Picture courtesy of Pamir TImes
Sost Dry Port, Hunza

CPEC Extensions: How Pakistan can get more from bilateral transit agreements?

Dr. Hamid Haroon

1. INTRODUCTION:

Pakistan's geostrategic position as a connection between South Asia, Central Asia, and the Middle East has long been recognized as a strong element of its economic potential. However, the rapid evolution of regional transit trade initiatives, such as the India-led International North-South Transport Corridor (INSTC), emphasizes the resolve for Pakistan to leverage its geographical advantages through proactive engagement in transit trade frameworks. The China-Pakistan Economic Corridor (CPEC), a flagship project of China's Belt and Road Initiative (BRI), offers an excellent opportunity to redefine Pakistan's role as a regional trade and logistics hub. By integrating CPEC into its transit trade strategy, Pakistan can not only counterbalance regional corridors but also unlock unprecedented economic growth, infrastructure modernization, and geopolitical relevance.

CPEC's infrastructure backbone—spanning the Gwadar Port, cross-border highways, railways, and energy projects—positions Pakistan to serve as a critical artery for transcontinental trade. The synergy between CPEC and regional transit trade agreements could amplify Pakistan's capacity to facilitate trade flows between South Asia, the Middle East, and Eurasia. However, realizing this vision requires strategic alignment of CPEC's infrastructure with Pakistan's bilateral and multilateral transit agreements, addressing challenges such as security risks, customs inefficiencies, and geopolitical competition.

This article examines how CPEC reshapes Pakistan's transit trade dynamics, focusing on two strategic pathways for extending the benefits of this initiative: A Comprehensive Regional Connectivity Arrangement including Pakistan, India, Iran, Afghanistan, CARs, and Russia.

Focused Bilateral and Regional Agreements including Pakistan, Iran, Afghanistan, CARs, and Russia.
By evaluating CPEC's role in reducing trade costs, expanding export markets, and mitigating risks posed by rival corridors like INSTC, this analysis

aims to provide actionable insights for policymakers. The following sections delve into empirical assessments of transit trade scenarios, infrastructure demands, and the geopolitical balancing act required to secure Pakistan's position as a linchpin of regional connectivity in the CPEC era.

This article is organized to first present a bilateral analysis of Pakistan's trade and transit relations with individual countries. Following this foundation, both proposed scenarios are explored in detail based on the insights from these analyses.

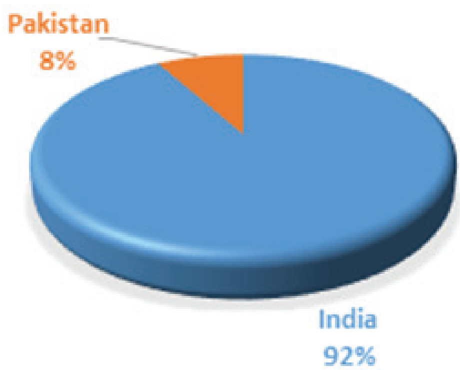
2. BILATERAL TRANSIT TRADE ANALYSIS

This section presents an analysis of Pakistan's bilateral transit trade scenarios with key regional partners, including India, Iran, Afghanistan, and the CARs. Each bilateral relationship is explored to assess the economic, logistical, and strategic implications of potential transit agreements.

2.1. Pakistan India Transit Trade

Pakistan and India have many things in common and both can help each other for regional stability and economic growth. Pakistan can provide shortest transit route to India for reaching Afghanistan and CARs. In response India can offer reciprocal access to Bangladesh, Nepal and Bhutan. The following table provides a comparative analysis of the costs and benefits of transit trade for Pakistan and India. This comparison highlights the strategic and economic trade-offs involved in facilitating regional connectivity.

Share of India and Pakistan in total gains if transit trade is permitted



Key Insights:

- Shortest possible route for India to reach Afghanistan and CARs.
- Business As Usual: Based on current data, India can get everything it wants through the Transit Trade Agreement.
- Hypothetical Best Case Scenario: Though short run benefit is ignorable, Pakistan can increasingly participate in Global Value Chains due to industrial integration with India and better market openings, leading to extra exports of more than $10 billion in 5 years. Share of

Parameter/ Country	Pakistan	India	Who Benefits More?
Access to:	Bangladesh, Bhutan, Nepal	Afghanistan, CARs, Russia	**India:** Access to a bigger region
Total Trade	$ 823 million.	$ 31.69 billion	**India:** Higher trade volume
Feasible Transit Volume	$ 416 million	$ 4.86 billion	**India:** Higher volume that India can transit
Trade Cost Savings	$ 11.66 million	$ 287 million	**India:** Saving 24 times more than Pakistan
Revenue Generation from Transit Fee	$ 48 million	$ 8.33 million	
Infrastructure Cost	$ 21.5 million	$ 5.45 million	
Other Costs	$ 12.6 million	$ 1.5 million	
Net Revenue	$ 13.9 million	$ 1.38 million	**Pakistan:** Due to bigger share of India in trade
Potential to increase exports	$ 3 billion	$ 15 billion	**India:** Due to Proximity
Benefitting sectors (Current/Potential)	Pharma, Surgical, Fruits, Sports, Textile	Agriculture, Processed Food, Pharma, Machinery, Textiles	India: Due to diversity, and better Economic Complexity Index

Source: calculations are based on data from Pakistan Bureau of Statistics and International Trade Centre, while some estimates are made using customized GTAP model with latest 2024 data of Pakistan.

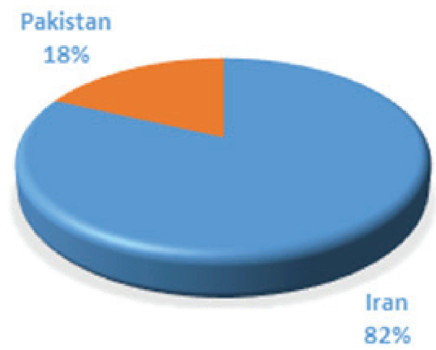
India and Pakistan in total gains if transit trade is permitted

- India don't need Pakistani route for trade with Russia due to opening of International North South Transport Corridor (INSTC)
- In return for greater access to CARs and Russia, Afghanistan can demand direct access to India from Pakistan.
- Pakistan's most important partner in South Asia is Bangladesh, which is securely accessible through Sea Route.
- Bhutan and Nepal have greater reliance on India due to proximity, so very little scope for Pakistani exports.

2.2. Pakistan Iran Transit Trade

Pakistan and Iran's strategic positions make them natural partners in regional transit trade. In this report, we assume Pakistan grants Iran access to China via CPEC, while Iran leverages the International North-South Transport Corridor (INSTC) to provide Pakistan access to Azerbaijan, Turkey, and Russia. However, Iran opts to use maritime routes for trade with India, bypassing Pakistan.

Share of Iran and Pakistan in total gains if transit trade is permitted



Key Insights:

- Shortest possible route between western China and Iran. Pakistan's access to Russia in least possible logistic time.
- By providing transit facility to Iran and China, Pakistan can tackle international obstacles stemming out of economic partnerships with Iran.
- Normalized economic ties with Iran can give more access to Iranian energy market.
- Integration with INSTC can balance out enhanced Indian access to Central Asia and Russia through Iran. Share of Iran and Pakistan in total gains if transit trade is permitted

Parameter/Country	Pakistan	Iran	Who Benefits More?
Access to:	Azerbaijan, Turkey, Russia	China	Iran:
Total Trade	$ 1.5 billion	$ 30.3 billion	Iran
Feasible Transit Volume	$ 1.4 billion	$ 9.1 billion	Iran
Trade Cost Savings	$ 80 million	$ 500 million	Iran
Revenue Generation from Transit Fee	$ 181 million	$ 29 million	Pakistan
Infrastructure Cost	$ 119 million	$ 18 million	
Other Costs	$ 30 million	$ 4.6 million	
Net Revenue	$ 32 million	$ 6.4 million	Pakistan
Potential to increase exports	$ 5.5 billion	Negligible	Pakistan
Benefitting sectors (Current/Potential)	Pharma, surgical instruments, Fruits, Processed food		

Source: calculations are based on data from Pakistan Bureau of Statistics and International Trade Centre, while some estimates are made using customized GTAP model with latest 2024 data of Pakistan.

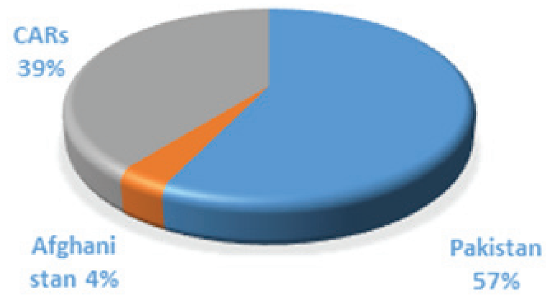
2.3 – Reaching CARs through Afghanistan

While limited trade through this route already occurs, a comprehensive transit trade agreement with Afghanistan could transform Pakistan into a pivotal gateway for CARs, enabling a significant increase in exports of textiles, pharmaceuticals, agricultural products, and industrial goods. In return, Pakistan can provide reciprocal sea access to Afghanistan and CARs through its ports, such as Gwadar and Karachi, fostering mutual economic growth. This arrangement has the potential to unlock vast trade opportunities, reduce logistics costs, and enhance regional connectivity for all involved nations.

3. COMPARISON OF REGIONAL TRANSIT TRADE ALTERNATIVES

As outlined in the introduction, this section presents a comparison of the "comprehensive re-gional transit trade" and "bilateral transit trade" alternatives, based on the analysis provided in Section 2. The comparison is thematic, addressing each aspect separately for a clearer under-standing of the differences. Further, Pakistan – Iran transit trade option is not included in this analysis as it can be separately negotiated among Pakistan, Iran and China without involving any other regional country.

Share of Pakistan, Afghanistan and CARs in total gains if transit trade is permitted



Key Insights:

- There is no trade cost savings for Afghanistan as it has an alternate Chahbahar route.
- CARs are at the end of logistics route so they are not earning any transit fee
- Pakistan's largest share in gains pie is mainly coming from transit fee.
- This is the best scenario for Pakistan as the export potential is maximum.
- Pakistan can become the hub of regional trade securing regional peace and stability.

Parameter/Country	Pakistan	Afghanistan	CARs
Access to:	CARs	The world through Pakistani Sea Ports	Pakistan, Middle East, East Asia
Total Trade	$ 234 million	$ 8.54 billion	$ 1.5 billion
Feasible Transit Volume	$ 234 million	$ 5 billion	$ 1.1 billion
Trade Cost Savings	$ 23 million	N/A	$ 50 million
Revenue Generation from Transit Fee	$ 250 million	$ 11.7 million	
Infrastructure Cost	$ 150 million	$ 6 million	
Other Costs	$ 50 million	$ 1.2 million	
Net Revenue	$ 50 million	$ 4.5 million	
Potential to increase exports	$ 5 billion	$ 1 billion	$ 2 billion
Benefitting sectors (Current/ Potential)	Textile, Citrus Fruits, mangos, rice surgical instruments, Processed food	Dry fruits, minerals, handicrafts, wool, carpets	Minerals, metals, cotton, energy

Note: Due to small share of CARs in Pakistan's trade pie, these states are aggregated into a single region.
Source: calculations are based on data from Pakistan Bureau of Statistics and International Trade Centre, while some estimates are made using customized GTAP model with latest 2024 data of Pakistan.

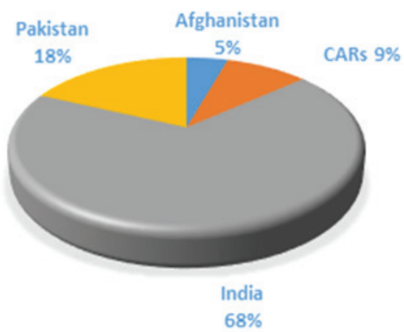
3.1 – Short-Term benefits based on current trade

Cost savings predominantly favor India, given its substantial trade with Afghanistan and the Central Asian Republics (CARs). While Pakistan benefits from transit trade revenue, it does not receive reciprocal transit advantages. Pakistan's primary trade partner, Bangladesh, is more securely accessible through maritime routes, and Nepal and Bhutan, which are at the end of the transit route, have limited trade with Pakistan. In both scenarios, most countries, aside from Afghanistan, would see similar outcomes. However, if India is not granted transit rights through Pakistan, Afghanistan would face an additional $28 million in transit trade costs. Therefore Pakistan stands to benefit from pursuing bilateral transit agreements with Afghani-stan and Iran, which could provide access to Azerbaijan, CARs, Russia, and Turkey.

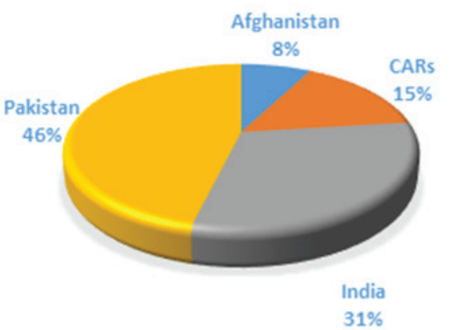
3.2 – Long-term benefits based on export potential

Long run trade benefits are estimated through the potential impact on future exports. In the fol-lowing two charts provide a clear picture of both scenarios.

Share in export potential (with India)



Share in export potential (without India)



The big difference in export potential for India and Pakistan can be explained with the help of Economic Complexity Index (ECI), which tells how much a country's physical and human re-sources are able to enhance and diversify the exports. Latest data tells that Pakistan (score -0.57) is much below India (score 0.48) as far as resource concentration in exporting ability is concerned. Direct access to Afghanistan and CARs through the shortest possible route will un-dermine export potential in future.

Based on both short run and long rung analysis, it is suggested to strike bilateral transit trade deals with Afghanistan and Iran for access to CARs, Azerbaijan, Russia and Turkey with recip-rocal routes provided to access Arabian Sea and China.

4. CHALLENGES

Afghanistan Can Demand Access to India

Afghanistan may leverage its position by demanding transit access to India in exchange for of-fering Pakistan routes to CARs. If denied, Afghanistan could shift its trade operations to Chabahar Port in Iran, reducing Pakistan's role as a primary transit corridor. This shift would compel Pakistan to use longer and costlier Iranian routes to access CARs, undermining its competitiveness. Diplomatic engagement is essential to prevent such retaliatory actions.

Security on Trade Routes

Ensuring secure transit routes, particularly in conflict-prone regions like Balochistan and areas near the Afghan border, remains a critical challenge. These regions are vulnerable to insurgen-cies and instability, threatening trade flows and increasing operational costs. Investments in enhanced security infrastructure, surveillance, and convoy protection are necessary to maintain trade continuity and partner confidence.

Smuggling and TIR System

Smuggling along the Afghan-Pakistan border, and Pakistan-Iran border undermines formal trade, causing significant revenue losses and distorting local markets. Common smuggled goods include fuel, textiles, and electronics. Effective implementation of the TIR System can help address this issue by streamlining customs processes and providing transparency. Modern border management systems, surveillance technology, and joint anti-smuggling initiatives with Afghanistan and Iran are critical to reducing smuggling and ensuring efficient trade flows.

Infrastructure and Customs Modernization

Pakistan's transit trade infrastructure, including Gwadar Port and Pakistan Railways, requires modernization to handle increased trade volumes. Upgrading road networks, railways, and port facilities is essential to prevent delays and bottlenecks. Additionally, customs procedures must be automated to reduce inefficiencies, expedite clearance, and enhance border management.

CPEC can be leveraged to unlock the opportunities that regional bilateral trade presents for Pa-kistan. If possible, through amending the CPEC agreements with China or coming to terms with China and regional countries through extension of CPEC i.e., separate agreements but connect-ed to overall CPEC infrastructure. Through relying on CPEC infrastructure and unlocking Paki-stan's strategic position, Pakistan can gain economically and geo politically.

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Afghan transit trade through Pakistan