INTERNATIONAL
THE NEWS

CAREC connectivity

Dr. Junaid Ahmed | 18th June 2025

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Pakistan's strategic location, at the crossroads of Central and South Asia, has long been described as a natural gateway for regional trade. However, being well-placed on the map has not translated into meaningful economic integration.

While road, rail, and port infrastructure have improved in recent years, actual trade flows with neighbouring regions remain limited. The recent Fifth Annual CAREC Institute Research Conference, hosted in Islamabad, themed 'CAREC

Connectivity: Promoting Trade and Trade Facilitation', served as a reminder of both the opportunities and the gaps in strengthening long-term regional economic integration.

The Central Asia Regional Economic Cooperation (CAREC) programme, an intergovernmental organisation of 11 countries, has mobilised over $51 billion in connectivity and trade facilitation since 2001. Despite this, intra-CAREC trade remains stagnant. In 2024, trade among member countries accounted for just 4.1 per cent of total trade within the bloc. This figure stood at 7.4 per cent excluding China, suggesting that regional integration is still shallow beyond one dominant economy.

Pakistan's trade performance within CAREC tells a similar story. Of its $20 billion trade with CAREC member countries in 2024, $17.9 billion (roughly 89 per cent) was with China, placing Pakistan's intra-CAREC trade share at 22.9 per cent. However, when China is excluded, that number plummets to 2.45 per cent, revealing minimal trade engagement with the rest of the bloc. Even bilateral trade with geographically proximate countries remains modest.

Pakistan's trade with Afghanistan stood at $1.67 billion in 2024, with exports of $1.3 billion and imports of $366 million. With Kazakhstan, Uzbekistan, Tajikistan, and Azerbaijan, the figures were $277 million (exports $203 million and imports $74 million), $118 million ($81.8 million exports and $36.2 million imports), $28 million ($22 million exports and $5.9 million imports), and $23.6 million ($12.3 million exports and $11.3 million imports) respectively. Other CAREC members, Kyrgyzstan, Turkmenistan, Georgia and Mongolia, were even lower, each accounting for less than $10 million.

This shows that the potential remains largely untapped and presents an opportunity for improvement and sustainable growth. Despite infrastructure such as CPEC and CAREC Corridors 5 and 6, Pakistan has yet to turn physical connectivity into economic partnership. Pakistan's export profile remains narrow and dominated by textiles, leather and food products, sectors that also constitute a large export share in neighbouring CAREC countries, limiting trade complementarity. Add to this a range of barriers: long-term competitiveness depends on reducing import tariffs on intermediate goods, non-tariff barriers such as sanitary and phytosanitary (SPS) and low compliance with international quality standards, especially in agriculture, halal products, and textiles, hinder access to high-value markets.

The problem extends beyond goods. Cumbersome customs procedures, Afghan informal transit routes, and underdeveloped financial systems further slow trade, particularly with Central Asia. There are also broader structural limitations: SME access to finance, low R&D investment, limited female workforce participation, and inadequate innovation support that continue to limit productivity and competitiveness across the export sector.

At the conference, the federal minister for planning, development & special initiatives articulated a strategic roadmap to address these challenges. Under the national initiative, URAAN Pakistan sets an ambitious target of increasing exports to over $60 billion by 2030. Based on five core pillars: exports, equity, digital transformation (e-Pakistan), environment, and energy, the initiative is seen as an engine of inclusive growth. The minister emphasised harmonising trade procedures, aligning domestic systems with global standards, and modernising cross-border trade through reforms like the Pakistan Single Window (PSW) to unlock regional economic potential.

Building on this vision, a panel hosted by the Pakistan Institute of Development Economics (PIDE) focused on actionable reforms. Experts highlighted the need to move beyond symbolic free trade agreements and focus on targeting real market access, particularly in high-growth sectors such as IT, pharmaceuticals, and processed foods. They also stressed the importance of integrating Gwadar and Karachi into CAREC's multimodal transport network, scaling up the PSW, and strategically using Special Economic Zones (SEZs) and the Special Investment Facilitation Council (SIFC) to attract cross-border investment.

The discussion emphasised the need to streamline logistics infrastructure and reduce procedural 'sludge', the regulatory friction and inefficiencies that add cost and uncertainty to cross-border trade. Structural challenges, including uncompetitive tariff regimes, outdated vehicle standards, and limited public-private coordination, were identified as key barriers to deeper regional integration.

Connectivity is also about people. Limited visa access, travel restrictions, and no direct flights between Pakistan and Central Asian countries further restrict business mobility and weaken regional economic ties. Without improved mobility, even strong infrastructure can’t deliver its full potential.

Other CAREC countries experience similar challenges; many run trade deficits, depend on a few exports, and lag in service sector development. But that also means the region shares a common interest in reforms that support diversification, digitalisation, green standards and easier cross-border trade. Recent dialogues, including those led by the CAREC Institute, emphasise the importance of cross-border regional collaboration to navigate these transitions.

The good news is that momentum is building. CAREC provides a regional platform. CPEC is the infrastructure. What remains is the political will and institutional capacity to translate ambition into an outcome.

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