

09 September 2022

# Analysing Pakistan's Exports to China

Author: Tauseef Javed & Natasha Khan\*

## Key Points:

- The 1960s witnessed the Sino-Pak commercial accords, while 1966 recorded the decade's peak, 77 million dollars in sales.
- Pak-China economic cooperation turned a new leaf in the 21<sup>st</sup> century. The two signed several agreements, including the Early Harvest Program 2005 (EHP), Preferential Trade Agreement (PTA), and Free Trade Agreement (FTA).
- Pakistan and China have maintained close cooperation in the economic sphere. However, this cooperation has not yielded mutually equal benefits in recognisable terms. The trade balance has not remained in Pakistan's favour.
- Despite an enabling environment in Beijing and Islamabad, Pakistani exports have remained skewed towards the West.
- It is imperative to research and target commodity-specific markets from Priority 3 products, which remain a weak link in the Pakistani exports to China.
- Pakistan needs to prioritise the services sector as part of its bilateral trade with China.

## Introduction

The five coexistence principles of mutual trust, non-interference in the internal affairs of other states, respect for their independence, confidence, and understanding are the cornerstones of China's foreign policy in South Asia. As national interests play a significant role in international relations, China maintains good relations with all regional nations ensuring its economic interests and geopolitical goals. Since it is a permanent member of the United Nations Security Council (UNSC), it works for global social, economic, and political reforms

\* Tauseef Javed works at the Centre for Strategic and Contemporary Research (CSCR) as a Research Associate. He is currently enrolled as a doctoral student at Fujian Normal University in Fuzhou, China. His research focuses on international relations, history, and area studies from an interdisciplinary perspective.

\* Natasha Khan is a graduate of Peace and Conflict Studies, NUST, Islamabad. Her research focuses include discourse analysis, defense and security, and international relations. She serves as a Research Assistant at the Centre for Strategic and Contemporary Research.

and supports world peace and stability. All South Asian nations, particularly Pakistan, Bangladesh, the Maldives, Nepal, and Sri Lanka, get significant amounts of aid from China. China's strongest ally in the region is Pakistan.<sup>1</sup>

The perspective paper intends to dissect the economic vistas for Pakistani exporters in the Chinese market. In addition, a comparison of the European Union (EU)/western market is also conceived while discussing the margin of enhancing exports through the Priority 3 list (Products in the list could be potential new exports for Pakistan; products that China imports but Pakistan does not export).

<sup>1</sup> Hasan Yaser Malik, "Strategic Importance of Gwadar Port," *Journal of Political Studies* 19, no. 2 (2012), <http://pu.edu.pk/images/journal/pols/pdf-files/gwadar%20article-winter2012.pdf>.

## Bilateral Trade Through the Decades

Time Period	Trade Through the Decades*
1960s	The 1960s saw the Sino-Pak commercial accords, and the year 1966 recorded 77 million dollars in sales, the decade's peak.
1980s	Bilateral trade began to fluctuate between 1980-1989. These years were seriously affected by the aftermath of the Afghan war and bloc politics in the region.
2000s	Pak-China economic cooperation began to change in the 21 <sup>st</sup> century. The two signed several agreements, including the Early Harvest Program 2005 (EHP), Preferential Trade Agreement (PTA), and Free Trade Agreement (FTA).
2020	In 2020, Pakistan exported articles worth 1.97 billion dollars to China. These included: <ul style="list-style-type: none"> <li>• Cotton yarn, other than sewing thread (567 million dollars)</li> <li>• Refined copper and unwrought copper alloys (326 million dollars)</li> <li>• Rice (237 million dollars)</li> </ul>
	China exported articles worth 14.7 billion dollars to Pakistan in the same year. These included: <ul style="list-style-type: none"> <li>• Television cameras, digital cameras, and video camera recorders (1.2 billion dollars)</li> <li>• Electric transformers, static converters (such as rectifiers) and inductors (414 million dollars)</li> <li>• Diodes, transistors, and similar semiconductor devices, including photovoltaic cells assembled or not in module.</li> </ul>
Exports from China to Pakistan have expanded over the past 25 years at a yearly pace of 13.5 per cent, from 616 million dollars in 1995 to 14.7 billion dollars in 2020.	

Table 1 (\*Data has been compiled from multiple sources )

Since the outset, relations between Pakistan and China have been steady. The table above delineates bilateral trade development along with previous and existing trade regimes between the two countries.

### Relations Based on Convergence

China and Pakistan have a long history of dependable and tried-and-true relations. The two states have a strong affinity for a variety of reasons apart from the fact that they are close neighbours. Both nations have collaborated economically and diplomatically with one another. Their relationship is founded on mutual support, brotherhood, and sovereign equality. China has never expressed hegemonic intentions or meddled in Pakistan's internal affairs despite the former being a major power. The bilateral strategic alliance continues to be reliable. For the stability, peace, progress, and prosperity of the region, they are devoted to battling

terrorism, separatism, and religious extremism.<sup>2</sup>

The ties between Pakistan and China exemplify a good friendship where strong political, military, social, and economic relations exist. The bilateral dynamics are unaffected by the changes in the respective governments. In all spheres of life, China-Pakistan friendship is founded on the ideas of equality and shared interests.<sup>3</sup>

Strengthening their economic ties is a priority for both states. Chinese investment is steadily growing in Pakistan, particularly after China-Pakistan Economic Corridor (CPEC), which is crucial for the country's economic growth. Pakistan is the first nation in South Asia to have a free trade agreement (FTA) with China.<sup>4</sup>

<sup>2</sup> Jafar Riaz Kataria and Anum Naveed, "Pakistan-China Social and Economic Relations," *A Research Journal of South Asian Studies* 29, no. 2 (December 2014): 395-410.

<sup>3</sup> Ibid.

<sup>4</sup> Pervaiz Iqbal Cheema, "Significance of Pakistan - China Border Agreement Of 1963," *Pakistan Horizon* 39, no. 4 (1986): 41-52, <http://www.jstor.org/stable/41394228>.

Due to successful trade relations, the first five years of the FTA saw an increase in Pakistan's exports. FTA, therefore, is extended for an additional five years. Both states work together in the areas of trade, economy, agriculture, industry, energy, communication, and technology. The bilateral relations are a prime example of common viewpoints on essential topics and solid friendship founded on similar values.

## Major Milestones

Although Pakistan and China have maintained close cooperation in the economic sphere, it has not yielded mutually equal benefits in recognisable terms. To date, the trade balance has not remained in Pakistan's favour. Since the signing of the first trade agreement in 1963<sup>5</sup> and the beginning of economic cooperation, Pakistan has been unable to maintain its import-export balance, with the latter always falling short of the former. This imbalance has persisted despite several successive agreements and mechanisms, such as the Pakistan-China Joint Committee of Economy, Trade and Technology, established in 1982. The mechanism was followed by several agreements aimed at eliminating tariffs and encouraging free trade. The Early Harvest Program (EHP) of 2006 was one such milestone in this bilateral relationship. It was followed by the notable China-Pakistan Free Trade Agreement (CPFTA) 2006, which is currently in its second phase.<sup>6</sup> This constant trade imbalance has only begun to take a mentionable turn in the last fiscal year.<sup>7</sup> The persisting imbalance is also indicated in the table below, which shows the trajectory of Chinese trade with Pakistan between 1996 and 2002.

## China-Pakistan Free Trade Agreement Phase II

The CPFTA's first phase, which started with a decrease in bilateral tariffs, was put into effect in 2007. Following CPFTA-I, bilateral commerce grew rapidly, increasing by 242% between 2007 and 2018—nearly six times as quickly as Pakistan's trade with the rest of the world during that time.<sup>8</sup> In that regard, CPFTA-I succeeded in advancing bilateral trade relations, which was its goal. Even while Pakistan's exports to China expanded more quickly than its exports to the rest of the world, its purchases from China increased even faster. The outcome was a massive increase in the trade deficit with China.<sup>9</sup>

The terms of the first phase of the agreement (2007–2012) were widely believed by businesses to be disproportionately in favour of China. A renegotiated FTA was, therefore, high on the agenda of local businesses and, given Pakistan's trade deficit, on the agenda of policymakers as well. It is believed that the second phase of the CPFTA (2019–2024) will mark a turning point in trade relations between the two countries.

In order to understand the impacts of the CPFTA, a visual representation of the trade imbalance gives an idea of the negative trade dependency of Pakistan on China (Graph 1).

Pakistan-China Trade Balance*				
Year	Total	Exports	Imports	Balance
1996	963.75	621.48	342.27	279.21
1997	1067.0	688.00	379.00	309.00
1998	913.00	524.00	389.00	135.00
1999	971.00	581.00	390.00	191.00
2000	1162.00	670.00	492.00	178.00
2001	1397.00	815.00	582.00	233.00
2002	1800.00	1242.00	558.00	684.00

Table 2 (\*Statistics from China General Administration of Customs in US million dollars)

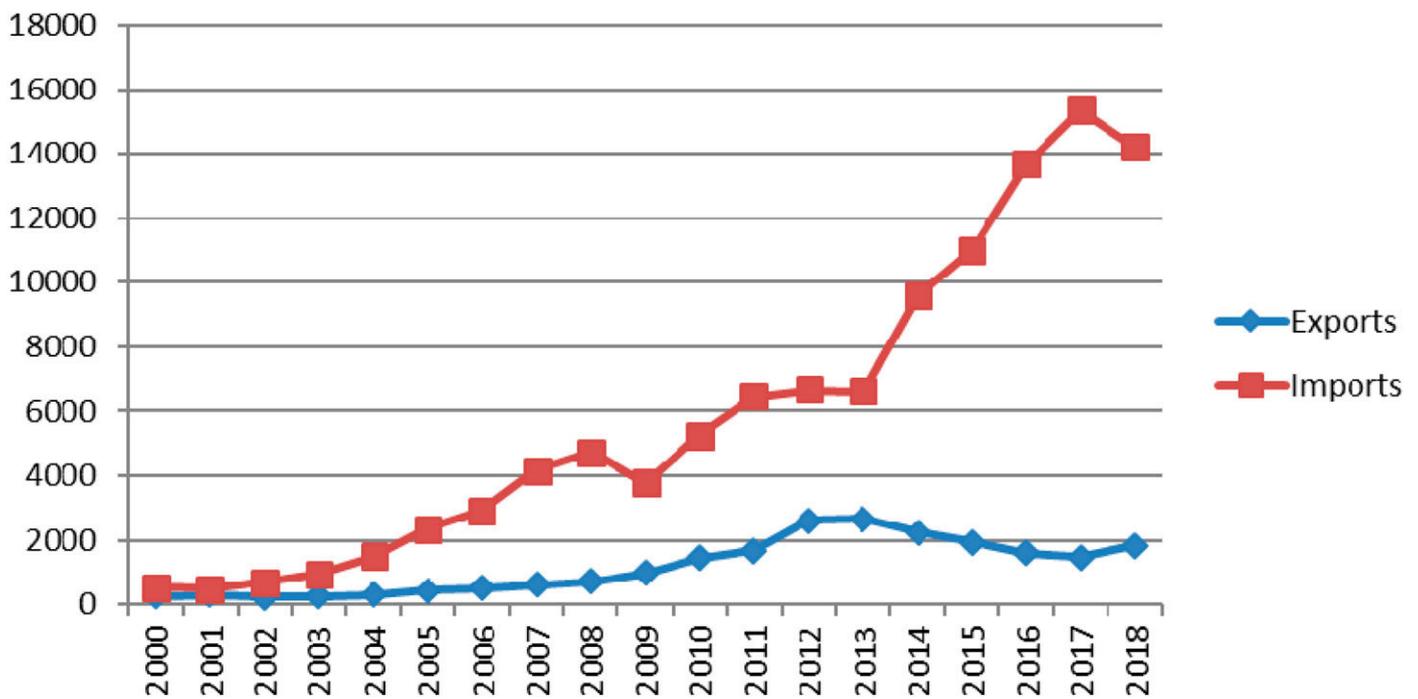
<sup>5</sup> Ibid.

<sup>6</sup> Junaid Kamal and Manzoor Hussain Malik, "Dynamics of Pakistan's Trade Balance with China," *SBP Staff Notes, October 2017*, [https://www.researchgate.net/profile/Junaid-Kamal-2/publication/330410866\\_Dynamics\\_of\\_Pakistan's\\_Trade\\_Balance\\_with\\_China/links/5c3ed5de299bf12be3cb43a0/Dynamics-of-Pakistans-Trade-Balance-with-China.pdf](https://www.researchgate.net/profile/Junaid-Kamal-2/publication/330410866_Dynamics_of_Pakistan's_Trade_Balance_with_China/links/5c3ed5de299bf12be3cb43a0/Dynamics-of-Pakistans-Trade-Balance-with-China.pdf).

<sup>7</sup> Mubarak Zeb Khan, "Trade deficit with region widens in 1QFY22," *Dawn*, November 14, 2021, <https://www.dawn.com/news/1658020>.

<sup>8</sup> Nazish Afraz and Nadia Mukhtar, *China Pakistan Free Trade Agreement Phase 2: A Preliminary Analysis*, (Consortium for Development Policy Research, 2019), Available at: <https://cdpr.org.pk/wp-content/uploads/2020/03/China-Pakistan-Free-Trade-Agreement-Phase-2-merged-final.pdf>.

<sup>9</sup> Ibid.



Source: Calculations based on IMF, Direction of Trade Statistics (various years).

Graph 1: Pak-China Trade Balance

The trade deficit has increased between exports and imports of Pakistan from China, as shown in graph 1. It can be observed that it was because of the negative dependency created by the FTA which has benefitted Chinese exporters more. Pakistan is in a good position to benefit from tariff reductions for Priority 2 products because China already has a stable import market, and Pakistan is already a globally competitive producer in this sector. These might aid in enhancing Pakistan's export portfolio to China. The category contains 1436 products at the HS 8-digit level.<sup>10</sup>

Today, Pakistan faces better or equal access to its top five competitors in China for 77 per cent of Priority 2 tariff lines when comparing the access under CPFTA-II to China's other trade partners. Compared to CPFTA-I and rivals, the product lines with better access under CPFTA-II accounted for 89.5 billion dollars worth of Chinese imports in 2018. On the other hand, Pakistan's access to 391 codes is worse than its top competitors in China, including cotton yarn (15 codes), non-cotton and man-made fibre (MMF), men's and women's knitted and woven garments (56 codes), machinery and mechanical appliances along with their parts (46 codes), vegetable and edible oils (13 codes), and processed food and edible fruit (19 codes). China imports 306.8 billion dollars in these products. Moreover, Priority 3 products under CPFTA-II could positively compound the existing trade imbalance between Pakistan and China. This group includes 5872 HS 8-digit product lines. An 80 per cent, or 4701 product lines, will be duty-free in China by

<sup>10</sup> Ibid.

CPFTA-II's final year. A 34 per cent of Priority 3 product lines will have better access than CPFTA-I.<sup>11</sup>

Besides, the political and trade relations between Pakistan and China began showing implications for relations between Pakistan and its Western partners ever since the signing of the boundary agreement in 1963. The comparison and contrast of the ties also translate into the economic sphere. China and Pakistan experience increased trade with the Western partners, most notably the EU, compared to the bilateral trade between the two neighbours.

### Pakistan-China Trade versus Their Bilateral Trade with EU

Despite their proximity to each other, Pakistan and China both enjoy better trade relations with the EU. In addition to benefitting from the EU Generalised Scheme of Preferences (GSP), Pakistan is also a beneficiary of the GSP+ arrangements. It accounted for 28 per cent of Pakistan's total exports in the year 2020. Pakistan accounted for nearly 0.3 per cent of EU trade in the same year. Additionally, around 76 per cent of Pakistan's exports enter the EU on a quota and duty-free basis.<sup>12</sup> Despite the current zero tariffs on Pakistani exports entering China under the CPFTA-II, the volume of Pakistani exports to the EU has remained much higher

<sup>11</sup> Ibid.

<sup>12</sup> European Commission, "Pakistan: EU trade relations with Pakistan. Facts, figures and latest developments," *European Commission*, Accessed July 24, 2022, [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/pakistan\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/pakistan_en).

in comparison with China.

China has similarly indicated much better prospects for EU imports than Pakistan, despite Beijing's concessions to the latter. EU-China investment and trade relations are also expected to improve following the 2020 Comprehensive Agreement on Investment (CAI) implementation. This agreement aims to open up the Chinese market for European investment in addition to other commitments related to the fair treatment of EU companies in China.<sup>13</sup>

Overall, data from official sources indicate that the rate of Pakistani exports to the EU increased from 34.59 per cent to a notable 35.09 per cent. In contrast, exports to Asia only increased to a meagre 23.91 per cent from 23.73 per cent from July 2020 to June 2021.<sup>14</sup> This indicates the discrepancies between Pakistani exports to China in comparison with its western counterparts. Despite an enabling environment in Beijing and Islamabad, Pakistani exports have remained skewed towards the West.

## Recommendations

- Implementing market standards which can keep pace with Chinese audit standards.
- Facilitating the exchange of knowledge and information of markets, especially on the Pakistani side, to improve the standard of exports. Pakistan's Information Technology (IT) industry benefits, especially from Chinese markets and the exchange of knowledge. Initiatives such as the Pakistan-China Business Investment Forum (PCBIF) should be encouraged and promoted.
- Focusing on both goods (as indicated in the Priority 3 list) and services as part of bilateral trade. This will facilitate human resource development and job creation, thus helping to mitigate rising unemployment.
- Pakistan needs to prioritise the services sector as part of its bilateral trade with China. While energy and infrastructure projects yield noticeable results, increasing focus on the services sector will deliver better results in the long run and allay fears related to the so-called "debt trap".
- It is imperative to research and target commodity-

specific markets such as foods, condiments, and surgical goods from Priority 3 products, which remain a weak link in the Pakistani exports to China.

- The Pakistani government must take a proactive approach to address information gaps and ensure compliance with business standards.

<sup>13</sup> European Commission, "EU and China reach agreement in principle on investment," *European Commission*, December 30, 2020, [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_2541](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_2541).

<sup>14</sup> Ministry of Planning, Development & Special Initiatives, *Annual Analytical Report on External Trade Statistics of Pakistan: FY 2020-21* (Karachi: Pakistan Bureau of Statistics, 2021), Available at: [https://www.pbs.gov.pk/sites/default/files/external\\_trade/annual\\_analytical\\_report\\_on\\_external\\_trade\\_statistics\\_of\\_pakistan\\_2020-21.pdf](https://www.pbs.gov.pk/sites/default/files/external_trade/annual_analytical_report_on_external_trade_statistics_of_pakistan_2020-21.pdf).