

# Maktab Competitive Exams Services

## Current Affairs Workshop for CSS 2025

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### Strengthening Pakistan's Economic Integration with Neighbours: Barriers and Opportunities

#### Background:

1. No Trade with Neighbours Illogical – FM Aurangzeb – 28 October
2. Pak India Bilateral Trade Stats: Import from India: \$206.89 million, Export to India: \$3.669 million in 2023-24
3. Pak Afghanistan Bilateral Trade: Imports from Afghanistan: \$11.923 million, Exports to Afghanistan \$554.008 million
4. Pak Iran Bilateral Trade: For the first time in the history of Pakistan-Iran economic relations, the volume of bilateral trade exceeded \$2 billion, as reported in April 2023.
5. Pak China Bilateral Trade: Imports from China \$13.506 billion, Exports to China \$2.707 billion
6. Source: (**Article:** Pakistan's trade deficit with nine regional countries surges by 49% Profit – 25 July)

#### Regional Integration in the light of theories

1. **Traditional Theories:** (Absolute Advantage of Adam Smith, Ricardian Model, Heckscher Ohlin Model)
2. **Gravity Model of Trade:** Size of Economy and Distance Proximity
3. **Theory of Custom Union (Viners Theory):** Trade Creation and Trade Diversion
4. **Optimum Currency Area Theory:** Unified currency will provide the best balance of economies of scale to a currency and effectiveness of macroeconomic policy to promote growth and stability.
5. **New Regionalism Theory:** Looks beyond just trade and focuses on deeper forms of integration across various sectors. Like investment, technology, services, environment, and security.

#### Barriers in Pakistan's Regional Economic Integration

1. **Political Tensions between India and Pakistan:** Bilateral trade between India and Pakistan was \$2.6 billion in 2013-14, but it dropped to \$320 million in 2023 after Pakistan suspended trade following the revocation of Article 370 by India in August 2019. Intra-SAARC trade is less than **5% of the region's total trade**, compared to **25% for ASEAN**. Failure of SAARC Motor Vehicle Agreement and replacement with BBIN MVA.
2. **Security Concerns:** The **TAPI (Turkmenistan-Afghanistan-Pakistan-India) Gas Pipeline** faces delays due to security concerns in Afghanistan. **Afghanistan-Pakistan Transit Trade Agreement (APTTA)** is undermined by

smuggling and border security tensions. Pakistan has closed the borders. 55% losses to Afghanistan transit Trade Revenues

3. **Trade Barriers:** Pakistan's trade regime, characterized by high tariffs and non-tariff barriers, limits integration. Pakistan's average tariff rate is **11.6%**, compared to **7% in India** and **4.5% in China**. The **World Bank's Doing Business Report 2021** ranked Pakistan **108th out of 190 countries** in terms of cross-border trade, highlighting costs as significant barriers.
4. **Lack of Regional Supply Chains:** Unlike ASEAN, South Asia lacks integrated supply chains that could drive industrial cooperation.
5. **Regional Trade Imbalances:** A lack of diversified trade baskets limits the scope of trade. Pakistan's trade with Afghanistan and Central Asia is heavily reliant on exports of textiles and rice, while it imports fruits and dry goods, reducing the scope for broader trade complementarities. Even Pakistan and India deals in identical goods
6. **Energy Deficit and Project Delays:** Iran Pakistan Gas Pipeline, CASA1000, TAPI

### **Pakistan's Potential Engagement in Regional Economic Integration:**

1. **Pakistan's Vision Central Asia 2023:** Five Pillars: Political, trade and investment, energy and connectivity, security and defence, and people-to-people contacts. (Pakistan-Uzbekistan Transit Trade Agreement (**AUPTT**), Uzbekistan targets \$1 bn Trade with Pakistan)
2. **Trans Caspian International Transport Route (Middle Corridor)** China Kazakhstan, Azerbaijan, Georgia, Turkey, Europe
3. **International North South Transportation Corridor** Russia offered Pakistan to join it
4. **Trans Asian Railway Network:** Northern route (Western Europe ↔ Moscow (Russia) ↔ Kazakhstan ↔ China ↔ Korean Peninsula), southern route (Southeast Europe (Turkey) ↔ Iran ↔ South Asia (India, Pakistan) ↔ Southeast Asia (Myanmar, Thailand, Malaysia))
5. **Central Asian Regional Economic Cooperation:** Pakistan Joined CAREC in 2010. 2.05 bn\$ have been invested in Pakistan so far Pakistan is Part of Carec Corridor 5. CASA1000 Hydroelectric project is part of it
6. **CPEC 2.0:** five key thematic corridors—Growth Corridor, Livelihood-Enhancing Corridor, Innovation Corridor, Green Corridor, and Opening-Up/Regional Connectivity Corridor. Alignment with 5Es

### **What Needs to be Done?**

1. Robust Implementation 5Es under Uraan Pakistan Initiative
2. Structural Reforms in Pakistan's Economy
3. Integration of Strategic Trade Policy Framework with Industrial, Investment and Tariff Policies.
4. Use of Diplomatic Channels to create economic interdependence with aggressive neighbours.
5. Emphasis on Trade Facilitation: WEOC and Pakistan's Single Window.