



POLICY BRIEF

RETHINKING INTERNATIONAL TRADE AND GROWTH IN A DIGITALIZED WORLD



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[Centre for Business and Economic Research](#)

Summary

Digital transformation is reshaping global trade, creating new opportunities while posing challenges for countries like Pakistan. This brief highlights insights from the 4th Annual International Conference: Rethinking Economics in the Contemporary World 2024, focusing on global trade dynamics in a digital age and Pakistan's potential in leveraging digital trade. It summarizes discussions from the panel sessions on *Rethinking International Trade in a Digitalized World* moderated by Dr. Aadil Nakoda, and *Growth, Trade and Digitalization* moderated by Dr. Manzoor Ahmad, and the policy dialogue on *Paperless Cross-border Trade*. Key recommendations include investing in infrastructure, promoting digital literacy, fostering regional cooperation, and developing supportive regulatory frameworks.

What's the issue?

Pakistani policymakers are navigating increasing headwinds as they aim to boost exports and address mounting balance of payment concerns. A critical international trading strategies is imperative as Pakistan endeavours to increase its exports to alleviate pressure on the balance of payments. Regional policy makers, including Pakistan, face challenges to enhance international trading activities and regional competitiveness. Pakistan needs to strengthen its position in global trade networks, effective documentation procedures and achieve greater digitalization. The high trade costs and documentation barriers are hindering Pakistani business participation in international trade. Current internet disruption has adversely impacted the strides towards digitalization.

International trade in Pakistan and role of institutions

Pakistan Single Window (PSW) started in 2021 has been encouraging greater transparency and compliance with trade procedures and processes, and moving the stakeholders from a slow paper based traditional methods towards more digitalized methods and which are faster and more efficient. PSW collaborates with the private sector to ensure its successful

Key Take Aways

Countries need to exchange more information and more of trade data should be available across countries, especially partner countries.

A country cannot become competitive unless there is a complete transformation in the policies that are required to create a better living environment.

Banks need to continually invest in digitalization. There should be better customer journey, customer experiences and better controls and checks.

Digitalisation and artificial intelligence has presented challenges and the opportunities for Pakistan and it needs to utilize digital platforms as well as artificial intelligence effectively to encouraging greater international trading activities.

Pakistan lacks diversification in its products and lacks diversification in terms of its markets. It faces major challenges such as non-tariff barriers and standards which needs to be addressed.

implementation. As of now, PSW is in phase four of their implementation and under this program they have completely digitalise trade.

Trade has increasingly become more complex, and several countries are signing bilateral, and multilateral agreements. EU is now coming up with the carbon border adjustment mechanism, which means that a lot of our exports and existing export practices need to be modified. It is necessary to think about how to stay competitive.

PSW has devised the cross-border trade system with the objective of reducing the time and cost of doing business for traditional businesses so they can remain competitive. PSW also helps encourage businesses become more compliant to national regulations.

Example from India: ADB SMILE Program (\$600 million) for multimodal logistics ecosystem:

- Integrated governance and policy planning across federal, state, and city levels.
- Standardization of warehousing across states with private sector engagement in ranking and investments.
- Focused on digitization of port systems and smart trade facilitation.

The single platform helps to calculate exactly how much to pay for a transaction and therefore the chances for corruption decline. PSW is now the biggest data repository of cross-border trade. This data can be used to create new products, access markets and to increase the sale of own goods, not just within the country, but also across the borders.

Exports related to the small and medium enterprises are estimated to be about 30 percent. They are mostly indirect exporters and are very small sized firms that are downstream industries supporting the larger firms in their exports.

SMEDA has financial advisors and legal experts that provide support for organizational development and provide support for startups. SMEDA has the digital literacy program, which is focusing on women entrepreneurship development in the country. It is virtual and reaching out to women entrepreneurs. COVID helped fast track adoption of digitalization across the public sector.

A research study by the Asian Development Bank, stated that apart from economic gains of \$600 billion in savings from trade due to digitalization of international trade practices and procedures, digitalisation has had the significant impact on the environment in Asia and Pacific as well. Digitalization of trade has helped in bank operations and business operations related to international trade.

ADB has been supporting Pakistan's national trade corridor investment program, which started back in 2006. There have been multiple tranches under which ADP supported infrastructure development involves for integration with the region. A \$250 million project (2015) for integrated management of transit trade at border points with Afghanistan (Chaman, Torkham) and India has been carried out. This has minimized trade delays, improved governance, and established Pakistan Land Port Authority for operational management.

Smart trade facilitation of PSW is an example of integrated risk management systems which has integrated different stake holders at one stage. What is needed is to provide governance structures, institutional framework policies, and support for policy plans from the three tiers of the government,

starting from the federal state level and selected city governments as well. Standardization is mandatory when such integrated program happens. An integrated model also includes transport such as roads, railways, ports and waterways. The next focus should be on improving the port system.

The framework and agreements of trade in Asian Pacific is an important instrument to develop the capacity of all countries in the region to engage in prosperous trade. It is estimated that trade costs can fall up to 50 percent of existing transaction costs by significant benefits from compliance are also expected from this.

In many countries in the region, tariffs are important source of revenue but countries, however, are eventually transitioning to fewer tariffs and more barriers of other nature. One such barrier is in the form of requirements for multiple documents. For example, if it's an agricultural product, the exporter needs a certificate, spa certificate or sanitary and phytosanitary certificate to make sure there's no dangerous chemicals, pesticides, and so forth. The traders need to make sure that they have an export license, an invoice, and permission along with many other documents. Traditionally, all these documents had to be collected at different departments.

Information exchange is critical between customs and other relevant authorities, and this is where this framework agreement on paperless trade comes in. Sharing data across borders can lead to as much as 30 percent reduction in trade costs.

Banks have played their role in the digitalisation of trade procedures and processes. The processing time have been reduced significantly. This has been done through the launched of Oracle-based system which provides a paperless, 24/7 solution for trade transactions (import/export). The automated screening of transactions has helped in increasing trade volumes by 35 percent year on year. It has enhanced transparency, reduced transaction time, and significant process improvement.

Challenges in Trade:

- High procedural costs due to paperwork and multiple agency requirements (e.g., export licenses, SPS certificates).
- Lack of cross-border information sharing causes discrepancies in trade data and revenue loss.
- International interbank funds transfer has several issues such as long waiting time periods and sensitive exchange rates.
- There is mismatch in cross border data due to factors such as time lag, under declaration of prices (under-invoicing), and different HS codes.
- Under declaration of prices of commodities at customs and no formal laws for electronic signatures for online documentations.
- Difficult to implement trade facility agreement since 1970 as standards and legal frameworks differs from country to country.

Challenges Faced by SMEs and SMEDA's Digital Interventions:

- Access to Finance (A2F)
- Access to Markets (A2M)
- Access to Information (A2I)
- Access to Human Resources (A2H)

The challenge is that the trade procedures are so outdated that they need a lot of effort to just be revised and digitized, and the biggest challenge is not technology, it's the mindset. It really is very difficult to change the mindset of the people. It is difficult to allow technology to do the work that they have been conditioned to do for so many years. Changing the

mindset means that there's a shift in values that you're trying to bring in.

Collaboration, coordination, and connectivity are the three C's that PSW follows as values that have been embedded in the PSW culture. PSW asks different departments to become part of the single window, by nominating a person that is going to act as a champion within that department, and then whatever they do with that department is not something that is imposed on them.

Smarter technologies help firms overcome the challenges and ensure participation in small businesses international trading activities Digitalization has played a role in developing the capacity of SMEs to engage with the financial institutions. Thus, also making SME bankable, making SME accessible and providing them affordable credit.

Challenges of digitalization:

“There is significant power struggle between the various departments as PSW automates this procedures and processes. Given the complex nature of the challenges, there have been integration issues as personnel have not yet fully been trained. The trade procedures are outdated and need a lot of effort to just be revised and digitized, and the biggest challenge is not technology, it's the mindset.” --
- Aftab Haider

“The growth of digitalization is limited due to the existence of a digital divide between the bigger and smaller businesses, as well as governance related issues.”—Aadil Nakhoda

“The trade policies are outdated and need to be revised to make the country competitive.”-- Manzoor Ahmad

“Digital systems can help implement import restrictions effectively during economic crises”-- Farooq Ahmed Khan

“Pakistan has a single window but unfortunately it isn't talking to other countries' window, which kind of makes things difficult to process especially when it comes to checking of data cross-borders” –
Alexey Kravchenko

“There is difficulty obtaining affordable credit and lack of bankability for SMEs”-- Nadia Seth
“Development projects often lack the necessary legal and institutional ecosystems for sustainability”--
Farzana Noshab

“Pakistan needs to develop a long term national vision and digital strategy and do capacity building.”--
Nasruminallah Mian

“There is a need to develop digital corridors through the creation of bilateral and multilateral digital corridors and have regional single window.”-- Naveed Abbas Memon

“The government should enforce digital tax compliance tools to reduce non-filer prevalence.”-- Aasim Wajid Jawad

ADB has developed an ecosystem in terms of institutional support, legal legislations, policies, and plans. ADB also offers technical assistance in implementing policy legislations. ADB has supported the development of the e-commerce framework which coincided with the one set of COVID. The timely development of this framework also included setting up of information portal for e-commerce in Pakistan. Ministry of Commerce is updating the e-commerce framework as e-commerce continues to expand. This involved many governmental institutions such as NADRA, State Bank, SECP and many others. This also included the cabinet and the Parliament which provided approval of Pakistan Single Window Act. This was needed to support its operationalization and setting up.

UNESCAP has helped enhance the cross-border paperless trade. The framework agreement on the cross-border paperless trade is open to all the members of the UN Office of Economic and Social Commission in Asia and the Pacific, which includes Pakistan. Right now, there are 14 countries that are signatory to this agreement, including China, and Republic of Korea. This is not like a trade agreement.

Across countries, inter-governmental cooperation to ensure connectivity between national systems is limited. It is important for the systems in each country to be linked with each other to facilitate trade. Visualized operations reduce the challenges that traditional paper-based processes and procedures would otherwise face. Policymakers may use measures to curtail the balance of payment crisis by having restrictions on international trading activities. This causes many traders to cut international trading activities. This is augmented by misinformation. Misinformation causes challenges and can negatively affect the cost of doing business in Pakistan. Digitalization makes the processes more efficient so that legitimate operations are better identified, and firms face less disruptions. During challenging periods businesses prefer digitalized channels over the traditional methods. Many countries are advancing international and regional efforts to eliminate paper-based documentation, yet Pakistan remains uninvolved in these initiatives. This lack of participation could hinder its ability to expedite cross-border trade.

Policy Recommendations

It is important to invest in digital infrastructure by ensuring expansion of high-speed internet access.

Modernize trade-related infrastructure to improve cross-border trade efficiency.

To promote digital literacy the government needs to launch programs to enhance digital skills among SMEs and rural entrepreneurs.

The government needs to simplify regulatory frameworks. It must reduce trade barriers by harmonizing and simplifying digital trade regulations.

There is a need to foster Public-Private Partnerships. Public sector should partner with private sector actors to develop innovative solutions in e-commerce, logistics, and trade finance.

It is important to strengthen regional cooperation. Collaboration with neighbouring countries will create a cohesive and inclusive digital trade ecosystem. It is important to develop data governance policies.

The implementation of clear guidelines on data protection, cybersecurity, and cross-border data flows will help to build trust.

It is also necessary to support innovation and startups. By providing startups with access to funding, mentorship, and international networks it will drive digital trade innovation.

Pakistan should consider joining the WTO Plurilateral Agreement on E-Commerce and the UN-ESCAP initiative on Cross-Border Paperless Trade.

Digitization has helped raise red flags early on. Initially when for example the import price was wrong, or the goods were missed it used to take up to two days before a flag was raised. But now due to the digitalization it is quicker and easier to mitigate or take action. Systems like PSW allow quicker identification of discrepancies, reducing energy and time spent on compliance checks.

Conclusions

The current patterns in international trade in the Pakistan and the Asian region have changed with recent government interventions adopted by larger economies and it is necessary to understand regional and global trade dynamics. There is a need to exploring strategies to ensure that the private sector, especially the SMEs, becomes more innovative and dynamic in order to boost their participation in international trading activities. Anticipate the future of international trading activities in Pakistan as trade policies in Pakistan and elsewhere evolve.

All the institutions need to work in a collaborative manner, building upon, each other's institutional strengths. Rebuilding the social contract helps get things resolved. The availability of data will facilitate evidence-based policy making which the government at all tiers need to use and collaborate to ensure policies work. Any policy reform will need ownership of the government and continuity and consistency in its implementation. Which means it must be updated with the new developments and new realities around the globe.

Digital systems and digitalization are possible only with continuous uninterrupted supply of power and high-speed Internet. Pakistan lacks diversification in its products and lacks diversification in terms of its markets. It faces major challenges such as non-tariff barriers and standards which needs to be addressed.

Digitalization offers Pakistan a unique opportunity to transform its trade landscape, reduce barriers, and enhance competitiveness. By prioritizing investments in infrastructure, fostering regional partnerships, and adopting forward-looking policies, Pakistan can unlock the potential of digital trade and drive sustainable economic growth.

This brief was prepared based on the discussions of the following experts:

- Manzoor Ahmad-- Trade Expert
- Nasruminallah Mian-- Asian Development Bank
- Farzana Noshab-- Asian Development Bank
- Alexey Kravchenko-- United Nations Economic and Social Commission for Asia and the Pacific
- Aftab Haider-- Pakistan Single Window
- Naveed Abbas Memon-- Pakistan Single Window
- Nadia Seth-- Small and Medium Enterprises Development Authority
- Aasim Wajid Jawad--Bank Alfalah
- Farooq Ahmed Khan--Bank Alfalah
- Jamil Nasir – Chief Collector South
- Muhammad Sadiq –DG Customs Valuation
- Mukesh Kumar-- Small and Medium Enterprises Development Authority
- Aadil Nakhoda—School of Economics and Social Sciences, IBA