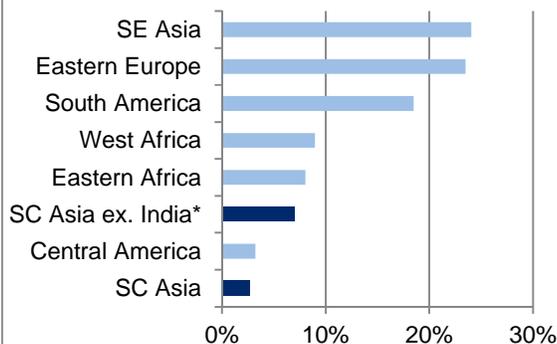


When it comes to foreign trade, most countries in South and Central Asia (SC Asia) are outward-facing. Historical ties link the former Soviet Republics to Russia, India and Pakistan are both well-integrated with the Middle East, and China continues to make inroads into Central Asian markets in search of transcontinental linkages and raw materials.

**Intra-regional Trade, 2014  
(% of total trade)**



\*SC Asia ex. India indicates that India is excluded

Source: IMF Direction of Trade Statistics

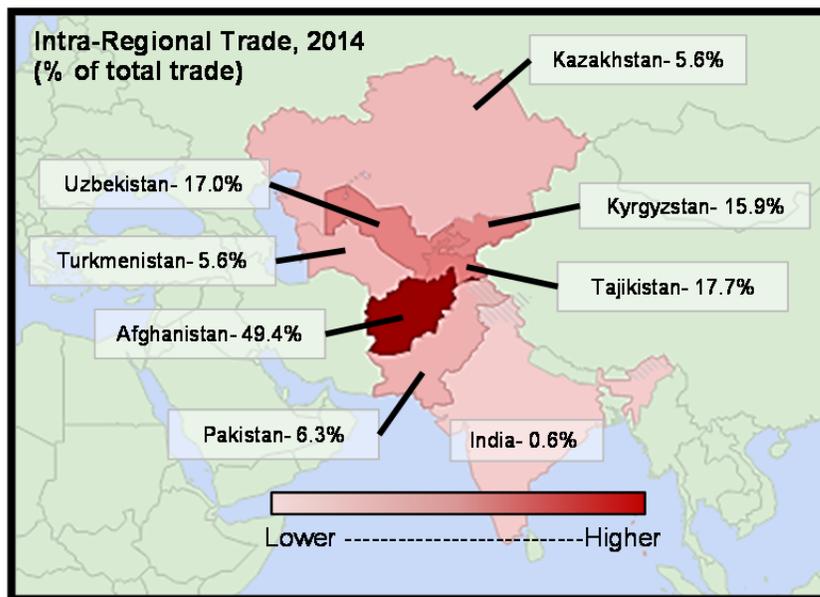
In 2014, intra-regional trade (through official channels) accounted for only 2.7 percent of total trade in SC Asia, a much lower percentage than any other developing region. Even when excluding regional giant India, where trade with SC Asia is below 1.0 percent of total trade, the number jumps only to 7.0 percent, still lower than most developing regions. Security concerns, poor infrastructure, and low levels of economic development are mostly to blame. Regional initiatives such as the Afghanistan-Pakistan Transit Trade Agreement and China’s Silk Road Economic Belt seek to overcome these barriers and provide momentum for future economic development.

This analytical brief describes trade patterns in SC Asia in detail. It explores intra-regional trade, trade with the largest external partners, and highlights some of the key regional initiatives to improve infrastructure and boost trade. For the

purposes of this analysis, “South and Central Asia” refers to the focus countries of the United States’ New Silk Road initiative: Afghanistan, India, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. The New Silk Road seeks to promote regional economic connectivity in SC Asia, especially in the energy sector. Unless otherwise specified, all data come from the IMF’s Direction of Trade Statistics or the UN’s Comtrade database.

**Intra-Regional Trade**

Security concerns increase the cost of cross-border trade in the region, especially along Pakistan’s borders with Afghanistan and India. Poor infrastructure and opaque customs procedures exacerbate the problem. Additionally, low levels of intra-regional trade reflect the lack of complementarity among the region’s developing economies. Fuels trade aside, SC Asia’s developing economies export mostly raw materials, including minerals and agricultural products, and import mostly manufactured goods.



The phenomenon of informal trade also helps explain the low levels of intra-regional trade. Informal trade is high in parts of the region, especially across the Afghanistan-Pakistan border, where it is estimated to have been around \$2 billion in 2013. Optimistic transit agreements have done little to facilitate cross-border trade through official channels (see inset on the right). Official trade numbers do not account for informal trade, so the published figures understate the true relationship.

While intra-regional trade is generally low, reliance on intra-regional trade is variable across SC Asian countries. For India, Kazakhstan, Pakistan, and Turkmenistan, intra-regional trade comprises less than ten percent of those countries' total trade. On the other end of the spectrum, nearly half of Afghanistan's trade is intra-regional.

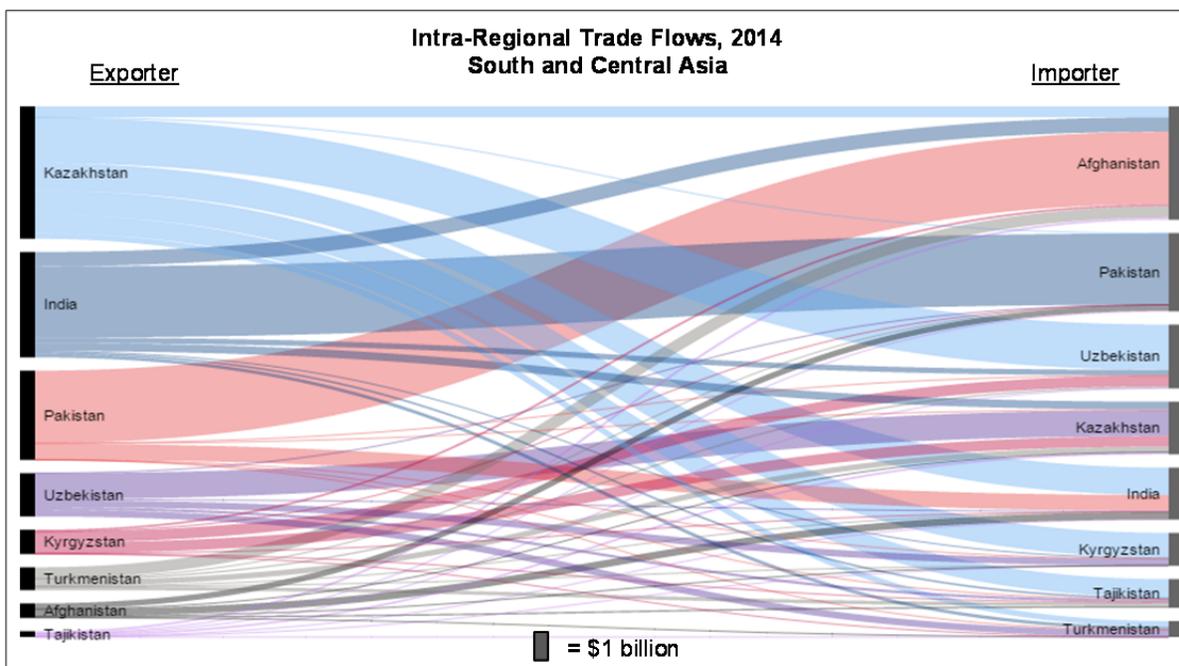
Intra-regional trade is not only variably important to countries in the SC Asian region, but it is also unbalanced. Afghanistan and Tajikistan each import more than five times as much from the region as they export to it. India and Kazakhstan export approximately twice as much to the region as they import from it. Many regional countries trade heavily with one or two other regional countries, and very little with the others. For example, Pakistan's intra-regional imports come mostly from India, but its intra-regional exports flow mostly to Afghanistan. Trade between neighbors Uzbekistan and Kazakhstan is more equitable, and each is an important partner for the other.

### The Afghanistan-Pakistan Transit Trade Agreement

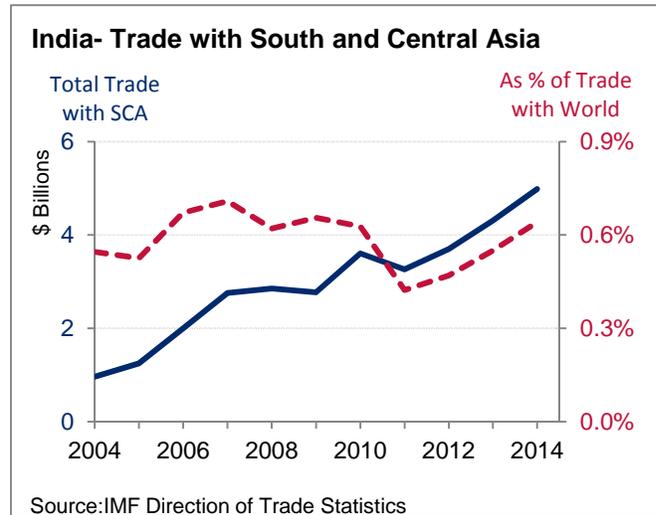
In 2011, Afghanistan and Pakistan signed a revamped Afghanistan-Pakistan Transit Trade Agreement (APTTA) designed to facilitate bilateral and regional trade. APTTA focuses on reducing border delays and fees, providing landlocked Afghanistan with stable access to Pakistani markets and ports (and, by extension, world markets), and providing Pakistan with a trade route to Central Asia.

Despite high hopes, trade has not dramatically increased. Traditional problems such as corruption, security issues, extensive delays, poor infrastructure, and poor communications between customs agencies continue to plague Afghanistan-Pakistan trade at the border. Quarterly meetings between trade agencies planned under the APTTA have not occurred. In fact, Pakistan's exports to Afghanistan have increasingly flowed through the Iranian port of Bandar Abbas rather than over the bilateral border. Smuggling and informal trade remain high, undermining the official trade channels.

In January 2015, Afghanistan, Pakistan, and Tajikistan agreed to pursue a trilateral agreement to expand upon the APTTA, in spite of the lack of success experienced through APTTA. The new agreement is expected to further boost trade in Central Asia through the development of a "North-South" corridor, thereby also attracting foreign investment to the region. Through dialogue with Tajikistan, India has expressed interest in joining the pact as well.

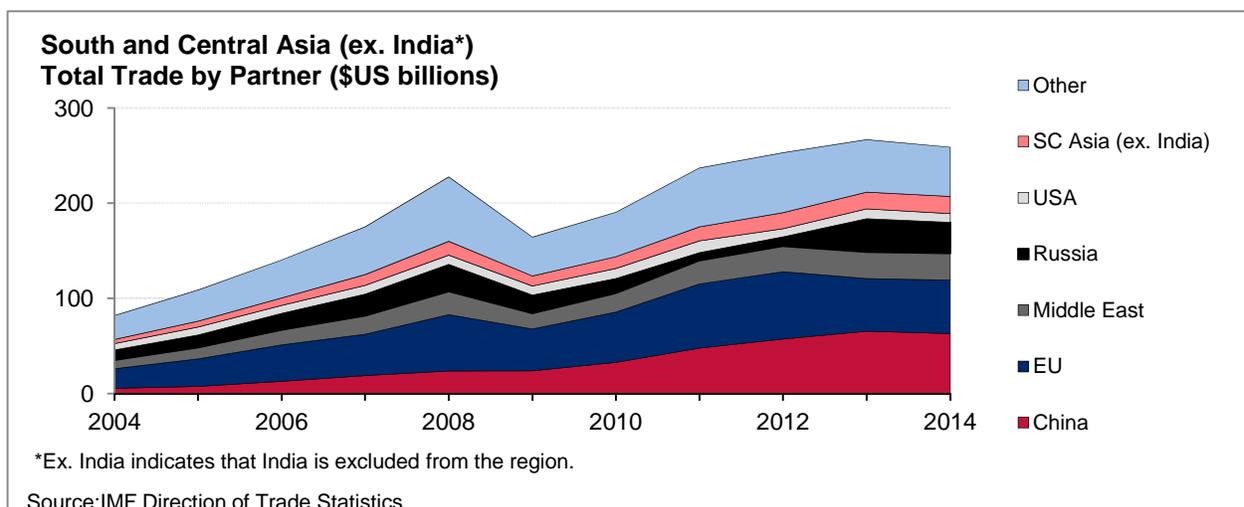


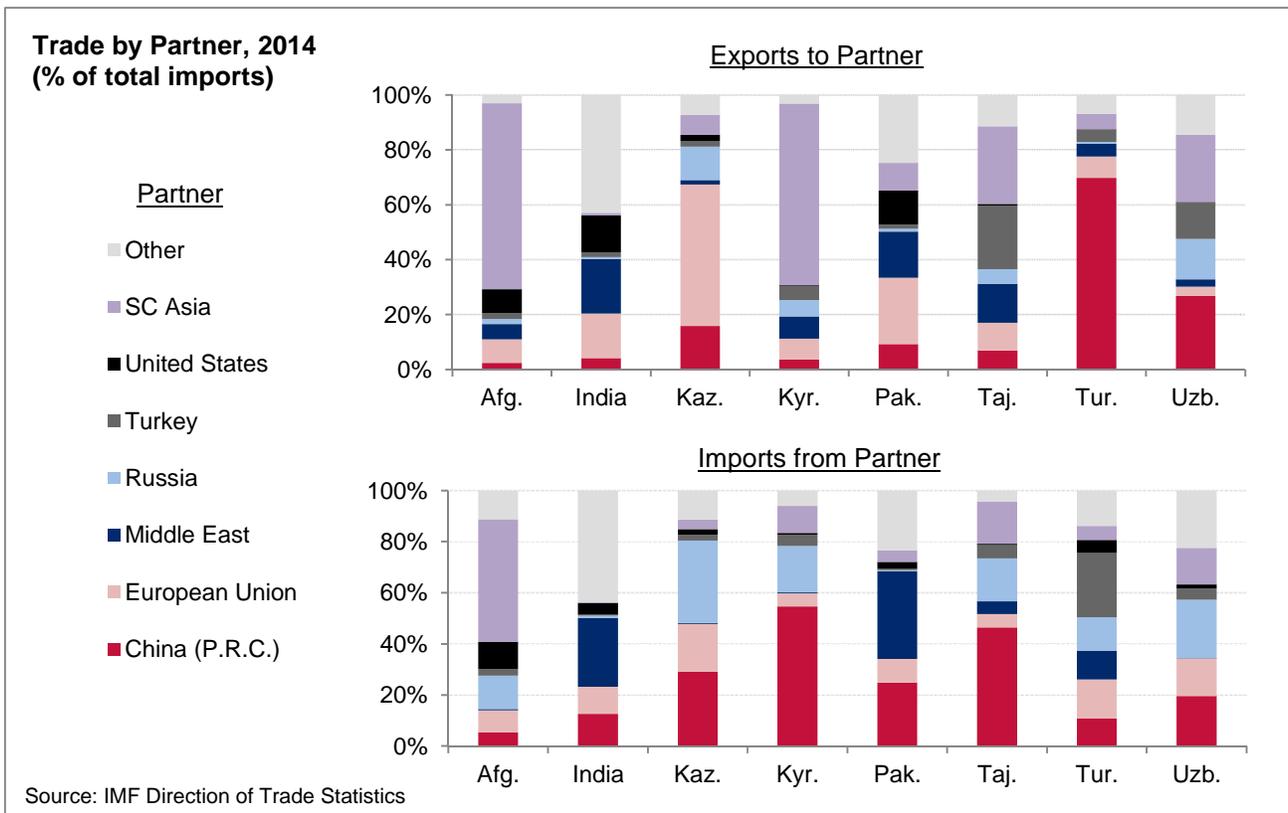
India, with an economy three times that of the rest of the region combined, trades remarkably little with its SC Asian partners. Its intra-regional trade amounted to only \$5.0 billion in 2014, 0.6 percent of its total trade that year. India’s trade with its regional partners has actually risen substantially over the last ten years, growing at an average clip of 17 percent annually, but its trade with other partners is growing just as quickly. Security and political concerns are partly to blame for the low intra-regional trade; restrictions at the India-Pakistan border limit India’s access to trade routes that would better link it with Central Asia. Its large market and access to the sea also make it a more attractive trading partner to extra-regional countries, making India less reliant on trade with its neighbors than landlocked Afghanistan.



### Trade with the World

The largest trading partners for SC Asian countries include China, the European Union (EU), the Middle East (mostly the UAE and Saudi Arabia), and Russia. Trade with the United States is relatively low. To analyze the region’s trade patterns with the rest of the world, it is helpful to analyze India separately from the rest of the region, as India accounts for nearly three-quarters of the region’s trade.





### China

China has become a much larger player in SC Asia in the last decade. In 2004, China accounted for only 6.6 per cent the region’s trade (excluding India). By 2014, China accounted for nearly one quarter of the region’s trade. Apparel imports from China account for a sizable portion of imports for Kyrgyzstan and Tajikistan. China is the destination for nearly 70 percent of Turkmenistan exports by value; nearly all of which is natural gas. Uzbekistan sends mostly natural gas and cotton to China, while Kazakhstan exports oil eastward. Recent Chinese initiatives, including the Silk Road Economic Belt, aim to link China to the Middle East (ME) and Europe by way of Central Asia while further increasing Chinese access to energy and raw materials from the region (see inset).

India’s trade with China has increased seven-fold in the last decade, although its imports from China were 4.4 times as large as its exports to China in 2014. Indian imports from China grew from \$6.0 billion to \$58.3 billion from 2004 to 2014, while Indian exports to China grew from \$4.2 billion to \$13.3 billion over that period. Main Indian exports to China include cotton, copper, ores, and organic chemicals, while main Indian imports from China include cell phones and other electrical appliances, machinery and mechanical appliances, organic chemicals, and fertilizers.

## European Union

The percentage of the region's exports (excluding India's) destined for the EU has remained high over the last decade, from 31 percent in 2004 to 35 percent in 2014. Nearly half of Kazakhstan's exports (most of which are petroleum) are bound for the EU. Conversely, the percentage of SC Asian imports (excluding India's) coming from the EU has fallen sharply in the last decade, from 19 percent in 2004 to below 13 percent in 2014. Still, the EU is an important source of machinery and pharmaceuticals for many SC Asian countries.

## Russia

Unsurprisingly, given historical ties and proximity, trade with Russia is a larger percentage of total trade for most of the former Soviet states than it is for Afghanistan, Pakistan, or India. Russia's importance in the region has diminished slightly in the last decade. Its share of Kazakhstan's trade (its main regional partner) fell from 23 percent in 2004 to 21 percent in 2014. The rise of China as a trading partner is denting Central Asia's trade with Russia; gas exports from the region increasingly head east as opposed to north. Difficult economic times in Russia in 2014 and 2015 may lead to even lower trade with Central Asia. Gazprom, Russia's state-owned gas company, has begun to restrict gas imports from Turkmenistan and Uzbekistan as a result of economic pressures.

## Middle East

The region's largest ME trading partners are the United Arab Emirates and Saudi Arabia. Pakistan and India trade very heavily with their ME partners, facilitated by the proximity of large ports in Karachi, Kandla, and Mumbai to ME hubs such as Dubai. India's high level of trade with the ME is a recent development. In 2004, 7 percent of Indian imports originated in the ME; in 2014, nearly 27 percent did. Most of these are oil imports; Indian exports to the ME include jewellery and diamonds.

## China and the Silk Road Economic Belt

In November 2014, China President Xi Jinping announced a \$40 billion initiative to improve connectivity with Europe, the Middle East, and Africa through a modern version of the ancient Silk Road. The plan would connect Central and Western China to Europe through a land route across Central Asia (the "Silk Road Economic Belt") and would connect Southeastern China to the Mediterranean Sea (the "Maritime Silk Road"). This comes at a time when the Russian economy is in dire straits and the United States' presence in the region (e.g. Afghanistan and Iraq) is waning.

Central Asia was hit hard by the Russian slowdown, and the Silk Road Economic Belt offers yet another reason for the region to increase trade with China. Kyrgyzstan and Tajikistan rely heavily on remittances from workers in Russia, making them particularly vulnerable; Chinese investment through Silk Road projects could boost growth when they desperately need it. Many Central Asian countries are rich in resources that China craves. Kazakhstan has oil, Turkmenistan has natural gas, and Kyrgyzstan and Afghanistan have impressive mineral deposits. Improved infrastructure would facilitate higher trade, higher and more consistent government revenue, and regional cooperation.

Increased trade with China would not solve all of the region's problems. Gas exporters like Turkmenistan and Uzbekistan fear becoming over-reliant on China as a market for their gas. Russian protectionism in the energy sector has sharply cut gas imports from Central Asian countries, and the region's other large market, Iran, remains stigmatized by Western sanctions and has considered more protectionist policies itself. Plans to export gas to Pakistan and India are still in their infancy and provide no short-term diversification options. Amidst souring relations with the EU, Russia is likely to pivot eastward, seeking to increase its own gas exports to China, increasing competition.

Chinese leaders speak of the new Silk Road Economic Belt initiative not only as a way to boost trade through massive infrastructure projects, but also as a mechanism for greater economic and cultural integration with its neighbors. China says it hopes for deeper currency integration through more connected capital markets and for deeper political and security connections.

**United States**

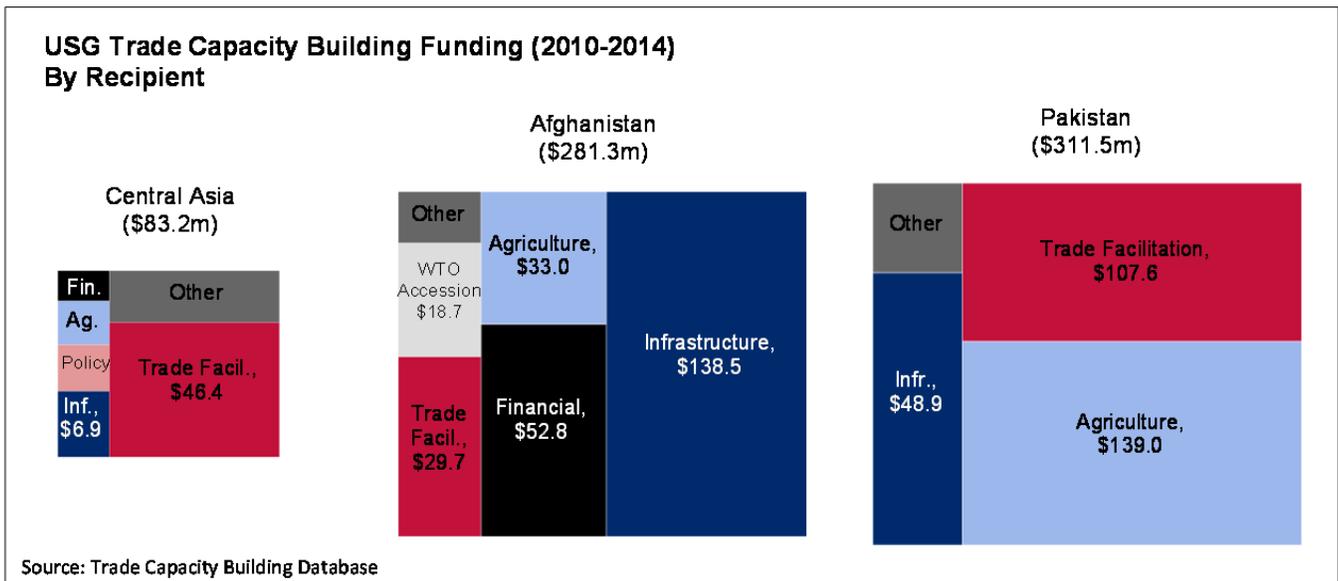
The United States is a minor trading partner for much of SC Asia. For the region excluding India, trade with the United States in 2014 was only 2.9 percent (\$4.5 billion) of imports and 4.6 percent (\$4.7 billion) of exports. Afghanistan, which is the least dependent on trade with China, is the most dependent upon trade with the United States, largely a result of the U.S. government’s rebuilding efforts in the country.

In 2014, the United States was the source of 4.6 percent (\$21.2 billion) of Indian imports and the destination of 13.4 percent (\$42.5 billion) of Indian exports. In nominal terms, the United States’ trade with India has risen substantially in the last decade, but its share of India’s trade has fallen from 10.7 percent in 2004 to 8.2 percent in 2014.

**Trade Capacity Building in SC Asia**

The U.S. Government’s trade capacity building efforts in SC Asia are concentrated mostly in two countries: Afghanistan and Pakistan. In the five years to 2014, both Afghanistan and Pakistan received close to \$300 million in trade capacity building funding. The five Central Asian republics, in contrast, received approximately \$83 million combined over that period.

Much of the trade-related assistance to the region falls under three categories: trade-related agriculture, trade-related infrastructure, and trade facilitation. Associated projects include Department of Defense-funded infrastructure reconstruction efforts in Afghanistan, USAID-funded technical assistance to Pakistan to improve customs procedures at the border, and regional integration in Central Asia in conjunction with the U.S. Government’s New Silk Road initiative seeking regional peace and economic stability.

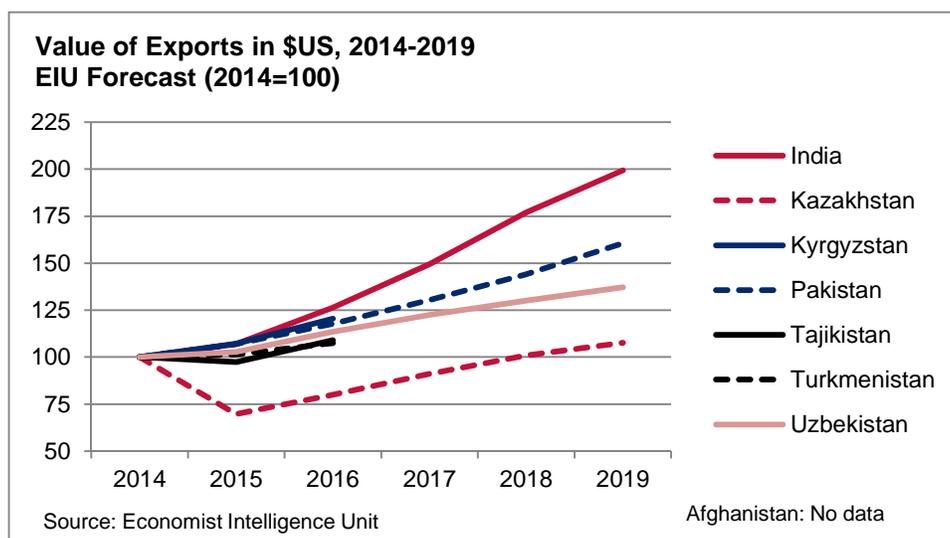


**Forecasts of South and Central Asian Trade**

Regional railway projects (Kazakhstan-Turkmenistan-Iran and Afghanistan-Tajikistan-Turkmenistan, for example), transit trade agreements, and external policies like China’s Silk Road Economic Belt should boost regional trade, both among regional partners and with external partners. Forecasts from the Economist Intelligence Unit (EIU) reflect this optimism. In general, the EIU expects Central Asian exports to rise consistently over the next few years.

The EIU's expectations for the region include the following:

- Foreign investment will continue into copper and iron ore mining projects and in trade infrastructure in **Afghanistan**,
- Growth in services exports will be key for **India**,
- Depressed oil prices will cause oil export earnings in **Kazakhstan** to drop sharply in 2015,
- **Kyrgyzstan's** entry in May 2015 into the Russian-led Eurasian Economic Union, of which Kazakhstan is already a member, may hurt its trade with China,
- The continued recovery in the United States, along with special trade preference programs in the EU, will lift **Pakistan's** exports,
- Rebounding aluminum prices will help boost **Tajikistan's** exports, but cotton prices will remain low, limiting growth,
- A new piece of the Central Asia-China pipeline will continue to help **Turkmenistan** and **Uzbekistan** increase gas exports to China as Russia's Gazprom limits imports from Central Asia.



#### Additional Information

For questions or more information, please contact the author, Jeff Schlandt, at [jschlandt@usaid.gov](mailto:jschlandt@usaid.gov).

**Trade Data:** To access the IMF Direction of Trade Statistics, UN Comtrade, and more datasets, please visit the Economic and Social Database (ESDB) at <https://eads.usaid.gov/esdb/>.

**Trade Capacity Building Database:** To view data on the U.S. Government's TCB funding, please visit the Trade Capacity Building Database (TCB) at <https://eads.usaid.gov/tcb/>.

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