities in bilateral trade between Pakistan and Central Asian economies, there are also important transit opportunities for both parties as Kyrgyzstan could become a gateway for Pakistan to the markets of Russia and other Eurasian Economic Union members, while Pakistan offers the services of its seaports (e.g. Karachi) which are geographically the closest seaports for Kyrgyzstan as well as for some other Central Asian countries.

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Figure 1. Trade between Kyrgyzstan and Pakistan



Source: UN Comtrade database

In both countries, agriculture is one of the largest sectors of the economy (11.6% of GDP in Kyrgyzstan and 22.9% of GDP in Pakistan in 2018, source: WDI). Agrifood products constitute a significant part of total exports (21% and 13% of total exports of goods in Pakistan and Kyrgyzstan, respectively, source: UN Comtrade). As of 2018, the specializations of agrifood exports in the two countries were mostly complementary: the three key agrifood exports for Pakistan were rice, sugar and wheat, while for Kyrgyzstan, these include kidney beans, cotton fibre, and bakery and confectionery products. Consequently, there is potential room for mutual trade in agrifood products. However, as Figure 1 shows, such trade is currently almost non-existent.³

Lack of market knowledge on both sides is one reason for low levels of bilateral trade. Historically, Pakistan mostly traded with Europe, and Kyrgyzstan traded agrifood products with Russia and other former Soviet republics and, later, with Turkey. Today, Central Asian states have little or no store of knowledge of the consumer preferences in South Asia, nor established and trustworthy business contacts or the capacity to assess the benefits and costs of trade with their South Asian neighbours and vice versa. Since major trading companies orient themselves towards traditional markets, exploring new markets is left to smaller and less capacious traders. There is also a language barrier: few Pakistani business people know enough Russian to operate in Kyrgyzstan and Central Asia; the same is true about Kyrgyzstani business people's English knowledge. Trade also suffers from missing economies of scale. Small-sized and low-frequency consignments, fixed trade costs (market research, compliance with the importing country's technical, labour and other regulations etc.) consume a large part of trade margins. In a way, the insufficient market knowledge and lack of economies of scale reinforce each other and form a vicious circle.

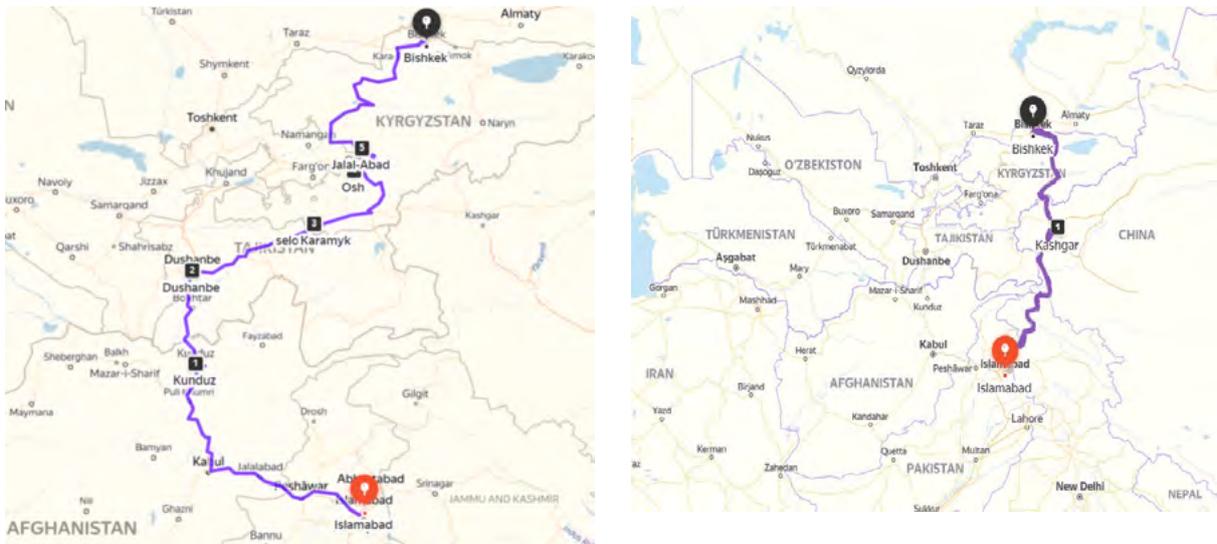
Logistics is another major challenge for trade between Pakistan and Kyrgyzstan. Existing transportation routes between South and Central Asia are far from straightforward. Since

³ The statistics may not be entirely accurate. For example, Pakistani mandarins are widely sold at Bishkek markets and the regions that are not reflected in country reports.

Central Asia is landlocked and there are no railway links between the two regions, sea transportation is excluded. Roads are the primary transportation mode for trade. The most frequently used route between Pakistan and Kyrgyzstan is through the conflict-affected Afghanistan and Tajikistan (Figure 2a). Other automobile road routes go via Afghanistan, Iran, Turkmenistan, Uzbekistan and only then to Kyrgyzstan.

Figure 2. Trade routes between Pakistan and Kyrgyzstan

a) Existing route via Afghanistan and Tajikistan b) Potential route via China



Sources: Interviews with logistics companies, Yandex Maps

An interesting potential alternative route is emerging because of road construction projects in Central Asia, Xinjiang (China) and Pakistan. The rehabilitation of the Bishkek-Naryn-Torugart road⁴ (a road within the framework of the CAREC transport corridor development agenda) has dramatically improved transport access between Kyrgyzstan and Xinjiang. The development of road networks in this Western Chinese province coupled with the works on the China-Pakistan Economic Corridor (CPEC), part of the Karakoram Highway, allows for arguably the shortest possible unimodal route from Pakistan to Kyrgyzstan. (Figure 2b). Until recently, transit through the territory of China was legally impossible for both Kyrgyz and Pakistani trucks. The accession of China to the International Road Transport Union with its TIR international customs transit and guarantee system (Kyrgyzstan and Pakistan joined this system earlier) creates opportunities for the fastest possible automobile transit on the way between Central and South Asia. The implementation of these opportunities depends on equipping border crossing points in all three countries with the required information systems and establishing smooth customs clearance practices. The three governments and business communities must also make an effort to solve the remaining issues that would make this transit technically possible and economically viable.

⁴ Border crossing point on the Kyrgyz-Chinese border.

Government Policies

Both countries' governments promote a trade development agenda and see trade expansion and diversification as important policy goals. Both countries are WTO members, and their applied most favourable nation (MFN) import tariffs are not very restrictive. The applied simple average MFN tariff rate for imports of agricultural goods is 9.2% in Kyrgyzstan and 13.5% in Pakistan⁵ (source: WTO). Both countries are active participants in regional preferential trade agreements. Kyrgyzstan is a member of the Eurasian Economic Union (EAEU, together with Kazakhstan, the Russian Federation and two other countries) that implies customs union of the member states. Kyrgyzstan also has a free trade regime with some other former Soviet republics (including Tajikistan and Uzbekistan) within the CIS Free Trade Area framework. Pakistan is a member of the South Asian Free Trade Area (together with seven other South Asian economies) and has free trade agreements with other countries, including China.

A legal basis for transit trade between Central Asia and Pakistan via China has been established with the conclusion of the Quadrilateral Traffic in Transit Agreement between China, Kazakhstan, Kyrgyzstan, and Pakistan signed in 1995. Later, a few additional protocols to the agreement were adopted. Tajikistan has expressed an interest in joining the agreement.

The governments of Kyrgyzstan and Pakistan have made significant investments in transport and border crossing infrastructure development. Kyrgyzstan rehabilitated and is building several strategic roads connecting the country with all its neighbours. These road projects were financed by concessional loans provided by the ADB, China and other bilateral and multilateral donors. In cooperation with China, Pakistan is now developing the China-Pakistan Economic Corridor which, now includes a new port at Gwadar on the Arabian Sea.

While investing heavily in hard infrastructure development, the two countries' governments do not seem to make any comparable effort in establishing and enforcing appropriate soft infrastructure for trade. These include customs and other trade facilitation systems, visas for truck drivers and creating an enabling environment for businesses to operate the trade between Pakistan and Central Asia.

Recommendations

Trade in agrifood products between Kyrgyzstan and Pakistan has been negligible. In the past, it faced formidable logistical challenges. However, new transportation corridors open considerable opportunities for such trade to develop given the complementary of their exports. Several key measures and policies need to be taken by governments and other stakeholders for trade to advance. In this regard, the following is offered for consideration:

- Continue the development of the transport infrastructure connecting the two countries and provide the necessary resources to maintain it fully operational;
- Work with the Chinese authorities on making the TIR facility fully operational and the transit of foreign trucks via the territory of China uninterrupted; this includes the issuance of entry/transit visas for truck drivers;
- Facilitate the opening of direct flights between Pakistan and Kyrgyzstan;

⁵ The simple average *final bound* (WTO) tariff rate for this category of goods is a bit higher in Kyrgyzstan (12.8%) and much higher in Pakistan (96.2%).

- Consider the conclusion of a free trade agreement between Pakistan and the EAEU (including Kyrgyzstan)⁶;
- Work on the softening/elimination of the visa regime between the two countries;
- Facilitate the opening of Pakistani trade houses in Bishkek and Osh, Kyrgyzstan, and at least one Kyrgyz trade house in Pakistan;
- Improve access to essential trade and market information on Kyrgyzstan (customs and technical regulations, sanitary and phytosanitary measures, food safety measures, consumer preferences, appropriate packaging and labelling etc.) for traders and agrifood producers in Pakistan and vice versa;
- Provide tax and other incentives for private investments in TIR-compliant trucks, refrigerated containers, logistical centers/warehouses with cold storage facilities etc.; encourage investments in personnel training in logistics and trade companies;
- Build capacity of traders and agrifood industry stakeholders in international trade matters;
- Provide better treatment of traders (no delays, transparent business processes on the borders, clear and predictable security requirements) in both countries and work with the transit countries on establishing and maintaining proper transit standards;
- Include all the transit routes between Pakistan and Kyrgyzstan into the CAREC Corridor Performance and Measurement and Monitoring mechanism; regularly publish the monitoring reports on these routes.

6 EAEU has Free Trade Agreements with Viet Nam, Serbia, Singapore, Economic Trade Cooperation Agreement with China and the Interim Agreement leading to the formation of a free trade area with Iran.