



## ISSUE BRIEF

INSTITUTE OF STRATEGIC STUDIES ISLAMABAD

Web: [www.issi.org.pk](http://www.issi.org.pk)

Phone: +92-920-4423, 24

Fax: +92-920-4658

### SUGGESTIONS FOR BOOSTING PAKISTAN'S EXPORTS TO CHINA

By

**Neelum Nigar**

*Research Fellow*

*China Pakistan Study Centre, ISSI*

Edited by

**Najam Rafique**

**October 3, 2018**

*(Views expressed in the brief are those of the author, and do not represent those of ISSI)*



#### **China has pledged to boost Pakistan's economy and further enhance bilateral economic relation**

Arriving in Pakistan on September 7, 2018 for a three-day official visit, Chinese Foreign Minister Wang Yi pledged that Beijing will support Pakistan in developing its industrial sector, as well as increasing exports to China. "China will give a lot of sustenance to encourage imports from Pakistan... We have decided to strive for a greater balance in two-way trade. China will earmark amounts of subsidiaries to encourage imports from Pakistan and will send more (trade coordination) teams to Pakistan. We will also broaden the market access to Pakistan's competitive agricultural products."<sup>1</sup> He further said that the two sides will work to complete negotiations to put in place the second phase of the 2006 Free Trade Agreement (FTA) by the end of 2018 to further enhance the level of trade between the two countries.

This is a welcome step on the part of the Chinese government to ensure that China will broaden market access to Pakistan's competitive agricultural products. This will help in bridging the trade and current account deficit along with addressing the concerns of Pakistan with regards to the FTA, which the government officials and business community have repeatedly asked to be reviewed.

Due to the unprecedented trade and current account deficits, Pakistan's foreign exchange reserves have depleted to a little over \$10 billion. The PTI-led government is struggling to contain the foreign reserves from further slippage, while taking measures to bridge the gap in current account deficit,

<sup>1</sup> "Islamabad, Beijing renew commitment on CPEC, economic cooperation", *Dawn*, September 7, 2018.

which has shot up to \$18 billion for the fiscal year 2017-18.<sup>2</sup> The government has already taken some measures to ease the pressure on its external account through the recent updated Finance Bill 2018. Along with some fiscal adjustments, the Finance Minister, Asad Umar, has stressed upon the need to improve exports of the country through negotiation with China to acquire trade concessions so that exports to China can be enhanced.

It is important to note that post Pakistan-China FTA, bilateral trade between both the countries remains in favor of China. The total of trade between the two amounted US\$ 16.89 billion in the year 2017, which was US\$2.34 billion in 2005.<sup>3</sup>

**Pakistan's Trade with China**  
(US Dollar Millions)

Year	Exports	Imports	Total Trade	Trade Balance
2005	435.50	2,348.7	2784.20	-2479.40
2010	1,435.90	5,247.00	6,682.90	-3,811.10
2015	1,934.90	11,019.01	12,953.91	-9,084.11
2016	1,590.86	13,680.15	15,271.01	-12,089.29
2017	1,508.08	15,383.39	16,891.47	-13,875.32

**Source:** International Trade Centre, IMF (2006-2016)

Cotton and rice are the two main exports to China from Pakistan. Cotton accounts for 75 per cent of the total exports to China, while rice is Pakistan's second largest export to the latter. The data on the volume and value of Pakistan's exports to China post FTA is summarized below:

<sup>2</sup> "Deficit rises to \$18 billion: Current account deficit widens to 5.7 percent of GDP in FY2018". *The News International*, July 20, 2018. <https://www.thenews.com.pk/print/343785-deficit-rises-to-18-billion-current-account-deficit-widens-to-5-7-percent-of-gdp-in-fy2018>

<sup>3</sup> International Trade Centre.

**Pakistan's Main Exports to China**  
(US Dollar Millions)

	2006	2016	CGR*
Cotton	271.80	968.23	-0.64
Cereals	0.252	220.821	86.63
Ores, slag and ash	2.562	77.66	-0.70
Fish and other aquatic invertebrates	28.272	47.993	-0.83

**Source:** International Trade Centre, IMF (2006-2016). \**compounded growth rate*

Pakistan and China are reviewing the second phase of FTA. China wants zero import duties on 6,000 tariff lines instead of the original 2,600, while Pakistan has asked for concessions for its products.<sup>4</sup> It is important here to ask if Pakistan has enough export surplus to ask for similar concessions from China. Looking at the data of the two main exports of Pakistan - cotton and rice - it is found that Pakistan produces around 12-13 million bales of cotton and import two million for high-end value addition for exports. Similarly, nearly seven million tonnes of rice is produced and four million tonnes is exported, fetching US\$2 billion.

However, China does not import *basmati* rice - a variety produced by Pakistan in surplus. Therefore, it is necessary that Pakistan diversify the variety of its rice production along with high growth rates of these products in order to gain benefit from the concessions under FTA.

Moreover, Pakistan also needs to address other challenges which the exporters of agricultural products face including non-tariff sanitary and phytosanitary (SPS) measures along with technical barriers to trade (TBT) imposed by destination markets.<sup>5</sup> For instance, Pakistan's rice export to China faces several measures such as microbiological criteria of final product, certification and testing requirements.

### Suggestions for Boosting Exports to China

Thus, it is important that Pakistan addresses these issues beforehand so that these exportable products can be made competitive in the world market. There are several options:

<sup>4</sup> "Third Review of the Pakistan-China FTA and Recommendations for Phase 2 Negotiations", The Pakistan Business Council. [https://www.pbc.org.pk/wp-content/uploads/Pak\\_China\\_Book\\_pdf\\_for\\_upload.pdf](https://www.pbc.org.pk/wp-content/uploads/Pak_China_Book_pdf_for_upload.pdf)

<sup>5</sup> "Understanding WTO agreements; Standards and safety", World Trade Organization. [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agrm4\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm4_e.htm)

1. China can be asked to relocate its labor-intensive industries to Pakistan, as has been done in Vietnam and Cambodia and thereby increase its exports from these setups. This will also help boost employment opportunities in Pakistan.

Pakistan can ask China to assemble the consumer finished goods in Pakistan. This too will help generate employment and give boost to small vendor industries in Pakistan.

Together, these measures can help address the trade imbalances between the two countries, as well as boost economic growth in Pakistan.