

Scope of Digital Trade Integration for Pakistan and Central Asian States: An Action Plan

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Introduction

- Significant growth in economic integration around the world is observed as the network of Regional Trade Agreements (RTAs) and Free Trade Areas (FTAs) expanded considerably (22 RTA in 1990 to 356 in 2022).
- Currently, RTAs cover most of the international trade and is operating alongside global multilateral agreements under the World Trade Organization (WTO).
- UCTAD (2022) emphasized that digital trade is becoming important and includes digitally ordered trade in goods and services (cross-border electronic commerce) and digitally delivered trade (services delivered internationally through the internet or other networks).
- Developing countries require improvement in capacities to engage and take benefit from digital trade.

Objectives of the study

- How can regional trade agreements be helpful to overcome the gaps due to lack of multi-lateral digital trade integration framework?
- What are the challenges faced by public institutions in implementing digital trade policy of Pakistan?
- How SMEs dealing in digital trade related products can benefit from RTAs?
- To develop an action plan to assist Pakistan for achieving successful and sustainable regional digital trade integration while improving the South-South cooperation.

Research methodology

- A mixed-methods approach to evaluate the measures through which regional trade agreements can promote trade integration among member countries and to identify the gaps in existing trade agreements.
- Review of national legal and policy framework documents such as consumer protection, paperless trade, improvement in digital connectivity, ease in regulation, data protection and skilled workers.
- The minutes of high-level and government-to-government meetings between Afghanistan, Kazakhstan, Tajikistan, Uzbekistan, and Pakistan are examined in detail. Follow up mechanisms for approved minutes were also examined.
- A survey of 50 SME firms from Pakistan and 50 from selected Central Asian countries (Afghanistan, Kazakhstan, Tajikistan, Uzbekistan) in e-commerce and digital trade-related sectors is done. The analysis included Foreign Direct Investment (FDI) in digital space, government spending in Information and Communication Technologies (ICT), domestic challenges for firms in digital sector, digital trade regulations, cross-border trade facilitation, e-commerce legislation.

Trade analysis

Intraregional trade statistics 2021 (\$ Million)

Country	Exports of goods	Imports of goods
Afghanistan	305 (2019)	2,120 (2019)
Kazakhstan	5,585	1,831
Pakistan	1,242	1,038
Tajikistan	782	1,374
Uzbekistan	2,293	3,507

Source: International Trade Centre

- Kazakhstan has higher exports of goods with the selected countries and Uzbekistan have higher imports of goods

Review of trade agreements

- The Afghanistan Pakistan Transit Trade Agreement (APTTA) covers conventional trade rules and procedures. It includes regulations on the right of transit, transit transport corridors, custom controls, general conditions for transport in transit, duties taxes, payment procedures dispute settlement, creation of an Afghanistan-Pakistan Transit Trade Coordination Authority, and requirements for the admittance of road vehicles.
- Pakistan and Afghanistan are part of the South Asia Free Trade Agreement (SAFTA), and the agreement intends to eliminate tariffs and non-tariff barriers to trade and facilitate the cross-border movement of goods.
- Pakistan and Afghanistan are also members of the SAARC Agreement on Trade in Services (SATIS). The key objective of the agreement is to increase trade in services among the member countries while ensuring that it is mutually beneficial.
- The Preferential Trade Agreement (PTA) between Pakistan and Uzbekistan aims to eliminate the tariffs and non-tariff barriers on specific products.

Review of trade agreements

- Pakistan Uzbekistan Transit Trade Agreement focuses on provisions of infrastructure and services to promote transit trade between two countries.
- Pakistan and selected Central Asian countries are members of Economic Cooperation Organization (ECO). ECO is an intergovernmental machinery and institutional arrangements through which member countries are interacting with the emerging global challenges. Economic Cooperation Organization.
- Pakistan and Central Asian countries including Kazakhstan, Tajikistan and Uzbekistan are part of Shanghai Cooperation Organisation (SCO). SCO aims for cooperation with international and regional organizations.
- Kazakhstan and Pakistan aim to sign a Transit Trade Agreement to provide a legal framework for businesses and develop cooperation in the banking sector through agreement among banks of both countries.
- Tajikistan and Pakistan negotiated and finalized an agreement including trade and transit of goods through road and rail. The agreement will give access to Tajikistan and Kirghizstan to seaports of Pakistan. Transit Trade Coordination Committee will also be established under the agreement.

Domestic policies and measures for digital trade

Country	Policies/Measures
Afghanistan	National Cybercrime Strategy 2014 Afghanistan National Trade Policy 2019 The Law on Electronic Transactions and Electronic Signature 2020 ICT Policy for Afghanistan (2018-22)
Kazakhstan	Electronic Document and Electronic Digital Signature 2003 Privacy legislation 2013 (amended in 2020) Consumer Protection Law 2010 (amended in 2020) Digital Kazakhstan program 2018-22
Pakistan	E-commerce policy 2019 Electronic Transactions Ordinance 2002 Prevention of Electronic Crimes Act of 2016 Digital Pakistan Policy 2019
Tajikistan	Single window system Electronic Documents Act 2002 (amended in 2014) Personal Data Protection Act 2018 Digital TIR movement
Uzbekistan	Electronic Commerce Law Personal Data Law 2019 Criminal Code E-commerce strategy

Findings from firm-level survey

Afghanistan:

- ICT affordability and accessibility is the key challenge for businesses in their regional digital trade integration. The government' spending to promote ICT adoption in the country is not enough and the implementation of taxes on ICT affected the growth of ICT industry in the country.
- Firms rely on cash payments and in-house delivery as there is a lack of secure payment methods.
- The findings show that online payment options provided by the Afghanistan International Bank are quite expensive.
- Some progress has been made in the e-commerce sector where online shopping, and delivery of food & clothing has increased in major cities in the recent past.

Kazakhstan:

- Large number of graduates from technical universities are entering in IT and tech sector of Kazakhstan which demonstrates the availability of skilled workforce.
- Firms are facing insecure systems of internet payments and goods delivery that are affecting the growth of the e-commerce sector.
- Insecure payments resulted in data breach and potential loss of trust among customers which is detrimental in expanding e-commerce sector (KPMG, 2018)

Findings from firm-level survey

Pakistan:

- Major mode of payment is still cash on delivery due to mistrust on online payments.
- Firms identified that legal issues such as online transactions, dispute resolution, consumer protection, and intellectual property rights are affecting the growth of e-commerce industry in Pakistan.
- Due to complicated laws, foreign investment in digital space could not be attracted to the country.
- Firms also pointed out that cybercrimes such as hacking, data theft and fraud are serious threats to the tech, telecom, and IT sector firms. Recently, Bykea which is a popular ride-hailing and delivery app in Pakistan faced a hacking incident which raised concerns among the users regarding possible data breach.
- Lack of an internationally recognized payment gateway is affecting cross-border payments and it is also the entrepreneurs and freelancers.
- Fiscal restrictions including higher taxes and tariffs are restricting the growth of digital trade and the e-commerce sector.
- UNESCAP (2019) indicated that taxation at both federal and provincial level in Pakistan increase the cost of production and hinder the growth process of e-commerce firms.

Findings from firm-level survey

Tajikistan:

- The respondents from Tajikistan referred to insufficient and costly digital connectivity as the major hurdles in digital development in the country.
- Currently, there is a lack of public investment in the digital economy including hardware and software. Due to lack of public investment, there is a shortage of skilled workers especially in IT and tech sectors.
- The respondents said that internet penetration in the country is quite low which restricts the potential of IT and tech businesses.
- Access to finance is another major challenge for SMEs operating in IT and tech sector as there are not enough opportunities to acquire loans and venture capital.
- The Legal infrastructure related to e-commerce is also weak and required to be improved to create a feasible environment for promoting digital economy in the country.

Findings from firm-level survey

Uzbekistan:

- There is a lack of public investment in telecommunications infrastructure due to which broadband internet coverage is limited and there exists low level of mobile internet penetration.
- The government funding for digital projects is also limited due to which firms' expansion of digital businesses remains a challenge.
- The slow and inefficient progress from the government towards policy measures is a major barrier to creating feasible environment for businesses.
- The respondents also pointed out legislative issues such as a lack of a digital base of international treaties.
- Domestic businesses are facing stiff challenges from foreign firms including China and Russia which makes it difficult for smaller firms to survive.

Digital trade integration: Priority policies for Pakistan

Country	Policies/Measures
Intellectual property rights	Counterfeiting, smuggling, and violation of intellectual property rights including copyrights, trademarks, and patents. According to an estimate, foreign companies in Pakistan lose around 757 billion rupees every year because of IPR breaches.
Non-technical non-tariff measures	Ban on import of Digital Enhanced Cordless Telecommunication 6.0 phones and discs, and restriction on import of 3D printers. Non-tariff measures include custom duties, quarantine restrictions, technical regulations and import licenses.
Foreign investment restrictions in digital space	The Foreign Exchange Regulation Act restricts foreign investment in digital space. The conservative foreign exchange regime causes issues for a foreign firm in transferring working capital, profits, and fixed investment in and out of Pakistan.
Public procurement	Complex and time-consuming procurement process is a major hurdle for small and medium-sized IT firms. Manipulation of bidding criteria and awarding the contracts to firms with political affiliations.
Public investment in digital space	No single anthology exists that contains national-level consolidated details of public expenditure on digital sector uplift.

Digital trade integration: Priority policies for Pakistan

Country	Policies/Measures
Data and information cost	Data-sharing systems are limited among the Central Bank, non-financial regulators, and federal and provincial governments. Some kinds of data have overlapping ownerships across organizations and access which requires approval from multiple authorities.
Tax policy and administration	Different sales tax regimes are imposed by provincial governments on the digital space for which filing with multiple tax authorities is required. There exists a lack of clarity on the tax treatment of certain IT-related activities like software development and cloud computing.
Reliability of payment mechanism	Lack of consumers' trust on online payments due to factors such as concerns about security and fraud. Issues also include ineffective payment infrastructure, high fees charged by payment processors, volatility of Pakistani rupee, complex government regulations.
Lack of skilled workers	Lack of skilled workers related to information technology, e-commerce, and digital marketing due to which businesses find it difficult to compete in the global digital economy. Workers have low productivity due to lack of investment in technology and lack of training for workers.

Action plan

Action required	Department responsible	Time period
Common and harmonized rules to support cross-border digital trade between Pakistan and selected Central Asian countries	Ministry of trade	Medium term
Working group for digital trade integration between Pakistan and selected Central Asian countries	Ministry of trade	Short term
Engagement between digital sector business associations	Chamber of commerce	Short term
Regional online payment system	Central bank	Long term
Provisions for digital trade integration in trade agreements	Ministry of trade	Long term
Integration in global value chains of IT, telecom, and tech sectors	Ministry of IT, telecom	Long term

Policy recommendations

Country specific recommendations:

Afghanistan

- Basic ICT equipment should be exempt from taxes to decrease the prices and improve accessibility and affordability.
- Subsidies for new ICT startups can pave way for digital integration with regional partners and promote ICT industry domestically.

Kazakhstan

- The government should develop secure systems of internet payments and goods delivery to boost e-commerce sector. Besides, the government should also invest in digital infrastructure such as increasing mobile broadband coverage.
- it is also required to improve cybersecurity to protect the consumers and businesses. The regulatory burden should be reduced to develop fixed broadband markets.

Policy recommendations

Pakistan

- The government of Pakistan should digitalize the supply chain to address challenges due to traditional and outdated methods.
- Central bank should relax the requirements to be met by firms which will help in expansion of online trading.
- The national trade facilitation strategy of Pakistan should be revised to accelerate accession to the Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific.
- The government of Pakistan should invest in digital trade infrastructure such as internet access, telecommunications, and logistics.
- The government of Pakistan should promote the use of digital payments among businesses and consumers by providing tax breaks to businesses that accept digital payments

Policy recommendations

Tajikistan

- International connectivity transit routes in Tajikistan are required to be diversified to attain greater digital resiliency and capacity.
- Local and foreign investments should be attracted in the country for which institutional and policy environment is required to be made more conducive.
- The government should also focus on enhancing cybersecurity and data protection capacity to avoid cyber-attacks.
- There also exists a lack of digital trust in online transactions for which effective strategies to strengthen data protection environment are required.

Uzbekistan

- The government should focus on increasing investment in digital infrastructure. The government should also provide sufficient funding to firms in digital space so that expansion of the trading activities can be ensured.
- Effective legislation is required to address the modern challenges related to digital economy and digital trade.
- By engaging with other regional countries in the form of international treaties can be helpful in boosting regional cooperation.