

# **Barter Trade: Why does it matter for the Economic Security of Pakistan?**

**Narmeen Fayyaz  
Dr. Aneel Salman**

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## Executive Summary

This policy brief deliberates on the viability of barter trade in reshaping Pakistan's economy. Considering Pakistan's recent barter trade agreements with Iran, Afghanistan, and Russia, the study will analyse the potential barter trade holds for Pakistan's economic security. Additionally, this study highlights countries engaged in barter trade arrangements with each other and assesses how Pakistan can unlock the true potential of the bartering system to address its economic needs.

### Policy Recommendations

- With an approximate \$4.5 billion shortfall in Pakistan's external financing plan, the barter trade mechanism will reduce cash-strapped Pakistan's reliance on the dollar which will considerably lessen the debt.<sup>1</sup>
- For Pakistan to achieve successful implementation of the barter trade system effective coordination among relevant stakeholders is required. The policymakers need to ensure transparency and implementation of policy framework to facilitate the barter trade system.
- It is essential to invest in robust infrastructure and develop a logistical network that can facilitate the seamless exchange of goods. Pakistan has the opportunity to link up its barter trade routes with the current CPEC network being developed. This, will strengthen the overall regional trade links and contribute towards regional economic development.
- Similarly, the policymakers need to promote Pakistani exporting companies and ensure private-public partnerships by building trust and developing business-friendly policies.
- Moreover, the barter trade system presents itself as an opportunity to support industrial growth in Pakistan. By exporting commodities and importing essential commodities like industrial machinery or crude oil, Pakistan improved its tertiary and manufacturing sectors, in addition to creating new employment opportunities.
- Incentives like low-cost loans or government-financed international advertising of Pakistani goods should be given to the local business community by the government to partake in barter trade.

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<sup>1</sup> Rana, S. (2023, September 20). \$4.5B external financing shortfall may rankle IMF. The Express Tribune. <https://tribune.com.pk/story/2436827/45b-external-financing-shortfall-may-rankle-imf>

- Bartering will regulate Pakistan's trade with Iran and Afghanistan and reduce the smuggling of goods across Pakistan's borders, leading to substantial foreign exchange losses.
- Simultaneously, bartering allows Pakistan to effectively meet its energy demands by importing crucial commodities like crude oil, LNG, and LPG from Russia and Iran. This approach not only helps in fulfilling energy requirements but also reduces pressure on foreign exchange reserves.

## Introduction

Barter trade, commonly known as bartering, is a medium of trade where goods or services are exchanged between individuals or countries directly without the involvement of money. Bartering is an ancient method of commerce that predates the use of currency. The concept of a barter system remains the same in the modern economic scenario. The exchange of money is happening in the form of ‘trade credits’ instead of settlements in the form of physical currency.<sup>2</sup> Since the 2008 global financial crisis, there has been a global shift towards barter trade by various countries that are heavily indebted or are facing sanctions imposed by the USA, for example, Iran, North Korea, or Russia.<sup>3</sup> According to industry experts, barter trade agreements are expected to gain more momentum mainly through the efforts of BRICS economies (Brazil, Russia, India, China, and South Africa).<sup>4</sup>

Strategically, Pakistan has recognized the potential of barter trade agreements. If implemented in true letter and spirit barter trade can prove to be a game changer for Pakistan’s economic security. In a recent move, Pakistan signed “a business-to-business barter trade mechanism” on 1<sup>st</sup> June 2023 with Iran, Afghanistan, and Russia. The move involves encouraging both state-owned and private enterprises in Pakistan to participate in barter trade with all three neighbouring countries. The mechanism — called the Business-to-Business (B2B) Barter Trade Mechanism — covers a range of specific goods, including petroleum, gas, fertilizer, and wheat. The current bilateral trade volume between Pakistan and Iran has reached approximately \$2 billion.<sup>5</sup> Similarly, Pakistan maintains a trade volume of approximately \$400 million with Russia. While the estimated trade volume between Pakistan and Afghanistan stands at around \$1 billion.<sup>6</sup> However, there exists a significant potential for exponential growth in barter trade among Pakistan, Iran, Russia, and Afghanistan.

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<sup>2</sup> Bakshi, K. (2019). Why barter system is still relevant today?. LinkedIn. <https://www.linkedin.com/pulse/why-barter-system-still-relevant-today-kapil-bakshi/>

<sup>3</sup> Taskinsoy, John, The Transition from Barter Trade to Impediments of the Dollar System: One Nation, One Currency, One Monopoly (March 6, 2019). Available at SSRN: <https://ssrn.com/abstract=3348119> or <http://dx.doi.org/10.2139/ssrn.3348119>

<sup>4</sup> Ashford, E., & Kroenig, M. (2023, September 1). CAN BRICS derail the dollar’s dominance? . Foreign Policy. <https://foreignpolicy.com/2023/09/01/brics-china-russia-dollar-finance-india-south-africa/>

<sup>5</sup> Recorder, B. (2023, April 19). Pakistan-Iran trade volume exceeds \$2bn Mark. Breccorder. <https://www.brecorder.com/news/40237981>

<sup>6</sup> Khan, Y. H. (2023, June 8). Barter trade: Pakistan challenges dollar. Daily Times. <https://dailytimes.com.pk/1101275/barter-trade-pakistan-challenges-dollar/>

This trade partnership has the power to bolster economic ties, foster regional prosperity, and enhance cooperation among the participating nations.

## **Potential for Barter System in Pakistan in the Current Economic Crisis**

Burdened with unsustainable debt of US\$140 billion and dwindling foreign exchange reserves, Pakistan recently announced a business-to-business (B2B) Barter Trade Mechanism with Iran, Afghanistan, and Russia. However, the question arises how far barter trade can support Pakistan's limping economy? To address this question, it is essential to examine the key global events that have influenced the emerging era of de-dollarization. Both China and Russia are actively promoting the exchange of goods and services of equal value- opening avenues for developing countries like Pakistan to enter the bartering system. Against this backdrop, barter trade offers Pakistan's economy an alternate route to conduct trade without depleting its foreign reserves.

With the lack of cash on the part of Pakistan and the trade embargoes upon Iran, Russia, and Afghanistan barter trade Agreement offers itself as a viable option. The recently sanctioned special government order, Business-to-business (B2B) Barter Trade (BT) Mechanism 2023 signed on 1 June 2023, would allow Pakistan to get its needs met despite the shortage of dollars. Likewise, approval of the barter trade mechanism with the respective trading partners will allow the latter three to engage in international trade notwithstanding the Western restrictions. The current agreement's trading items under a B2B BT mechanism are permitted on the grounds of "import followed by export". "The value of imported goods would determine the extent of the exports to be made depending on the tolerance mechanism provided in the order."<sup>7</sup> This will open doors for Pakistan to establish a new market for its exports and import essential commodities like crude oil, thus enabling Pakistan to diversify its export and import spectrum.

However, it must be noted, that barter trade is not as widespread or significant as monetary trade between countries. Most international trade still occurs through the use of dollars. For Pakistan, the bartering system presents itself as an alternate

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<sup>7</sup> Khan, F. I. (2023, June 19). Pakistan initiating barter trade with Russia, Iran and Afghanistan. Centre for Strategic and Contemporary Research. <https://cscr.pk/explore/themes/trade-economics/pakistan-initiating-barter-trade-with-russia-iran-and-afghanistan/>

avenue to showcase its wide range of goods, textiles, surgical equipment, and agriculture products to the international market. This will give industrial growth a boost. Positioning Pakistan as a key regional trading partner with Afghanistan, Iran, and Russia, will contribute to the overall economic development.

**Table 1: List of Pakistan Export Commodities for Barter Trade with Afghanistan, Iran, and Russia under Business-to-business (B2B) Barter Trade (BT) Mechanism 2023 signed 1 June 2023<sup>8</sup>**

Milk, Cream, Eggs and Cereals	Essential Oils, Perfumes, Cosmetics, Toiletries, Soaps, Lubricants, Waxes and Matches
Meat and Fish products	Tanning, Dying Extracts, and Misc. Chemicals products
Rice	Plastics and Rubber Articles
Confectionary and Bakery items	Finished Leather & Leather Apparel
Pharmaceutical products	Articles of Wood
Articles of Paper & Paper Board	Textiles (Intermediates)
Readymade Garments, Textile Made-ups and Carpets	Iron and Steel
Fans and Home Appliances	Tools and Cutlery
Surgical Instruments	Surgical Instruments
Sports Goods	Electrical equipment

### **Importing capacity of iron and Steel from Afghanistan**

Pakistan has been importing iron and steel from Afghanistan since 2011. Afghanistan's northern area is full of minerals estimated at \$1.5 billion contributing to the GDP ratio in 2015. In June 2023, Afghanistan signed a business-to-business barter trade mechanism for the trade of iron and steel with Pakistan as Afghanistan has been doing trade before.

<sup>8</sup>Government of Pakistan Ministry of Commerce, 1<sup>st</sup> June, 2023 <https://www.commerce.gov.pk/wp-content/uploads/2023/06/SRO-642-dated-1st-June-2023.pdf>

<b>Pakistan Imports from Afghanistan of Iron and steel</b>	<b>Value</b>	<b>Year</b>
<u>Ferrous waste &amp; scrap, remelt scrap iron/steel ingot</u>	\$30.30M	2021
<u>Other Bars and Rods of Iron or Non-alloy Steel</u>	\$38.77K	2021
<u>Ferro-alloys</u>	\$1.17K	2021
<u>Other Bars and Rods of Iron or Non-alloy Steel, Forged, Hot-rolled</u>	\$17.43K	2020
<u>Pig Iron and Spiegeleisen in Pigs, Blocks or Other Primary Forms</u>	\$164.54K	2019
<u>Flat-rolled Products of Iron/Non-alloy Steel, Cold-rolled, Not Clad</u>	\$2.53K	2019
<u>Semi-finished Products of Iron/Non-alloy Steel</u>	\$7.75K	2018
<u>Granules and Powders, of Pig Iron, Spiegeleisen, Iron or Steel</u>	\$20.67K	2016
<u>Flat-rolled Products of Iron/Non-alloy Steel, Clad, Plated or Coated</u>	\$761	2016
<u>Iron and Non-ally Steel in Ingots/Other Primary Forms</u>	\$597	2015
<u>Flat-rolled Products of Iron/Non-ally Steel, Hot-rolled, Not Clad</u>	\$14.36K	2014
<u>Ferrous Products Obtained By Direct Reduction of Iron Ore/Spongy Ferrous Products</u>	\$6.21K	2014
<u>Other Alloy Steel in Ingots; Semi-finished Products</u>	\$3.70K	2014
<u>Flat-roll stainless steel products, under 600mm wide</u>	\$11.53K	2011

### **Import of the following products shall be allowed from Afghanistan<sup>9</sup>**

Fruit and Nuts	Vegetables and Pulses
Oil Seeds	Spices
Minerals and Metals	Raw Rubber Items
Raw Hides and Skins	Coal and its Products
Iron and Steel	Cotton

### **Imports of the following products shall be allowed from Iran<sup>10</sup>**

Fruits, Nuts and Vegetables	Spices
Minerals and Metals	Coal and its products, Petroleum, Crude oil, LNG, LPG
Misc. Chemical Products	Fertilizers
Raw Hides and Skins	Articles of Plastic and Rubber
Raw Wool	Articles of Iron and Steel

<sup>9</sup>Government of Pakistan Ministry of Commerce, 1st June, 2023 <https://www.commerce.gov.pk/wp-content/uploads/2023/06/SRO-642-dated-1st-June-2023.pdf>

<sup>10</sup>Government of Pakistan Ministry of Commerce, 1st June, 2023 <https://www.commerce.gov.pk/wp-content/uploads/2023/06/SRO-642-dated-1st-June-2023.pdf>

### Import of the following products shall be allowed from Russia<sup>11</sup>

Pulses	Wheat
Coal & its Products, Petroleum Oils (including Crude), LNG and LPG	Fertilizers
Tanning and Dying Extracts	Articles of Plastic and Rubber
Metals and Minerals	Articles of Wood and Paper
Chemical Products	Articles of Iron and Steel
	Items of Textile Industrial Machinery

Thus, this strategic shift is in line with the global trend towards de-dollarization, which is influenced by geopolitical and economic factors. This brief propagates barter trade agreements can be used as an alternate instrument in addition to normal trade that can assist Pakistan to deal with both its trade deficit and increase foreign reserves simultaneously, in addition to making considerable headway in achieving economic security by lowering dependency on the US dollar.

Additionally, the bartering system can reduce smuggling, ease the pressure on the foreign exchange reserve, and reduce the circulation of dollars in the black market. According to reports, smuggled Iranian oil accounts for 25-30 percent of Pakistan's diesel market.<sup>12</sup> Coupled with this, the smuggling of essential commodities like fertilizer, sugar, and wheat to Iran and Afghanistan is also a pressing problem. This situation is further exacerbated by the Afghan Taliban's refusal to use the Pakistan Rupee as a medium of exchange, forcing traders to deal in black market dollars. This has further contributed to the depreciation of the rupee, the outflow of dollars from Pakistan, and henceforth shortage of foreign exchange reserves.

The prospect of normalized relations between Pakistan and India does not seem imminent in the short term; however, considering geographical proximity, it is perceived as a matter of "when" rather than "if." Anticipating the potential normalization, a significant beneficiary is expected to be the bilateral trade between the two nations. The Pakistan Business Council (PBC) emerges as a staunch advocate for a normalized trade regime between Pakistan and India, contingent upon ensuring equitable opportunities for Pakistani firms within the Indian market.

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<sup>11</sup> Government of Pakistan Ministry of Commerce, 1st June, 2023 <https://www.commerce.gov.pk/wp-content/uploads/2023/06/SRO-642-dated-1st-June-2023.pdf>

<sup>12</sup> Shahid, A., & Shahzad, A. (2023, June 2). Pakistan outlines process for barter trade with Afghanistan, Iran, Russia. Reuters. <https://www.reuters.com/world/pakistan-engage-barter-trade-with-afghanistan-iran-russia-2023-06-02/>



Collaborating with its Indian counterpart, the Confederation of Indian Industry (CII), the PBC has actively engaged with businesses and governmental entities on both sides of the border. Their concerted efforts aim to establish a comprehensive framework that facilitates and fosters trade between the two nations.<sup>13</sup>

Pakistan's decision to embrace barter trade as a step towards de-dollarization is in line with a wider global trend. Currently, Pakistan is also engaged in barter trade talks with Kenya. In this exchange, Pakistan will be exporting rice, pharmaceuticals, and textiles and importing tea and leather from Nairobi.<sup>14</sup> China, being the world's second-largest economy, has been leading the charge towards de-dollarization, exerting further influence on the changing dynamics of global trade. However, given Pakistan's close alliance with the United States, Pakistan needs to navigate its path strategically. Successfully implementing barter trade will be crucial for Pakistan to seize the opportunities arising from this transformative shift and stabilize its economy. By doing so, Pakistan positions itself as a dominant player, thereby reinforcing its political and economic connections with both regional and global partners.

## **Barter Trade Agreements Globally**

In attempts to overcome currency restrictions, promote de-dollarization, facilitate trade in certain industries, or address specific economic needs, the barter trade system is being widely positioned by the developing world as a means to stabilize their economies. The recent sanctions imposed on Russia with the onset of the Ukraine conflict by the West, in addition to China's constant efforts to boost its political-economic dominance globally barter trade is being treated as a 'game-changer' in the global market. Russia has further agreed to engage in barter trade with Iran, a nation that faces heavy US sanctions. The agreement entails Russia providing zinc, lead, and aluminium to Iran, while Iran reciprocates by supplying car parts and gas turbines

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<sup>13</sup> Pakistan Business Council., 2016. Pakistan India Bilateral Trade and the case for Balanced Trade Normalization. <https://www.pbc.org.pk/research/pakistan-india-bilateral-trade-and-the-case-for-balanced-trade-normalization/>

<sup>14</sup> Andae, G. (2023, February 28). Kenya in talks to barter tea for Pakistani rice. Business Daily. <https://www.businessdailyafrica.com/bd/markets/commodities/kenya-in-talks-to-barter-tea-for-pakistani-rice--4141208>

to Russia.<sup>15</sup> The BRIC economies, in addition to Iran, South American, and South East Asian countries are actively seeking ways to mitigate currency fluctuations and promote bilateral trade.<sup>16</sup>

China has engaged in barter trade with several African countries, primarily involving the exchange of commodities such as oil, minerals, and agricultural products. China has provided manufactured goods, machinery, and technology, and in some cases, China has offered infrastructure development in exchange for natural resources. These countries include South Africa, Nigeria, Ghana, Kenya, Botswana, and Zambia.<sup>17</sup> It's important to note that China's economic engagement within the African region extends beyond barter trade agreements. Over the years, China has become a major trading partner and investor in Africa with a total investment of \$155 billion over the past two decades.<sup>18</sup>

Similarly, China is also engaged in barter trade with its strategic partner Iran. By exporting crude oil Iran receives part of the revenues in Chinese goods and services.<sup>19</sup> China is Iran's largest trading partner and accounts for approximately 27.5% of Iran's total export volume. In 2022 Iran and China traded US\$15.8 billion worth of commodities, up by 7% every year.<sup>20</sup> Iran's other strategic barter trade partners include Iraq, Turkey, the UAE, India, Russia, and others. It is worth noting, that Iran and Thailand also engaged in barter trade agreements in 2008.<sup>21</sup> For Thailand, Iran is its 9<sup>th</sup> largest trading partner in the Middle East and the trade volume between both of the countries was at US\$138.2 Million in 2021, according to the United Nations

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<sup>15</sup> Scollon, M. (2023, January 3). "a terrible club to be in": Russia, Iran, and the Bloc of sanctioned nations. *Radio Free Europe/Radio Liberty*. <https://www.rferl.org/a/russia-iran-sanctioned-states-burma-north-korea-belarus/32205382.html>

<sup>16</sup> Papa, M., & Conversation. (2023, June 25). *How long will the dollar last as the world's default currency? the BRICS nations are gathering in South Africa this August with it on the Agenda*. Fortune. <https://fortune.com/2023/06/25/dollar-reserve-currency-brics-brazil-russia-india-china-south-africa/>

<sup>17</sup> Khan, Y. H. (2023, June 8). *Barter trade: Pakistan challenges dollar*. Daily Times. <https://dailytimes.com.pk/1101275/barter-trade-pakistan-challenges-dollar/>

<sup>18</sup> Bociaga, R. (2023, March 25). *China's Africa Belt and road investment drops as West spends more*. Nikkei Asia. <https://asia.nikkei.com/Spotlight/Belt-and-Road/China-s-Africa-Belt-and-Road-investment-drops-as-West-spends-more#:~:text=higher%2Dyielding%20areas,->

<sup>19</sup> Azad, Shirzad. Bargain and Barter: China's Oil Trade with Iran. *Middle East Policy*. 2023; 30: 23– 35. <https://doi.org/10.1111/mepo.12669>

<sup>20</sup> *China remains Iran's largest trade partner for ten consecutive years*. Financial Tribune. (2023, February 18). <https://financialtribune.com/articles/domestic-economy/117145/china-remains-irans-largest-trade-partner-for-ten-consecutive-years#:~:text=C%20hina%20has%20remained%20Iran's,the%20Chinese%20Ministry%20of%20Comerce>

<sup>21</sup> FT. (2008). *Thais to barter rice for oil with Iran*. Thais to barter rice for oil with Iran | Financial Times. <https://www.ft.com/content/c47190fe-a452-11dd-8104-000077b07658>

COMTRADE.<sup>22</sup> Thailand bartered rice for oil with Iran. Thailand being one of the largest rice producers in the world leveraged its agricultural product in exchange for oil from Iran.<sup>23</sup> For both Iran and Thailand, stronger bilateral trade links have the potential to secure their foreign reserves and strengthen the value of their local currencies.

## **Policy Recommendations for the Adoption of Barter Trade System**

- With an approximate \$4.5 billion shortfall in Pakistan's external financing plan, the barter trade mechanism will reduce cash-strapped Pakistan's reliance on the dollar which will considerably lessen the debt.<sup>24</sup>
- For Pakistan to achieve successful implementation of the barter trade system effective coordination among relevant stakeholders is required. The policymakers need to ensure transparency and implementation of policy framework to facilitate the barter trade system.
- It is essential to invest in robust infrastructure and develop a logistical network that can facilitate the seamless exchange of goods. Pakistan has the opportunity to link up its barter trade routes with the current CPEC network being developed. This, will strengthen the overall regional trade links and contribute towards regional economic development.
- Similarly, the policymakers need to promote Pakistani exporting companies and ensure private-public partnerships by building trust and developing business-friendly policies.
- Moreover, the barter trade system presents itself as an opportunity to support industrial growth in Pakistan. By exporting commodities and importing essential commodities like industrial machinery or crude oil, Pakistan improved its tertiary and manufacturing sectors, in addition to creating new employment opportunities.

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<sup>22</sup>Arunmas, P. (2017, February 25). Thailand seals Iran Rice deal. <https://www.bangkokpost.com>. <https://www.bangkokpost.com/business/1204389/thailand-seals-iran-rice-deal>

<sup>23</sup> Tribune, F. (2017, February 25). Thailand Seals 1st Iran Rice deal in 10 yrs. Financial Tribune. <https://financialtribune.com/articles/economy-business-and-markets/60341/thailand-seals-1st-iran-rice-deal-in-10-yrs>

<sup>24</sup> Rana, S. (2023, September 20). \$4.5B external financing shortfall may rankle IMF. The Express Tribune. <https://tribune.com.pk/story/2436827/45b-external-financing-shortfall-may-rankle-imf>

- Incentives like low-cost loans or government-financed international advertising of Pakistani goods should be given to the local business community by the government to partake in barter trade.
- Bartering will regulate Pakistan's trade with Iran and Afghanistan and reduce the smuggling of goods across Pakistan's borders, leading to substantial foreign exchange losses.
- Simultaneously, bartering allows Pakistan to effectively meet its energy demands by importing crucial commodities like crude oil, LNG, and LPG from Russia and Iran. This approach not only helps in fulfilling energy requirements but also reduces pressure on foreign exchange reserves.

## **Conclusion**

Pakistan is poised to expand its trade volumes and strengthen its political and economic ties with its recent bartering trade deal with Iran, Afghanistan, and Russia. For Pakistan, to place itself advantageously within the evolving global trade landscape the government in partnership with the key industry players needs to create a conducive environment where barter trade systems can flourish. The successful execution of the barter trade system will not only strengthen Pakistan's economic ties with international partners but also create a strong foundation for sustainable growth and regional cooperation.

## About Authors

**Narmeen Fayyaz Leghari** is a Non-Resident Researcher at IPRI, and her areas of expertise are Political Economy, International Relations, and Macroeconomics.

**Dr Aneel Salman** holds the distinguished KSBL-IPRI Chair of Economic Security at the Islamabad Policy Research Institute (IPRI) in Pakistan. As a leading international economist, Dr Salman specialises in Monetary Resilience, Macroeconomics, Behavioural Economics, Transnational Trade Dynamics, Strategy-driven Policy Formulation, and the multifaceted challenges of Climate Change. His high-impact research has been widely recognised and adopted, influencing strategic planning and policymaking across various sectors and organisations in Pakistan. Beyond his academic prowess, Dr Salman is a Master Trainer, having imparted his expertise to bureaucrats, Law Enforcement Agencies (LEAs), military personnel, diplomats, and other key stakeholders furthering the cause of informed economic decision-making and resilience.