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RESEARCH PAPER

Trade with Central Asian Republics: Banking Sector Policy Option for Pakistan

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ABSTRACT

The study endeavors to explore policies and procedures related to banking which are hindering Pakistan's trade with Central Asia (CA) and to find solution for these problems. The methodology used has conducted secondary analysis of relevant literature, qualitative data collection in the form of qualitative interviews and content analysis of policy documents. The study found that besides trade complementarity there is huge trade potential between the economies of CA and Pakistan. It also found out that with most CA countries this potential is being missed by Pakistan. Reason for this loss is gaps in banking policy of Pakistan. Study recommends a plan be implemented by SBP; that solves the LC opening and implementation problems being faced by traders of Pakistan, for all the CA countries. It also recommends private banks should be incentivized by the SBP to open and operate branches in CA countries.

KEYWORDS Banking Policy, Central Asia, Pakistan, Regional/Foreign Trade

Introduction

The region of CA is important for Pakistan due to many reasons. These include historical relations, economic ties, trade complementarity and above all sharing of close proximity to each other. The present study endeavors to produce recommendations for banking policy of Pakistan to further its trade relations with CA. The question before the study is to know the bottlenecks in banking policy of Pakistan, which are hindering the trade prospects of Pakistan. The study also endeavors to find solutions to these policy problems through its analysis and present recommendations.

First, let us define what CA means for this study. CA countries are known to the world as part of Soviet Bloc countries in CA region. These republics declared independence from Soviet Russia in 1992. These include Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan, and Kyrgyzstan (WorldBank, 2018). However, some estimation also include among these countries, the South Caucasian state of Azerbaijan and Afghanistan (Pritchin, 2017, p. 35). However, for the present study, both Afghanistan and Azerbaijan are not included as part of CA.

Figure 1: Southeast and Central Asia, Source: (US Department of State, 2009)

A close look at the map, reminds one of what Kaplan (Kaplan, 2013) very rightly wrote in his book:

"Pakistan can be viewed as an artificial puzzle piece of a territory, straddling the frontier between the Iranian-Afghan plateau and the lowlands of the sub-continent, encompassing the western half of the Punjab……, crazily uniting the Karakoram in the north (some of the highest mountains in the world) with the Makran Desert almost a thousand miles away to the south by the Arabian Sea". (Kaplan, 2013, p. 242)

This puts Pakistan into a geographical perspective, which makes it at once a member of the CA as well as Southeast Asia. This argument is based on the fact that the 'Karakoram in the north', as narrated by Kaplan is actually the Silk Route travelling from Pakistan into the CA, either through Afghanistan or through China.

It suffices to argue here that Pakistan is geographically linked with CA. Actually; it is the only country which connects CA with the rest of Southeast Asia. Not only this, but Pakistan also has the potential to link CA with Middle East, Far East and Africa.

The closer historical interaction between these two regions received its first setback when Tsarist Russia clashed with the British Empire of India, both of whom sought to curb each other's advances and established buffer zones between their territories (Ahsan, 1996). Later, when the Soviet Union brought all the CA republics under its rule, this entire region became completely isolated from the subcontinent, alienating the peoples of both regions from each other. The collapse of the Soviet Union in 1991 once again allowed these republics to declare their sovereignty and establish independent relations with all countries in the region and the world. In their search for partners for political, diplomatic, and economic cooperation, the five CA states found their natural allies in Afghanistan, Pakistan, and Iran. This is how CA is important for Pakistan and one of many reasons to conduct this research.

Pakistan is a country which, geo-strategically can provide the shortest route to CA countries for easier access to Arabian Sea and Indian Ocean. Pakistan's position as the most viable option for CA becomes evident while looking at the world map and noticing that Syria, Iraq, and Iran, all three countries which can provide a parallel option to CA are all unstable economies, either politically or war torn. For the relationship between the banking policy and foreign trade, it has been found that there is a new way through which international finance or banking policy of a country is related to international foreign trade, formation of international bank linkages increases exports (Julian Caballero, 2016, pp. 67-68), (Beck, 2021, p. 302).

The linkages between banks and their relative development of banking systems and their sharing of information enhances the rate of issuance of Letters of Credit (LC) for those cooperating banks, thus greater facilitation of both importers and exporters within or without two countries. The study will especially focus on this aspect of banking sector among CA and Pakistan for better banking policy options.

Literature Review

Foreign Trade

Most simply defined, trade is an exchange of goods, services in exchange for goods, services, or capital: the action of buying and selling goods and services (OUP, 2022). Therefore, it can be implied that foreign trade is a trade which one country performs with another country or an international market. For this study, mostly Pakistan's trade with CA countries will be discussed. As the present study is going to discuss trade between Pakistan and CA countries, therefore, it can be safely assumed that the study is going to discuss bi-lateral trade mostly. This makes it clear that the subject of discussion is going to be bi-lateral foreign trade.

Bi-lateral foreign trade can be of three types: import, export and entrepot (Suranovic, 2016, p. 123). The import trade refers to goods and services purchased and brought into one country from another country or international market (Seyoum, 2013, p. 789), (Suranovic, 2016, pp. 23-25). While, those goods and services, which are made by one country and sold to another country or international market, out of the manufacturing country is called export (Seyoum, 2013, p. 78), (Suranovic, 2016, p. 98). Most of are already very familiar with these kinds of foreign trade types, however, entrepot trade needs clarification. Entrepot trade means importing goods from a foreign country with the purpose/motive of exporting them; as such or after adding further value to another country at a higher price (Patrick, 1967, pp. 59-60), (Golub, 2012, p. 76). Having thus defined these terms, the present study has looked at all these three types of Bi-lateral foreign trades of Pakistan with CA.

Having already discussed the trade importance of CA for Pakistan, especially when CPEC is very much a reality; it is also pertinent to mention that sometimes foreign trade also becomes a tool for political strategy, national strategic interest and also a matter of a nation's preferences (Holsti, 1986, pp. 12-15), (Cooper, 1972, p. 43). There can be other political motivations to guide foreign trade as well (Puślecki, 2016, pp. 11-20). However, as mentioned before, CA has both historical and strategic importance for Pakistan. Therefore, the study will place this strategic importance of CA as one of its cross-cutting themes.

Foreign Trade Policy Options

The present study is a multi-disciplinary one, as will be discussed in the methodology section. Here it is sufficient to argue that as the study is multi-disciplinary and thus does not take into account the purely economics related outlook of the subject. Thus, subjects as, trade theory, demand and supply, endowment theories, theories of economic growth (Sen, 2005, p. 66), (Seyoum, 2013, p. 54) and so forth are not a point of discussion for this study. Rather the study employees grounded theory and content analysis for its analysis.

In order to maintain the crispness of the present study intact, following are some of the foreign trade policy options (Elhanan, 1989, pp. 23-30), which merit a mention:

1. Strategic trade policy argument (Barbara S., and James B., 1983, p. 67)
2. Two-Way Export Policies (Tirole, 1988, p. 507)

Both these policy options have been employed by the study to conduct its analysis, along with grounded theory analysis of data collected.

Banks, Banking Policy, and Foreign Trade Relationship

Banking is defined as the activity of accepting and holding funds belonging to other people and entities and then lending that money to conduct economic activities such as making a profit or simply covering operating expenses. A bank is a financial institution authorized to accept deposits and grant loans. Two of the most common types of banks are commercial/retail banks and investment banks. Depending on the type, a bank may also offer a variety of financial services, ranging from providing safe deposit boxes and currency exchange to retirement planning and wealth management.

Central banks are primarily responsible for monetary stability. They control inflation, dictate monetary policy, and monitor the demand and supply of money in the market. Commercial or private banks provide various services including, but not limited to, managing cash deposits and withdrawals, providing basic current and savings accounts, certificates of deposit, issuing debit and credit cards to qualified customers, granting short and long-term loans such as car loans, residential mortgages, or home equity lines of credit. Investment banks focus their services on corporate clients. They offer services such as merger and acquisition and underwriting activities among other investment services. However, there are six types of banks in Pakistan (Haris, 2020, p. 32).

1. Central Bank (State Bank of Pakistan)
2. Commercial Banks
3. Islamic Commercial Banks
4. Micro-Finance Banks
5. Co-operative Banks
6. Specialized Banks

Primarily, the State Bank of Pakistan (SBP) is the central bank which regulates the banking sector in Pakistan. Besides Harris, the SBP describes banking sector of Pakistan in the following words:

"Banking sector assumes significant importance in the financial sector. It constitutes around 74 percent of the financial sector's assets and measures up to 55 percent of GDP. As of March 31, 2018, 34 banks are operating in Pakistan, comprising of five foreign banks, five public sector banks, four specialized banks and twenty domestic private banks. The branch network comprises of more than 16000 branches spread across the country." (SBP, 2022, p. 68)

SBP ensures financial and macroeconomic stability through legal, regulatory, and regulatory frameworks. These frameworks are continuously updated to align with international best practices. The legal framework of the SBP, which gives it the power to regulate and supervise financial institutions, includes the SBP Act 1956, the Banking Companies Ordinance 1962, the Microfinance Institutions Ordinance 2001, and the Foreign Exchange Regulation Act 1947, among various other Acts (Arby, 2004, pp. 61-62).

The regulatory framework, on the other hand, is a set of related policies, guidelines, regulatory standards, and processes that cover the licensing system, regulatory requirements, corporate governance, adequacy regime capital and market discipline. However, for the current study, the most sought-after financial service required from SBP is the LC. LC is a written document issued by the importer's bank (issuing bank) on behalf of the importer. Issuance assures the exporter that the issuing bank will make payment to the exporter for international trade between the two parties.

The importer is the applicant for the LC while the exporter is the beneficiary. In a LC, the issuing bank agrees to pay the specified amount according to the agreed schedule and against specified documents. A guiding principle of an LC is that the issuing bank makes payment solely based on the documents presented and has no obligation to physically insure the shipment of the goods. If the documents presented comply with the terms of the LC, the bank has no reason to refuse payment (Kozolchyk, 1992). The present study has investigated this banking service for analysis purposes.

For the relationship between the banking policy and foreign trade, it has been found that there is a new way through which international finance or banking policy of a country is related to international foreign trade, formation of international bank linkages increases exports (Julian Caballero, 2016, p. 76), (Beck, 2021, p. 29).

The linkages between banks and their relative development of banking systems and their sharing of information enhances the rate of issuance of LC for those cooperating banks, thus greater facilitation of both importers and exporters within or without two countries.

Theoretical and Conceptual Framework of Study

The study has very profound concepts to investigate and all have been delineated so far. A diagrammatic flow chart of the theoretical and conceptual framework is as following:

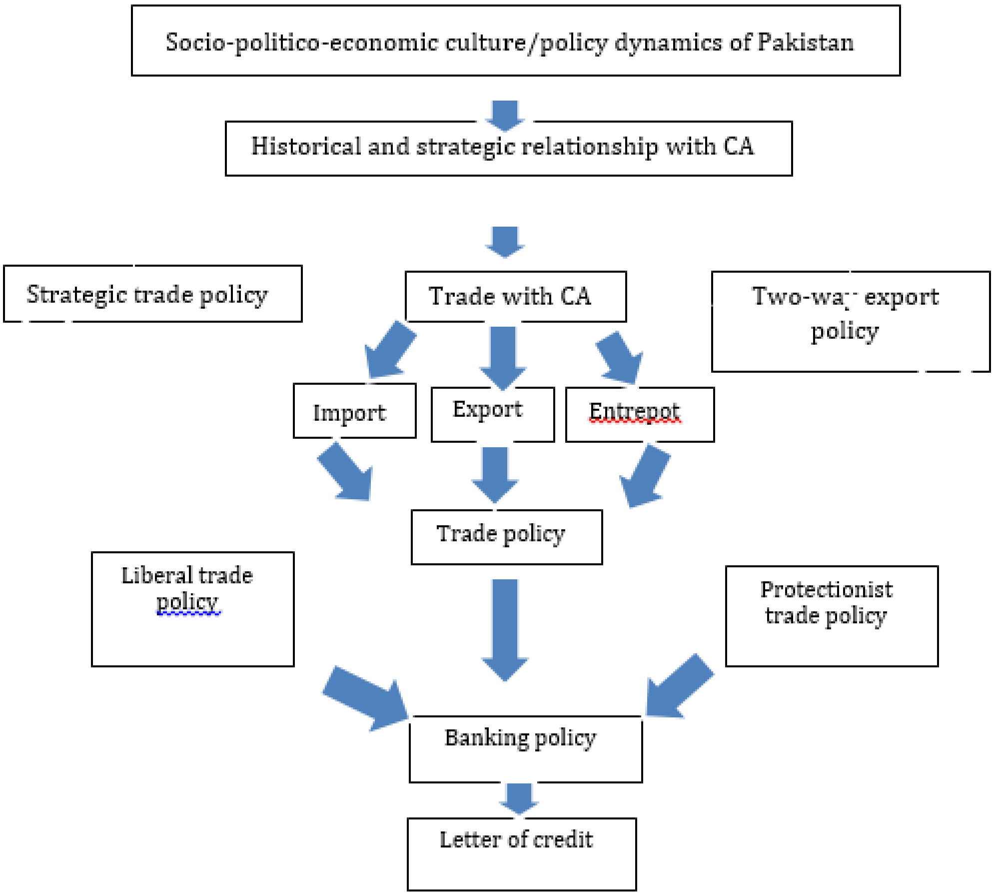

Figure 2: Flow diagram of theoretical and conceptual framework

Figure 1 encapsulates all the major concepts and their respective theoretical connections in one diagram. Showing how the trade policy is connected to two trade policy options. All the concepts will eventually be analyzed in the context of Pakistan, as assumed by the study.

All the policy documents which have been reviewed for this study have been analyzed in accordance with this conceptual framework. The content analysis of these documents has been guided by the themes and markers developed in the theoretical framework shown above.

Material and Methods

Research Design

Any study of public policy is inherently multi-disciplinary. It is because the process of such a study requires knowledge from Sociology/Anthropology/Social Work to get to know the process of policy making as well as the responses of the community in evaluating policy impact. Further, knowledge of Economics is required to understand the micro/macro impacts of a said policy and the responses from independent market forces. Moreover, an understanding of History is required to decipher the past worldview of the society, where the said policy is being implemented, which may have a negative/positive effect on policy making, implementation and its outcomes. The mention of these fields does not exhaust the full scope of the multidisciplinary nature of the field of public policy, other types of knowledge may also be required. However, this is being argued to establish the multi-disciplinary nature of public policy and its analysis, as rightly pointed out and supported by William Dunn, right at the outset of his book on public policy analysis:

"Policy analysis is a process of multidisciplinary inquiry aiming at the creation, critical assessment, and communication of policy-relevant information." (Dunn, 2016, p. 2)

In unison, other public policy analysts agree with this argument about public policy studies (John, 2012, p. 2), (Saetren, 2005, p. 76), (Lester, 1987, p. 87), (Kevin B. Smith and Christopher W. Larimer, 2017, p. 98), (Schofield, 2002, p. 54). Therefore, picking the thread from where the giants of the field have placed it; the present research is multidisciplinary, which necessitates a 'mix method approach' towards the subject and the research question it endeavors to stratify. One may ask the question; why it is important to have mix method approach for a multidisciplinary study. It is better to have a mix method approach for such studies because the knowledge gathering (the real purpose of all research) in a multidisciplinary universe can be better catered by such a research design (Thompson, 2020, p. 55). Moreover, a mix method approach towards such studies captures both 'interpretive epistemology' as well as 'absolute determinism', therefore completing the knowledge equation in terms of both epistemology and ontology, while keeping the methodology a perfect fit (Bryman, 2012, p. 237).

To further invigorate our thoughts on the subject, Bryman, very eloquently raises a very naïve and thought-provoking question:

"Research methods are much more free-floating than is sometimes supposed." (Bryman, 2012, p. 614)

That is, free floating as in mix methodology and need not be separated or rather divorced from each other.

The Quantitative Part

For the above mentioned 'mix methodology' approach for this study, the quantitative part of research mainly consists of secondary review of trade related quantitative data. All data pertaining to trade of Pakistan with CA countries has been collected through secondary sources. Moreover, quantitative data pertaining to economic profiles of all six countries has also been collected through secondary sources.

This economic and trade related quantitative data has helped the study in unpacking, understanding the dynamics of existing situations among the six countries. Moreover, the same data has also provided a view of how the future trade prospects will look like in future, provided Pakistan comes up with right mix and match of policy options for trade with CA countries.

The Qualitative Part

The first part consists of a 'content analyses of policy documents pertaining to the inquiry of the study. This content analysis has been conducted with the help of 'themes' developed in the light of literature review and secondary quantitative data. This content analysis has been fruitful in understanding the existing trade and banking policies of Pakistan regarding trade with CA.

The second part of qualitative data has been collected by the researcher. This is primary data and has been collected in the form of In-depth Qualitative Interviews. A thematic analysis has been conducted of these qualitative interviews to inform the study and its policy recommendations.

Locale of Research

The locale of the present study is Islamabad, the capital of Islamic Republic of Pakistan. The city is chosen as the locale because of its relevance for the study. All international trade policy-related decisions for the country are taken here. All relevant national ministries, government departments, think tanks on trade and CA are located here. The relevant stakeholders for this study are all available in this city, therefore the locale of the research.

Sampling Technique

The sampling technique used for the study is primarily 'snowball sampling technique'. As shared above, the only primary data collected for this study is qualitative and that too is in the form of in-depth interviews. The stakeholders for this kind of study were scattered across ministries, departments, business community, etc. Besides their scattered positioning, the stakeholders were also difficult to find out. For example, out of all the businessmen, how would one find those who trade with CA countries?

Impediments like these, guided the study to adopt snowball sampling technique generally and 'opportunistic sampling technique' for a few instances (Bryman, 2012, p. 424). These were instances when the researcher used snowball to reach a relevant stakeholder and besides interviewing the respondent, came to realize that another important stakeholder is available in the vicinity. The researcher seized the opportunity to include the available stakeholder in the sample.

Sample Size

For qualitative in-depth interviews five categories of respondents are identified, which are as following:

1. Government Institutions
    a. State Bank of Pakistan (SBP)
    b. Federal Ministry of Foreign Affairs (MoFA)
    c. Federal Ministry of Commerce (MoC)
    d. Trade Development Authority of Pakistan (TDAP)
2. Chamber of Commerce
3. Businessmen
4. Trade Think-Tank
5. Transport and Logistics Company

Table 1
Types of Respondents and Sample Size

Type of Respondent	No. of Interviews
SBP	2
MoFA	1
MoC	2
TDAP	2
Chamber of Commerce, Islamabad	1
Businessmen	5
Trade Think-Tank	2
Transport and Logistics Company	1
Total	16

Data Collection and Tools

For secondary data collection all documents, policies, agreements, MoUs, articles, books and material were collected from secondary sources. However, the primary data was collected through an in-depth qualitative interview guide.

Tools for Data Analysis

For qualitative data analysis, 'grounded theory approach' was adopted. All qualitative data was coded for themes, to yield 'categories', which informed the development of analysis.

Results and Discussion

One interesting fact about all the CA is that these are land locked countries; Caspian Sea being the only respite, which itself is a land locked sea. This very geographic character of CA makes these countries dependent upon other nations for access to open seas and international trade. Until recently, CA countries have been dependent on Russia for such international trade; however, they have been searching for better options and easy access to open seas. For this the CA countries have developed closer ties with China, which provides them easier access to South China Sea and the Pacific. Still this route to international trade is expensive for the CA countries (Haron, 2009). However, the question remains, what is it that the CA countries are so eager to export to the world? The answer to this question is, abundance of oil, natural gas and natural resources, which are yet to be seen in such huge quantities anywhere in the world (CIA, 2009).

Pakistan is a country which, geo-strategically can provide the shortest route to CA countries for easier access to Arabian Sea and Indian Ocean. Pakistan's position as the most viable option for CA becomes evident while looking at the world map and noticing that Syria, Iraq and Iran, all three countries which can provide a parallel option to CA are all unstable economies, either politically or war torn. Therefore, Pakistan can provide a trade route to CA with easy access to whole of Asia, Middle East and Africa.

Having established this, one must ask the question, what's in it for Pakistan? The answer is all but simple. To begin with, CA countries have a total population of 7.5 Million and the only source of agricultural produce is Fergana Valley, which in total comprises of 22,000 Square KMs, out of which only 12000 Square KMs are being used for agricultural produce (IFAD, 2020). Essentially, this is insufficient to feed the whole population of CA, when 1500 Square KMs out of these are producing cotton. Therefore, foremost Pakistan being an agricultural country can find a good market for export of its agricultural produce among CA countries.

As CA countries are landlocked, Pakistan can have access to their market through China or Afghanistan. However, Afghanistan is reluctant to provide access to Pakistani products to reach out to the Central Asian market. Also, Afghanistan still remains politically unstable and any long term investment in the country remains susceptible to failure. Pakistan may access the CA through China as Uzbekistan has agreed to become part of the Quadrilateral Traffic in Transit Agreement (QTTA) already signed among Pakistan, China, Kyrgyzstan and Kazakhstan. Similar conceptualization has also been presented by Professor S. Frederick Starr as, "The Greater Central Asia Partnership" (GCAP), (Starr, 2005). Moreover, Dr. Aftab Qazi has coined a new term for this idea; "the Geopolinomics of Central Asia's Traditional Indus Basin Corridor", (Kazi, 2006). Such ideas should be implemented by Pakistan. For doing so, it is important not only to provide access to CA but also to conduct trade with them.

When we look at the trade complementarity among CA countries and Pakistan as shown in figure 4, it shows a very encouraging picture. From 1995 to 2017 the trade complementarity of economies of CA countries with Pakistan is very strong which indicates healthy, positive prospects for future trade potential (Khan, S.; Ali, S.; Urooge, S., 2019).

Looking at a product wise analysis also reinforces the strong trade complementarity between the economies of Pakistan and CA countries. The table below shows a product wise analysis of percentage share of imports and exports between Pakistan and CA countries.

Table 2
Composition of Imports & Exports; Pakistan and CA Countries, 1995-2017

Sr. No.	Main Imports	Share (%)	Main Exports	Share (%)
1.	Coffee, Tea	1.57	Sugars and Sugar Confectionery	2.47
2.	Salt Sulphur	2.25	Other Vegetable Textile Fibers	2.48
3.	Raw Hide, Skins and Leather	3.83	Edible Fruit and Nuts	4.69
4.	Inorganic Chemicals	4.17	Pharmaceutical Products	5.56
5.	Iron and Steel	15.22	Oil Seeds and Oleaginous Fruits	12.38
6.	Cotton	70.09	Cereals	65.67

Source: (Khan, S.; Ali, S.; Urooge, S., 2019)

Having provided a generic view of the trade complementarity of Pakistan with CA countries, now let's have a look at each of these countries separately.

Kazakhstan

Pakistan had a trade volume of US$ 84.3 million with Kazakhstan in 2019. However, Pakistan can further enhance it and there is sizeable potential for increase in this trade volume. Following is a table of export items, Pakistan is currently not exporting to Kazakhstan with respective cumulative export potential for the year 2023:

Table 3
Pakistan Export Potential for Kazakhstan

Sr. No.	Type of Items	Cumulative Export Potential
1.	Prepared foodstuff, beverages and tobacco	US$ 213.8 Million
2.	Textile and textile articles	US$ 195 Million
3.	Vegetable products	US$ 93.5 Million
4.	Products of chemicals	US$ 99 Million
5.	Plastic articles	US$ 63 Million

Source:(ITC, 2022)

The total trade potential of above shown items amounts to US$ 664.3 Million, which is 8 times more than what Pakistan traded with this country in 2019. The potential is huge; however, this is not being realized by Pakistan. The reasons for this failure are discussed below.

Though an agreement between the State Bank of Pakistan and the National Bank of the Republic of Kazakhstan on Conditions for Opening Subsidiary Banks and Cooperation in the Area of Banking Supervision has been signed since 2003; however, except National Bank of Pakistan (NBP), no other Pakistani bank has been successful in opening subsidiary banks in Kazakhstan. The NBP has one branch in Almaty, Kazakhstan but according to respondents, even this branch is in the process of winding up their business. Even when it was operative, it did not help much the traders of Pakistan in obtaining and implementing LCs.

It is shared by the respondents that obtaining and implementing a LC in Kazakhstan is very cumbersome due to currency fluctuations and also because of strict government control over making payments in USD. Under such circumstances, the traders of Pakistan are left wanting facilitation in Kazakhstan to trade without any hedging arrangement from Pakistani banks. Thus, except big companies, other traders conduct their business at self-risk, therefore, the trade suffers. According to respondents, there can be a three-pronged strategy to overcome this situation. First, the SBP should create linkages with banks in Kazakhstan. So far SBP has no such relations with any bank in Kazakhstan. These links provide a very good starting point to build a banking relationship and thus facilitate the traders.

Secondly, the SBP should come up with a road map plan to invest in CA countries by allowing Pakistani private banks to operate in Kazakhstan. The placement of NBP in Kazakhstan was not a good experience as the bank is state owned and did not have the required motivation and entrepreneurial skills to penetrate in the local banking market. Instead of opening branches of state-owned banks, SBP should facilitate private banks to take the lead.

Lastly, as strategically done by India, when their exporters were facing the same problem in Kazakhstan, their government facilitated in getting potential companies registered in Kazakhstan. According to respondents, over 100 Indian companies are now locally registered in the country. The government of Pakistan should learn from this model and incentivize registration of companies in Kazakhstan. This can help in easing out the problems of the banking sector as experienced by the traders. This can be easily done by SBP by making 'receivables discounting' possible for exporters and also to issue short term loans for exporters to Kazakhstan. Especially when the two countries have an Agreement on Trade and Economic Cooperation signed in February, 1992; the two countries have also signed Agreement between the State Bank of Pakistan and the National Bank of the Republic of Kazakhstan on Conditions for Opening Subsidiary Banks and Cooperation in the Area of Banking Supervision in December 2003.

Kyrgyzstan

In 2016 Pakistan and Kyrgyzstan had a total trade volume of US $ 3.58 Million approximately. However, Pakistan can further enhance it and there is sizeable potential for increase in this trade volume. Following is a figure of export items, Pakistan is currently not exporting to Kyrgyzstan with respective cumulative export potential for the year 2023:

Table 4
Pakistan Export Potential for Kyrgyzstan

Sr. No.	Type of Items	Cumulative Export Potential
1.	Medium oils	US$ 76.86 Million
2.	Mobile telephones	US$ 29.12 Million
3.	iron or non-alloy steel	US$ 21.8 Million
4.	Men's or boys trousers	US$ 18.1 Million
5.	Sugar confectionery	US$ 14.52 Million
6	Chemicals	US$ 14 Million

Source:(ITC, 2022)

The total trade potential of above shown items amounts to US$ 174 Million, which is 48 times more than what Pakistan traded with this country in 2016. The potential is huge; however, this is not being realized by Pakistan. There are multiple reasons for this failure which are discussed below.

First of all, it is important to underline that Pakistan and Kyrgyzstan have not signed any agreement regarding banking. Therefore, the trade between the two countries is suffering due to this. Kyrgyzstan's local law prohibits any import/export without opening of a LC in the respective country and through proper banking channels.

This very condition and correspondingly dearth of banking linkages between the countries poses a big hurdle for traders on both sides of the border, according to respondents. Thus, the government of Pakistan should take steps to facilitate traders through SBP. So far Pakistan has no banking related agreement with Kyrgyzstan but there are five trade related agreements, out of which Agreement on trade and economic ties between Pakistan and Kyrgyzstan signed in 1994 and Protocol on establishing the system of International Road transit Permit among the Ministry of Communications of China and Pakistan, Ministries of Transport and Communications of Kazakhstan and Kyrgyzstan signed in 1998 could both come handy in resolving the problems faced by traders.

Tajikistan

In 2019 Pakistan and Tajikistan had a total trade volume of US $ 8 Million approximately. However, Pakistan can further enhance it and there is sizeable potential for increase in this trade volume. Following is a figure of export items, Pakistan is currently not exporting to Tajikistan with respective cumulative export potential for the year 2023:

Table 5
Pakistan Export Potential for Tajikistan

Sr. No.	Type of Items	Cumulative Export Potential
1.	Chemical and allied industries	US$ 77.6 Million
2.	Food stuff	US$ 71.2 Million
3.	Vegetable products	US$ 29.7 Million
4.	Products of metal	US$ 26.9 Million
5.	Machinery and electrical equipment	US$ 24.9 Million
6	Plastic articles	US$ 19.5 Million

Source:(ITC, 2022)

The total trade potential of above shown items amounts to US$ 250 Million, which is 31 times more than what Pakistan traded with this country in 2019. The potential is huge, however, this is not being realized by Pakistan. There are multiple reasons for this failure, which are as below.

It is pertinent to underline that Pakistan and Tajikistan have not signed any agreement regarding banking. However, the trade between the two countries is suffering due to this. Tajikistan's local law prohibits any import/export without opening of a LC in the respective country and through proper banking channels.

This very condition and correspondingly dearth of banking linkages between the countries poses a big hurdle for traders on both sides of the border, according to respondents. Thus, the government of Pakistan should take steps to facilitate traders through SBP.

Turkmenistan

In 2016 Pakistan and Turkmenistan had a total trade volume of US $ 29 Million approximately. Perhaps, among the CA countries Turkmenistan is the only country with whom the trade balance is in the favor of Turkmenistan and not Pakistan. Therefore, Pakistan imports more from Turkmenistan than it exports to the country. This is basically because of the protectionist trade policy the country has. However, Pakistan can further enhance trade and there is sizeable potential for increase in this trade volume. Following is a figure of export items, Pakistan is currently not exporting to Turkmenistan with respective cumulative export potential for the year 2023:

Table 6
Pakistan Export Potential for Turkmenistan

Sr. No.	Type of Items	Cumulative Export Potential
1.	Medicaments	US$ 73.3 Million
2.	Iron or steel	US$ 24.5 Million

3.	Wheat	US$ 14.6 Million
4.	Tractors	US$ 11.7 Million
5.	Frozen, boneless meat	US$ 11 Million

Source:(ITC, 2022)

The total trade potential of above shown items amounts to US$ 135 Million, which is 5 times more than what Pakistan traded with this country in 2016. The potential is huge, however, this is not being realized by Pakistan. There are multiple reasons for this failure, which are discussed below.

No Pakistani bank has been successful in opening up subsidiary banks in Turkmenistan. It is shared by the respondents that obtaining and implementing a LC in Turkmenistan is very cumbersome due to currency fluctuations and also because of strict government control over making payments in USD. Under such circumstances, the traders of Pakistan are left alone in Turkmenistan to trade without any hedging arrangement from Pakistani banks. Thus, except big companies, other traders conduct their business at self-risk, therefore, the trade suffers. According to respondents, there can be a two-pronged strategy to overcome this situation. First, the SBP should create linkages with banks in Turkmenistan. So far SBP has no such relations with any bank in Turkmenistan. These links provide a very good starting point to build a banking relationship and thus facilitate the traders.

Secondly, the SBP should come up with a road map plan to invest in CA countries by allowing Pakistani private banks to operate in Turkmenistan.

Uzbekistan

In 2019 Pakistan and Uzbekistan had a total trade volume of US $ 28 Million approximately. However, Pakistan can further enhance it and there is sizeable potential for increase in this trade volume. Following is a table of export items, Pakistan is currently not exporting to Uzbekistan with respective cumulative export potential for the year 2023:

Table 7
Pakistan Export Potential for Uzbekistan

Sr. No.	Type of Items	Cumulative Export Potential
1.	Portland cement	US$ 152 Million
2.	Prepared foodstuff	US$ 62 Million
3.	Vegetable products	US$ 87.5 Million
4.	Chemicals	US$ 35.5 Million
5	Plastic articles	US$ 86.8 Million

Source:(ITC, 2022)

The total trade potential of above shown items amounts to US$ 424 Million, which is 15 times more than what Pakistan traded with this country in 2019. The potential is huge; however, this is not being realized by Pakistan. There are multiple reasons for this failure, which are discussed below.

Banking channels between Uzbekistan and Pakistan are negligible. Though the countries have signed 3 MoUs on this subject, so far there has been no development in this regard. The central bank of Uzbekistan has agreements with SBP, NBP and Habib Bank Limited of Pakistan. However, according to trader respondents of the study none of these banks are facilitating any kind of trade with Uzbekistan.The reason for this is that MoUs and agreements between governments are often devoid of ground realities according to the respondents of the study. They argue that such agreements are only drafted and signed to give respect to high level officials when they visit each other, after the visits however, these agreements only become part of a file for nobody to bother.

All the above-mentioned banks are state owned and have made no progress towards the realization of these agreements. Opening of LCs is a problem while trading with Uzbekistan as a result. Neither the SBP negotiates nor updates on the state rates of Som (the Uzbek currency), this becomes a potential risk for the traders, as shared by the respondents.

The SBP should come up with a detailed plan to overcome these banking channel issues if Pakistan is to successfully trade with Uzbekistan. Especially when Pakistan has signed nearly 22 trade related agreements with Uzbekistan, however the implementation of these remains a challenge for both the states. Out of these 22 agreements, Protocol on the exchange of the Instruments of the Ratification of the Agreement between the Government of the Islamic Republic of Pakistan and the Government of the Republic of Uzbekistan on cooperation in the Field of transport and transit of goods signed in 2011 can play a crucial role.

For the banking sector the Memorandum of Understanding between National Bank of Uzbekistan and National Bank of Pakistan, signed in 2006; and Memorandum of Understanding between National Bank of Uzbekistan and Habib Bank Limited signed in 2006 can play a pivotal role.

Conclusion

There are a number of conclusions this study has arrived at. First of all, the study illuminates huge trade potential with CA countries. According to projections Pakistan can have a trade potential of US$ 1647 Million for the year 2023 as opposed to UD$ 154 Million of trade conducted with CA countries in 2019. There is a trade difference of US$ 1493 Million among both the figures. This necessitates for Pakistan to look for possible policies to close this trade gap with CA. The study revealed that there are a number of trade opportunities on which Pakistan can concentrate to enhance its trade cooperation with CA. To highlight such trading opportunities below figure which shows the number of trade and banking related agreements Pakistan has with each of the CA countries.

Table 8
Trade and Banking related Bi-lateral Agreements of Pakistan with CA Countries

Sr. No.	CA Country	No. of Trade Related Agreements	No. of Banking Related Agreements
1.	Kazakhstan	8	1
2.	Kyrgyzstan	5	0
3.	Tajikistan	12	0
4.	Turkmenistan	11	0
5.	Uzbekistan	22	4

Recommendations

Unfortunately, despite having close access and bi-lateral tools to have good trade relations with CA countries, Pakistan could not materialize on such opportunities, the amount of trade volume, as mentioned above, is a witness to this. The study presents a number of banking sector reforms to address this situation.

The SBP should be geared towards making an investment and networking plan for CA. The plan should include strategy of and means to knit closer linkages with banks of CA countries. Such a plan be implemented with at least one aim in mind; that this will solve the LC opening and implementation problems being faced by traders of Pakistan, for all the CA countries. If this is not possible with the present legal structure of SBP, it is recommended that Pakistan should establish a separate bank for this purpose. A banking set up that facilitates foreign trade of all kinds.

The analysis has also revealed that participation of Pakistan based private banks is very crucial in developing linkages with the markets of CA. Therefore, such private banks should be incentivized by the SBP to open and operate branches in CA countries.

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