USAID Trade Project

Potential for Trade in Goods between Pakistan and Central Asia

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Abbreviations

Acronym	Definition
APTTA	Afghanistan-Pakistan Transit and Trade Agreement
CAR	Central Asian Republic
CAREC	Central Asia Regional Economic Cooperation
CBTA	Cross Border Transit Agreement
CIS	Commonwealth of Independent States
COMTRADE	United Nations Commodity Trade Statistics Database
EU	European Union
FBR	Federal Board of Revenue
GAP	Good Agricultural Practices
GDP	Gross Domestic Product
GoP	Government of Pakistan
HS	Harmonized (Commodity Description and Coding) System
ITC	International Trade Center
MoC	Ministry of Commerce
PET	Polyethylene Terephthalate
PFVA	All Pakistan Fruits & Vegetables Exporters, Importers & Merchants Association
QTTA	Quadrilateral Traffic in Transit Agreement
RCA	Revealed Comparative Advantage
SIMAP	Surgical Instrument Manufacturers Association of Pakistan
TDAP	Trade Development Authority of Pakistan
UAE	United Arab Emirates
UN	United Nations
US	United States
USD	United States Dollar
WTO	World Trade Organization

Executive Summary

The Central Asia Regional Economic Cooperation (CAREC) Program is an initiative of ten countries which was established in 1997 to promote economic cooperation in the region. Implementation of this plan gives Pakistan improved access to the Central Asian Republics (CARs) comprising Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.[1] Pakistan stands to benefit from this improved connectivity by providing seaport access to Central Asia, and serving as a transit country between South and East Asia. There is also the potential for Pakistan to gain from increased exports to the CARs. The Government of Pakistan's (GoP) Strategic Trade Policy Framework 2012-2015 cites enhanced regional trade and diversification of markets as priorities, both of which can be supported through expanded exports to Central Asian markets.

Although individually the CARs are small markets, collectively the region offers significant potential for trade. The CARs have a Gross Domestic Product (GDP) of USD 336.41 billion and constitute a market of 64.9 million people.[2] Afghanistan has an additional GDP of USD 20.65 billion and is a market of 31.1 million people. Pakistan's existing trade with the CARs has been negligible in recent years. Pakistan's exports to and imports from CARs each account for less than 1% of Pakistan's total imports and exports, respectively.[3] Pakistan's net exports and CARs' net imports have both been increasing, but this has not translated to greater exports from Pakistan to the region.

Since 2003, Pakistan's major exports to CARs include leather goods, pharmaceutical products, fruits, medical equipment, and textiles (mainly apparel). Of these five categories, only pharmaceutical exports to the CARs have shown consistent growth. Medical equipment exports, which consist primarily of surgical instruments, have shown a modest increase. Exports of textile and leather goods have declined sharply in the last decade.

CARs import primarily from regional neighbors. China and Russia are CARs' biggest trade partners, and have well-established direct land routes to the region. Ukraine and Turkey are also important trade partners, and Iran and India have been increasing their exports to Central Asia as well.

Products that have the greatest potential for increased exports to Central Asia include surgical instruments, textiles, fruits, rice, sugar and cement. Pakistan's greatest potential for increased trade volume among the CARs is with Kazakhstan, followed by Uzbekistan.[4] This is not surprising, as these countries are the biggest economies in the region.

Pakistani exporters to Central Asia face various challenges, depending on the type of product being exported and the mode of transportation being used. Exporters interviewed in Pakistan reported trading informally with CARs using land routes transiting through Afghanistan. Fruit and vegetable exports from Pakistan fall in this category. The general trend in this sector is for exporters and transporters to purchase produce from wholesale markets and then export it. Shipments taken to Afghanistan or Tajikistan may be re-exported to bordering countries, which makes it difficult to determine the final consumers of these exports from Pakistan. The authors' interviews with transporters and exporters revealed that bureaucracy and logistics are the biggest hurdles faced by traders in the fruit and vegetable sector. A shipment from Peshawar to Tajikistan will be unloaded and

[1] For the purposes of this report, any reference to Central Asia refers to the five Central Asian Republics: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.
[2] Calculations performed by Trade Project, based on data from the World Factbook (accessed March 10, 2014). All GDP and population figures contained herein are reported by the World Factbook March 2014, unless otherwise noted.
[3] Calculations performed by Trade Project, based on data from ITC Trade Map. This report reflects trade data through 2012, the latest available at the time of research. Available at: www.trademap.org (accessed March 10, 2014).
[4] Potential was quantitatively compared by calculating the 'indicative trade potential' between Pakistan and each of the CARs. Calculations performed by Trade Project, based on data from ITC Trade Map. Available at: www.trademap.org (accessed March 10, 2014).

reloaded as many as three times – first at Torkham, then in Kabul, and again at the Tajik-Afghan border crossing of Shir Khan Bandar. During winter months delays can occur at the Salang Tunnel in Afghanistan. In the event of delays, exporters risk the spoilage of perishable food items because cold chain infrastructure is not available for the land route of Shir Khan Bandar.

Exporters of surgical instruments, which are exported through air cargo, face a different set of challenges. Surgical instruments must be registered and tested in each country by the relevant government authority before that country will receive imports of the item. This registration process is costly and cumbersome. Kazakhstan is the largest potential export market for Pakistan's surgical instruments; export potential for this sector was almost USD 150 million for 2012.[5] The demand from Kazakhstan for surgical instruments has been consistently increasing over the last decade. If the initial barriers of registration and testing are addressed, Pakistan could greatly increase its exports of surgical instruments to Central Asia.

Other barriers to trade identified by stakeholders are as follows:

- Language: all documentation in CARs is in Russian or other local languages, and translations in English are not easy to obtain
- Trade finance facilities between Pakistan and CARs do not exist, and transfer of money is cumbersome
- Traders are hesitant to transit through Afghanistan due to security concerns
- Bureaucratic procedures are difficult to navigate in CARs; exporters and transporters reported having to pay extra charges at border crossings and customs in Pakistan as well as Central Asian Republics.

The following recommendations may encourage exporters to venture into Central Asian markets:

- Knowledge sharing can help traders become more informed and learn from the experience of successful traders. The GoP can partner with various chambers of commerce and manufacturers' associations to share and disseminate information relevant to different sectors.
- Exporters should focus on increasing trade with Kazakhstan, which is the biggest market among the CARs and has the greatest potential for greater trade volume. Publication and dissemination of a guide to trading with Kazakhstan will assist first-time exporters in navigating the required procedures.
- Collaborations between business associations and language training institutes to offer formalized opportunities for Pakistanis to learn Russian, Mandarin and other global languages, to facilitate access to more markets.
- Investments in cold chain logistics and transport through the road routes can bring high export dividends to Pakistan.

[5] Calculations performed by Trade Project, based on data from ITC Trade Map. Available at: www.trademap.org (accessed March 10, 2014).

Introduction

CAREC Overview

The Central Asia Regional Economic Cooperation (CAREC) Program is an initiative of ten countries which was established in 1997 to promote economic cooperation in the region. CAREC member countries include Afghanistan, Azerbaijan, China, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Turkmenistan, Tajikistan and Uzbekistan. CAREC 2020, the strategic framework for the CAREC Program from 2011 to 2020, envisions investments in transport infrastructures along six corridors to improve regional connectivity and the potential for trade. These corridors are envisioned to transform from transport corridors to logistics corridors, and eventually, economic corridors. Corridors 5 and 6 connect South Asia with Central Asia, East Asia and Europe, and hence, are of special importance to Pakistan.

Table 1: CAREC Corridors 5 & 6

Corridor 5 Countries	Corridor 6 Countries
Afghanistan	Afghanistan
Tajikistan	Tajikistan
Kyrgyzstan	Uzbekistan
China	Kazakhstan

CAREC Corridor 5 connects Pakistan to China through Afghanistan, Tajikistan and Kyrgyzstan. CAREC Corridor 6 has the potential to connect Pakistan to the Western markets of Europe and Russia, passing through Afghanistan, Tajikistan, Uzbekistan and Kazakhstan. The CAREC Corridor 5 and 6 framework offers great economic opportunities for Pakistan. Both these routes enter Pakistan through the Torkham border, and offer Pakistan greater access to the Central Asian region and Eastern Europe.

The CARs, comprising Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, are former Soviet territories that became independent in 1991. The region is bound by Russia in the north, Iran and Afghanistan in the south, and the Chinese region of Xinjiang Uygur in the west. CAREC Corridors 5 and 6 pass through all of the CARs except Turkmenistan. These corridors have envisioned greater connectivity between Pakistan and the Central Asian region. The development of these corridors carries the potential for opening the Central Asian markets to exports from Pakistan, as well as providing the landlocked CARs access to shipping routes through Pakistani ports.

Trade between Pakistan and CAREC Countries

Individually, the CARs represent small markets; however, taken together they offer a huge potential for trade. Kazakhstan is the largest of the CARs in terms of its economy, with a population of 17.74 million and a GDP of USD 224.9 billion. Uzbekistan is the most populous country in the region, with a population of 28.66 million and a GDP of USD 55.18 billion. Taken together, the CARs have a collective GDP of USD 336.41 billion and constitute a market of 64.97 million people. Afghanistan has an additional GDP of USD 20.65 billion and is a market of 31.11 million people.

Table 2: Central Asia and Afghanistan – Population and GDP Estimates

Country	Population 2013 (millions)	GDP in 2013 (USD billions)
Kazakhstan	17.74	224.9
Kyrgyzstan	5.55	7.23
Tajikistan	7.91	8.54
Turkmenistan	5.11	40.56
Uzbekistan	28.66	55.18
Afghanistan	31.11	20.65
Source: The World Factbook		

Pakistan's trade with Central Asia has been negligible in recent years. From 2010 to 2012, Pakistan's exports to the CARs accounted for 0.05% to 0.06% of its total exports. Pakistan's imports from the region remained within 0.05% to 0.25% of its total imports per annum. Pakistan's trade with Afghanistan has fared better: Afghanistan is Pakistan's largest export destination outside of the United States (US), European Union (EU), and United Arab Emirates (UAE). From 2010 to 2012, Afghanistan was the destination for 7% to 10% of Pakistan's exports. These figures indicate the tremendous potential for Pakistan to increase its trade ties in the region.

Greater connectivity along the CAREC Corridor 5 and Corridor 6 routes also promises faster access to international markets for CARs. Being landlocked, the economic growth of the region is dependent on the existence of cost effective and reliable shipping routes. Pakistani ports on the Arabian Sea offer Central Asia feasible shipping routes. The following table summarizes the distances from major cities in Pakistan and Central Asia to the region's ports.

Table 3: Distance between Central Asian Cities and Regional Ports (kilometers)

Port/City	Ashgabat	Astana	Bishkek	Dushanbe	Kabul	Tashkent
Karachi	2200	4300	3100	2000	1400	2500
Gawadar	2400	4500	3300	2200	1600	2700
Bandar Abbas	1800	4600	3400	2600	2100	2800
Chabahar	1900	4700	3500	2600	2500	2900
Odessa	3500	3800	4400	4000	4300	4100
Source: Estimates based on Google Earth						

Pakistan has acceded to several agreements that could be leveraged to facilitate transit across CAREC Corridor 5 and Corridor 6. These agreements include the 2010 Afghanistan-Pakistan Transit and Trade Agreement (APTTA), the Quadrilateral Traffic in Transit Agreement between Pakistan, China, Kyrgyzstan, and Kazakhstan (QTTA), and the Economic Cooperation Organization - Transit Transport Framework Agreement (ECO-TTFA). The Cross Border Transit Agreement (CBTA), which is a tri-partite transit agreement between Kyrgyzstan, Tajikistan, and Afghanistan, is under consideration by Pakistan. Pakistan and Afghanistan are also considering expanding the geographical coverage of APTTA through inclusion of Tajikistan on an APTTA +1 basis.

Potential for Pakistan

This report provides an overview of the current trade between Pakistan and Central Asia and discusses the potential for Pakistan to increase its exports to the region.

The first section presents the current overall status of trade between Pakistan and the CARs. The second section provides country profiles for Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, with brief overviews of each country's economy as well as key imports and exports. The next two sections discuss Pakistan's potential for increased exports for the fruit and vegetable sector, and the surgical instruments sector, respectively. The report concludes with a discussion on barriers to trade and recommendations for improving the overall trading environment.

Methodology

This study draws from both primary data collected through interviews and focus group discussions, and secondary sources. This information has been supplemented by the authors' economic analysis, which calculates indices and indicators such as export potential and revealed comparative advantage (RCA).

Primary data

Primary data was collected through interviews and discussions with different stakeholders such as manufacturers, exporters and transporters. Interviews were conducted with manufacturers and exporters operating in a variety of sectors including cement, pharmaceuticals, fruits and vegetables, surgical instruments, and sporting goods, among others. In addition, various chambers of commerce as well as manufacturers associations were contacted to arrange focus group discussions. Exporters and transporters operating through air, land, and sea routes were also interviewed. The interviews and focus group discussions were semi-structured and loosely based on a questionnaire. The objective was to gather information about practices adopted by stakeholders in their respective fields of business in as much detail as possible. Logistics, financial mechanisms, trade barriers, and the bureaucracy involved in doing business with Central Asia were some of the topics that were discussed in these meetings.

Findings from these interviews have been incorporated in the body of the report. The section on barriers to trade and the case studies draw largely from these discussions.

Secondary data

The analysis was informed by existing research on trade between Pakistan and Central Asia. Studies concerning trade potential, patterns of trade, and trade barriers were consulted. Information from these studies is cited wherever used in this report.

Geographical and economic information about Central Asian countries has been sourced from the World Factbook. This information includes statistics on GDP and population.

Statistical information such as yearly export and import figures, disaggregated by partner countries and commodities, has been sourced from the International Trade Centre's (ITC) Trade Map tool. Trade Map reports data submitted through the United Nations Commodity Trade Statistics Database (COMTRADE) wherever available. The yearly data directly reported through COMTRADE is available for Kazakhstan, Kyrgyzstan and Pakistan for the years 2003 to 2012. Afghanistan reported data to COMTRADE from 1962 to 1977 and then from 2008 onward. Import and export data for Afghanistan from 2003 to 2007 is not available at Trade Map. Directly reported data is not available for Tajikistan, Turkmenistan and Uzbekistan. Mirror data, constructed from figures reported by partner countries, has been used in these cases. In addition to COMTRADE data, quarterly and monthly data is available for Kazakhstan and Pakistan, reported by The Agency of Statistics in the Republic of Kazakhstan and by the Federal Board of Revenue (FBR) in Pakistan, respectively.

Table 4: Data Availability on Trade Map

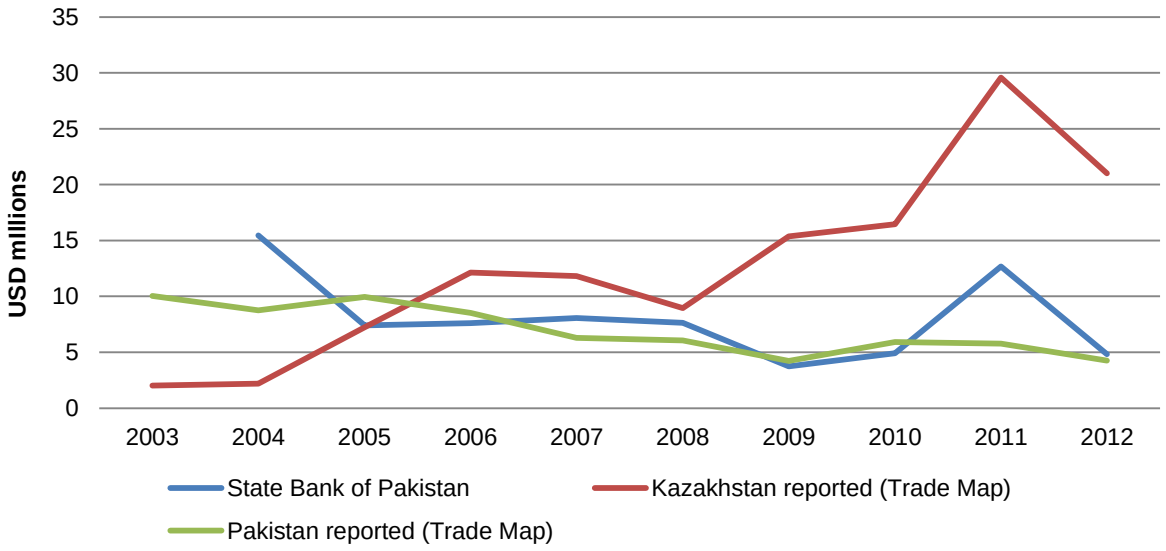
Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Afghanistan										
Kazakhstan										
Kyrgyzstan										
Pakistan										
Tajikistan										
Turkmenistan										
Uzbekistan										

Key

- No Data
- Reporting Data
- Mirror Data

Discrepancies exist in data reported by different agencies and countries. For instance, even though Kazakhstan and Pakistan directly report data to COMTRADE as well as monthly and quarterly data through their respective national organizations, data can widely differ.

Chart 1: Pakistan's Exports to Kazakhstan (Data Source: ITC Trade Map and State Bank of Pakistan)



For example, Pakistan's exports to Kazakhstan differ depending on the data source. As the graph above represents, the difference between the Trade Map numbers reported by the two countries is as much as USD 15 million. A notable gap between Pakistan's and Kazakhstan's reported statistics emerges from 2008 to 2012; Kazakhstan's reported figure has been USD 10-15 million higher than that reported by Pakistan. Apart from different reporting standards, this discrepancy highlights the prevalence of informal trade within the region. Statistics on trade between Central Asia and Pakistan should be analyzed within the context of these constraints. Despite their unreliability, statistics are useful in highlighting general trends in trade as well as identifying commodities for which trade flows exist. Placed in context and substantiated with primary research, these statistics offer valuable insights, and are able to provide a reasonably accurate depiction of trade between Central Asia and Pakistan.

Economic Analysis

Primary and secondary sources are complemented with economic analysis, primarily calculation of export potential and revealed comparative advantage.

Export Potential

The Harmonized Commodity Description and Coding System, referred to as the Harmonized System (HS), is an internationally standardized system of assigning codes to goods in international trade. The HS system categorizes goods at 2, 4 and 6 digit levels. At the 2 digit level goods are grouped in broad categories; higher levels disaggregate these categories into more detailed product descriptions. The 6 digit level is the greatest level of globally standardized disaggregation available for goods.

Export Potential, referred to as Trade Potential, or Indicative Potential Trade in Trade Map, is calculated for each six digit level based on the following:

- Supply capacity is represented by the exports of the selected country to the world.
- Demand is represented by the imports of the selected partner country from the world.
- Export potential is defined as the lower of the value between a selected country's exports to the world and the value the partner country imports from the world, minus the current trade between the two countries under review.

Export potential is calculated at the six digit level to ensure congruence between the products being exported by one country and imported by the other. Export potential for broader product categories can be calculated by aggregating the six digit level potential.

Taken by itself, export potential is a theoretical figure that represents the extent of exports of a particular product that is technically possible between the two countries being analyzed.

Revealed Comparative Advantage (RCA)

RCA is an index which measures the comparative advantage a country holds for export of any particular good. RCA is calculated by weighing the share of a country's export of a particular good in its total exports against the share of global exports of that commodity in total world exports. Normalized RCA ranges from +1 to -1 and a positive RCA indicates that a country possesses comparative advantage in exporting a particular product. RCA can be distorted by trade barriers, quotas, and tariffs.

Status of Trade between Pakistan and Central Asia

This section provides an overview of trade between Pakistan and CARs from 2003 to 2012.

Imports

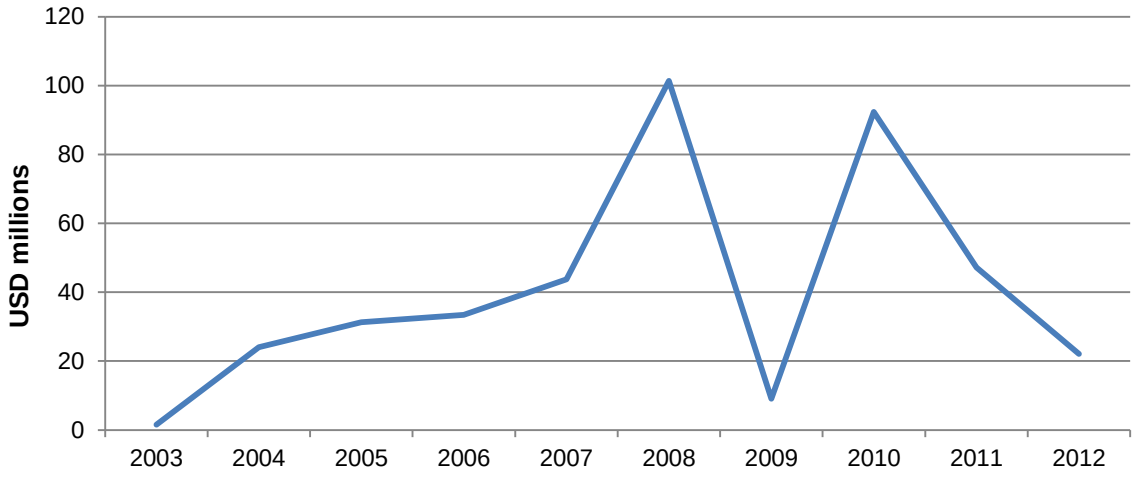
Table 5: Percentage Share of Pakistan's Imports from CARs (USD millions)

Year	Total Imports from CARs	Total Imports from the World	CARs' Total Exports to the World	Percentage of Total Pakistan Imports	Percentage of Total CARs Exports
2003	1.52	13,049	18,927	0.01%	0.01%
2004	24.07	17,949	27,996	0.13%	0.09%
2005	31.33	25,097	37,948	0.12%	0.08%
2006	33.46	29,826	50,774	0.11%	0.07%
2007	43.72	32,594	62,907	0.13%	0.07%
2008	101.3	42,327	90,124	0.24%	0.11%
2009	9.08	31,584	52,905	0.03%	0.02%
2010	92.33	37,537	69,055	0.25%	0.13%
2011	47.19	43,578	105,589	0.11%	0.04%
2012	22.10	43,813	110,594	0.05%	0.02%

Source: ITC Trade Map

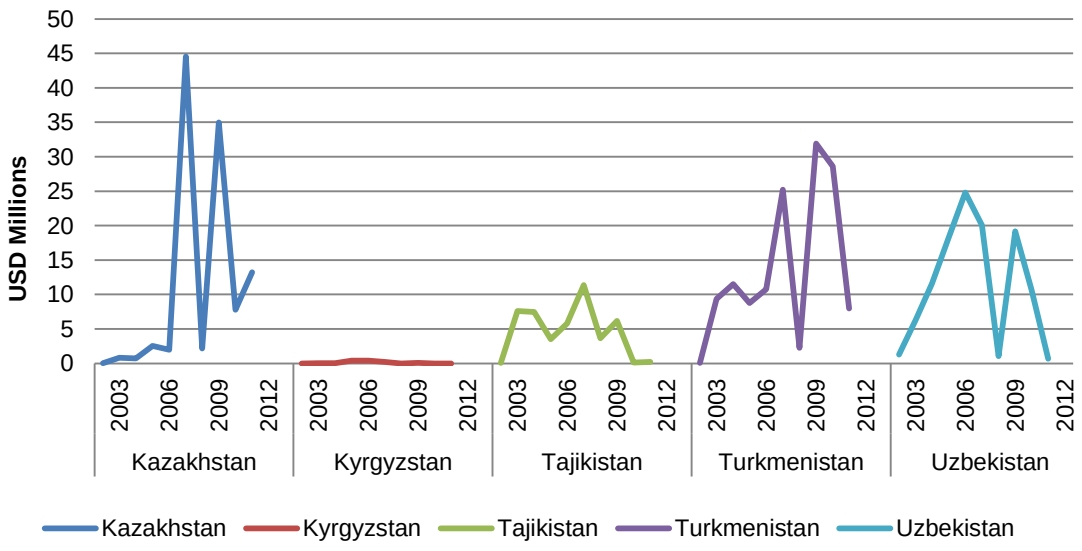
Imports from the CARs are a very small percentage of the total imports of Pakistan. Similarly, exports to Pakistan are a tiny percentage of the CARs' total exports. Though Pakistan's imports and the CARs' exports have increased in recent years, the percentage of Pakistan's imports from the CARs has been shrinking.

Chart 2: Pakistan's Imports from CARs (Data Source: ITC Trade Map)



Pakistan's imports from the CARs grew to more than USD 100 million in 2008. There was, however, a sharp decline in 2009 when Pakistan only imported USD 9 million worth of goods. Though imports picked up in 2010, they have again been in decline since 2011.

Chart 3: Country Breakdown of Imports from CARs (Data Source: ITC Trade Map)



The trend of imports from the five countries has been erratic in the last ten years, sharply rising and falling every year. Of the CARs, Kazakhstan is Pakistan's largest source of imports, while imports from Kyrgyzstan have been minimal.

Pakistan's main imports from the region are cotton, iron and steel, minerals and petroleum products.

Exports

Table 6: Percentage Share of Pakistan's Exports to CARs (USD millions)

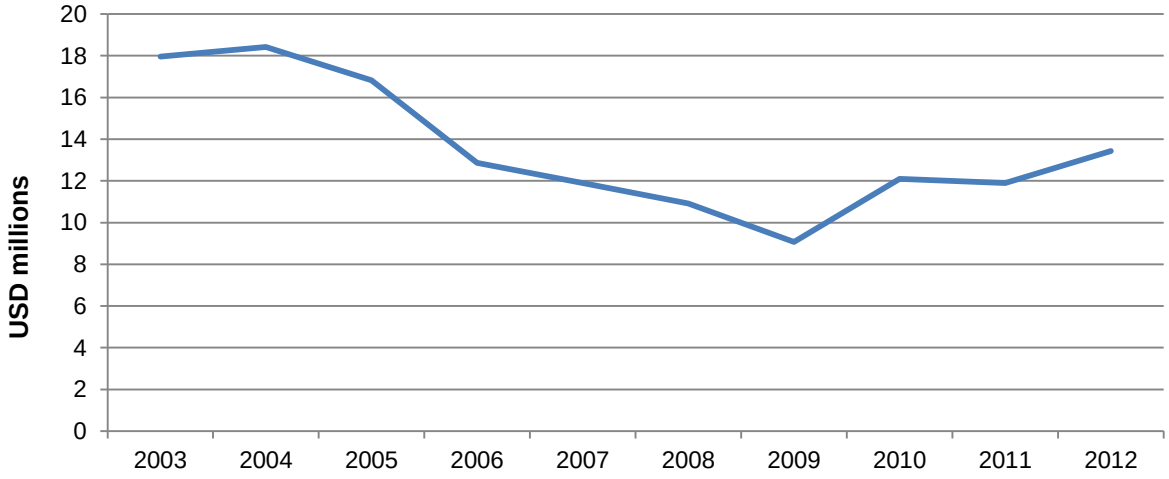
Year	Total Export to CARs	Total Exports to the World	CARs' Total Imports from the World	Percentage of Total Pakistan Exports	Percentage of Total CARs Imports
2003	17.97	11,930	13,450	0.15%	0.13%
2004	18.42	13,379	19,499	0.14%	0.09%
2005	16.82	16,050	24,888	0.10%	0.07%
2006	12.87	16,933	32,782	0.08%	0.04%
2007	11.98	17,838	45,973	0.07%	0.03%
2008	10.92	20,279	58,558	0.05%	0.02%
2009	9.07	17,555	47,344	0.05%	0.02%
2010	12.09	21,413	43,312	0.06%	0.03%
2011	11.80	25,344	62,682	0.05%	0.02%
2012	13.43	24,614	75,000	0.05%	0.02%

Source: ITC Trade Map

Exports to the CARs account for less than 1% of Pakistan's total exports. This share was 0.15% in 2003, and has shrunk to only 0.05% since 2009. Pakistan's net exports to the world have more than doubled in the last ten years, but its exports to the CARs have not kept up.

Central Asia's net imports from the world have been increasing rapidly – they have more than tripled in the last ten years. Pakistani exports have largely been unable to capture a share of these increased imports. In 2003 Pakistani products composed 0.13% of the CARs' imports. In 2012 this figure was only 0.02%.

Chart 4: Pakistan's Exports to CARs (Data Source: ITC Trade Map)



Pakistan's exports to the CARs showed a downward trend from 2004 to 2009, attributed to the war in Afghanistan, which affected Pakistan's overland exports to Central Asia. Exports have picked up since then, however the exported amount only stood at around USD 13 million in 2012, while the figure had crossed USD 18 million before the decline in 2004.

Major Export Categories

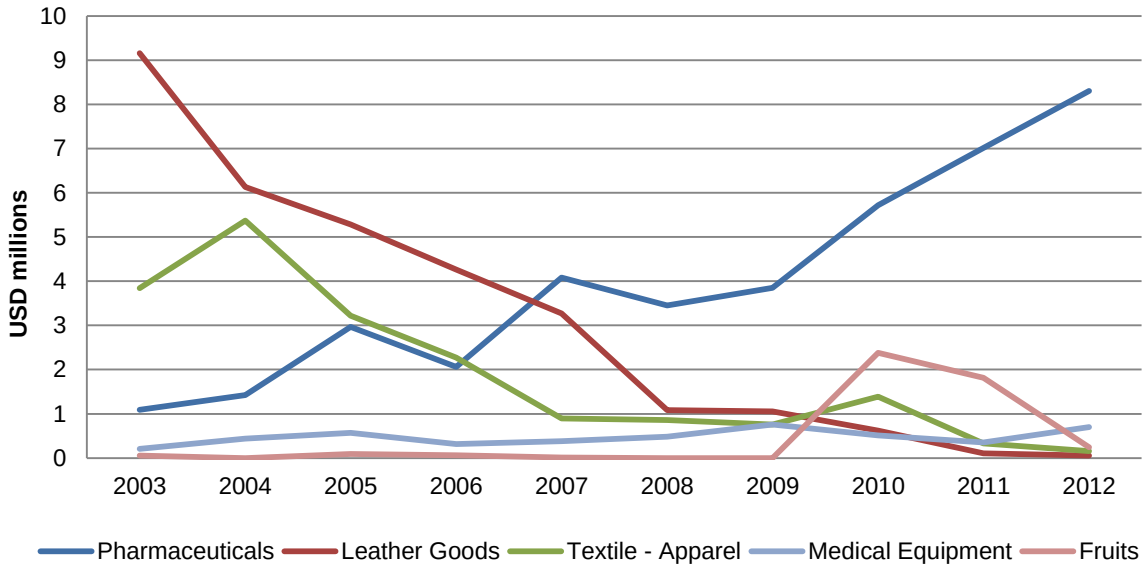
The major products that Pakistan has been exporting to the CARs over the last ten years are leather products, pharmaceuticals, textile products (apparel), medical apparatus and fruits. The following table summarizes the share of exports for these five product categories from 2003 to 2012.

Table 7: Pakistan's Share of Exports to CARs 2003-2012

HS Code	Product	Percentage Share
42	Leather goods	29.52
30	Pharmaceuticals	22.92
61, 62, 63	Textiles – Apparel	14.10
90	Medical Apparatus	3.49
08	Fruits	3.45
Source: Calculations performed by Trade Project based on data from ITC Trade Map		

Pakistan has been losing its share of exports to the Central Asian markets for all of these products, with the exception of pharmaceuticals and medical apparatus.

Chart 5: Major Exports to CARs (Data Source: ITC Trade Map)



Exports of **leather goods** have been fast declining over the last ten years. While exports exceeded USD 9 million in 2003, they have shrunk to only USD 57,000 in 2012.

Pakistan's proceeds from the export of **textile apparel** to the CARs have also been declining. In 2004, the proceeds from textiles exports coming under HS 61, 62, 63 totalled more than USD 5 million. In 2012, the exports of the same HS codes were recorded at USD 154,000.

Pharmaceuticals form a sector in which Pakistan has been consistently increasing its exports to the CARs. Apart from minor setbacks in 2006 and 2008, Pakistani exports to the region have been growing steadily. In 2012, Pakistan's exports were recorded to be just over USD 8 million.

Exports of **medical equipment**, which largely comprise surgical instruments, have slightly improved. Pakistan's exports have increased from USD 0.2 million in 2012 to nearly USD 0.7 million in 2012.

Exports of **fruits** picked up in 2010 but have declined since then. The highest exported amount in the last ten years was in 2010 when Pakistan exported USD 2.4 million worth of fruits to the CARs. Fruit exports in 2012 were worth only USD 247,000.

Table 8: Change in Trade of Selected Products between 2003 and 2012

	Pakistan's exports to CARs (USD millions)			CARs' imports from the world (USD millions)			Pakistan's exports to the world (USD millions)		
Product	**2003**	**2012**	**Percentage Change**	**2003**	**2012**	**Percentage Change**	**2003**	**2012**	**Percentage Change**
Leather goods	9.16	0.06	-99.38	8.56	201.21	2250.54	458.68	673.82	46.90
Pharmaceuticals	1.09	8.30	661.14	345.78	2070.00	498.65	44.43	167.81	277.73
Textiles – Apparel	3.84	0.15	-95.99	164.29	3517.57	2041.05	4709.35	6986.03	48.34
Medical equipment	0.21	0.70	235.58	318.06	1463.08	360.01	152.99	319.11	108.58
Fruits	.05	0.25	357.41	27.64	526.74	1805.51	90.80	347.80	283.02

Source: Calculations performed by Trade Project based on data from ITC Trade Map

The CARs' imports across these five product categories have grown exponentially over the last ten years. Imports of leather goods increased more than 2200% from 2003 to 2005. Textiles and fruit imports have also increased substantially. Growth in medical equipment and pharmaceutical imports

has been 360% and almost 450%, respectively. Pakistan's net exports in these product categories have also been increasing. Though the increase in leather and textile sectors has been modest, other sector exports have expanded extensively.

The pharmaceutical sector has expanded its share of exports to the CARs relative to the growth in imports by the CARs and total exports from Pakistan in this sector. In the last ten years, the CARs' import of pharmaceutical products has gone up by 500%, and Pakistan's exports to the world in this sector increased by more than 270%. Exports of pharmaceutical products from Pakistan to the CARs have increased by more than 660%, indicating that Pakistan's sector is increasing its share in the markets of the CARs. Exports of medical equipment have also been performing well in the CARs relative to the growth in net exports from Pakistan.

Pakistan's textile and leather sector exports have slowed to a trickle, even as demand from CARs for these products has soared. Pakistan's exports to the world in these two sectors have shown little growth, reflecting Pakistan's diminished performance in the Central Asian markets.

Major Exporters to CARs:
Over the last ten years the major exporters to CARs have remained the same. Russia, China, Germany, Ukraine and Turkey have been the CARs' biggest suppliers. More than 50% of CARs' imports come from Russia and China.

Table 9: Countries Exporting to CARs

Country	2003 Rank	2003 Percentage	2012 Rank	2012 Percentage
Russia	1	30.94	2	27.63
China	2	14.83	1	28.38
Germany	3	8.70	3	4.98
Ukraine	4	4.41	4	4.86
Turkey	5	4.40	5	4.65
Iran	10	2.53	12*	1.23*
India	18	0.85	19	0.67
Pakistan	39	0.13	60	0.02

* 2011 figures are used: 2012 data for Iran was not available.
Source: Calculations performed by Trade Project based on data from ITC Trade Map

Regionally, India, Iran and Turkey are countries that export substantial amounts to the CARs. Pakistan's exports to the CARs are substantially less compared with those of its neighbours. Iran, India and Turkey have also maintained their export shares to the CARs, and have gained greater export proceeds as imports by the CARs have grown. Turkey maintained its rank as 5th largest supplier of products to CARs from 2003 and 2012, while India fell from 18th to 19th largest supplier. Iran was ranked number 10 in 2003 and in 2011 it was ranked at number 12. Pakistan, on the other hand, has not been able to maintain its share of exports to the CARs. While it was ranked number 39 in 2003, its position has dropped to number 60 in 2012.

Table 10: Selected Countries' Exports to CARs (USD thousands)

Country	2012	2003
Turkey	3,492,828	613,103
India	504,721	118,820
Iran*	844,956	351,497
Pakistan	13,433	17,967
Source: Trade Project calculations based on data from ITC Trade Map		

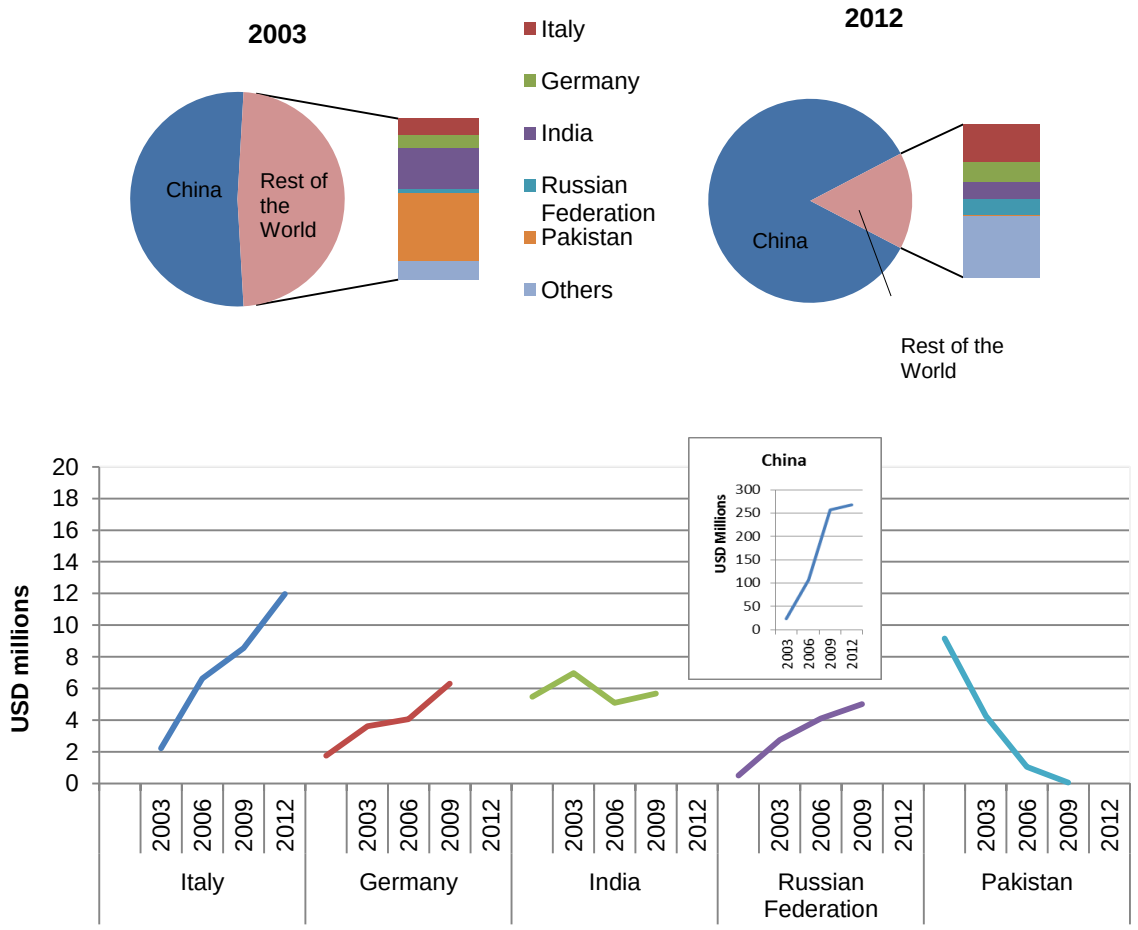
The value of imports from Turkey increased five-fold over the ten year period from 2003 to 2012. For the same time period, India increased the value of its exports to CARs by four-fold and Iran's exports more than doubled. On the other hand, Pakistan's export figures in 2012 were less than in 2003.

Competition for Pakistan

Leather:

The biggest exporters of leather goods to Central Asia are China, Italy, Germany, India, Russia, France and Turkey. China is by far the biggest supplier of leather to Central Asia. Italy, Germany and Russia have also been increasing their exports of leather to Central Asia. India's share of leather exports went down between 2003 and 2012. In 2003, Pakistan's export of leather goods to the CARs was greater than that of Germany, India and Russia combined. In the last ten years, leather exports from Pakistan to Central Asia, consisting mainly of leather apparel and accessories, have become negligible. Exports to Central Asia in this category have plummeted despite Pakistan's overall increase in exports of leather apparel and accessories.

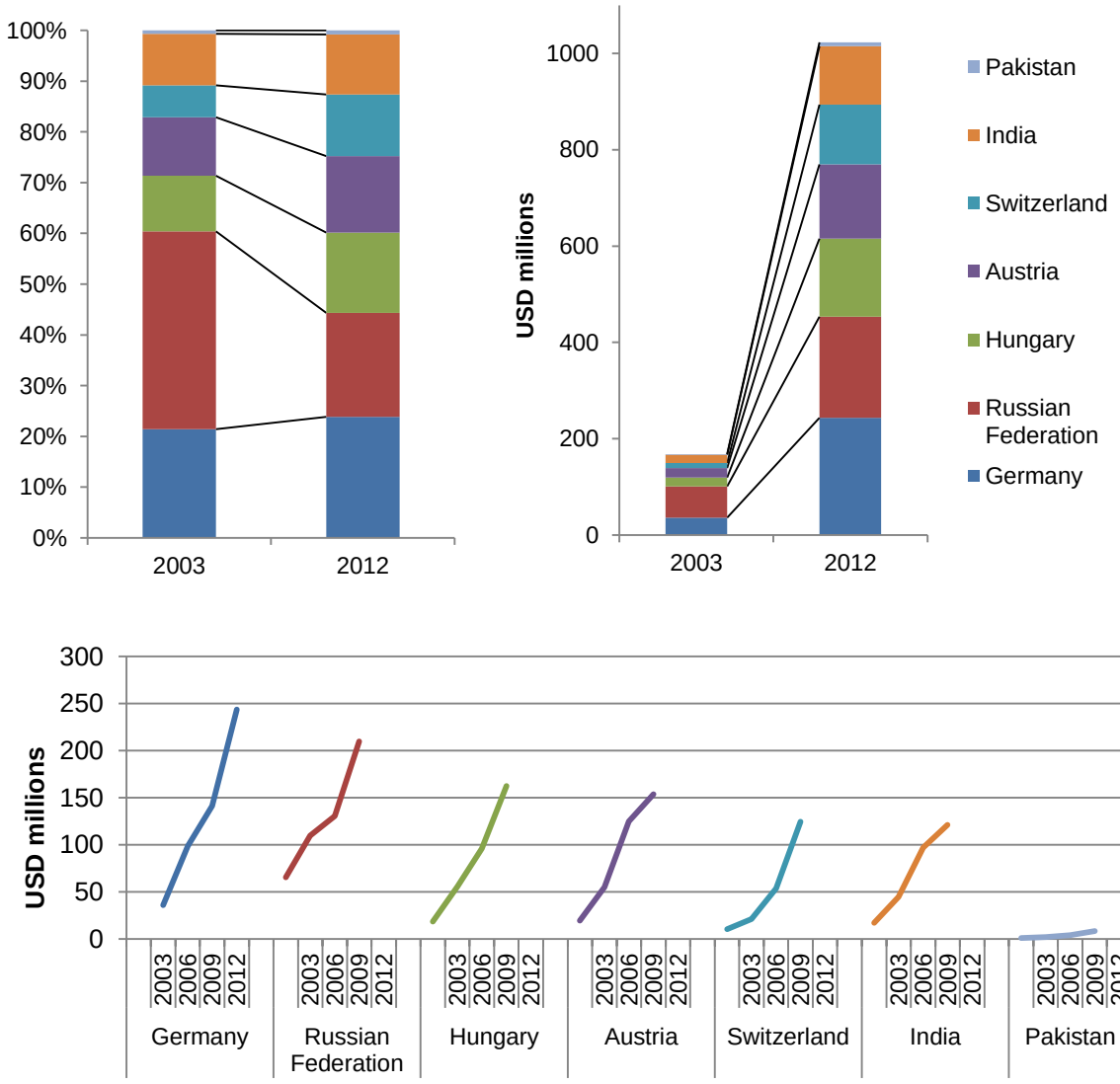
Chart 6: Import of Leather by CARs (Data Source: ITC Trade Map)



Pharmaceuticals:

Germany, Russia, Hungary, Austria, Switzerland and India are the top suppliers of pharmaceutical products to CARs. Pakistan's exports have been growing steadily over the years but its share of the Central Asian market is still very small.

Chart 7: Import of Pharmaceuticals by CARs (Data Source: ITC Trade Map)



Medical Equipment

For medical equipment the top exporters to CARs are Germany, China, Russia, Netherlands and Korea. Pakistan has been holding its exports to CARs steady but there is potential to increase exports to Central Asia as production increases. The Central Asian market for surgical instruments has grown exponentially over the last ten years and Pakistan has the potential to increase its share of the expanding market.

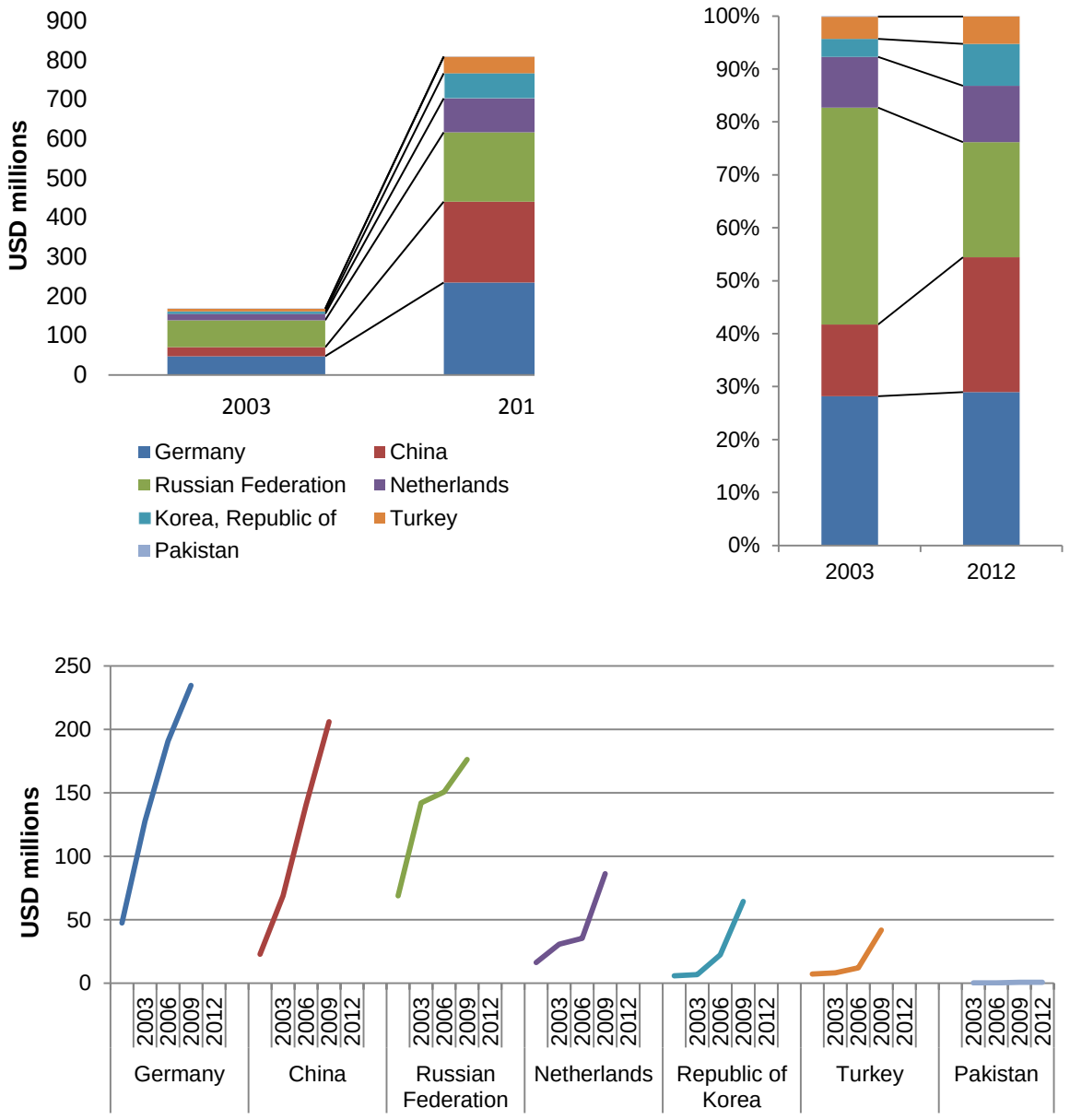


Chart 8: Import of Medical Equipment by CARs (Data Source: ITC Trade Map)

Fruits:

China and Russia are the biggest exporters of fruits to CARs. Pakistan's exports of fruits (mainly mandarins) to Central Asia have remained stagnant, while countries such as Turkey, Lithuania and Kyrgyzstan have been able to increase their share of exports over time.

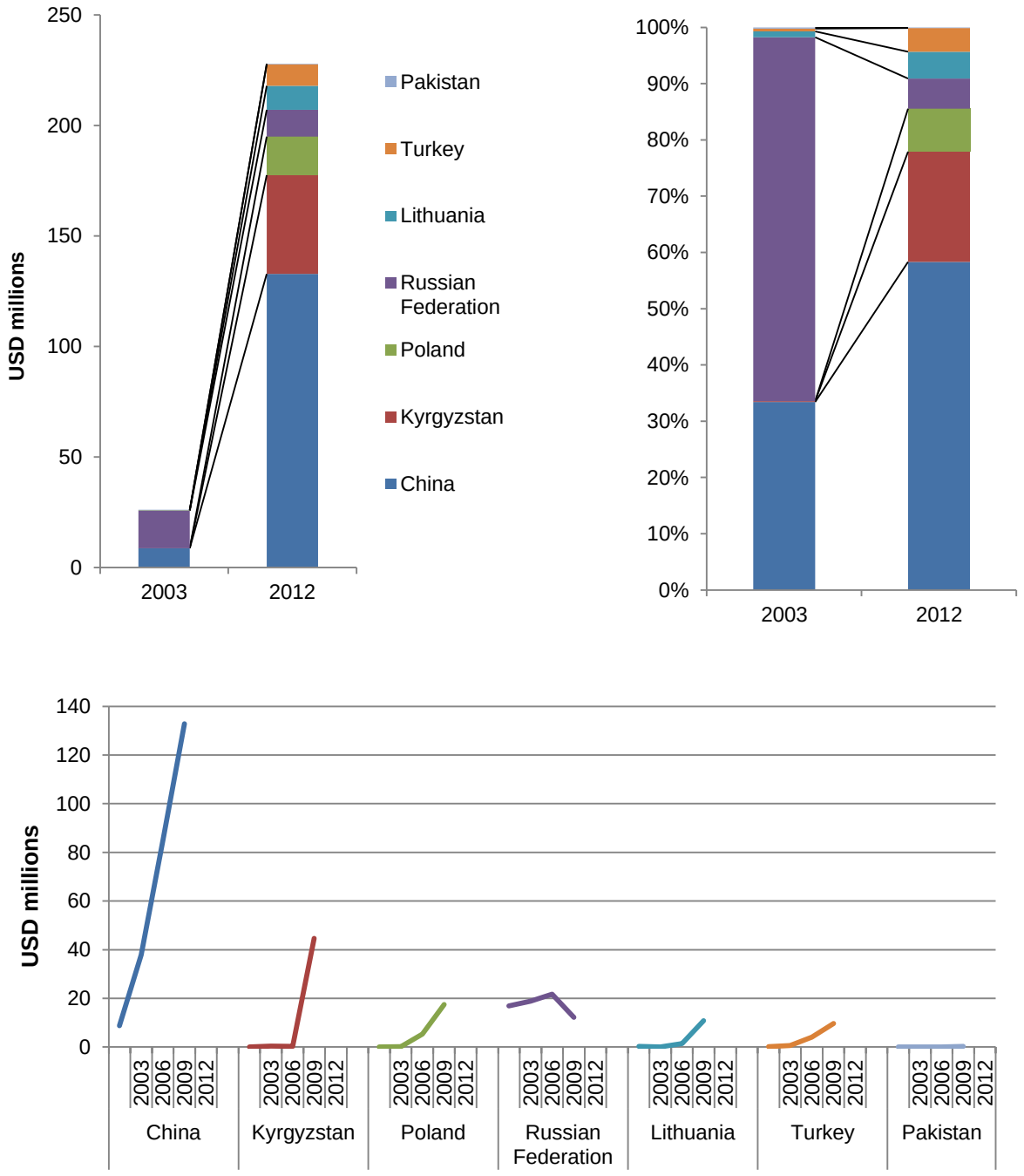
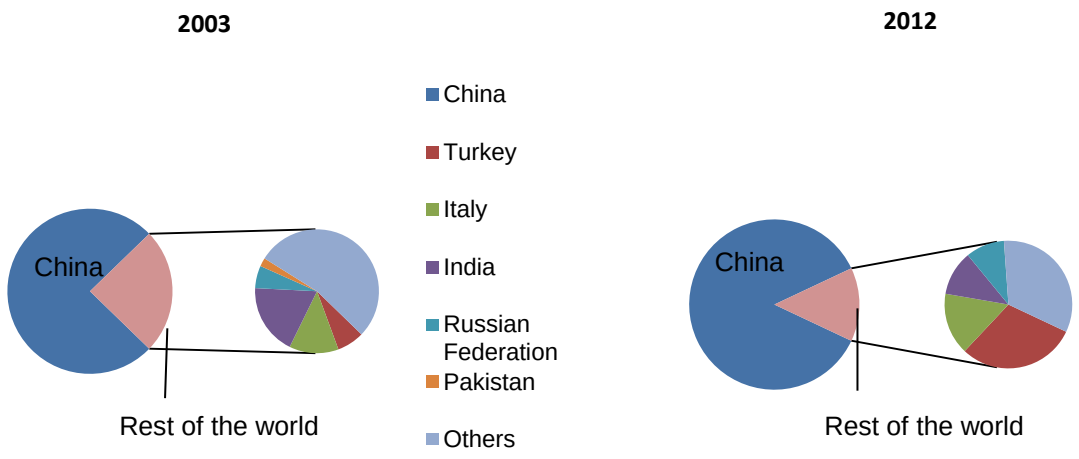


Chart 9: Import of Fruits by CARs (Data Source: ITC Trade Map)

Textile – Apparel:

CARs import as much as 75% of apparel from China. Turkey, Italy, India and Russia are the top suppliers of the remaining 25%. Pakistan's exports of textiles to the CARs have been declining.



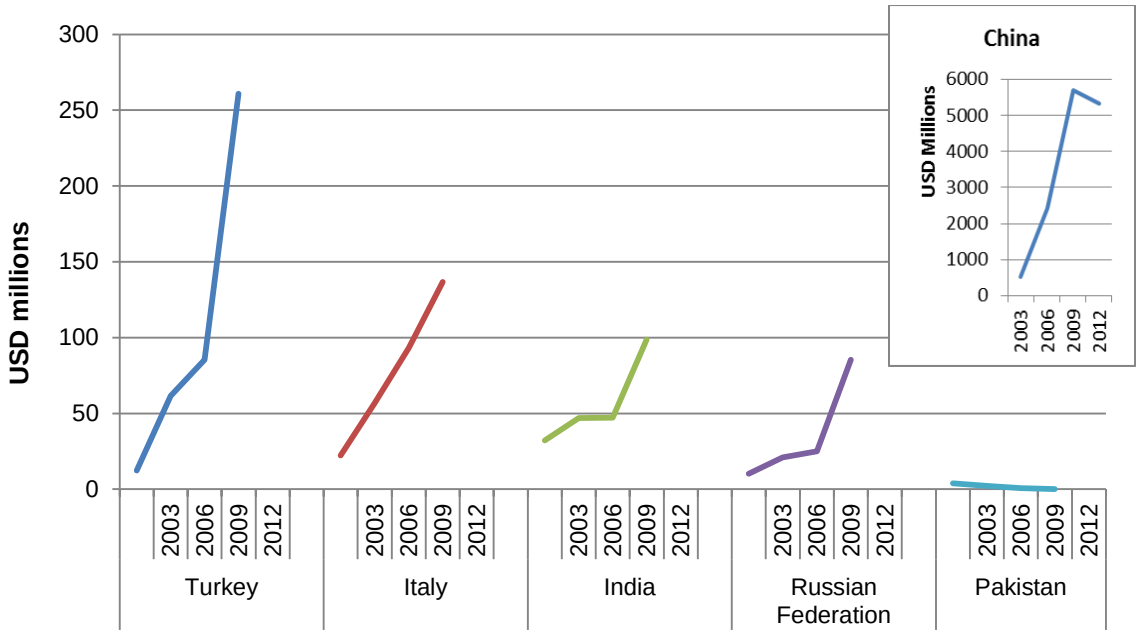
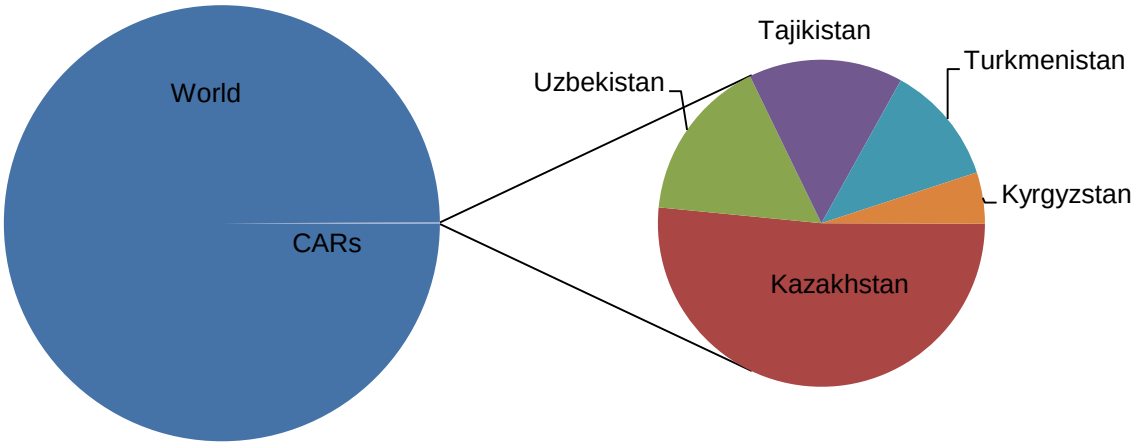


Chart 10: Import of Textile - Apparel by CARs (Data Source: ITC Trade Map)

Country Breakdown for Exports

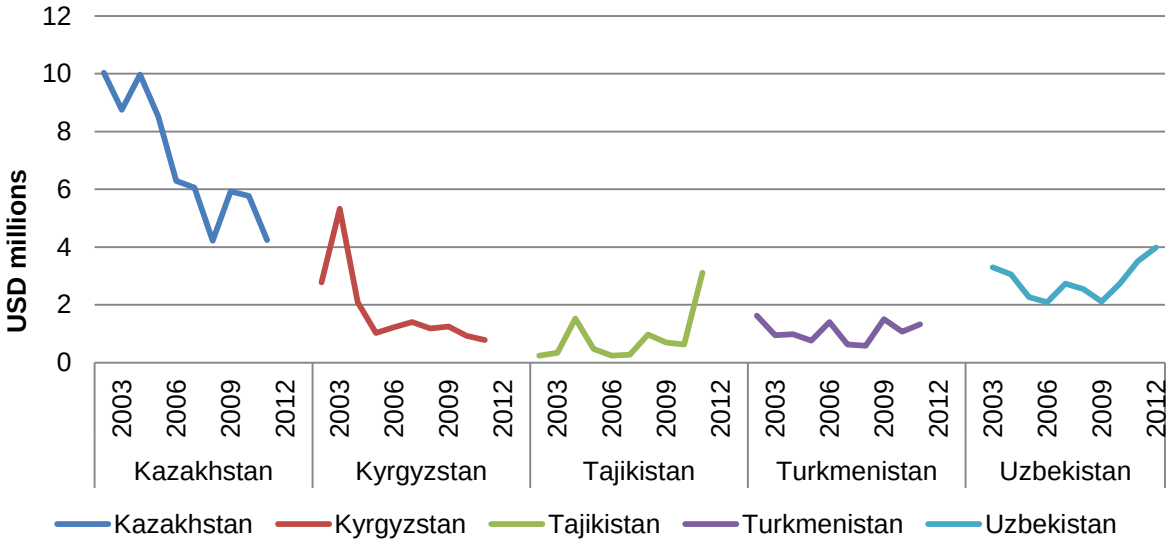
In 2012, the bulk of Pakistan's exports to the CARs went to Kazakhstan, followed by Uzbekistan, Tajikistan, Turkmenistan, and Kyrgyzstan.

Pakistan's Exports in 2012



Over the last ten years the five CARs have shown differing patterns in terms of Pakistan's exports. In general, export figures have been erratic for all five countries. Exports to Kazakhstan and Kyrgyzstan have generally declined over the last decade. For Tajikistan and Uzbekistan the market for Pakistan's goods grew in 2012.

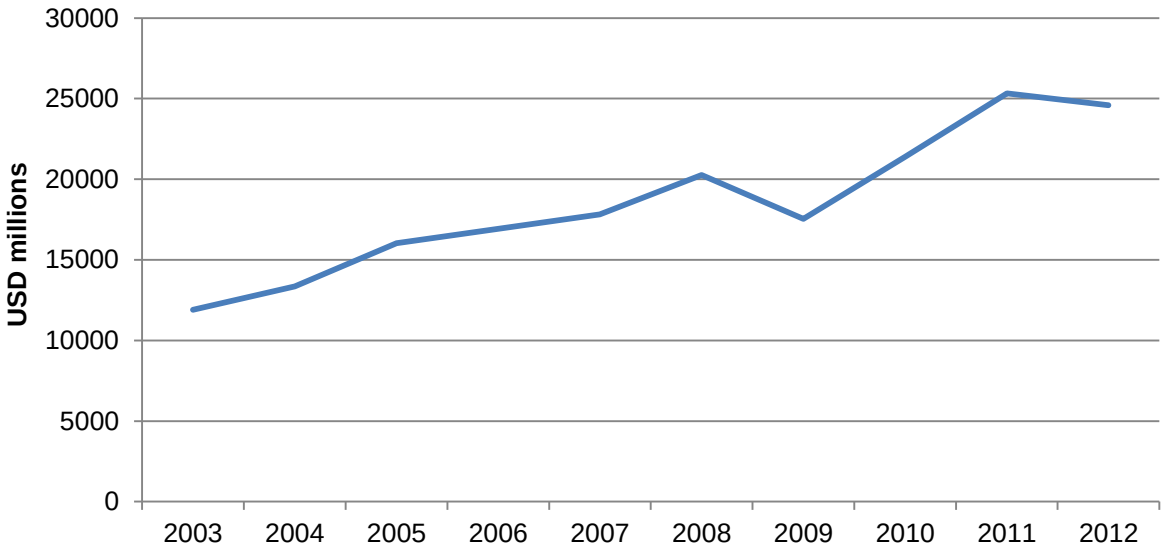
Chart 11: Pakistan's Exports to CARs (By Country) (Data Source: ITC Trade Map)



Export Potential

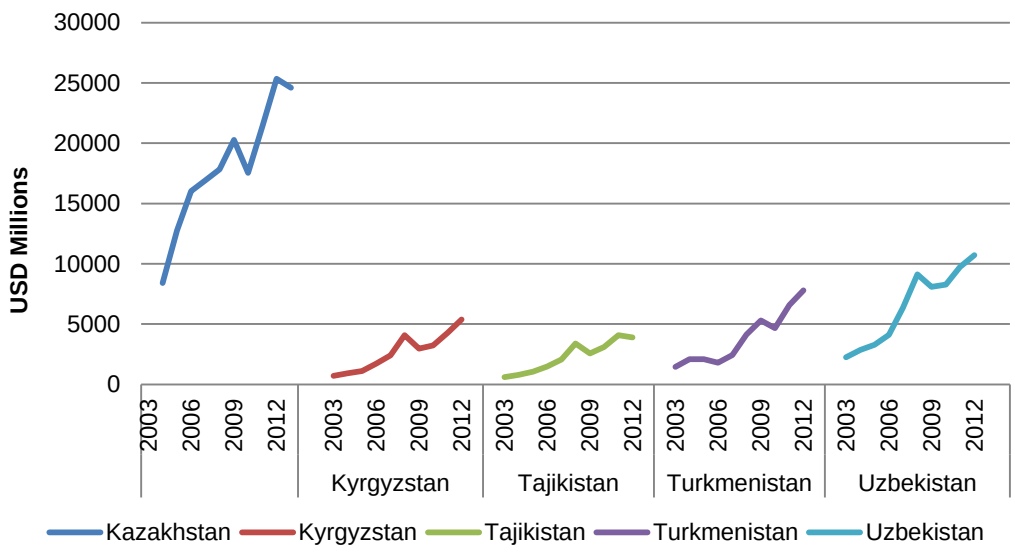
In theory, Pakistan could potentially direct all its current exports to CARs. The figure for export potential to CARs closely mirrors the net exports of Pakistan to the world. In 2012, the figure stood at almost USD 25 billion. This is indicative of two things: (i) there is a demand within the Central Asian markets for most items exported by Pakistan, and (ii) the growing Central Asian markets should be targeted by traders seeking to increase exports.

Chart 12: Pakistan's Export Potential to CARs (Data Source: ITC Trade Map)



Pakistan's greatest trade potential is with Kazakhstan, but there is significant demand for Pakistani goods across the region, and therefore, immense potential for Pakistan to increase its exports to all of the Central Asian markets.

Chart 13: Pakistan's Export Potential to CARs (By Country) (Data Source: ITC Trade Map)



Products with an RCA greater than one are those in which Pakistan possesses a competitive advantage. Table 11 lists products which are both exported by Pakistan and imported by CARs, and are therefore identified as having a potential for increased exports by Pakistan to the region.[6]

Table 11: Products with the Highest Trade Potential for CARs (2012)

Rank	HS Code	Product	Pakistan RCA
1	271019	Other petroleum oils and preparations	-0.46
2	110100	Wheat flour	0.95
3	390760	Polyethylene terephthalate (PET plastic)	0.86
4	901890	Surgical instruments	0.67
5	170199	Refined sugar	0.77
6	252329	Portland cement	0.97
7	711319	Jewellery	0.84
8	630260	Kitchen linen and towels	0.98
9	100630	Rice	0.97
10	730890	Structures	0.18
Source: ITC Trade Map			

Though wheat flour appears to have a high potential for exports to Central Asian markets, stakeholder discussions revealed that Pakistani flour is not suitable for making the kind of bread preferred in Central Asia. In addition, Kazakhstan produces and exports wheat to the other countries in the region. Hence, in practice, the potential for export of Pakistani wheat to CARs is not very high. Similarly, Pakistani jewellery is mainly exported to UAE, UK, USA and Canada – all countries with considerable South Asian diaspora populations. Given the differences in culture and aesthetics of South Asia and Central Asia, it is unlikely that Pakistani jewellery could easily find a market in Central Asia. Similar considerations must be taken for all sectors and products in terms of their potential for export.

Country Profiles

Kazakhstan

Kazakhstan is the world's largest landlocked country and primarily trades with its neighbours, including Russia, China, Kyrgyzstan, Uzbekistan and Turkmenistan.

Table 12: Kazakhstan Country Profile

Area	2,724,900 sq. km
Population	17.74 million (July 2013 estimate)
Capital	Astana
Location	Central Asia, northwest of China; a small portion west of the Ural (Zhayyq) River in eastern-most Europe
Border Countries	China, Kyrgyzstan, Russia, Turkmenistan, Uzbekistan
Source: The World Factbook	

Kazakhstan, geographically the largest of the former Soviet republics (excluding Russia), has the largest economy among the CARs.

[6] Products with a negative RCA can have high potential for exports in some countries. This indicates that, despite existing potential for export, Pakistan is not globally competitive in the export of that particular product.

Main Imports

- Machinery, fuel, electronics, iron and steel and their products, vehicles including railway trams, plastics, medical equipment, pharmaceutical products

Main Import Sources

- Russian Federation, China, Germany, Ukraine and the US

Pakistan's Exports to Kazakhstan

- Fruits and vegetables, pharmaceutical products, machinery, textiles and leather products

Products with Potential for Export to Kazakhstan

Products with an RCA greater than one are those in which Pakistan possesses a competitive advantage. The table lists products which are both exported by Pakistan and imported by Kazakhstan, hence having a potential for greater exports to Kazakhstan.

Table 13: Top Ten Items with the Highest Trade Potential for Kazakhstan (2012)

Rank	HS Code	Product	Pakistan RCA
1	271019	Other petroleum oils and preparations	-0.46
2	170199	Refined sugar	0.77
3	901890	Surgical instruments	0.67
4	252329	Portland cement	0.97
5	390760	Polyethylene terephthalate (PET plastic)	0.86
6	730890	Structures	0.18
7	300490	Pharmaceutical products	-0.74
8	640399	Footwear	0.23
9	711319	Jewellery	0.84
10	080520	Mandarins	0.92
Source: Trade Project calculations based on data from ITC Trade Map			

Kyrgyzstan

Kyrgyzstan is a mountainous landlocked country bordered by Kazakhstan to the north, Uzbekistan to the west, Tajikistan to the southwest and China to the east. It was the first Commonwealth of Independent States (CIS) country to be accepted in to the World Trade Organization (WTO).

Table 14: Kyrgyzstan Country Profile

Area	199,951 sq km
Population	5.55 million
Capital	Bishkek
Location	Central Asia, west of China, south of Kazakhstan
Border Countries	China, Kazakhstan, Tajikistan, Uzbekistan
Source:The World Factbook	

The economy of Kyrgyzstan is primarily based on agriculture with cotton, tobacco, wool and meat being the prominent products. Being a landlocked country, Kyrgyzstan depends on the ports of neighbouring countries for trade in industrial products.

Main Imports:

- Mineral fuels, vehicles, machinery, electric equipment, pharmaceutical products, iron and steel, plastic products, and textiles

Main Import Sources:

- Russian Federation, China, Kazakhstan, US, Japan, Germany, and Turkey

Pakistan's Exports to Kyrgyzstan:

- Pharmaceuticals, fruits, matches, textiles, and surgical instruments

Products with Potential for Export to Kyrgyzstan

Products with an RCA greater than one are those in which Pakistan possesses a competitive advantage. The table lists products which are both exported by Pakistan and imported by Kyrgyzstan, hence having a potential for larger exports to Kyrgyzstan.

Table 15: Top Ten Items with the Highest Trade Potential for Kyrgyzstan (2012)

Rank	HS Code	Product	Pakistan RCA
1	271019	Other petroleum oils and preparations	-0.46
2	630260	Kitchen linen and towels	0.98
3	300490	Pharmaceutical products	-0.74
4	610462	Women's apparel (trousers, shorts)	0.57
5	610342	Men's apparel (trousers, shorts)	0.75
6	630221	Bed linen	0.83
7	110100	Wheat flour	0.95
8	610510	Men's apparel (shirts)	0.94
9	610332	Men' apparel (jackets, blazers)	0.87
10	940490	Bedding and furnishing items	0.74
Source: Trade project calculations based on data from ITC Trade Map			

Tajikistan

Tajikistan is a mountainous landlocked country in Central Asia and is bordered by Afghanistan to the south, Uzbekistan to the west, Kyrgyzstan to the north and China to the East. The Wakhan Corridor, a narrow strip of 14 kilometres of Afghan territory, separates Tajikistan from Pakistan.

Table 16: Tajikistan Country Profile

Area	143,100 sq km
Population	7.91 million
Capital	Dushanbe
Location	Central Asia, west of China, south of Kyrgyzstan
Border Countries	Afghanistan, China, Kyrgyzstan, Uzbekistan
Source: The World Factbook	

Tajikistan is an arid region, and relies on imports to meet most of its food needs, as well as its industrial needs.

Main Imports:

- Mineral fuels, machinery, electric equipment, vehicles, textiles, footwear, cement, cereals, and iron and steel products

Main Import Sources:

- China, Russian Federation, Kazakhstan, Turkey and Ukraine

Pakistan's Exports to Tajikistan:

- Pharmaceuticals, matches and food items such as fruits and vegetables, dairy, eggs, and sugar

Products with Potential for Export to Tajikistan:
Products with an RCA greater than one are those in which Pakistan possesses a competitive advantage. The table lists products which are both exported by Pakistan and imported by Tajikistan, hence having a potential for greater exports to Tajikistan.

Table 17: Top Ten Items with the Highest Trade Potential for Tajikistan (2012)

Rank	HS Code	Product	Pakistan RCA
1	271019	Other petroleum oils and preparations	-0.46
2	110100	Wheat flour	0.95
3	630260	Kitchen linen and towels	0.98
4	300490	Pharmaceutical products	-0.74
5	610342	Men's apparel (trousers, shorts)	0.75
6	730890	Structures	0.18
7	610462	Women's apparel (trousers, shorts)	0.57
8	100199	Wheat	-0.45
9	100630	Rice	0.97
10	630221	Bed linen	0.83
Source: Trade Project calculations based on data from ITC Trade Map			

Turkmenistan

Turkmenistan is bordered by Afghanistan to the southeast, Iran to the south and southwest, Uzbekistan to the east and northeast, Kazakhstan to the northwest and the Caspian Sea to the west.

Table 18: Turkmenistan Country Profile

Area	488,100 sq km
Population	5.11 million
Capital	Ashgabat
Location	Central Asia, bordering the Caspian Sea, between Iran and Kazakhstan
Border Countries	Afghanistan, Iran, Kazakhstan, Uzbekistan
Source: The World Factbook	

The economy in Turkmenistan primarily relies on substantial oil and gas reserves as well as the agricultural sector.

Main Imports:

- Machinery, iron and steel, electric equipment, vehicles, and precious stones and metal

Main Import Sources:

- China, Turkey, Russian Federation, Ukraine, UK, and Germany

Pakistan's Exports to Turkmenistan:

- Matches, pharmaceuticals, leather products, fruits and cereals

Products with Potential for Export to Turkmenistan
Products with an RCA greater than one are those in which Pakistan possesses a competitive advantage. The table lists products which are both exported by Pakistan and imported by Turkmenistan, hence having a potential for greater exports to Turkmenistan.

Table 19: Top Ten Items with the Highest Trade Potential for Turkmenistan (2012)

Rank	HS Code	Product	Pakistan RCA
1	730890	Structures	0.18
2	300490	Pharmaceutical products	-0.74
3	271019	Other petroleum oils and preparations	-0.46
4	100630	Rice	0.97
5	110100	Wheat flour	0.95
6	170199	Refined sugar	0.77
7	870190	Wheeled tractors	-0.02
8	170490	Sugar confectionery	0.38
9	210690	Food preparations	-0.30
10	851770	Parts of telephone sets	-0.73
Source: Trade Project calculations based on data from ITC Trade Map			

Uzbekistan

Uzbekistan is a Central Asian Republic that is located north of Turkmenistan and South of Kazakhstan. Uzbekistan enjoys a unique location within Central Asia, as it borders all of the CARs as well as Afghanistan.

Table 17: Uzbekistan Country Profile

Area	447,400 sq km
Population	28.66 million
Capital	Tashkent
Location	Central Asia, north of Turkmenistan, south of Kazakhstan
Border Countries	Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan
Source: The World Factbook	

Uzbekistan has the largest economy among the CARs, after Kazakhstan. The economy of Uzbekistan is supported by oil and gas exports as well as exports of gold and cotton. Cotton is the most prominent crop for the country, and Uzbekistan is the fifth largest exporter and sixth larger producer of cotton in the world.

Main Imports

- Machinery, vehicles, mineral fuels, iron and steel, electric equipment, pharmaceuticals, and wood products

Main Import Sources

- Russian Federation, China, Republic of Korea, Kazakhstan, Germany, and Turkey

Pakistan's Exports to Uzbekistan

- Pharmaceuticals, surgical instruments, matches, food items, and paper products

Products with Potential for Export to Uzbekistan

Products with an RCA greater than one are those in which Pakistan possesses a competitive advantage. The table lists products which are both exported by Pakistan and imported by Uzbekistan, hence having a potential for greater exports to Uzbekistan.

Table 18: Top Ten Items with the Highest Trade Potential for Uzbekistan (2012)

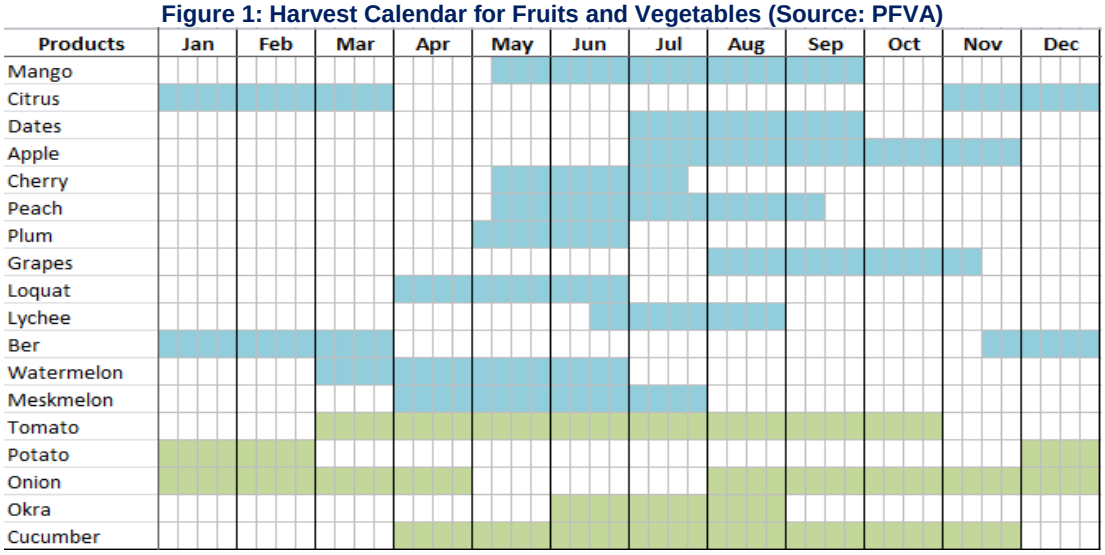
Rank	HS Code	Product	Pakistan RCA
1	271019	Other petroleum oils and preparations	-0.46
2	110100	Wheat flour	0.95
3	390760	Polyethylene terephthalate (PET plastic)	0.86
4	300490	Pharmaceutical products	-0.74
5	170199	Refined sugar	0.77
6	870190	Wheeled tractors	-0.02
7	100199	Wheat	-0.45
8	730890	Structures	0.18
9	300420	Antibiotics	-0.18
10	151620	Vegetable fats & oils	0.93

Source: Trade Project calculations based on data from ITC Trade Map

Pakistan's Potential for Exports of Fruits and Vegetables to CARs

Pakistan has two planting seasons per year due to the suitable climate. This allows the agricultural sector to grow and harvest crops throughout the year. Figure 1 represents the harvest seasons for various fruits and vegetables in Pakistan. The sector is represented by the All Pakistan Fruits & Vegetables Exporters, Importers & Merchants Association (PFVA).

Figure 1: Harvest Calendar for Fruits and Vegetables (Source: PFVA)



Pakistan's export of fruits and vegetables has been on the rise; however, exports to Central Asia have been limited, despite demand from these countries, as well as geographical proximity.

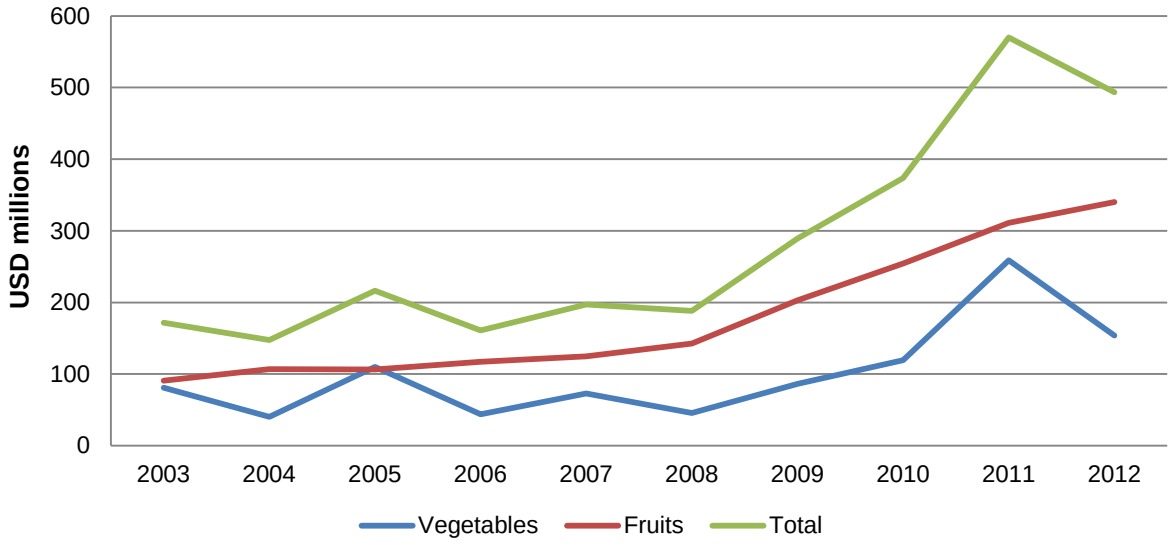
Pakistan's Exports of Fruits and Vegetables

The chart below shows Pakistan's exports of fruits and vegetables in the last ten years. Exports of fruits have been growing steadily for Pakistan whereas exports of vegetables show a more erratic trend. The revenue from exported vegetables has been growing generally, except for declines in 2004, 2006, 2008 and 2012. In 2012, the onion crop was affected by floods, and this was partly the reason for decreased exports of vegetables.[7]

In 2011, Pakistan exported around USD 260 million in vegetables and USD 310 million in fruits. In 2012, Pakistan's exports of fruits grew to a figure of almost USD 340 million. Exports of vegetables did not experience sustained growth, amounting to USD 153 million. Overall, Pakistan's exports of fruits and vegetables between 2010 and 2011 ranged between USD 370 to 570 million.

[7] Kazim Alam, "Global Demand: Vegetable Exports Plummet 40% in 2012," *Express Tribune*, August 18, 2012, accessed January 25, 2014, http://tribune.com.pk/story/423580/global-demand-vegetable-exports-plummet-40-in-2012/.

Chart 14: Pakistan's Exports of Fruits and Vegetables (Data Source: ITC Trade Map)

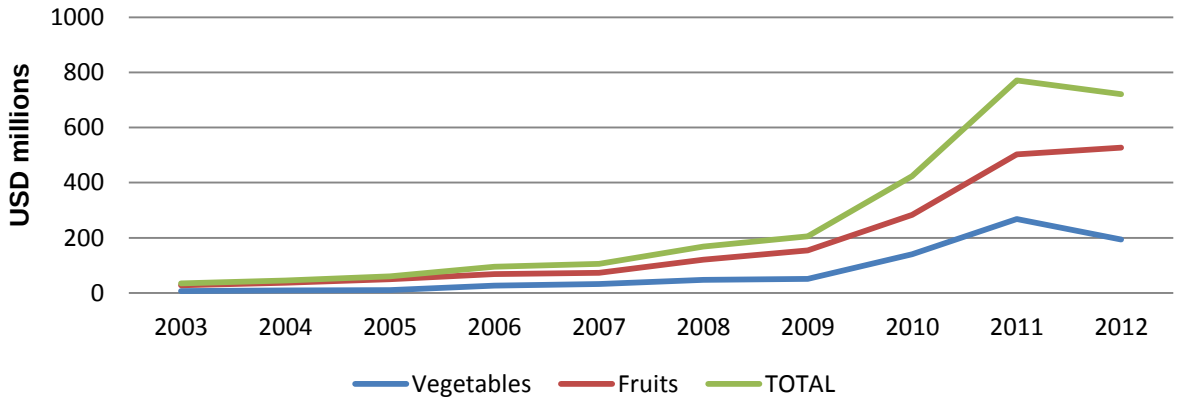


CARs' Import of Fruits and Vegetables

Central Asia, as a whole, is a large importer of fruits and vegetables. The CARs face inhospitable conditions for growth of food crops. This results in volatility of supply and prices of food products. Hence, it is crucial for the CARs to supplement food supply with imports of fruits and vegetables. Chart 15 shows the amounts spent by the CARs to import fruits and vegetables in the last ten years.

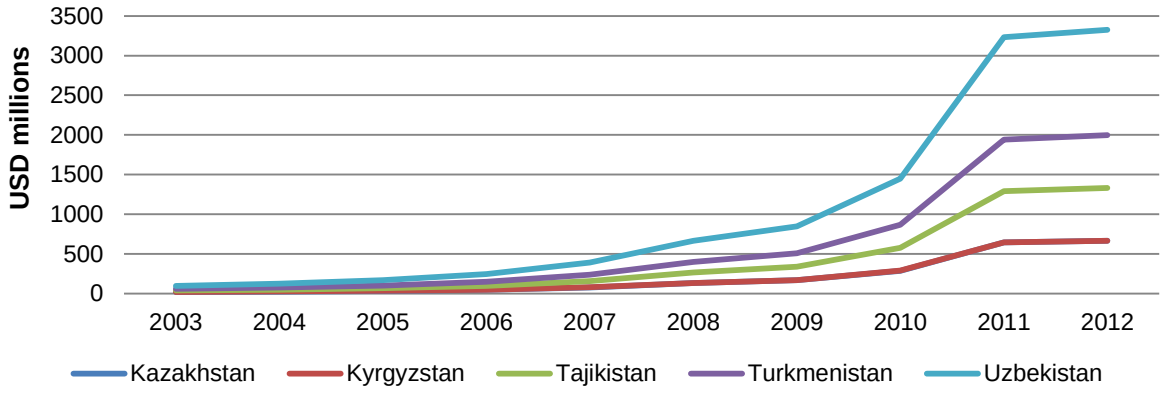
From 2010 to 2012, the CARs' imports of fruits and vegetables have amounted to between USD 400 - 800 million. Fruits compose a greater proportion of these imports, totalling between USD 200 - 500 million. The imports of vegetables totalled between USD 100 - 300 million. The demand for fruits and vegetables has been consistently rising in the CARs, with the exception of 2012, when the amount of vegetable imports decreased compared to the previous year.

Chart 15: CARs' Import of Fruits and Vegetables (Data Source: ITC Trade Map)



Among the CARs, Uzbekistan has consistently been the largest importer of fruits and vegetables, followed by Turkmenistan and Tajikistan. The import figures for Kazakhstan and Kyrgyzstan are very similar to each other. The trend in demand for fruits and vegetables in all the CARs is similar. This trade pattern may indicate the possibility that the climate and crop productivity in the region produces similar demand patterns for all five countries, or that there are patterns of re-exports set between the five countries.

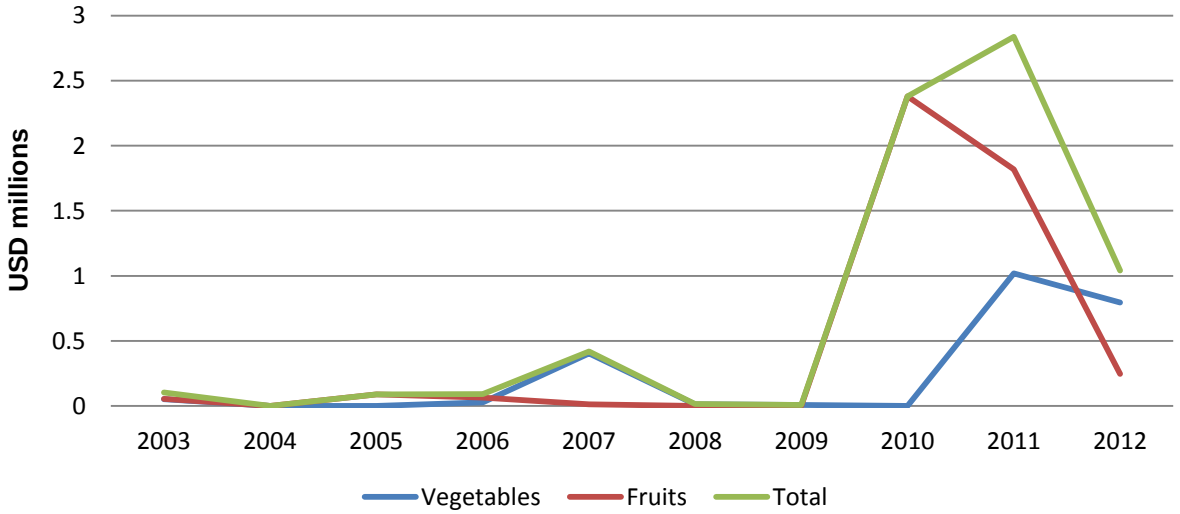
Chart 16: CARs Import of Fruits and Vegetables (By Country) (Data Source: ITC Trade Map)



Pakistan's Exports of Fruits and Vegetables to CARs

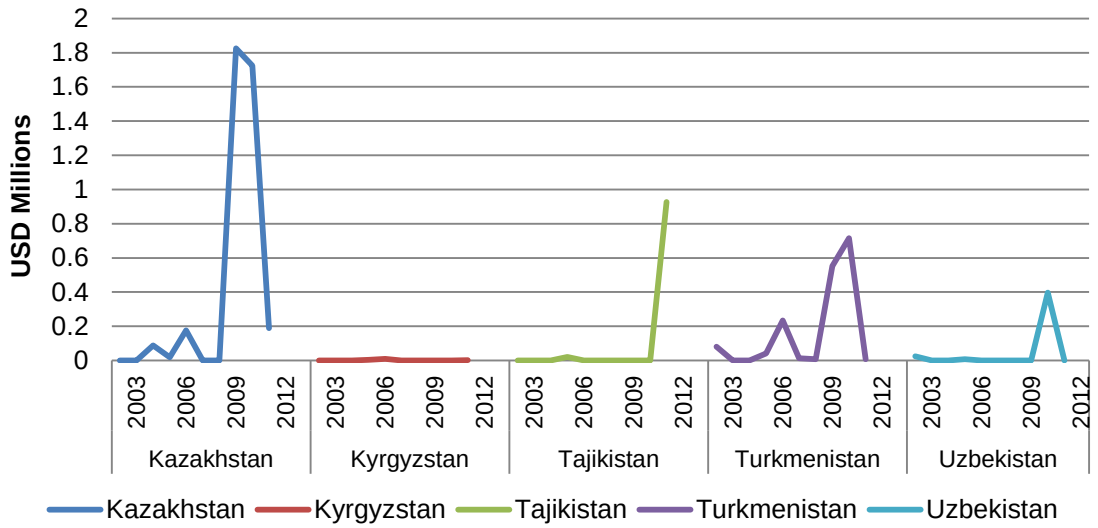
Despite the demand for fruits and vegetables in the Central Asian countries, and Pakistan's export potential, the trade of fruits and vegetables between Pakistan and Central Asia is very low. Exports of fruits have fared better than the exports of vegetables in recent years. Regardless, the revenues from Pakistan's exports of fruits and vegetables to CARs have remained very small, and have ranged between USD 1 to 4 million. An expedient and well-coordinated supply chain is required for perishable items such as fruits and vegetables. If Pakistan is to improve its export of fruits and vegetables to CARs, it will need to remove trade barriers related to transportation.

Chart 17: Pakistan's Exports of Fruits and Vegetables to CARs (Data Source: ITC Trade Map)



Pakistan's exports to the individual CARs are also erratic, as illustrated in the graph below. In 2009/2010, exports to Kazakhstan, Tajikistan and Turkmenistan rose. There are, however, no significant direct exports of fruits and vegetables from Pakistan to Kyrgyzstan.

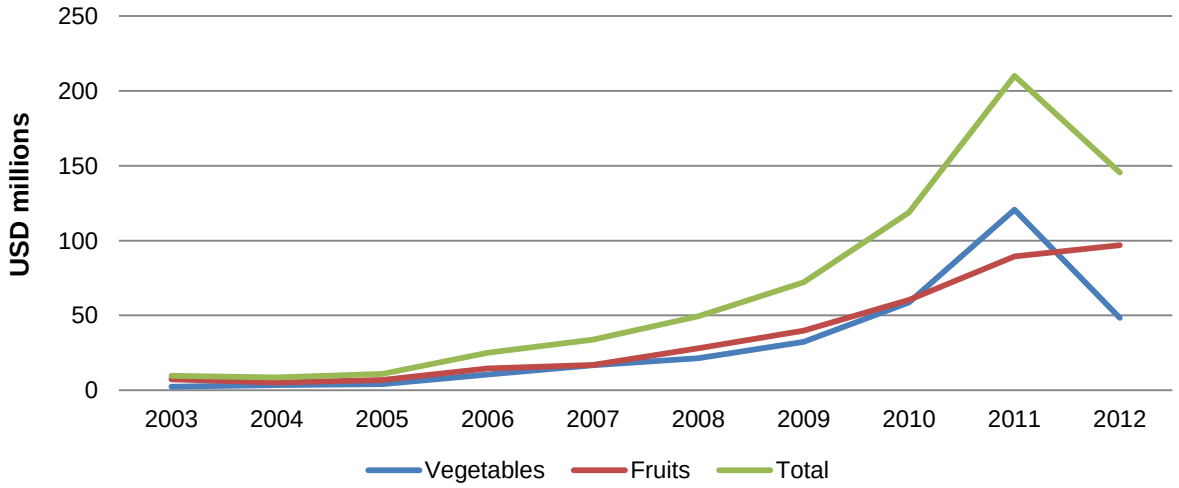
Chart 18: Pakistan's Exports of Fruits and Vegetables to CARs (By Country) (Data Source: ITC Trade Map)



Pakistan's Potential for Export of Fruits and Vegetables to CARs

High fruit and vegetable exports from Pakistan, combined with high imports by CARs, indicate the potential for Pakistan to increase its exports to the region. At the highest point in the last decade, Pakistan's potential for exports of fruits and vegetables to CARs was greater than USD 200 million. The potential has been steadily increasing, with the exception of 2012, when export potential declined as a result of lower fruit and vegetable production after the floods in Pakistan.

Chart 19: Pakistan's Potential for Fruit and Vegetable Exports to CARs (Data Source: ITC Trade Map)

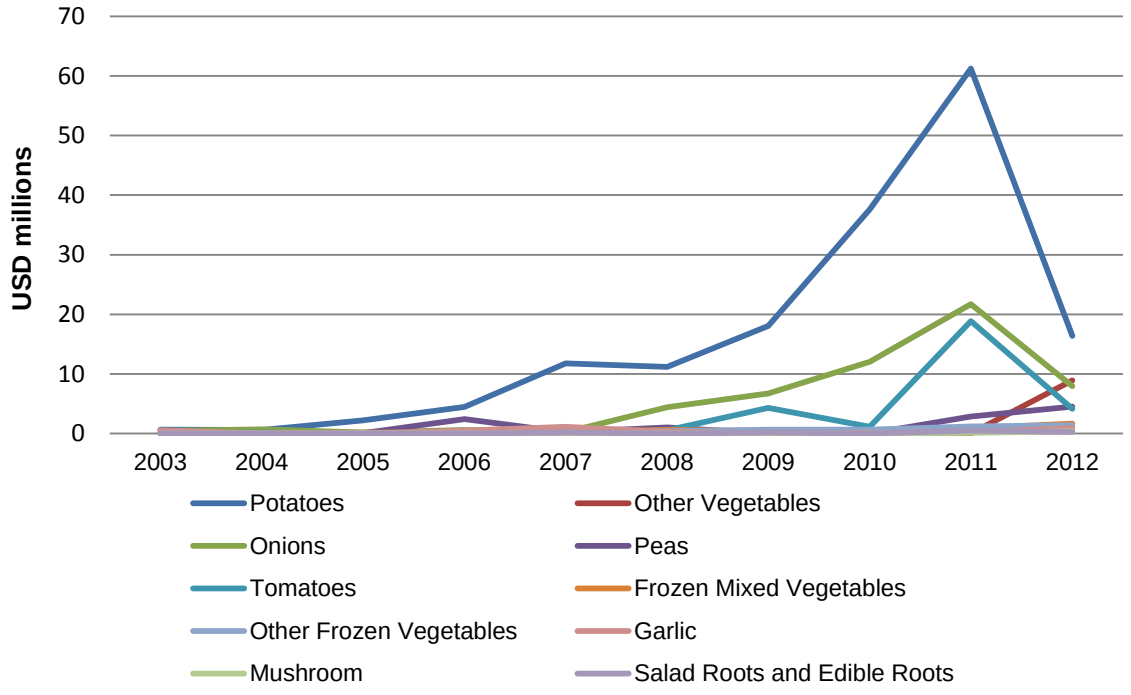


Pakistani Fruit and Vegetable Products with the Highest Export Potential to CARs

<u>Vegetables</u>

The figures below show the distribution of export potential among the top ten vegetables. The highest potential is observed for potatoes, followed by onions and tomatoes.

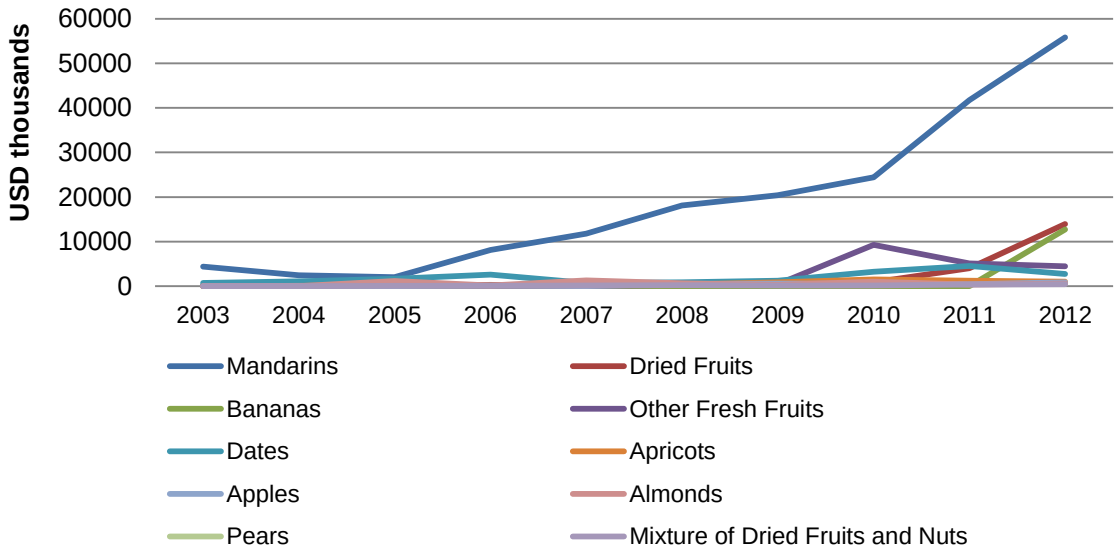
Chart 20: Top Ten Vegetables According to Export Potential (Data Source: ITC Trade Map)



Fruits:

Among fruits, mandarins have the highest export potential to the CARs.

Chart 21: Top Ten Fruits According to Export Potential (Data Source: ITC Trade Map)



Main Products:

Based on the above analysis, the top products with export potential from Pakistan to CARs are:

- Mandarins
- Potatoes
- Onions
- Tomatoes

Except for tomatoes, the other three products have an RCA of greater than 1, suggesting that Pakistan has a comparative advantage in exporting these items.

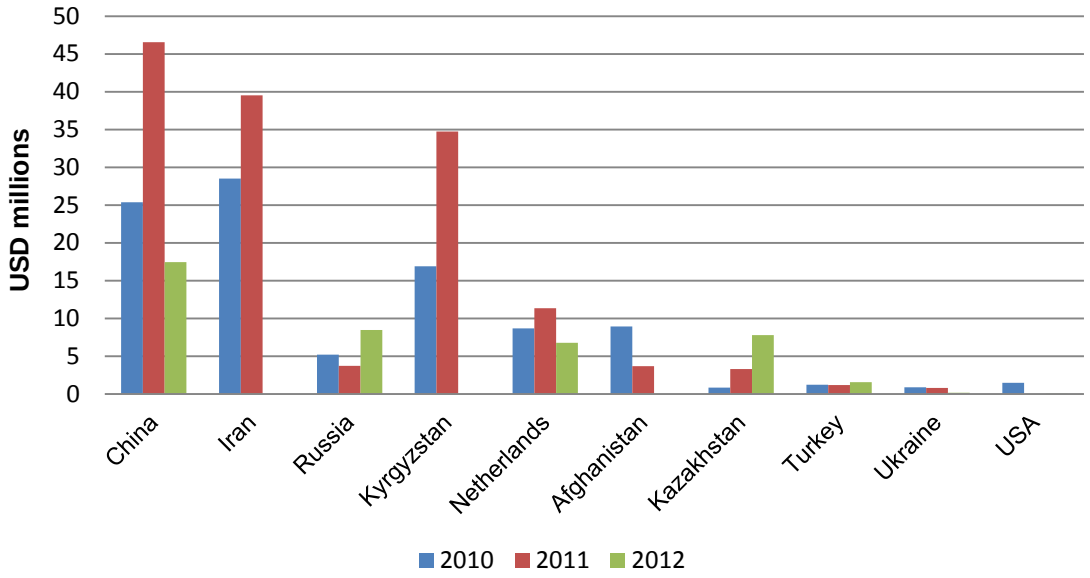
Trade Flows

Source Countries for CARs

CARs largely import their fruits and vegetables from within the region. China, Iran and Russia figure prominently as sources of fruits and vegetable for CARs. Some imports, however, are sourced from distant countries such as the US, Netherlands and Vietnam. The tables below show the top ten countries for imports of vegetables and fruits for the CARs.

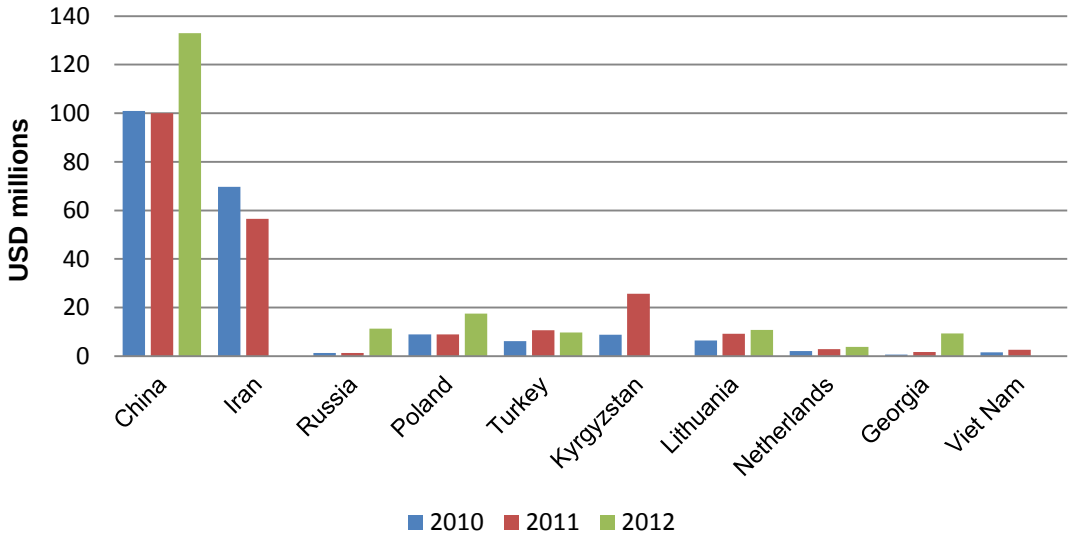
Vegetables:

Table 22: Vegetables Source Countries for CARs (Data Source: ITC Trade Map)



Fruits:

Table 23: Fruits Source Countries for CARs (Data Source: ITC Trade Map)

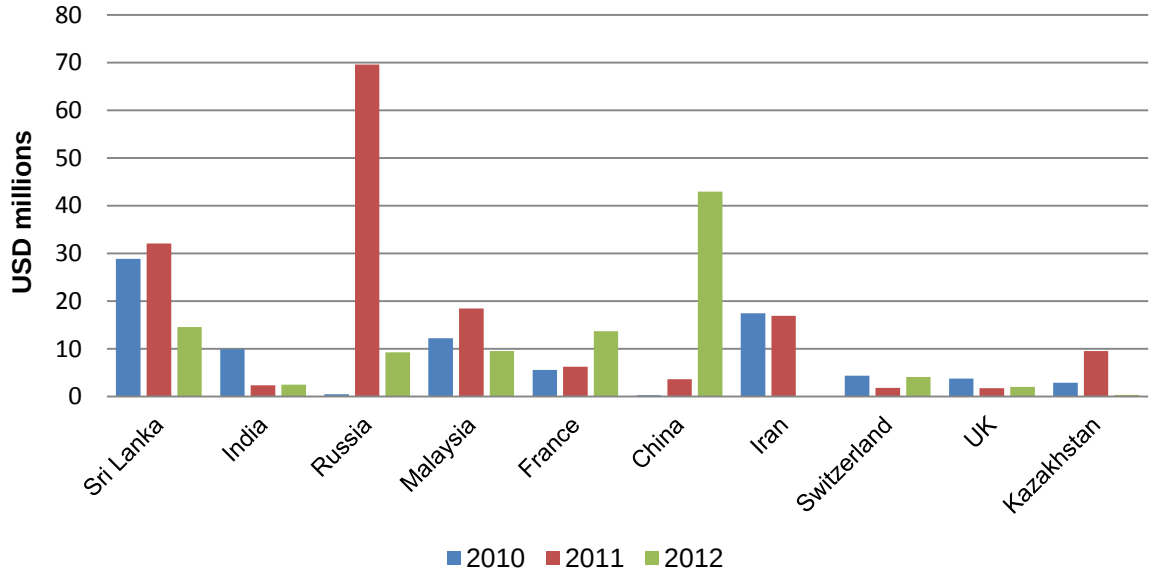


Export Markets for Pakistan:

Pakistan's export market for fruits and vegetables is varied. Within the region, Pakistan exports to Sri Lanka, India, China and Iran. The Middle East, EU, US, and East Asia are also important markets for Pakistan's fruit and vegetable exports. The tables below show the top ten countries for export of fruits and vegetables from Pakistan.

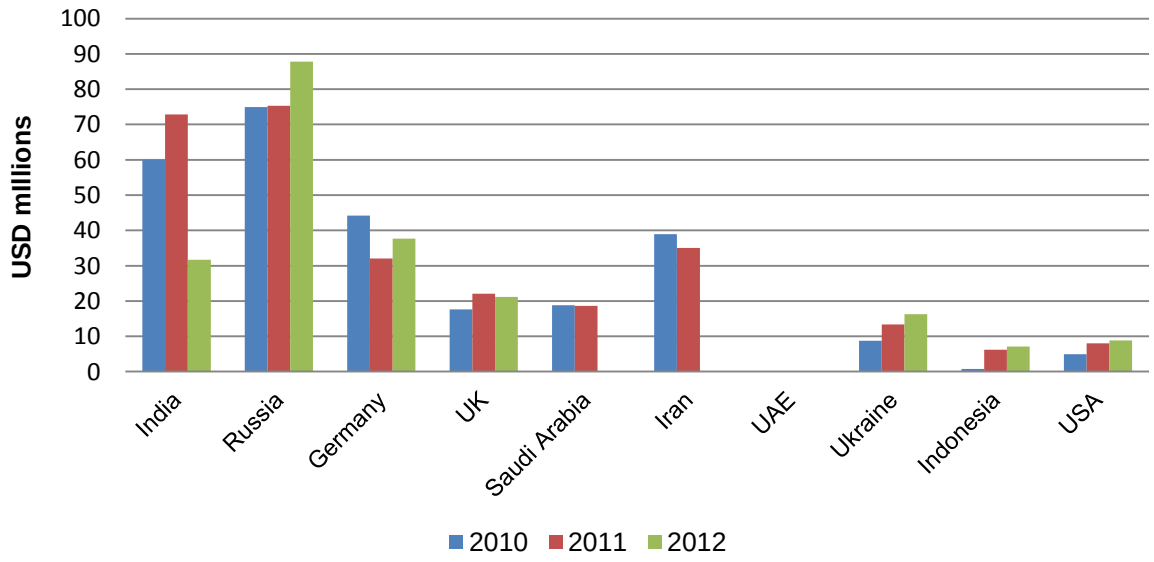
Vegetables

Chart 24: Export Markets for Pakistan's Vegetables (Data Source: ITC Trade Map)



Fruits

Chart 25: Export Markets for Pakistan's Fruits (Data Source: ITC Trade Map)



Opportunities and Challenges for Pakistan in the Fruits and Vegetables Sector

Food insecurity is a major problem in the Central Asian region because of poverty and an underdeveloped agricultural sector. Natural hazards such as earthquakes, floods, land degradation and scarcity of water affect the production of food crops.[8] Although Kazakhstan produces enough grains to satisfy local demand and export the surplus, other countries are net importers of food crops, fruits and vegetables. CARs produce and export fruits such as grapes, apricots and nuts, but there is a huge demand for citrus fruits from Pakistan. The export of vegetables from Pakistan to CARs is, on the other hand, minimal. Pakistan's agricultural sector is also subject to natural hazards such as floods and water scarcity that can affect fruit and vegetable exports. Improved connectivity between Pakistan and Central Asia can enable Pakistan's traders to increase their exports of agricultural produce.

A large quantity of fruit and vegetables sent to Afghanistan and onward to CARs from Pakistan are exported through informal channels. Growers seldom engage in export of their own produce in this sector, and the bulk of exports are carried out by independent exporters. The route taken to reach Central Asia passes through Afghanistan and then onward to Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. Fruits or vegetables exported to Tajikistan or Afghanistan are sometimes re-exported to other countries bordering Afghanistan. Most exporters of fruits and vegetables work in partnership with Afghan or Tajik associates who handle transit and sale of the shipment once it crosses the Pakistani border with Afghanistan.

The perishable nature of fruits and vegetables causes many problems in overland trade to CARs. An inadequate cold chain infrastructure in Pakistan inhibits exporters' ability to comply with the phytosanitary requirements imposed by importing countries. This, together with the costs of border crossings, discourages exporters to employ formal trade channels. Some traders had the experience of paying almost double the fees at Torkham for legal crossing as opposed to informal crossing. Direct exporters employ clearing agents to handle the crossing of the shipment at Torkham and are often unaware of the procedures through which their products are transported. Informal fees, and the necessity of using middlemen, add to the cost on the Pakistani side. The presence of organized crime is also a concern in Central Asia as it adds to the cost of doing business through informal fees.

Traders and exporters from Punjab are also hesitant to venture into Afghanistan because of the perceived security threat. A general perception is that it is dangerous for traders who are not ethnic Pashtuns and do not speak Pashto to transit through Afghanistan. This perception discourages many from exploring Central Asian markets; however, those with experience transiting through Afghanistan encounter few problems related to security on the route. A common problem faced in Afghanistan is the unreliable road infrastructure. The Salang Tunnel in Afghanistan can close down unpredictably in the winter months, causing delays. These delays are very risky for exporters, especially those of perishable goods, as they risk the loss of their entire investment. Customs clearances at border stations can also cause unpredictable delays. In the absence of adequate cold chain transport, exporters of fruits and vegetables are vulnerable to losses when any delay in transit time is encountered.

The following case study examines the experience of mandarin growers from Sargodha in trading with the CARs.

[8] David Sedik, Guljahan Kurbanova and Gabor Szentpali, "The Status and Challenges of Food Security in Central Asia" (prepared as background material for the third Central Asia Risk Assessment (CARRA) Meeting in Astana, Kazakhstan, April 14-15 2011).

Case Study 1: Mandarin Exports from Sargodha to CARs

Sargodha is the centre of citrus production in Pakistan, with many orchards and processing plants located in the region. According to estimates, there are around 200 citrus processing units in Sargodha with a processing capacity of 15,000 metric tons. Global GAP, or Good Agricultural Practice (previously known as Eurep GAP), is a standard for farm management in this sector. Very few farms and units have Global GAP certification; outside of Europe and the US citrus importers do not generally require this certification.

Exporters do not usually own the farms which produce the items they export. Mandarin orchards are leased, or a contract is given out for the supply of fruit from the orchard. In case of leased orchards, the exporter will hire seasonal labour for fruit harvests. This workforce is not trained; at best one or two people will provide supervision and ad hoc training to pickers as they perform their work. Up to 20% of produce can be damaged during picking.

The next stage involves sorting and grading mandarins. This process separates the mandarins that are suitable for export from those that would be sent to the local markets. In the processing plant mandarins are washed and dried, and then waxed with an anti-fungal polish. After the mandarins have been dried again they are graded according to size.

Global standards require that mandarins be packed in corrugated cardboard boxes, but most exporters are not able to do that. Non-availability of refrigerated containers for inland transport is a major problem faced by citrus exporters. Without the refrigerated containers, proper packaging in corrugated cartons is not possible.

Currently, the majority of Pakistan's citrus exporters use wooden crates for export to the CAR markets. The wooden crates are prone to fungus, which results in loss of fruits if delays in transport occur. This is a particular difficulty for the land-route that is blocked by the frequent closure of Salang Tunnel in Afghanistan during the winter season. It is illegal to export mandarins from Pakistan by land before December 1st of every year.[9] For this reason, large citrus exporters prefer sea-routes instead of land-routes for their shipments to Russia and the CARs.

After packing, the mandarins are ready to be exported. At this point the exporter arranges transportation and all necessary permits. The permit costs range from PKR 30,000 to 40,000 for transport to Afghanistan or Tajikistan, and the transport costs are in the range of PKR 20,000 to 30,000. The transporter arranges all these permits, and the exporter will no longer be directly involved in the process. Citrus exports through the land route to Afghanistan or CARs do not require permits under the Export Policy Order – 2013.

The transporter is responsible for crossing over the shipment at Torkham. The exporters in Sargodha do not receive any documentation of export, and often are not even aware of the process through which their produce is being exported. At Torkham, the shipment is unloaded and reloaded on to Afghan trucks which will take them further to Tajikistan. This unloading and reloading process may happen three times between Pakistan and Tajikistan – at Torkham, at Kabul, and at the Afghan-Tajik border crossing of Shir Khan Bandar. Customs duties are also not fixed and are therefore a variable cost to the exporter.

Mandarins taken to Tajikistan may be ordered by a buyer or sold in the open market. The exporter is able to charge USD 7-9 per crate. The payments system is also informal – the exporter is often paid through hundi, which is an informal system of sending remittances.

[9] Ghulam Abbas, "No Kinnow Export before December 1: MoC," *Business Recorder,* November 10, 2010, http://www.brecorder.com/top-stories/0/1256940/?tmpl=component&print=1&layout=default&page.

Pakistan Potential of Exports of Surgical Instruments

The surgical instruments sector is well-established in Pakistan. Manufacturing is centered in the city of Sialkot, where it began in the 19th century in pre-independence Pakistan. Surgical instruments fall under HS Code 90 and Pakistan mainly exports items under HS 9018, 9021 and 9022. Most of the exports from Pakistan are classified under HS 9018 - Instruments for medical, surgical and dental or veterinary sciences. At the 6 digit level, Pakistan's exports fall under HS 901890 - other instruments and appliances. This is an export-oriented sector and it is estimated that 95% of the product is exported. The primary raw material used for manufacturing is stainless steel, along with other metals and chemicals.

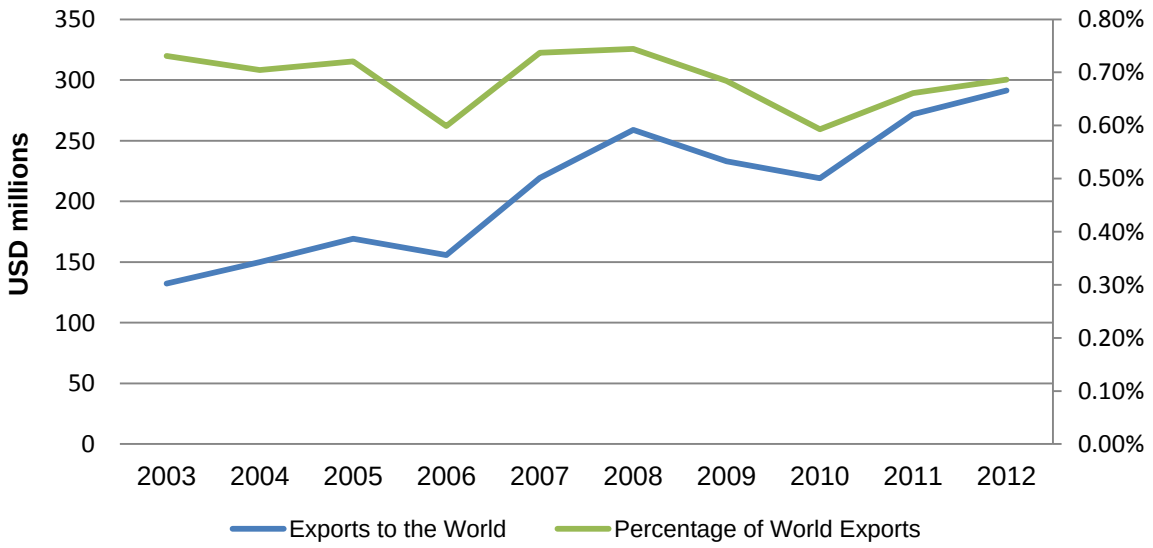
Table 19: Surgical Instruments Sector Overview

Number of units	2300
Total installed capacity	225,000-250,000 million pieces
Production	150 million pieces
Contribution to Pakistan's exports	1.21%
Contribution to GDP	0.41%
Sector employment	100,00 – 150,000
Indirect employment	400,000 – 450,000
Source: UNIDO TRTA II: *Draft Report on Industrial Sectors*	

Pakistan's Exports of Surgical Instruments

In the last ten years, Pakistan's revenue from the export of surgical instruments has generally been growing, despite some fluctuations. In 2012, Pakistan exported nearly USD 300 million worth of surgical instruments. Despite the growth in export revenues, Pakistan has not been able to increase its share in world exports. In 2012 Pakistan's share in global export of surgical instruments was 0.69% compared to a share of 0.73% in 2003. This suggests that Pakistan's exports are not growing in proportion with global demand.

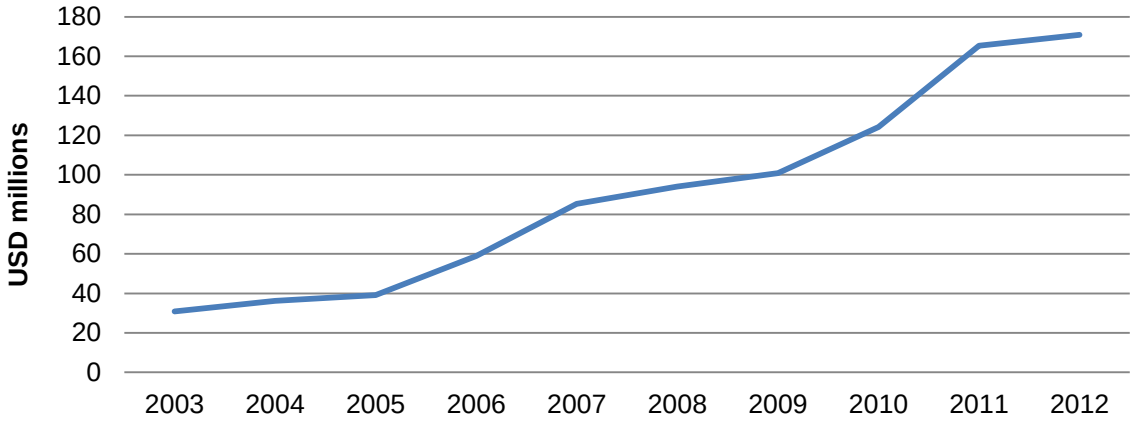
Chart 26: Pakistan's Exports of Surgical Instruments (Data Source: ITC Trade Map)



Central Asian Republics' Imports of Surgical Instruments

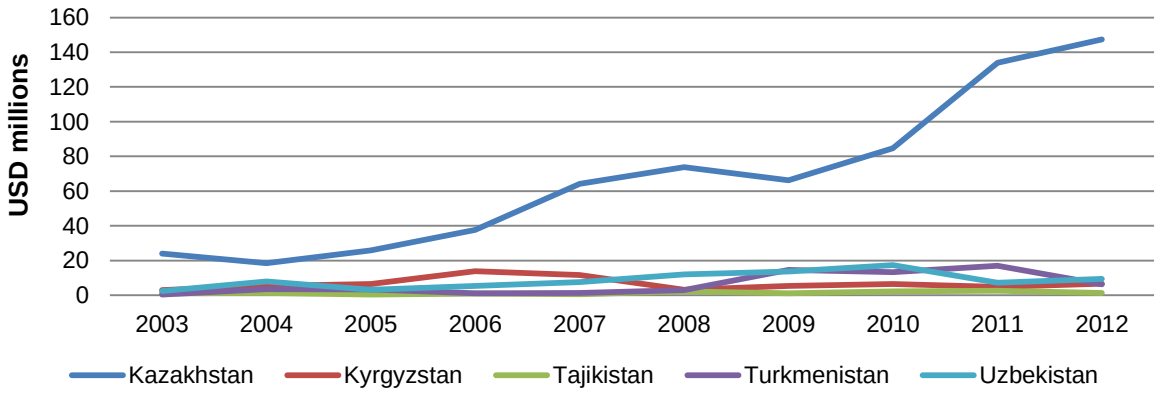
The demand for surgical instruments has been exponentially growing in the CARs. The combined imports of the CARs have increased more than five-fold in the last 5 years. The latest available data shows that the net imports for the region were around USD 170 million in 2012.

Chart 25: CARs Imports of Surgical Instruments (Data Source: ITC Trade Map)



Kazakhstan is by far the largest importer of surgical instruments among the CARs. In 2012, imports by Kazakhstan exceeded USD 140 million. In contrast, the combined value of imports by Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan was only USD 23 million. It is clear that Kazakhstan is largely responsible for the growing imports of surgical instruments in Central Asia.

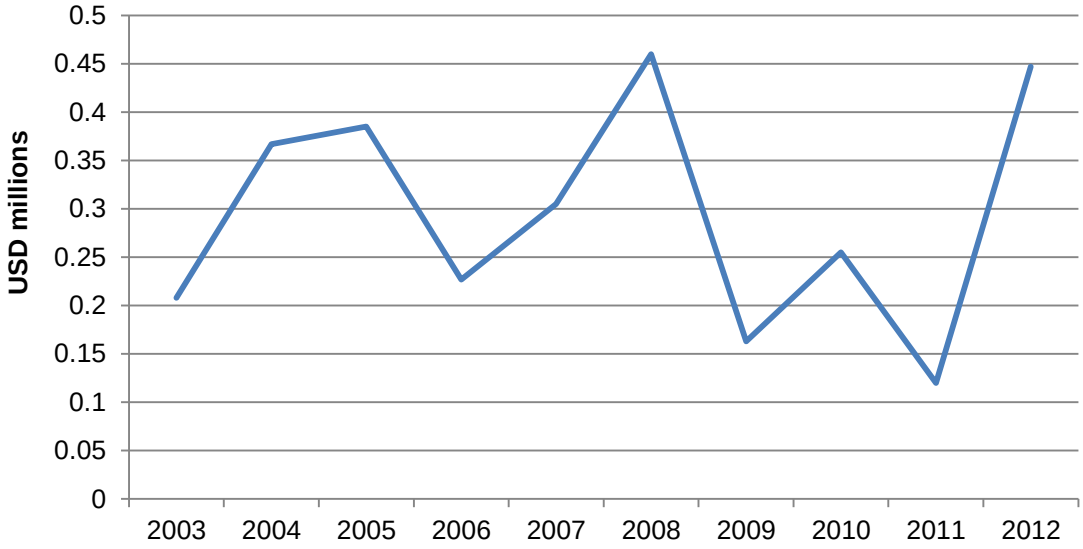
Chart 26: CARs Import of Surgical Instruments (By Country) (Data Source: ITC Trade Map)



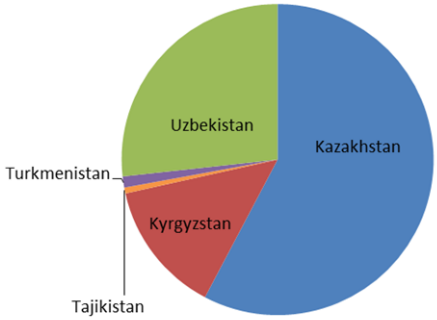
Pakistan's Export of Surgical Instruments to CARs

The export pattern of surgical instruments from Pakistan to CARs has been very unpredictable in the last ten years. Yearly exports have ranged between USD 163,000 in 2009 to USD 460,000 in 2008. The reasons for this fluctuation are not clear. Regardless, the volume of Pakistan's exports to the region is very little considering both the total exports from Pakistan and the demand for surgical instruments in CARs.

Chart 27: Pakistan's Exports of Surgical Instruments to CARs (Data Source: ITC Trade Map)



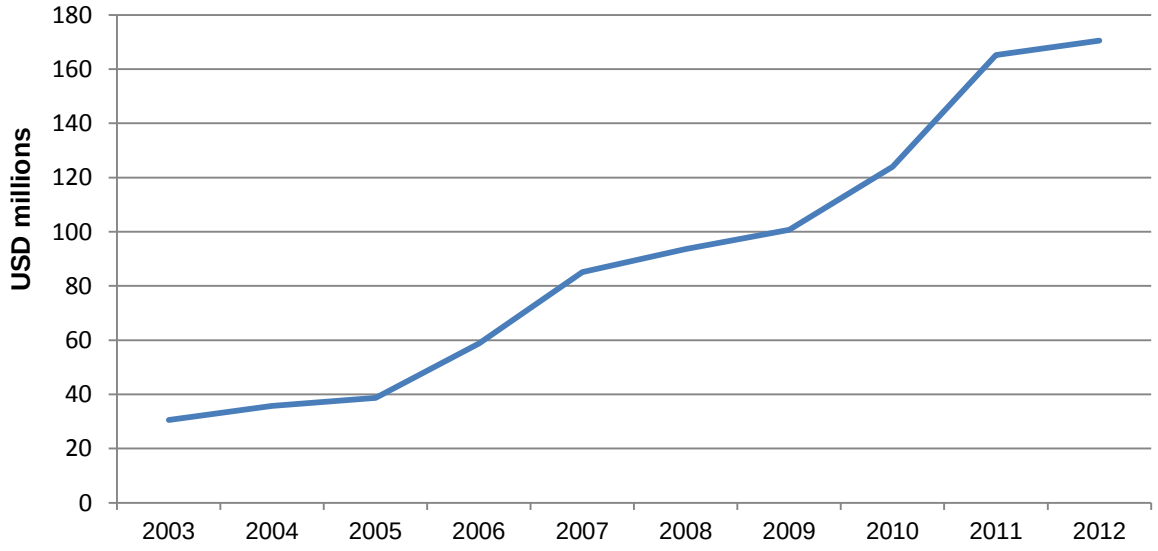
In the last ten years, Pakistan's exports of surgical instruments to CARs have been primarily directed to Kazakhstan, followed by Uzbekistan and Kyrgyzstan. The market for surgical instruments in Tajikistan and Turkmenistan is extremely small.



Potential Export of Surgical Instruments to CARs

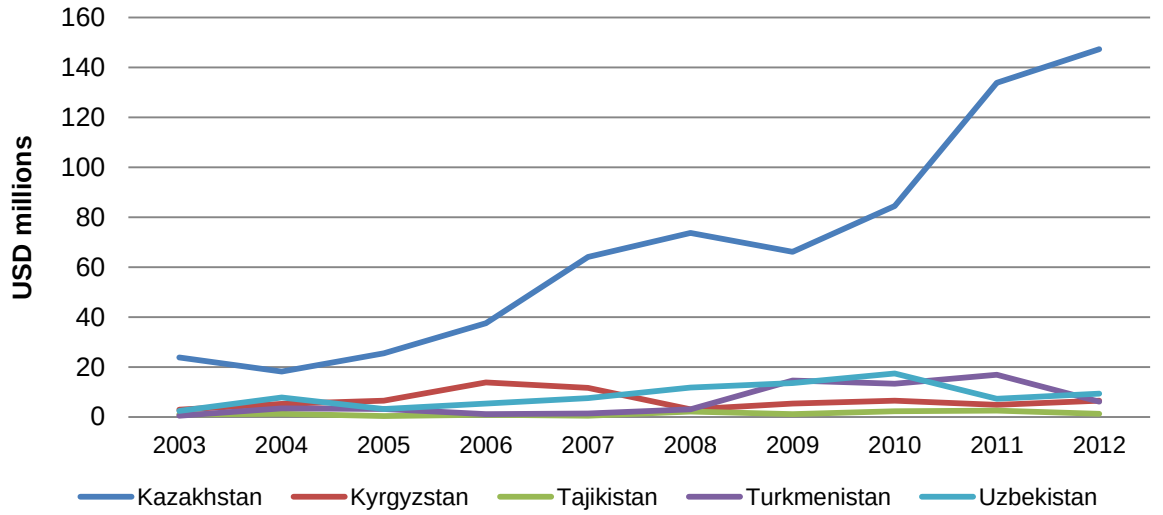
Pakistan's exports of surgical instruments far exceeds the demand from CARs, hence in theory, Pakistan has the potential to meet all the demand of this region. Potential for export has risen as the demand from the CARs has gone up. This indicates that an increase in production of surgical instruments in Pakistan could find a ready market in the CARs.

Chart 28: Pakistan's Potential Export of Surgical Instruments to CARs (Data Source: ITC Trade Map)



Kazakhstan offers the highest potential to increase Pakistan's exports in surgical instruments. Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan are much smaller markets in comparison, and therefore do not hold as much potential.

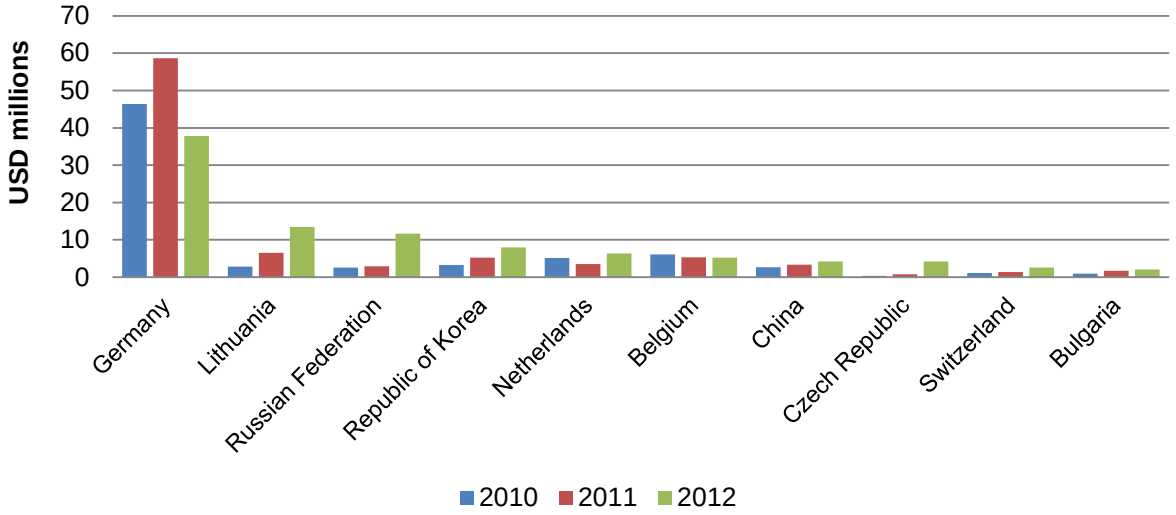
Chart 29: Pakistan's Potential Export of Surgical Instruments to CARs (By Country) (Data Source: ITC Trade Map)



Trade Flows

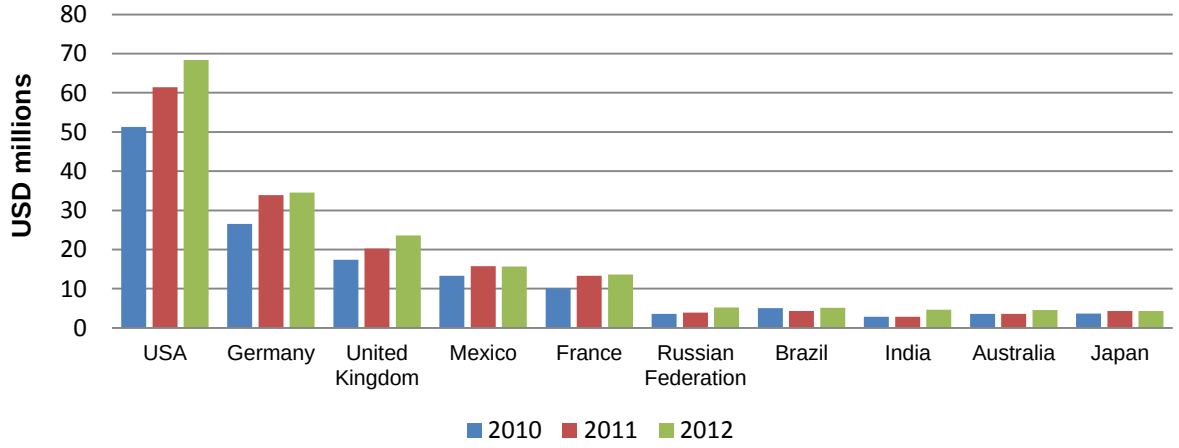
Source Countries for CARs:
Germany is by far the largest supplier of surgical instruments to the CARs. The net exports of surgical instruments from Germany to CARs have remained between USD 30 to 60 million in the last three years. Other countries exporting surgical instruments to CARs include Lithuania, the Russian Federation, and China, among others. The quantity exported by these countries, however, hardly exceeds USD 10 million in value. This indicates the greatest competition for Pakistan in the Central Asian markets is from German manufactured products.

Chart 30: Source Countries for CARs Imports of Surgical Instruments (Data Source: ITC Trade Map)



Export Markets for Pakistan:
The biggest market for surgical instruments manufactured in Pakistan is the US. Germany, UK, Mexico, and France are among other big markets for Pakistan, although the US imports almost twice as much as any of these countries. Pakistan's exports to Germany ranged between USD 20 to 40 million during 2010-2012. Pakistani products are able to compete in European and North American markets and comply with their standards. In fact, Germany imports unfinished products from Pakistan and re-exports them after finishing and branding.

Chart 31: Surgical Instruments Export Markets for Pakistan (Data Source: ITC Trade Map)



Opportunities and Challenges for Pakistan in the Surgical Instruments Sector

Pakistan has a great potential to increase its exports of surgical instruments to the CARs. Pakistan can achieve this by either redirecting its existing production to Central Asian Markets, or by increasing manufacturing and expanding to new markets in the region. The surgical instruments sector is export-oriented and largely exports to North American and European markets. The industry in Sialkot is currently performing below its manufacturing capacity.[10] Increased manufacturing of surgical instruments can be directed to closer markets, and the CARs, with their rapidly growing economies, provide an ideal opportunity. The increasing cost of electricity and raw materials, such as stainless steel, however, continues to prevent manufacturers from producing at full capacity.

Surgical instruments are exported as air freight and are not subject to the limitations of land routes. This is especially relevant in the case for exports to CARs, as these exports are not subject to transit challenges in Afghanistan. Sialkot International Airport began operation in 2007 and has been a great boon to trade from the region. Several cargo flights from operators such as Qatar Airlines and Emirates Airlines operate between Sialkot and global aviation hubs such as Dubai and Doha. This connectivity greatly improves the access to Central Asian markets for surgical instrument manufacturers. Existing exports to CARs occur through formal channels and few problems are faced in transportation of goods.

The challenges that manufacturers and exporters face are largely related to market access. Manufacturers must obtain registration for their products before being allowed to bring their product in the country. Upon registration, products may also have to go through a testing phase. The CARs' bureaucratic procedures related to this registration and testing process are both costly and time-consuming. Most paperwork is in Russian and other local languages, and it is difficult for Pakistani manufacturers to navigate the process. The surgical instruments sector is a cottage industry, and apart from a few well-established firms, most units are small in size. These manufacturing units do not function as corporations and are often under individual leadership. The well-established manufacturers have easy access to European and American markets and are not interested in going through the trouble of gaining access to Central Asian markets. On the other hand, small scale manufacturers lack the resources, financial and otherwise, to establish their presence in the CARs.

This report's second case study, provided below, presents the experience of a pharmaceutical company in gaining access to the market in Uzbekistan. Pharmaceutical products are also subject to similar registration requirements as surgical instruments. Pharmaceuticals from Pakistan have performed well in Central Asian markets in terms of exports. Knowledge-sharing between the pharmaceutical sector and the surgical instruments sector, especially with regard to navigating bureaucracy in these countries, may be beneficial to enhancing trade.

[10] United Nation Industrial Development Organisation, Trade Related technical Assistance (TRTA II) Programme, *Draft Report on Industrial Sectors*, by Usman Khan, Ali Haroon and Shafqat Hayat Bhatti (2010), 74.

Case Study 2: PharmEvo

PharmEvo was established as a pharmaceutical distribution company in the 1970s. PharmEvo is one of the leading pharmaceutical manufacturers and marketing companies in Pakistan. For the last five years their annual growth rate has been more than 27%, with annual turnover of USD 250 million in 2012. PharmEvo now markets over 112 pharmaceutical products; some of these products are brand leaders in Pakistan. Along with an extensive market presence in Pakistan, PharmEvo has an export market in Sri Lanka, Guatemala, Cambodia, Myanmar, Vietnam, Philippines, Kenya, and Afghanistan. Considering the market potential for its products, the company is now planning to enter into the African and Central Asian markets, specifically Uzbekistan.

Pharmaceutical Market in Uzbekistan

The pharmaceutical market of Uzbekistan totals approximately USD 500 million and features quite high growth rates; the market is expected to exceed USD 1 billion in coming years according to estimates by PharmEvo.

Economic growth along with better living conditions in Uzbekistan has resulted in an increase in the number of elderly in the country, resulting in higher demand for medications. Uzbek pharmaceutical companies imported USD 373.7 million worth of medicines in 2010, with major imports coming from Russia, Germany, Ukraine, India, China, and Hungary. According to projections made by PharmEvo, imports of medical drugs are expected to grow annually by 21-22% in the next 4-5 years, which positions Uzbekistan as a very lucrative market for the pharmaceutical manufacturers in Pakistan.

Legislative Framework for Imports of Pharmaceuticals

The Law N 415-I on Medications and Pharmaceutical Activities of Uzbekistan constitutes the regulatory backbone of the pharmaceutical industry and exercises quality control, registration, standardization, and certification of medical drugs. Medical drugs are subject to mandatory registration at the Ministry of Health of Uzbekistan for retail sales of medical drugs and health products.

Entering the Uzbek Market

PharmEvo has recently registered its products for cardiovascular and hypertension diseases with the Drug Registration Authority, Ministry of Health, Uzbekistan and are planning to begin marketing in Uzbekistan in 2014. The product registration experience was very cumbersome; it took PharmEvo two years to register its products with the Drug Registration Authority and the costs were approximately USD 4000 for each product, including a USD 1000 consultant fee. Registration costs in Uzbekistan are on the higher end compared to Kenya and Sri Lanka, where registration costs USD 500 per product and the process can be completed in 8 to 12 months. Product registration in Uzbekistan is valid for five years. Although re-registration is quicker, the costs are about the same.

Product Registration:

The following flow chart describes the process of product registration in Uzbekistan:

Pharmaceutical Registration Process

Receiving Office (2-3 Weeks)
- Documents and product submission
- Analysis of the product submitted
- Development and delivery of contract for registration
- Additional documents if required

↓

Laboratory (3-6 Months)
- Analysis of the documents submitted
- Primary conclusion and list of additional documents to be submitted
- Quality check of the sample/product submitted
- If successful the documents are sent to Pharmacopoeia for part of registration process

↓

Pharmacopoeia (2-3 Months)
- Secondary analysis of submitted document
- Comparison of submitted documents with the Laboratory results/findings
- Additional documents requested if required
- If successful, the documents are sent to Pharmacological Committee

↓

Pharmacological Committee (1-6 Months)
- If product is registered in CIS or Europe, the product is registered without clinical studies
- If product is not registered, committee will have a clinical study done in one of the approved clinics
- Upon satisfactory results, the documents are sent to Registration Bureau

↓

Registration Bureau (2-3 Weeks)
- Issuance of registration certificate

Issues Faced by Pakistani Traders in Central Asia

The following is a list of issues Pakistani traders face when trading with Central Asia:

Language

- Language is one of the main non-tariff barriers as all Central Asian Republics carry their documentation in Russian and other local languages. Translation in English is seldom available. Language is also a barrier in transit through Afghanistan.
- Stakeholder discussions revealed that there is a hesitation on the part of traders who do not speak Pushto to venture into Afghanistan and beyond. This hesitation is in part due to a perceived security threat in Afghanistan. On the other hand, traders with experience in transit and trade with Afghanistan do not consider the security situation in Afghanistan a deterrent.
- Many people who were successfully trading with the CARs had acquired a working proficiency in Russian or were operating in partnership with Afghans or Tajiks.

No formal banking channels

- Lack of a formal banking system is the biggest impediment that exporters face in Central Asia. Some exporters resorted to transporting money from Tajikistan to Afghanistan through the land route, and then depositing it in banks.
- Lack of financial mechanisms for payments and insurance is also a big barrier to trade because exporters do not have any guarantee of payment. Traders have to resort to informal money transfers, which can be risky.

Visa Restrictions

- In some countries the process of acquiring a visa is costly and lengthy. It is difficult to acquire a multiple-entry visa.
- Visa restrictions occur on both sides; for instance, Pakistan does not allow single women from these states to travel alone.

Registration Requirements

- There are requirements for registration with the respective Ministries of Health/Food and Drug Authority in each of the CARs for sectors such as surgical instruments. Registration is expensive and tedious, compared to other countries.

Peace and Stability in Afghanistan

- Transport through Afghanistan is perceived as dangerous and is considered a significant hurdle by traders. Because of this hesitation some traders do not even attempt to trade with Central Asia.
- Traders are afraid of theft during transit through Afghanistan.
- Exporters are worried about the 2014 NATO withdrawal from Afghanistan and the peace and stability of the region in its aftermath. They expressed concerns about the safety of transiting through Afghanistan after the NATO pull-out.

Bureaucracy

- Customs clearing procedures at the border posts in Pakistan takes undue time which spoils perishable items such as fruits and vegetables.
- Bureaucratic procedures are expensive and lengthy in CARs. Informal fees add to the cost of doing business.

Transport

- Air connectivity between Pakistan and the CARs is not easy as flights between major cities require stopovers in Dubai, Abu Dhabi, or Istanbul.

- Land routes are subject to delays due to weather. The route through Afghanistan is problematic due to the Salang Tunnel, which closes in extreme weather. The Karakorum Highway is also not reliable during the winter months.

Recommendations

- In many sectors knowledge sharing can improve Pakistan's exports to the CARs. It is a difficult market for newcomers because of bureaucratic problems as well as language barriers. The GoP can partner with various chambers of commerce and manufacturers associations to share and disseminate the experience of those who have had success in exporting to the CARs.

- The surgical instruments sector can learn from the success of pharmaceuticals in the Central Asian Market. Subsidies by the Trade Development Authority of Pakistan (TDAP) in registration of pharmaceutical products were very successful for the sector. In 2009 – 2010 TDAP offered a 50% subsidy for registration costs in foreign countries to exporters of pharmaceutical products. The surgical instruments sector would also benefit immensely from such government assistance.

- Manufacturers should be encouraged to brand their products and move to higher-end manufacturing. This would enable Pakistan to export finished goods which have a higher price point. This can be done by providing manufacturers with information about the benefits of branding. An agency that counsels manufacturers interested in branding their products could also be beneficial.

- Since Kazakhstan is by far the biggest market among the CARs, a greater focus should be on extending trade with Kazakhstan. Publication and dissemination of a guide to trading with Kazakhstan would be very helpful for first time exporters.

- The immense potential in the export of food items to Central Asia is not being reached because of inadequate transport infrastructure. Investments in cold chain transport through road routes can bring high export dividends to Pakistan.

- Detailed information on markets in Central Asia is not easily available. People-to-people information exchange/interactions in the form of trade delegations can help exporters in establishing contacts.

- Diplomacy in the region should encourage simpler visa regimes. Visa requirements should be made clear and easily accessible.

- Commercial counsellors of Pakistan can be relocated from the capital city to the commercial cities in order to better serve the needs of traders. Presently the commercial counsellor from Pakistan to Kazakhstan is located in Astana, the capital. It would be beneficial to relocate the commercial counsellor to Almaty, which is the prime commercial city in Kazakhstan.

- Efforts should be made to resume air ties between Islamabad and the capitals of CARs.

- Customs clearance procedures should be streamlined and made more transparent in order to discourage informal exports.

- Language training institutes that teach Russian, Mandarin and other global languages can help Pakistan access more markets.