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No. TDAP-GLT/G.Admin/2021 Dated: 01ST March, 2021.

The Director,

Trade Development Authority of Pakistan,

Islamabad.

**Subject: STRATEGY TO PROMOTE AND FACILITATE TRADE BETWEEN PAKISTAN AND CHINA THROUGH KHUNJERAB BORDER**

Respected Sir,

With reference to your email sent on Feb23, 2021, and the attached letter from the Ministry of Commerce vide F.No.6(3)/2019-AP-1 dated Feb18,2021vis-a-vis the subject mentioned above, attached with this letter is a draft strategy to promote and facilitate trade between China and Pakistan via Khunjrab border.

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**TRADE THROUGH KHUNJARAB PASS AND KHUNJRAB PASS AS A TRANSIT**

**Introduction**

The name Khunjurab has been derived from two words of local wakhi language: khun meaning blood and ‘Jerab’ meaning a creek coming from a spring or waterfall.

Khunjerab Pass (sometimes called Khunerjab Pass) is a high mountain pass on the northern border of Pakistan with China, at an elevation of 4.733m (15,528ft) above the sea level. The Khunjerab Pass is the highest border-crossing in the world and the highest point on the Karakoram Highway.

Khunjerab Pass is located in the Karakoram Mountains in a strategic position on the northern border of Pakistan's Gilgit–Baltistan Hunza-Nagar District on the southwest border of the Xinjiang region of China. Moreover, Khunjerab Pass lies on the strategic Karakoram Highway (KKH), which is a part of multibillion-dollar China-Pakistan Economic Corridor (CPEC) project. The port is extremely important platform and is considered to be an important link to China’s flagship Belt and Road Initiative (BRI).

The Karakoram Highway (KKH) is the only land route that connects Pakistan and China throughKhunjerab Pass (4693-meter-high) and this highway is considered as symbol of China-Pakistan’s “higher than the Himalayas” friendship. On Chinese part, KKH starts in western city of China called Kashgar and on Pakistan side it starts from Hasan Abdal city of Punjab province and it connects Pakistan and China at Khunjerab pass in Gilgit Baltistan (see figure 01). The KKH is one of the main components of mega project ‘China Pakistan Economic Corridor (CPEC) which aims to connect Xinjiang area of China to Gwadar port of Balochistan province of Pakistan while improving the road conditions through Khunjrab Pass (Gilgit Baltistan) and Khyber-Pakhtunkhwa province. CPEC will also help to develop business enterprises and tourism development in GilgitBaltistan Pakistan (Ali and Yousuf 2019, Baig and Hussain 2019)

1. **Trade Status from Khunjrab Pass**.

Trade volume between China and Pakistan surged by nearly 47% to $856.3 million at the Khunjerab Pass in 2019 while the New Year cargo pushed up demand for shipment on the route.Initially trade through Khunjrab Pass was very limited but it increased with the rapid economic development by China. Annual trade through Khunjrab Pass in 2019 was 856.3 million USD. It had increased 47 % from the previous year. Approximately Rs 5 billion was deposited at Sost Dry Port as tax by importers in the year 2019.

The current cross border trade with China is mainly dominated by China’s exports to Pakistan. In 2018 total 1508 containers have entered into Pakistan from China whereas only 61 containers entered into China from Pakistan through Khunjerab border. This means that 96% of the trade is mainly consists of China’s exports to Pakistan whereas, Pakistan share of exports is only 4%.The trade balance is heavily tilted in Chinese favour. Main imports from China are electronic items, shoes, garments and spare parts. The main items being exported by Pakistan used to be gemstones, dry fruits, medicinal herbs and some clothing items. But since last couple of years Chinese have put a ban on import of all these items citing quarantine issues and their sensitivities related to security situation in Muslim dominated Sinkiang Province. Now virtually exports from Pakistan via Khunjrab Pass have come to almost zero except export of pine nuts.

1. **Evolution of trade through khunjurab Pass**

The first ever trade agreement between Pakistan and China took place in 1963 and since 1969 the two trading countries have signed border trade agreement annually that regulates exchanges between Xinjiang of China and northern provinces of Pakistan (Vartzberger 1983). The KKH was fully opened for civilian traffic after its official inauguration in 1978 and governments of both sides used to regulate the nature of exchanges of goods strictly. However, the volume of trade between these two countries never increased in the following years (Rippa 2018). Vartzbergerdescribes that the trade between Pakistan and China was mainly consists of exports of cotton products, leather, herbs, dry fruits and nylon cloth from Pakistan and import of textile products, silk, farm tools and hardware from China. World Bank (2011) reports that China has now diversified its exports to Pakistan which include garments, electronics, toys, car parts, crockery, mobile phones, computer accessories and so on. About 40% of these goods are destined for consumption and retail sale in Gilgit Baltistan. On the other side, the Pakistani exports to China have little impact on the economy of Gilgit Baltistan because the major exports items such as sporting goods, clothes, peanuts and prayers mats are not produced in Gilgit Baltistan and only small quantity of exportable items such as herbs, minerals and handicrafts are produced in Gilgit Baltistan.

Since the opening of Karakoram Highway (KKH) in 1978-1986, thousands of traders from Pakistan and China have been taking advantages of this connectivity between Pakistan and China in terms of import-export business. Many Pakistan traders have engaged in business activities andestablished their business across Xinjian province-Kashgar to Urmqi and ² to Khotan in China. The impact of cross bordertrade through KKH on overall trade between Pakistan and China remains limited despite its expansion as the Pakistan leading business newspaper ‘Business Recorder (2017) reports that the trade between these counties has been growing from 4 billion USD in 2006-2007 to over 13 billion USD in 2015-2016. However, about 75% of this trade is made up of Chinese exports and also only a small amount of trade took place through KKH. In 1998, the cross border trade between Pakistan and China was only USD 21 million and only 4% of China’s exports to Pakistan came through Gilgit Baltistan Corridor. This small amount of trade was due to the fact that large of amount of China trade with Pakistan was done through port of Karachi.KKH was constructed in 1979 as a joint venture by Pakistan and China. This provided the only land connectivity between the two friendly countries. Construction of this strategic road opened the door for mutual trade. The alignment of this road generally follows the old silk route. Trade caravans from central Asia/ China used to pass through various passes in Pamir region including Khunjrab Pass and travel to present day Pakistan and India. In those days mostly it was barter trade. However, with the opening of KKH, regular trade began between China and Pakistan in early eighties and it picked up gradually. The major imports from China were silk, blankets, garments, decoration pieces, shoes, electronic items and dinner sets. Subsequently some additional items were also added like spare parts. In the past Khunjrab Pass was also used as a transit route. Rice was exported to Russia / some Central Asian states and scrap was imported from Russia albeit at a very small quantity. But now due to restrictions imposed by Chinese authorities the transit trade has come to a standstill. CPEC which is the flag ship project of Chinese OBOR initiative passes through KKH. With the realization of this project KKH is likely to become a major trade route.

3. **Current Status of Trade.** As per agreement between Pakistan and China, the border at Sost remains closed from 30 November till 31 March. However, this year due to Covid-19 the border was not opened for trade on 1 April and it is still closed for all kind of trade. On the special request of Government of Pakistan only five stranded containers were allowed to pass through Khunjrab Pass by Chinese authorities in month of August,2020. As per the data shared by local traders still 181 containers are stranded on the Chinese side. The local traders are demanding the opening of border for resuming trade but the same looks unlikely due to reluctance on Chinese side owing to continuing Covid-19 threat.

4. **Hurdles and Issues on Trade from Khunjrab Pass During Regular Trade.**

There is no government level trade agreement between Government of Gilgit Balistan and Government of China that can facilitate Pakistani border traders and because of its absence the traders currently exports nothing to china but to accepts all imports of goods from China. At present Chinese are not ready to purchase even a single item from us.

2. One of reasons of low demand of our product in China is because of standardization issue with our products. Our products are not up-to the international standards whereas, China is currently following quarantine laws strictly. During inspection of our products at border, most of them damage due to low quality of printing and packaging.

3. The Khunjerab Pass remains closed for four months (December-March) each year due to heavy snow falling the area and even during the trading seasons, KKH remain interrupted by security reason, landslides, different protests etc.As per the local traders following major problems are being faced by Pakistani traders:-

a. Closure of border for a prolonged duration annually from 1 December till 1 April (five months). By keeping the border open round the year trade can be almost doubled.

b. The traders face a serious issue of transport. Chinese containers bring goods from China till Sost Dry Port but don’t allow Pakistani trucks/ containers to Chinese side. Chinese transporters by taking advantage of their monopoly charge exorbitant fares.

c. Items being imported through Sost Dry Port are of usually cheap quality and are sold in markets like Raja Bazar etc. Whereas items imported through sea are of high quality and mostly sold in elite markets and shopping malls. But the custom duty/ tax rates are same for imports by sea and imports through Sost Dry Port. This puts the business men importing through Sost Dry Port at a great disadvantage.

d. Chinese are not letting any imports from Pakistan via Khunjrab border. Few years back Pakistani exporters used to export dry fruit, gemstone, some clothing items and herbs. But now our exports just limited to pine nuts only. This has resulted into one sided trade.

e. Pakistani businessmen face harassment / mistreatment when they travel to China via Khunjrab Pass. They are made to pass through scanners at two locations, which is a serious health hazard. The attitude of Chinese immigration/ security officials is very rude. It may be noted that Chinese nationals travelling to Pakistani side are treated with utmost respect.

f. In the absence of Chinese consulate in GB, the local traders find hardships regarding processing of their visas. They have to travel to Islamabad for completing visa formalities, which causes strain on time and resources.

5. **Hurdles and Issues on Trade from Khunjrab Pass During Covid-19.**

As highlighted earlier, due to Covid-19 the border did not open on 1 April as scheduled. Since trade did not resume, therefore, no specific issues related to Covid-19 have been faced, however, the closure of border has created serious economic hardships for people related to trade with China,which is still continued.

6. **Recommendations.**

Following recommendations are proffered to address problems being faced by traders and for boosting trade via Khunjrab border:-

a. The border agreement between Pakistan and China needs to be revised for keeping the Khunjrab border open round the year. Especially in the backdrop of CPEC this has become imperative to keep this border open for trade throughout the year. If implemented this has the potential to double the existing trade via this route.

b. There is a need to negotiate with Chinese authorities for permitting exports from Pakistan via Khanabad Pass as per FTA signed between the two countries. Restrictions imposed by Chinese side have denied own exports. This is ultimately widening the existing trade deficit between the two countries.

**c.** To address the issue of transport, Chinese government must allow Pakistani trucks to enter China on reciprocal basis. A mechanism needs to be evolved whereby own importers should have option to hire Pakistani or Chinese trucks/ containers.

d. The Chinese authorities need to treat Pakistani businessmen with respect and humility. The mistreatment must be ceased immediately as it doing great harm to our friendship and mutual respect apart from discouraging own business community to go to China on business tours.

e. To address the issue of getting visas by local businessmen, the Chinese government may be asked to open a consulate/ visa office at Gilgit. This has also been a longstanding demand of importers from GB.

**f.** To encourage trade through Khunjrab Pass and to facilitate the importers, existing tax regime needs to be revised by FBR. Considering the low quality items being imported through Sost Dry Port, the taxes/ custom duty needs to be rationalized/ reduced.

5. **Khunjrab Pass as a Transit:**

The proximity of Gilgit- Baltistan to Afghanistan, Tajikistan and India, in addition to Xinjiang and Tibet, makes the region a diplomatic, strategic, logistical and political asset. China and Pakistan could use the corridor to enhance economic interaction with other countries in the extended south central Asian region and to create an economic block comprising of Iran, Afghanistan and some other southern and central Asian states. But currently Khunjrab Pass is not being used as a transit to these countries rather its potential is being wasted for trade between the countries, where our exports are very less, stated by the President Chamber of Commerce and Industry, Nagar,GB.

There are reasons to infer that though the Khunjerab Pass was ostensibly built to ensure development of the region by enhancing local trade, it has largely failed to do so. The main traders and exporters express worries that that the local traders and exporters have not benefited despite the ongoing bi-lateral ‘border’ trade since the 1970s. The KP has not been used for transit trade since 1980s and the trade from KP with China is largely import oriented wherein GB exports have the slightest share in trade from KP. This is the reason that the per capita per annum income of Gilgit-Baltistan is only one-fourth of Pakistan’s national average and more than half 1.3 million of its inhabitants still live below the poverty line. The President Chamber of Commerce and Industry ,Gilgit showed concerns that economic activities and trade through KP has not significantly contributed to the socio economic uplift of the region.

GB has rich industries like fresh and dry fruits, gemstones, mineral, precious stones, handicrafts and marble etc. which could be exported to Central Asian Republics ,Russia, Afghanistan etc via KP .The businessmen in GB could have economic access to these countries markets which could further boost their business and overall export boost for the country. Likewise, the energy consumption rate of the locals is almost ten times lower (5 watts per capita) compared to Pakistan’s national per capita average of 48 watts from 2010 onwards many business experts pinned their hopes on Pakistan, China, Kyrgyzstan and Kazakhstan, after they ratified their inter- governmental agreement on trade, transit and transportation. However, Pakistan still ranks sixth and last among the trading partners of Xinjiang. The President Chamber of Commerce and Industry stated that despite the existence of Preferential Trade Agreement, Free Trade Agreement and Early Harvest Programme on goods (signed in 2007), investments (signed in 2008) and services (signed in 2009), local traders have failed to derive the expected benefits. When Sino-Pak trade reached the $7 billion mark in 2019, the share of trade via Khunjrab Pass was a miniscule 1 per cent or even less, and more surprisingly, while the Chinese share was a staggering 25 per cent of the total bilateral exports.

**Recommendations to use Khunjrab Pass as a Transit:**

As discussed the Khunjrab Pass transit issue at length with the Chamber of Commerce and Industry, Gilgit, Hunza & Nagar, Pakistan Gems and Minerals Association (PGMA),GB, Silsila PVT.Ltd (Women Enterprise), KAADO, Hunza, Pakistan Gemstone Cutting and Polishing Company(PGCPC),GB, Sunrise enterprises, Hunza(Women Enterprise),leading and local traders and exporters ,the following recommendations are put herewith, with regard to the utilization of Khunjrab Pass as a Transit to further other connecting states/Countries:

1. **Steps must be taken to sign Pakistan-China Transit Trade Agreement (PCTTA), which would help Pakistan earn billions of rupees through bilateral trade with the Central Asian States. Pakistan could earn billions of dollars if we reach out to the markets of Central Asia. China can provide us transit in reaching to markets of Tajikistan, Kazakhstan and Uzbekistan which have huge capacity for Minerals &Marble, handicrafts and fresh/dry fruits from GB.**
2. The Khunjrab pass Transit trade agreement can be signed under the umbrella of CPEC and can be further aligned with the related CPEC projects in Gilgit-Baltistan.
3. To use Kunjrab Paas as transit to CARs and Russia, customs, FIA, NLC offices may be established at the different transit points to further streamline the transit trade. These tentacles may be made a permanent part of transit trade facility at major transit points.
4. Women Entrepreneurs from Gilgit Baltistan may also be included in this kind of Transit Trade Agreement/programme as they are working rigorously in multi sectorial prominent industries of GB. The women enterprises in GB are surpassing the quality standards in trade and can get huge benefits from this transit trade to multiple connecting countries/states.
5. The issue of closure of border for a prolonged duration annually from 1 November till 1 April (five months) may also be taken up with Chinese authorities. By keeping the border open round the year, transit trade can be almost doubled.
6. Chinese are not letting any major exports from Pakistan via Khunjrab border. Few years back Pakistani exporters used to export dry fruit, gemstone, some clothing items and herbs. But now our exports just limited to pine nuts only. This has resulted into one sided trade. Transit trade to CARs like Tajikistan, Uzbekistan which are landlocked countries can boost our exports of all Local products including minerals, marble, handicrafts, precious stones etc. of Gilgit Baltistan.
7. With the passage of time this Khunjrab pass transit corridor can be shifted to economic corridor to explicitly designed to stimulate economic development. In order to overcome exports related issues, Pakistan needs to articulate an industry and trade boosting programme to gain from the khunjrab pass in terms of additional businesses opportunities, apart from temporary jobs.

1. GB business men can access the CARs, Afghanistan and Russian markets for their business expansion.
2. Pak and china can align Khunjrab Pass transit agreement to use Khunjrab pas as highway diplomacy which is the most striking feature of China, s trade route strategy, enables both China and Pakistan to use the KKh/khunjrab pas to contain the growing economic influences of the two adversaries.
3. By using Khunjrab pass as a transit to CARs, Russia, Afghanistan etc, the political and economic, bilateral and trilateral ties would also be improved among the countries with Pakistan.
4. With the enhanced economic ties, Pakistan can benefit from the energy rich Central Asian Republics to fulfill its growing energy needs.
5. With opening of the Chinese Consulate In Gilgit Baltistan, the long delay ans cumbersome visa process can be checked , and it will save thousands of rupees for the local businessmen.
6. Similarly, with opening of Pakistani Consulate in Xinjiang, Pakistani traders can be facilitated in case of emergency.

**Way Forward**

1.The policy makers of government of Pakistan should formulate policies that should

address the entrepreneurship initiatives, opportunities for local investors, access to credit

facilities, public private partnerships, facilitating collaboration with Chinese traders and

investors, joint venture and trade alliance, training women about value addition of local

products and promotion of chamber of commerce and industries of Gilgit Baltistan.

2. Since Gilgit Baltistan has comparative as well absolute advantage in production of fresh

and dry fruits, herbs and availability of mineral and these products can be exported to

China through border trade if some value addition is ensured to these products and the

most demanding area is printing and packages of these products. If printing and packages

Of these products are ensured, then a significant amount of these products can be Exported.

3. The role of government of Pakistan in facilitating the local border traders is minimal. Government can facilitate them by providing international market access, giving financial incentives (low interest rate loans etc). In this regard federal government of Pakistan should arrange agreement between Government of Chins and Gilgit Baltistan government for free trade.

4. The local traders should be given awareness about the updated international market trends and their capacity should be built accordingly in order to increase the cross border trade. For this purpose, different sessions and trainings for local traders should be arranged.

5. Women’s role in border trade can be enhanced by providing them training about the valuation addition of fruits and handicrafts.

6. Government of Pakistan should also negotiate with Chinese authorities to keep the Khunjerab border open for all weathers.

7. Government of Gilgit Balistan should also take necessary steps to establish the fruit processing industry in Gilgit Baltistan. This sector can increase export potential of GilgitBaltistan economy and also has the potential to generate employment opportunities.

 The End