

The Pakistan-China Bilateral Trade: The Future Trajectory

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Abstract

Trade volume between Pakistan and China largely remained insignificant. It did not constitute a viable economic partnership between the two countries until the first decade of the present century. Bilateral trade could further strengthen Pakistan-China relationship. China-Pakistan Free Trade Agreement (FTA) in effect from July 2007, introduced a new dimension in the promotion of the bilateral trade. As Pakistan could not devise a dynamic trading policy toward China, this resulted in a huge trade deficit with China after 1984. Pakistani industry and exporters should adopt new measures to increase exports to China and to bring about a reasonable equality in mutual trading relations.

Keywords: Pakistan-China Bilateral Trade, Economic Relations, Free Trade Agreement, FTA, Trade Deficit.

Introduction

The core argument of this paper is that in spite of strong diplomatic and defence ties, trade and economic relations between Pakistan and China remained fairly weak for many decades. However, after the signing of the Free Trade Agreement (FTA) in 2006, that came into effect in 2007, the bilateral trade increased. It further increased after the China-Pakistan Economic Corridor (CPEC) was offered to Pakistan in 2013 and formally launched in 2015. The Gwadar Port project has been another factor for increased trade relations between the two countries. Under the emerging scenario, the future trajectory of bilateral trade is expected to move upward.

Trade can be a source of integration as well as friction among states. For instance, China and Japan normalised political ties through trade in

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the 1950s and 1960s. Bilateral trade between Japan and the United States created a rift in the 1980s and, later, resulted in US accusing Japan for unfair business tactics to destroy industries in the United States. Increased bilateral trade could decrease tension between arch-rivals such as Pakistan and India and North and South Korea. Highly cordial diplomatic and strategic relations between Pakistan and China could have the capacity to enhance their bilateral trade to new heights and help transform Pakistan's economy.

Not much literature is available in tracing out the bilateral trading relations between Pakistan and China during 1949-2015. This research paper will critically analyse bilateral trade over the years. The paper will also try to draw future prospects of trading relations between the two countries.

The following four questions will be addressed in this paper:

- What are the dynamics of bilateral trade between Pakistan and China right after the establishment of diplomatic relations?
- Why have trade volume and diplomatic ties not been proportionate since 2007?
- How did FTA and the CPEC impact Pak-China bilateral trade?
- How the future course of trade ties could be improved between Pakistan and China?

Methodology

The paper is largely a historical statistical analysis based upon the data drawn from the IMF, *Direction of Trade Statistics*, for the period discussed to see the total amount of Pak-China bilateral exports and imports. It also takes into account costs and benefits through trade surplus and deficit. On the basis of this analysis, the paper suggests remedial measures to enhance bilateral trade and overcome trading constraints.

Literature Review

Trade ties are a vital element of bilateral relations between countries.¹ Globalisation has mainly been carried out through trade. It fosters bilateral and regional integration. Trade is a barometer of gauging the strength of relations between the two countries.

There is scant literature available on China-Pakistan economic relations. Books on Pakistan-China relations also do not comprehensively shed light on bilateral economic relations between the two countries. So far, three research studies have been identified in explaining trading relations between Pakistan and China. Dr. Ahmad Rashid Malik in “The Sino-Pakistani Trade and Investment Relations” makes a critical analysis of trade and economic relations between the two countries.² He argues that the transfer of Gwadar Port by Pakistan to China should be seen in the context of increasing trade between the two countries in the larger economic perspective of South Asia and the Gulf. Aftab Alam Khan, Manzoor Ahmed Malik, and Omair Mujahid, in “Pak-China Economic Alliance to Bring Prosperity in Region”, identified trade, commerce, agriculture, defence, and energy sector as potential areas to enhance economic relations between Pakistan and China.³ An Indian writer, Pravakar Sahoo, in “The Economic Relations of China and India with Pakistan: A Comparative Analysis” points out that the FTA signed between Pakistan and China resulted in bridging the trade gap between the two countries. He says that China has been given several incentives by Pakistan, which include access to the Pakistani market, cheap raw materials and use of Pakistani ports for trade. Pakistan, in return, has gained access to Chinese markets through preferential treatment under the FTA and moved closer to becoming a hub in the region, which may lead to significant transit revenues.⁴ Claude Rakisits also wrote an article

¹ John H. Jackson, *The World Trading System: Law and Policy of International Economic Relations* (Massachusetts: The MIT Press, 1997).

² Dr Ahmad Rashid Malik, “The Sino-Pakistani Relations Trade and Investment Relations,” *Margalla Papers*, vol. XIII, no. 1 (2013).

³ Aftab Alam Khan, Manzoor Ahmed Malik and Omair Mujahid, “Pak-China Economic Alliance to Bring Prosperity in Region,” *International Review of Management and Business Research*, vol. 2, no. 3 (Spring 2013).

⁴ Pravakar Sahoo, “The Economic Relations of China and India with Pakistan: A Comparative Analysis,” *Asia-Pacific Development Journal*, vol. 19, no. 1 (June 2012).

on Pakistan-China relations which briefly explains trade relations between the two countries.⁵

Fazl-ur-Rehman, in a seminar paper, “Pakistan-China Trade and Investment Relations,” was of the view that the slow implementation on the agreements signed between the two governments do not reflect positively on growing trade relations. He points out bad-business practices as a reason for low trade between the two countries.⁶ Atul Kumar argues in a report, “China-Pakistan Economic Relations,” that the economic dimension of Pak-China relations is not promising.⁷

Therefore, the literature review suggests that economic relations between Pakistan and China are not commensurate with the level of diplomatic and defence ties in the past. However, a tangible change has taken place with the signing of the FTA and the launching of the CPEC, which has revitalised industrial sectors of Pakistan.

Historical Analysis of Bilateral Trade

This section will review Pak-China trade relations, in terms of volume and significance of trade, from the historical perspective during 1950-2014.

Bilateral Trade: 1950-59

During the first and evolving decade of Pak-China relations, 1950-59, the bilateral trade presented a total indifferent picture even when a number of political understandings were deepened such as on the Kashmir dispute, "One China" policy, and on support on granting the status to the People's Republic of China on the United Nations Security Council (UNSC) by Pakistan. In this period, Pakistan had a greater

⁵ Claude Rakisits, “Pakistan-China Bilateral Relations 2001-2011: A Deepening but Cautious Partnership,” *Security Challenges*, vol. 8, no. 3 (Spring 2012): 83-101.

⁶ Fazl-ur-Rehman, “Pakistan-China trade and investment relations,” Islamabad: ISSI Seminar 2011.

⁷ Atul Kumar, “China-Pakistan Economic Relations,” *IPCS Special Report 30*, September 2006, http://www.ipcs.org/pdf_file/issue/683644508IPCS-Special-Report-30.pdf

capacity to export raw materials to China than its imports from that country. From China, Pakistan imported coal at that time.

Both countries made some initial institutional arrangements to enhance bilateral trade during this period. For instance, they signed a number of trading agreements including the barter agreement during 1950-59. On 4 October 1958, the two countries assigned the “Most-Favoured Nation” (MFN), granting reciprocal treatment to each other.⁸ A parcel service agreement was also signed between them in October 1959.⁹ They also exchanged a number of trade delegations.

In 1952, Pakistan exported goods worth US\$ 84 million compared to US\$ 2.2 million imports from China, making the two-way trade to US\$ 86 million at that time. Later, during this decade, Pakistan could not sustain its exports volume with China because of the post-Korean War boom and exports were dropped to US\$ 7.2 million in 1953 but these exports were marginally increased to US\$ 26 million, US\$ 31.7 million, and US\$ 15.9 million in 1954, 1955, and 1956 respectively. Again, Pakistan’s exports to China continued to fall up to 1959. On the other hand, China’s capacity to increase its exports to Pakistan could not take place during the first decade. However, it accumulated a small trade surplus of US\$ 0.8 million in 1957 for the first time and US\$ 3.3 million in 1959 for the second time. For the rest of this period, Pakistan accumulated the trade surplus against China as shown in Figure 1.

⁸ K. Arif, ed., *China-Pakistan Relations: Documents* (Lahore: Vanguard, 1984), 266.

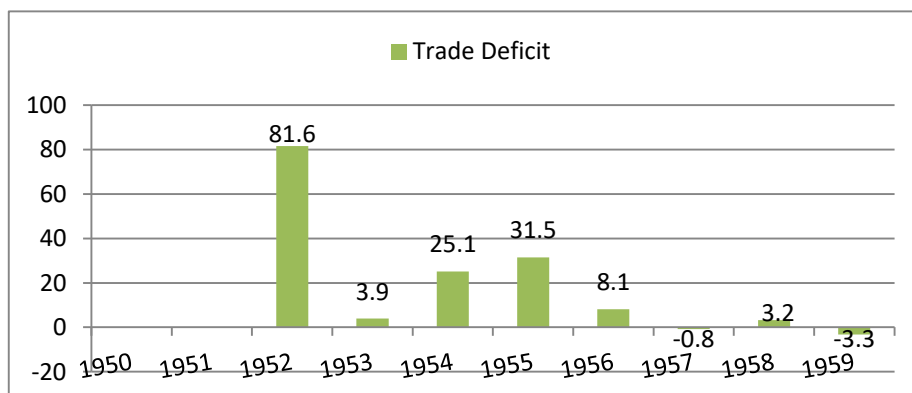
⁹ Ibid.

Table No.1
Bilateral Trade: 1950-59
(US\$ Million)

<i>Year</i>	<i>Exports</i>	<i>Imports</i>	<i>Total</i>
1950	--	--	--
1951	--	--	--
1952	83.8	2.2	86
1953	7.2	3.3	10.5
1954	26.1	1.0	27.1
1955	31.7	0.2	31.9
1956	15.9	7.8	17.4
1957	9.5	10.3	17.9
1958	7.6	4.4	5.1
1959	0.7	4.0	4.7

Source: IMF, Direction of Trade Statistics (various years). For Years 1952-1956, Hafeezur Rehman Khan, "Pakistan's Relations with the People's Republic of China" in Hameed A. K. Rai, ed, Readings in Pakistan's Foreign Policy, vol. II (Lahore: Aziz Publishers, 1981), 555.

Figure No. 1
Pakistan's Trade Balance with China: 1950-59
(US\$ Million)



Source: Ibid.

Bilateral Trade: 1960-69

Trade and civil aviation agreements were signed in 1963 which gave impetus to Pakistan-China trade. Cultural and maritime agreements were also signed in 1965 and 1966 respectively.¹⁰ During this period, around a dozen of trade delegations were exchanged by both sides to study the possibility of increased trade and economic cooperation.

Despite the signing of the above agreements, bilateral trade with China during the 1960s remained somewhat mixed. At times Pakistan exported more and, at others, it imported more from China. Bilateral trade could only increase to US\$ 77 million in 1966 but again declined to US\$ 56.7 million by 1969. It happened due to the sluggish economic growth as a result of war with India as in the years 1964, 1965, and 1966. Additionally, during these years, Pakistan maintained a trade surplus, which later decreased. Pakistan's performance has shown that it had the capacity to export more to China than Chinese exports to Pakistan during this period as shown in Figure 2. During the same period, China accumulated a small trade surplus against Pakistan in 1962, 1963 and 1968.

¹⁰ Ministry of Foreign Affairs, *Important Documents on Relations Between the People's Republic of China and the Islamic Republic of Pakistan* (Beijing: Ministry of Foreign Affairs, 2006).

Table No. 2

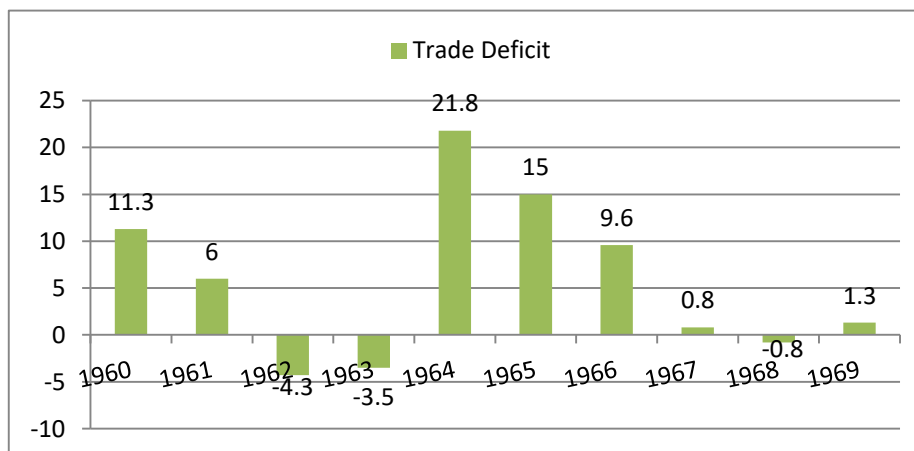
**Bilateral Trade: 1960-69
(US\$ Million)**

<i>Years</i>	<i>Exports</i>	<i>Imports</i>	<i>Total</i>
1960	14.8	3.5	18.3
1961	10.2	4.2	14.4
1962	1.6	5.9	7.5
1963	12.8	16.3	29.1
1964	40.3	18.5	58.8
1965	43.3	28.3	71.6
1966	43.3	33.7	77.0
1967	30.1	29.3	56.4
1968	25.5	26.3	51.8
1969	29.0	27.7	56.7

Source: IMF: Direction of Trade Statistics (various years) (Washington: International Monetary Fund).

Figure No. 2

**Pakistan's Trade Balance with China: 1960-69
(US\$ Million)**



Source: Ibid.

Bilateral Trade: 1970-79

During this period, there was a continuous upward trend in bilateral trade that increased from US\$ 73.4 million in 1970 to US\$ 192.8 million by 1979. During this period, China's exports to Pakistan also substantially increased from US\$ 34 million to as high as US\$ 167.8 million by 1979 as result of China's export policy and increasing consumer class and the labour export boom to the Middle East. During 1970-75, China's exports to Pakistan fluctuated but after 1977 its trade maintained an upward trend. On the other hand, throughout this period, Pakistan's exports to China largely fluctuated and could not maintain a consistent upward trend as shown in Table 3 owing to the panic of nationalisation as many industries were closed down and over all GDP was shrunk.

Table No. 3

Bilateral Trade: 1970-79 (US\$ Million)

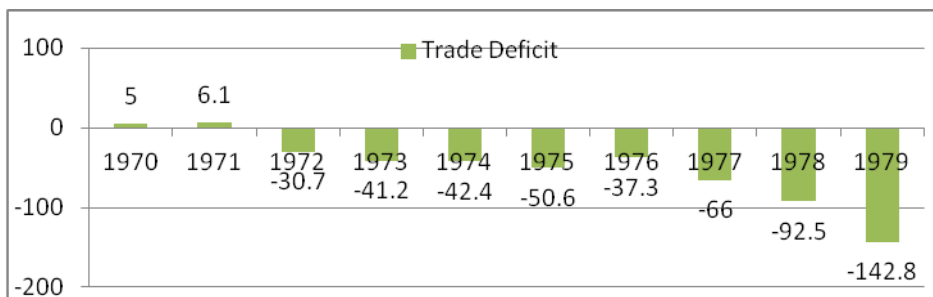
<i>Years</i>	<i>Exports</i>	<i>Imports</i>	<i>Total</i>
1970	39.2	34.2	73.4
1971	30.1	24.0	54.1
1972	17.5	48.2	65.7
1973	13.1	54.3	67.4
1974	11.3	53.7	65
1975	13.5	64.1	77.6
1976	17.0	54.3	71.3
1977	17.4	83.4	100.8
1978	30.7	123.2	153.9
1979	25.0	167.8	192.8

Source: Ibid.

As a result of China's exports to Pakistan, the period also saw the tilt of the trade surplus in favour of China after 1972 because of the re-transformation of Pakistan's economy and trade after the loss of East Pakistan. Trade surplus of China continued until the end of 1979 and reached all time high, US\$ 142.8 million. (See Figure no. 3)

Figure No. 3

**Pakistan's Trade Deficit with China: 1970-79
(US\$ Million)**



Source: Ibid.

Bilateral Trade: 1980-89

Pakistan's exports to China witnessed a decline after 1984. There could be several reasons. China concentrated more on the exports growth strategy whereas Pakistan was entangled with the Afghan war and unprecedented influx of the refugees from Afghanistan. The refugee influx was a burden on feeble Pakistani economy, which had already suffered because of the loss of East Pakistan. While the economy was on the path of re-transformation, the additional burden of Afghan refugees further damaged the economy. Therefore, there was a sharp decrease of Pakistan's exports from 1984 onward to 1988. They temporarily peaked to US\$ 169.4 million in 1989 as result of a prudent export policy. On the contrary, China maintained an upward trend of its exports to Pakistan right after 1985 when its exports rose from US\$ 162 million to as high as US\$ 337.5 million by 1989. (See Table 4)

During the 1980s, Pakistan could not maintain the momentum of exports to China and imported more Chinese goods. This widened the trade deficit to high as US\$ 270 million in 1988. (See Figure 4)

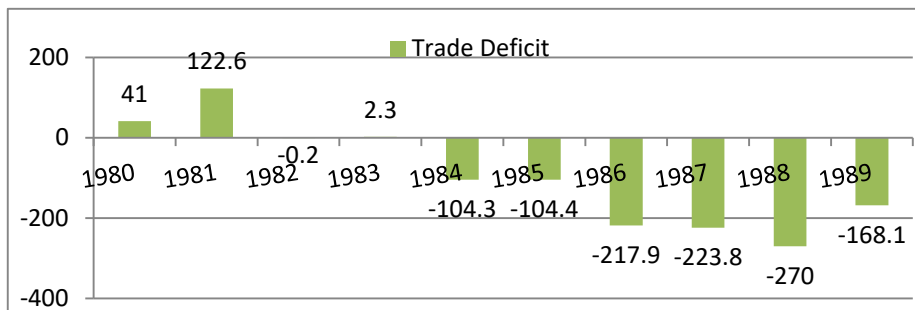
Table No. 4
Bilateral Trade: 1980-89
(US\$ Million)

<i>Years</i>	<i>Exports</i>	<i>Imports</i>	<i>Total</i>
1980	221.3	180.3	401.6
1981	271.9	149.3	420.6
1982	146.6	146.8	293.4
1983	145.9	143.6	289.5
1984	40.2	144.5	184.7
1985	57.6	162.0	219.6
1986	14.2	232.1	246.3
1987	24.3	248.1	272.4
1988	51.8	321.8	373.6
1989	169.4	337.5	505.9

Source: Ibid.

Consequently, Pakistan’s trade deficit started widening with China after 1984 and reached as high as US\$ 505 million by 1989, continuously affecting throughout the decade of the 1990s.

Figure No. 4
Pakistan’s Trade Balance with China: 1980-89
(US\$ Million)



Source: Ibid.

Bilateral Trade: 1990-99

By the beginning of 1990, bilateral trade stood at US\$ 424.6 million and gradually increased to US\$ 716.8 million by 1999. Pakistani exports to China remained somewhat dismal and even declined to as low as US\$ 54 million in 1994 following political uncertainty and lack of prudent export policy. Afterward, there was a slow increase and Pakistan's exports reached US\$ 179 million. Similarly, China's exports to Pakistan also incrementally increased and recorded US\$ 537.8 million in 1999. (See Table 5)

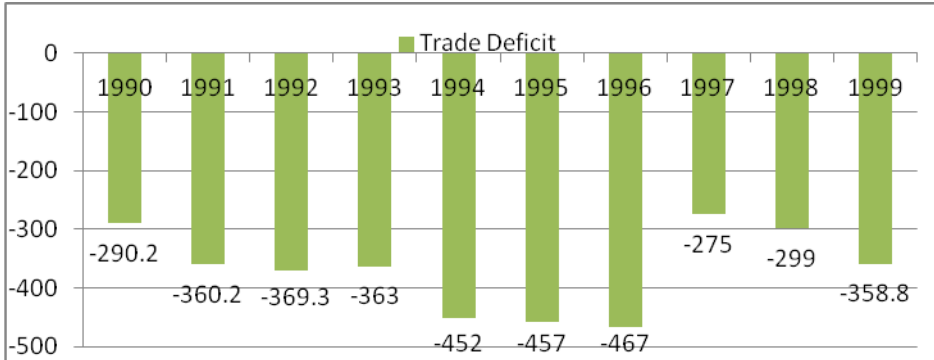
Table No. 5

**Bilateral Trade: 1990-99
(US\$ Million)**

<i>Years</i>	<i>Exports</i>	<i>Imports</i>	<i>Total</i>
1990	67.2	357.4	424.6
1991	60.9	421.1	482
1992	53.7	423	478.8
1993	58	421	479
1994	54	506	596
1995	119	576	695
1996	119	586	705
1997	147	422	569
1998	152	451	603
1999	179	537.8	716.8

Source: Ibid.

Pakistan's trade deficit, which had started constantly widening since 1984, continued throughout the 1990s. Trade deficit widened to US\$ 467 million in 1996 but then decreased as bilateral trade also decreased in the following couple of years. By the end of 1999, trade deficit reached US\$ 358.8 million (See Figure 5). During this period, remedial measures and institutional initiatives did not adequately address the trade issues.

Figure No. 5**Pakistan 's Trade Deficit with China: 1990-99
(US\$ Million)**

Source: Ibid.

Bilateral Trade: 2000-09

During this decade, bilateral trade increased from US\$ 722 million to US\$ 8.6 billion by 2009. This was the result of a number of trading initiatives that were taken during this period. Notable developments were the Early Harvest Program (EHP) 2005, the Preferential Trade Agreement (PTA) and the Free Trade Agreement (FTA) 2006.

- **Early Harvest Program 2005 (EHP)**

The Agreement on Early Harvest Programme (EHP) between Pakistan and China was signed on 5 April 2005, which came into effect on 1 January 2006, to reduce tariffs and evolve the time framework.¹¹ The EHP had two types of tariff concessions: (1) Zero tariff will be applied immediately and (2) tariffs that will become zero in three years. The eradication of transitional trading barriers helped out in expanding bilateral trade and created the atmosphere for the signing of the PTA.

¹¹ Government of Pakistan, Ministry of Commerce, *Agreement-PCEHP*, http://www.commerce.gov.pk/?page_id=212

- **Preferential Trade Agreement (PTA)**

Upon the smooth running of the EHP, the PTA was inked on 1 January 2004 to apply concessional tariff on certain items. China allowed tariff concessions to Pakistan on 893 items whereas Pakistan gave concessions to China on nearly 200 items.¹²

- **Free Trade Agreement (FTA)**

The FTA on trade in goods was signed on 24 November, 2006 and implemented on 7 July 2007. The FTA on trade in services was signed on 21 February 2009 and was made operational since 10 October 2009. The FTA in services was signed on 21 February 2009. After signing of this three-part agreement, Pakistan has a comprehensive FTA with China covering trade in goods, investments, and services. The following objectives were kept in view while negotiating this agreement.¹³

- To integrate respective economies of Pakistan and China for mutual benefits.
- To provide a predictable investment regime in the services sector especially in infrastructure, computer and related services, educational services, Research and Development (R & D), tourism, sporting services and environmental services like sewage and cleaning.
- To promote joint ventures to build the capacity of domestic service suppliers, transfer of technology and creation of new jobs in Pakistan.

After the signing of the PTA, Pakistan's exports to China slightly increased in the year 2004 and then maintained a constant upward trend in the following years up to 2009 by crossing the US\$ 1 billion in 2007. Additionally, with the signing of the EHP in 2006, bilateral trade increased to US\$ 7.2 billion in that year with US\$ 915 million exports to China and US\$ 6.5 billion imports from China. By 2009, bilateral trade reached US\$ 8.6 billion.

¹² "Pakistan, China trade under PTA from Jan 1," *Dawn*, December 30, 2004.

¹³ Government of Pakistan, Ministry of Commerce, Pak-China Trade Agreements, http://www.commerce.gov.pk/?page_id=209

Table No. 6

**Bilateral Trade: 2000-09
(US\$ Million)**

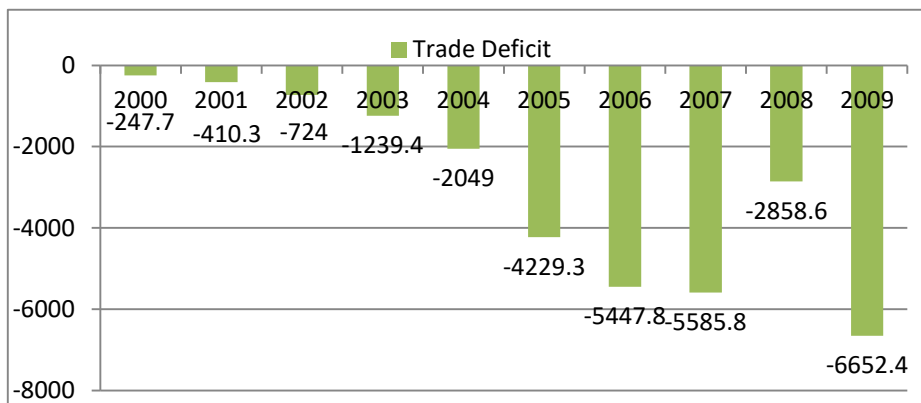
Years	Exports	Imports	Total
2000	237.2	484.9	722.1
2001	289.3	699.6	988.9
2002	235.6	957.6	957.6
2003	259.7	1,499.1	1,758.8
2004	299.7	2,348.7	2,648.4
2005	435.5	4,664.8	5,100.3
2006	915.6	6,363.4	7,279.0
2007	1,004.7	6,590.5	7,595.2
2008	915.5	3,774.1	5,689.6
2009	973.8	7,629.2	8,608.0

Source: Ibid.

On the other hand, Pakistan’s trade deficit with China constantly increased in the 2000s, as happened earlier in the 1990s, and recorded as high as US\$ US\$ 6.6 billion by the end of 2009 (Figure no. 6).

Figure No. 6

**Pakistan ’s Trade Deficit with China: 2000-2009
(US\$ Million)**



Source: Ibid.

Bilateral Trade: 2010-14

Bilateral trade increased from US\$ 9.2 billion in 2010 to as high as US\$ 17 billion by 2014. Large increases were made owing to massive exports by Chinese traders, their exports increased from US\$ 7.6 billion to US\$ 14.5 billion. Pakistan's exports could only increase from US\$ 1.5 billion in 2010 to US\$ 2.5 billion in 2014. Pakistan had a trade deficit of net US\$ 12 billion by 2014, which needs to be balanced.

FTA Assessment

As a whole, the FTA has enhanced bilateral trade but it has largely benefitted the Chinese exporters. Pakistani traders could not take full advantage of the FTA. They could only utilise 3.3 per cent of tariff concessions given by China under the FTA.¹⁴ The use of concessions by China was far greater and the post-FTA China became one of the largest sources of importation for Pakistan as illustrated in the following table.

Chinese market was not as much accessible for Pakistani exporters as to the other foreign exporters because of the concessions given to the exporters from other countries. Pakistan should look into this aspect. Pakistani businessmen should be included in the negotiating process.

Table No. 7

Pakistan's Largest Export 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: Ibid.

¹⁴ Peer Muhammad, "Pakistan has failed when it comes to trade with China," *Express Tribune*, June 26, 2016.

Table No. 8**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: Ibid.

China became the single largest import destination for Pakistan in 2014. Its importance was also great because it was the largest non-energy import market of Pakistan in the world, giving it a unique position.

China became the second largest destination of Pakistan's exports after the United States¹⁵ (see also Table 7 below). This factor has the potential to further boost Pakistan's exports strategy to China.

The reason why Pakistani traders could not benefit from the FTA was because they mainly exported raw materials and intermediate products such as cotton yarn, woven fabric, and grey fabric. They also did not export value-added products.¹⁶ Major imports from China were machinery and its parts, fertiliser, chemical element, yarn and thread of synthetic fibre, iron and steel, chemical material and product, vegetable and synthetic textile fibre, road vehicles and their parts, non-ferrous metals, rubber tyres and tubes.¹⁷

In order to address constraints being faced by Pakistan exporters, negotiations were held in Islamabad in December 2016 between the officials of the Ministries of Commerce of the two countries but no

¹⁵ IMF, *Direction of Trade Statistics*, 2015 (Washington: International Monetary Fund, 2016).

¹⁶ Ibid.

¹⁷ Ibid.

agreement was concluded because of dissimilar claims.¹⁸ Pakistan’s business houses and the Federal Board of Revenue (FBR) were critical of enhancing of the second phase of the FTA.¹⁹ There is, however, an urgent need to shun mutual differences over exports and imports to further promote trade and develop consensus.

Table No. 9

**Bilateral Trade: 2010-14
(US\$ Million)**

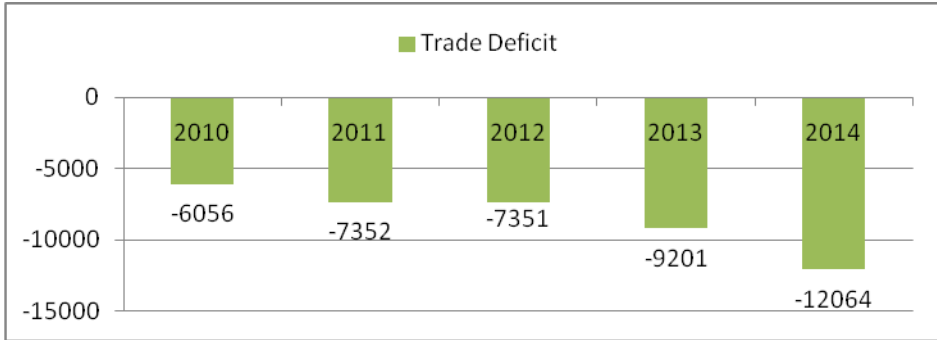
<i>Years</i>	<i>Exports</i>	<i>Imports</i>	<i>Total</i>
2010	1,573	7,629	9,202
2011	1,930	9,282	11,212
2012	2,856	10,207	13,063
2013	2,916	12,117	15,033
2014	2,509	14,573	17,082

Source: Ibid.

Excessive exports by China, constantly increased Pak-China trade deficit in the 2010s and doubled it from US\$ 6 billion to US\$ 12 billion by the end of 2014, making it Pakistan’s largest deficit with any trading partner. (See Figure 7)

¹⁸ Mushtaq Ghumman, “Pakistan China Failed To Develop Consensus on FTA,” *Business Recorder*, December 9, 2016.

¹⁹ Madeeha Zuberi, “Pakistan faces quandary in trade with China,” *Aaj TV*, December 1, 2016. <http://aaj.tv/2016/12/pakistan-faces-quandary-in-trade-with-china/Aaj TV Channel>

Figure No.7**Pakistan's Trade Deficit with China: 2010-2014
(US\$ Million)**

Source: Ibid.

As a result of the negative impact of the FTA on the Pakistan side, it does not want to enter into the second phase of the FTA when the market will be opened for 90 per cent concession. In a bid to address the concerns of the Pakistani exporters, the Ministry of Commerce will not consider giving further concessions to Chinese exporters. They will be treated at par with the Pakistani exporters while giving concessions to them at the CPEC industrial zones.²⁰ Pakistan will also look into boosting of its overall global exports, up-gradation its technology, capacity-building, and duty drawbacks, *inter alia*, to enhance its exports and reduce trade deficit with China.

Remedial Measures

There are enormous potentials of trade between the two countries. A number of proposals could be put forward for an equitable and balanced trade. This study finds out the following six remedial measures:

- Pakistan 's economy fails to take benefits of the FTA signed with China. The GDP of Pakistan is small and it has natural

²⁰ See the statement of the Commerce Minister Ghulam Dastgir Khan given to the Senate Standing Committee on February 15, 2017, Madiha Shakeel, "CPEC: No trade concessions to China: Dastgir," *Business Recorder* , February 16, 2017.

disadvantage to exports goods to China. The Pakistan Business Council (PBC) complains that China gives more favourable FTAs treatment to the ASEAN, Australia, and New Zealand than to Pakistan. This treatment should be brought to the same level. Pakistani businessmen should be given concessions in Chinese markets at par with similar concessions given to exporters from other countries.

- It is often reported that the Chinese exporters carry out "bad business practices" including under-invoicing while exporting goods into Pakistani market to save duty and sales tax that deprives the Government of Pakistan of its valuable revenue. Additionally, the practice is being considered unfair to genuine exporters. The discrepancy of under-invoicing by the Chinese exporters to Pakistan should come to an end.
- Large volume of value-added products by Chinese exporters resulted in low jobs and tax revenue in Pakistan over the years. Many local industries have been wiped out and shut down because of the dumping of cheap Chinese products. Protection of the local industry should be the hallmark of the FTA. This situation should be rectified.
- Moreover, Pakistani traders utilise only a tiny fraction of Chinese tariff concessions as they do not export commodities mentioned in the favourable list of items to be exported into China. High-value export products form the List of Items under the PTA but this could only favour Chinese exporters because of the export items and the nature of industry in Pakistan that has no capacity to export such items into China. In the future businessmen should be included the decision making process.
- Pakistani exporters do not fully take advantage of the FTA because of lack of competency and efficiency to target the Chinese market. Hence, their exports are limited and confined to raw materials only instead of value-added products to capture Chinese market. Pakistani exporters should enhance their capacity to export more goods to China and diversify their exports basket.

- The FTA process must address the issue of unequal treatment given to items and their exporters.
- Pakistani exports needs to be modernised to match the increasing needs of Chinese customers. Most of these industries from manufacturing to assembling will be set up in the industrial zones of CPEC in different parts of the country. The Pakistani government must address these concerns while making future policies in these industrial zones.

Future Trajectory

Pakistan is still a small economy that has not come out of the woods after the 1970s. The state of the economy, however, has only changed in the past two years after China injected a new blood into the moribund economy of Pakistan. Now the signs of recovery have been taking place as the international credit agencies have been upgrading the basic fundamentals of the economy. The declining of global oil prices and strong remittances could also be seen as the motivating factors for macroeconomic stability at the moment but investment continues to be low.²¹ The World Bank report highlights that the pace of Pakistan's economic growth will accelerate modestly through to 2019.²² Pakistan has to see that how it would take benefits of the Chinese cooperation under the CPEC along with a number of countries' participation while continuing economic reforms, increasing of taxes and revenues, export orientations, addressing the debt burden, and dealing with corruption in the future.

The future trajectory of trade relations between Pakistan and China hinges around three parameters: (1). Gwadar Port (2) the CPEC and (3) Connectivity with Central Asia, with or without Afghanistan.

The transfer of the operating and management rights to the Chinese Overseas Port Holding Company (COPHC), in February 2013, was a

²¹ World Bank, "Pakistan Development update: From Stability to Prosperity," *Report no. 104831-PK* (Islamabad: World Bank Group, April 2016).

²² Ibid.

milestone in the economic history of both countries.²³ This has opened up the future course of bilateral economic relations. Resultantly, trade between the two countries has increased immensely.

Second, the CPEC has set the trading ball rolling under a new economic arrangement as China offered US\$ 46 billion package to Pakistan and inked as many as 51 mega projects. Most of this investment (US\$ 36 billion) was made in the energy sector and the rest in infrastructural developments. As Gwadar Port and the CPEC are interlinked, they have created a connectivity link in different parts of Pakistan.

Additionally, they will link Gwadar Port with Kashgar in western China via road. A new land-connectivity is in the making between Pakistan and China reducing the distance and time between the Gulf and south China as it intends to divert a part of its trade that currently goes through the South China Sea via the Gwadar Port through the CPEC. Further, China could export its goods via land through Pakistan that could reach Gwadar port for onward shipment to the Middle East, Africa, and Europe within two weeks. The land route has been inaugurated on 13 November 2016. Therefore, a new land-cum-sea trading route would enhance the future trade between the two countries.

Central Asian Republics could be linked with Gwadar Port and the CPEC without going through Afghanistan in case it disagrees to join the project. Kazakhstan, Kyrgyzstan, and Tajikistan have direct borders with China and they could be linked up with the CPEC. There is the Quadrilateral Agreement for Traffic in Transit between Pakistan, China, Kazakhstan and Kyrgyzstan that will facilitate a direct land route among these countries. Kazakhstan has already shown its interest in joining the CPEC,²⁴ so has Tajikistan.²⁵ Unfortunately, the security situation in Afghanistan is not yet ripe for regional trade connectivity and Pakistan can no longer wait for stability in Afghanistan. India's involvement in

²³ Earlier, the management rights of Gwadar Port were given to the Singapore Port Authority (SPA) in 2007 but it was failed to honour its business and investment commitments. The same agreement was then transferred to the COPHC.

²⁴ "Kazakhstan shows willingness to join CPEC project," *News International*, August 26, 2015.

²⁵ Three highway projects to connect Pakistan with Tajikistan approved, *News International*, November 14, 2015.

Afghanistan has been increasing after the Chabahar Pact was signed with Iran and Afghanistan. Time and again, Afghanistan gives threats and warnings to Pakistan. Pakistan has to find out an alternative way of doing business.²⁶ The CPEC has the greater capacity to bypass Afghanistan and Indian influence and connect Central Asian Republics with Gwadar Port in the near future.

China gained strength as a low-cost manufacturing country in the past especially after 1980 and replaced Japan by 2010. There are lessons for Pakistan to learn from the Chinese experience. Instead of going for high-technology manufacturing, Pakistan should manufacture the low-cost products that are comparatively becoming high-cost in today's China as it is becoming a medium to high-cost manufacturer.²⁷ Pakistan should replace China in that field by enhancing its manufacturing capacity.²⁸ This would be the greatest impact of the Pakistan-China bilateral trade in the present century as bilateral trade has the capacity to replace the emerging trend.

China is an emerging economic giant and the future global order would be largely dominated by China. A new route for Chinese future trade via Pakistan looks promising and tangible. As Chinese economy holds steady growth, it would keep sustaining Pakistan's economy as a close trading partner. The emerging trading relationship between the two countries would be unique and promising. Thus, Pakistan can reap the benefits of this close trade ties in the near future.

²⁶ Federal Commerce Minister Khurram Dastgir told the National Assembly Standing Committee on Commerce in February 2016 that in the face of slow progress by Kabul on the trilateral transit trade agreement, Pakistan wanted to revive its trade accord with China, Kyrgyzstan and Kazakhstan to reach markets of Central Asia, Zafar Bhutta, "Why there is little need to worry about Kabul's threat," *Express Tribune*, September 11, 2016.

²⁷ Matthias Lomas, "Which Asian Country Will Replace China as the 'World's Factory'?", *The Diplomat*, February 18, 2017.

²⁸ The Deloitte Report predicts Malaysia, India, Thailand, Indonesia, and Vietnam as potential manufacturing of the low-cost products after China. Pakistan is not mentioned in that report. See "Deloitte: 2016 Global Manufacturing Competitiveness Index," London: Deloitte Touche Tohmatsu Limited, 2016. https://www2.deloitte.com/content/dam/Deloitte/gr/Documents/about-deloitte/gr_global_mfg_competitiveness_2016_noexp.pdf

Conclusion

Over the decades, Pakistan-China bilateral trade has increased from mere US\$ 85 million in 1952 to US\$ 17 billion by 2014. At the same time, Pakistan's trade deficit accumulated with China from US\$ 104 million in 1984 to as high as US\$ 12 billion by 2014. The widening trade gap is a serious concern for Pakistan, and it miserably failed to devise a commerce strategy *via-a-vis* China in the past 29 years. Sluggish exports by Pakistan to China and constant increase of imports from China into Pakistani markets has widened the trade gap. Chinese Cheaper imports affected industrial output of Pakistan in the past three decades. Pakistan needs to revive its industry. Now both sides have been taking measures to decrease the widening of the trade gap. The results are still in the pipeline and before addressing the ills of exports and imports with China, no further FTA negotiations should be carried out without taking businessmen into confidence. On the positive trajectory, Gwadar Port and CPEC are offering new opportunities in further expanding and integrating bilateral trade between Pakistan and China. This expansion is also creating regional integration and trade connectivity between Pakistan and China, Central Asian Republics and other countries.