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**RESEARCH PAPER**

**China Pakistan Bilateral Trade and Economic Corporation:  
Implications on Pakistan's Trade**

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**ABSTRACT**

The objective of the study is to explore the trade relations of Pakistan with China and find out balance of trade between the two. The context of the study is the trade size between China and Pakistan is insignificant. Therefore, it did not formulate a sustainable enterprise until the last decade. However, free trade agreement between both states from the mid of 2007 initiated new aspects of increasing bilateral trade. Pakistan has not formulated an effective trade policy with China, consequently, faced a huge trade deficit after the 1980s. In the wake of CPEC, Pakistan should adopt some suitable measures for the growth of domestic industry, balance of trade, and extraction of maximum benefits. The methodology is analytical and comparative. It suggests some measures that can decrease trade deficit of Pakistan viz a viz China.

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**Introduction**

The China-Pak economic and trade relations after 9/11 emerges to develop close ties through thick and thin in the South Asian region. The nature of trade agreement between the two nations always sources of creating trading opportunities like reducing tariff, amending import-export quotas and removing barriers. Such agreements attract investments to support the economy of nations. Trade agreements have long-lasting impacts on strengthening the economic condition of nations. Engaging nations to achieve the mutually agreed objectives always explore new opportunities. To work closely on the shared objectives of mutual interests, the countries operate a variety of offices and supporting the interests of each other at different levels.

China-Pakistan has a strong defense and diplomatic ties. However, trade and economic relations remain weak for many years. This slackness of such trade and investment in relations got acceleration when they signed Free Trade Agreement (FTA) in 2006. It further expedited after China-Pakistan Economic Corridor (CPEC) was offered to Pakistan in 2013 as a flagship project of OBOR then and now BRI (Belt and Road initiative). The project was formally started in 2015 during the tenure of PMLN. Gwadar port modernization by China has been another reason for strengthening trade relations. In the context of these developments, the future trajectory of bilateral relations is likely to move upward.

### **Trade as a Source of Regional Integration**

Trade can be a source of split as well as integration among nations. In Past Japan and China normalized their relations through trade. The same trade relation became a source of conflict between the US and Japan when the US accused Japan that it was using unfair business tactics to damage its domestic industry. Trade relation reduced tensions between South and North Korea. The exceedingly pleasant relations of Pakistan and China in the defense and strategic domain have the potential to develop new heights in bilateral trade.

### **Literature review**

In this section attempt will be made to analyses China-Pak bilateral trade, its significance for both states and volume of trade, throughout the past from 1950-2020.

### **Pakistan-China Trade: In United Pakistan**

The importance of trade relation and strong foreign policy got significant at the time of independence of Pakistan on 14 August 1947. Pakistan was the first country from the South Asia region and third in the world that recognized the independence of China in 1950. This endorsement substantiated benefits for both neighboring countries. Initiating mutual agreements of strategic and economic cooperation were the priority of both sovereign states. In 1951, a diplomatic relationship was established between the two states. The everlasting friendship cultivated with fertile bindings in economic and trade relations. Soon, countries engaged in strategic cooperation and signed multiple agreements at the regional level. They maintained institutional arrangements to increase mutual trade and signed agreements like Most Favored Nation (MFN) and agreed on parcel service in 1959. Several trade-related delegations were exchanged (Arif, 1984, p. 266).

Realizing the fragile economic situation of Pakistan, China extended cooperation that brought stability and provided immense developmental opportunities to Pakistan. China investments helped Pakistan to strengthen its defense capacity against India in the region. On the other hand, the US always tries to influence Pakistan to maintain distance from China which is a hard challenge for Pakistan. Pakistan never compromised on the bilateral relationship with China (Muzaffar, et. al. 2018 & Ali, 2020).

China Pakistan evolved their relations and deepened with the help of mutual understanding on various issues such as the Kashmir dispute, one-China policy, and support on permanent membership of China in UNSC. However, the volume of bilateral trade presented a different picture despite this rapprochement. Pakistan would have exported a greater amount of exports at that time in the form of raw material than its imports from China. The year 1952 observed an increase in export worth \$ 84 million in contrast to \$ 2.2 million in imports from China. The bilateral trade reached a total of US\$ 86 million. A year later, exports dropped to US\$ 7.2 million due to the post-Korean impact. However, it gained a slight increase of US\$ 26 million in 1954, and US\$ 31.7 in 1955, and US\$ 15.9 million in 1955. The fall in exports of Pakistan continued up to the year 1959. In contrast to Pakistan's exports, China was not able to increase its exports in the early decade. However, she collected a sum of US \$ 0.8 million in 1957 and US \$ 3, 3 million in 1959. However, in rest of the time, Pakistan accumulated a trade surplus against China (Malik, 2017).

Civil Aviation, cultural, maritime and trade agreements were signed in the 1960s that gave a boost to bilateral trade (Ministry of Foreign Affairs, 2006). To explore the potential of economic cooperation and Trade, different delegations were exchanged. The trend of Pakistan remained to fluctuate sometimes in shape of imports and sometimes in exports from China. The rise and fall remained between US\$ 77 million in 1966 and US\$ 56.7 million by 1969. The reason behind this staggering was the Indo-Pakistan war and slow economic growth. Pakistan could perform better than China which had maintained a small trade surplus.

Civil aviation and trade agreements in 1963, expedite the flow of Pakistan-China trade. Moreover, trade delegations exchange increased trade cooperation, consequently, maritime and cultural accords were also signed in this decade (Malik, 2004) However, the overall situation remained a mix as sometimes Pakistan exported more and sometimes China did the same. Bilateral trade increased up to US\$ 77 million in 1966 and declined to 56.7 US\$ in 1969. The slackness was due to the Indo-Pakistan war in 1965. The trade surplus of Pakistan was decreased and China increased its surplus in this decade (Malik, 2017).

#### **Pakistan China Trade in Post 1971 Era:**

The trade during this decade shows a sharp rising drift from US\$ 73.4 million in 1970 to US\$ 192.8 million at the end of this decade. The exports from China to Pakistan touched their peak with slight fluctuations, as high as US\$ 167.8 million. All were due to favorable China's export policy, and increasing consumer class with the oil boom in the Middle East. In contrast, Pakistan experienced an inconsistent trend though upward (Malik, 2017).

Political circumstance and trade policy influence the upward or downward trend of foreign trade. China made a focus on export growth strategy while Pakistan was facing Afghan war on its western borders and hosting a continuous influx of Afghan refugees burdensome of Pakistan's already weak economy underwent the

debacle of East Pakistan. All these factors combined contributed in the sharp decrease of Pakistani exports from 1984 to 1988. However, latter Pakistan adopted a prudent export policy that temporarily spiked exports to US\$ 169 million in the FY 1989. On the contrary, China got an opportunity to bring its exports from US\$ 162 million to US\$ 337.5 million. (IMF) That gap widened the trade deficit to high as US\$ 270 million in FY 1988. (Ministry of Foreign Affairs, 2006) The bulk of bilateral trade reached US\$ 424.6 million to US\$ 716.8 million in the decade of the 90s. However, the balance of trade remained in favor of China. Pakistan could hardly touch US\$54 million to US\$179 million. The declining was due to a dismal situation on the part of Pakistan as comparison to China. It was due to the political instability and lack of prudent export policy.

The decade observed a sharp rise in bilateral trade due to a number of trading initiatives. Noteworthy developments were preferential trade agreement (PTA), Free Trade Agreement (FTA) 2006, and Early Harvest Program (EHP) 2005. Consequently, the trade increased from US\$ 722 million to US\$ 8.6 billion by 2009.

### **Free Trade Agreement (FTA)**

Initially Pakistan and China signed an agreement named as Early Harvest Program (EHP) in 2005. That becomes operational in January 2006. The basic purpose of this agreement was elimination of trading barriers. Which would help out in expanding trade that eventually created an environment for signing of Preferential Trade Agreement (PTA) and then Free Trade Agreement (Ministry of Commerce, Government of Pakistan 2018)?

For economic boost both states were reached on Free Trade Agreement on 2006. This is a three part agreement that covers trade in goods, investment and services. The first part was signed on 24 November 2006 and implemented on 7 July 2007. The second part was signed on 21<sup>st</sup> February 2009 and was made functional since 10<sup>th</sup> October 2009. It was a comprehensive Free Trade Agreement was encompassing then trade in goods, services and investments (Ministry of Commerce, Government of Pakistan 2018).

### **Objectives of Free Trade Agreement**

1. To integrate Chinese and Pakistani economies for shared advantage.
2. To establish investment regimes in services sector particularly in IT and related services, infrastructure, education, tourism, Research and Development, etc.
3. To prepare environment for transfer of technology, creation of new jobs, joint venture to build a capacity of domestic service suppliers.

### **Pakistan-China Bilateral Trade: 2010-14**

The gradual upward increase of bilateral trade that started in 2004 continued with US\$ 9.2 billion in 2010 to US\$ 17 billion by the year 2014. Pakistani exports

increased from US\$ 1.5 billion in 2010 to US\$ 2.5 billion by the end of 2014. In contrast, Chinese exports to Pakistan spiked due to massive exports of Chinese traders from 7.6 billion to 14.5 billion. That caused a trade deficit of US\$ 12 billion which needs to be addressed for a balance.

### FTA Assessment

Foreign Trade Agreement (FTA) largely benefitted Chinese traders and Pakistani traders could not take the full benefit of FTA. Pakistani traders could only utilize 3.3% of concessional tariffs agreed by China. (Peer Muhammad, 2016) China benefitted more from tariff concessions than Pakistan and the former became one of the largest exporters to Pakistan.

**Table 1**  
**Pakistan's Largest Exports Destinations in 2014 (US\$ Million)**

Ranking	Country	Exports
1	USA	3,353
2	China	2,916
3	UAE	2,325
4	Afghanistan	2,222
5	Germany	1,118

Source: (Government of Pakistan Ministry of Commerce, n.d.)

**Table 2**  
**Pakistan's Largest Import Destinations in 2014 (US\$ Million)**

Ranking	Country	Exports
1	China	14,573
2	Saudi Arabia	6,571
3	UAE	6,506
4	Kuwait	3,387
5	India	2,400

Source: (Government of Pakistan Ministry of Commerce, n.d.)

Chinese market was less accessible for Pakistani traders because China had already given tariff concessions to other several countries. It was also due to the absence of Pakistani businessmen in the negotiation. This consideration also be kept in attention. China, eventually, became a single largest importer and exporter of Pakistan and its significance became more important due to its status as a biggest non-energy import market of Pakistan. In the same way, China became the largest market for Pakistan's exports. (IMF, Direction of Trade Statistics, 2015, 2016) There are some causes that Pakistani traders could not get benefit from FTA properly.

1. Export of intermediate products and raw materials such as yarn, cotton, woven fabrics and grey fabric.

2. Lack of export of value added products.
3. On the other hand major products that Pakistan imports from China were, chemicals, synthetic textile fiber, machinery and its parts.

To improve the situation in Pakistan's favor, a round of negotiation was held in the Capital city Islamabad in 2016 but no agreement was concluded due to divergences on the issues. (Mushtaq Ghumman, 2016) The trade deficit between 2010 and 2014 doubled from US\$ 6 billion to US\$ 12 billion. It was Pakistan's biggest trade deficit with any state. Consequently, Pakistan is remained reluctant to initiate the second phase of FTA, in which the market will transfer to 90% concessions. To cater the fears, Chinese traders will not be allowed for further concessions by the Commerce Ministry of Pakistan. The latter will be dealt at par with the Pakistani exporters while giving concessions to them at the CPEC industrial zone (Shakeel, 2017). It is a need that Pakistan looks into overall global exports, capacity-building of its business class, up-gradation of technology, and duty draw-backs to improve its exports and reduce trade -deficit (Ahmad, 2021).

### **Pakistan -China Trade: 2020**

As we got a glimpse of the balance of trade between the two friends is in favor of China. The average imports from China to Pakistan have been around five to six times than the exports of Pakistan to China. However, in December 2020, the monthly exports of Pakistan crossed US\$ 312.33 million. (Ahmad, 2021)The month of January to December 2020, Chinese imports from Pakistan were US\$ 2.12 billion whereas China's exports to Pakistan were recorded at US\$ 15.36 billion. Therefore China stood as the largest export destination for Pakistan after the US. (Ahmad, 2021)The question is how to sustain the rise of Pakistani exports and increase of their share. Some argue that the balance of payment was only positive due to ships being stuck owing to Covid-19 restrictions.

### **Findings**

#### **BOT in favor of China, Way out and Future Course of Action**

1. The balance of trade between these two partners is in favor of China due to raw material and agricultural goods, dairy products human hair, frozen meat and animal organs, turmeric, starches and sausages etc.
2. In contrast, China exports high tech machinery furnished goods like machinery, agricultural and industrial material, technological equipment, boilers, consumer products, iron steels products, plastics and manmade filaments etc. (Ahmad, 2021)
3. Pakistan's items are not value added rather raw in nature.
4. Lack of skilled man power is a hinders in trade balance.

5. In present times states are focusing on high-tech industries and on exports of IT products. Pakistan is far behind from china in these fields.
6. The bulk of foreign remittances could be seen as a source of economic stability. However, the FDI will be low and Covid-19 situation leads to a modest growth of economy through 2021.

### **Conclusion**

In fact, Pakistani economy is changing in the last two decades after China has added new blood into the declining economy of Pakistan. Currently, economic recovery is evident as international credit agencies have been upgrading the credibility of the economy. China would lead the future global politico-economic order. CPEC as a new route for future trade via Pakistan has great prospects. As a close trading partner the steady growth of Chinese economy would keep sustaining Pakistan's economy. The evolving trading relationship between the two states would be promising and thus Pakistan can capitalize the advantages of these close trade relations. The low-cost goods with slackness in delivery with a contrast of speedy Chinese imports to Pakistan has widened the trade gap in favor of China. The low-cost Chinese good have adversely affected the domestic industrial growth of Pakistan in the last three decades, therefore a need to revive the industry of Pakistan. In fact, Pakistan and China are taking appropriate measures to decrease the growing trade gap. To address the issue no further FTA negotiations should be conducted. Pakistani businessmen should also be included in policy framing and decision making process regarding imports-exports. However, CPEC and Gwadar are new vistas of trade trajectory. It seems that the growing regional connectivity through BRI and CPEC will lead to wider regional integration among Pakistan, China, Central Asia, Russia and several other states.

### **Recommendations**

1. To take full advantage of FTA, as China has extended to ASEAN, Australia, New Zealand, Pakistani businessmen should be given same concessions in Chinese markets, given to exporters from other countries.
2. Lack of skilled man power is a hindrance in trade balance, it can be managed by establishment of technical training institutions.
3. Pakistan must ensure the transfer of manufacturing technologies under the CPEC project.
4. Pakistani export items must be value added and modernize to compete rival commodities.
5. Rapid industrialization in Pakistan can be source of trade balance in both countries.

6. In present times states are focusing on high-tech industries and on exports of IT products. Pakistan is far behind from china in these fields. By taking some serious measures in these fields, the government can generate more revenue.
7. Being an agricultural country, Pakistan can contribute in the agricultural needs of China without the cost of food crisis for its people. The agriculture sector has enormous potential yet to be explored by means of radical process of reforms.
8. Pakistan can process sea food with more advance techniques of preserving and packaging. The exporting goods can be transported through CPEC to China.
9. The bulk of foreign remittances could be seen as a source of economic stability. However, the FDI will be low and Covid-19 situation leads to a modest growth of economy through 2021.
10. The future economic wellbeing rests on Gwader Port, CPEC, and connectivity with Central Asia.
11. The CPEC offers a new economic arrangement with dozens of mega projects in multiple sector including energy sector, infrastructural developments, connectivity to central Asian republics, Middle East, Africa, Europe within two weeks. Pakistan must capitalize this opportunity.
12. By the passage of time, bilateral trade between the both sates has increased from 85 million US\$ in 1952 to US\$ 17 billion by 2014 and the country's exports from July 2020 to April 2021 rose by 13% to \$20.8 billion compared to \$18.4 billion year-on-year. At the same time, Pakistan's trade deficit accumulated with China from January to December 2020, China's imports from Pakistan stood at \$2.12 billion whereas China's exports to Pakistan were recorded at \$15.36 billion. This huge gap of imports and exports is a serious concern for Pakistan, and it miserably failed to devise trade strategy *vis-à-vis* China.
13. Alongside with all these opportunities Pakistan is facing challenges like economic reforms, decreasing taxes collection and revenues, export orientation, debt burden, and increasing corruption, keeping in view all these problems, Pakistan will hardly take benefits from CPEC.



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