

**A CRITICAL ANALYSIS OF CHINA-PAKISTAN FREE TRADE AGREEMENT:  
LEARNING EXPERIENCES FOR PAKISTAN WITH RESPECT TO ITS FUTURE  
FTAs**

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**ABSTRACT:** *Pakistan is currently negotiating with Thailand, Turkey, Singapore and Iran for its bilateral Free Trade Agreements (FTAs) whereas, it has already implemented FTAs concluded with Sri Lanka, Malaysia and China, which are effective currently. Whilst negotiation for future FTAs are under way, it would be prudent for Pakistan to learn lessons from one of its most important FTAs, namely the China-Pakistan Free Trade Agreement (CPFTA) which has not been as beneficial for Pakistan as was being expected before the implementation of the agreement. Therefore, the focus point of discussion of this research paper is to analyse critically the China Pakistan Free Trade Agreement in order to find out why Pakistan could not derive the expected benefits form CPFTA? Recommendations will also be provided for consideration of the Government of Pakistan with respect to the designing of its future FTAs so that those may be used for driving the full benefits for Pakistan from its upcoming FTAs.*

**KEYWORDS:** Free Trade Agreement, Negotiations, Exports, Imports

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## **INTRODUCTION**

Diversification of exports has been a point of attention for developing countries.<sup>1</sup> Development in international trade helps countries to stabilize their economic performance. For the purpose of increasing exports, countries enter into Free Trade Agreements (FTAs) which make easy for them to magnify their exports. Hence; Free Trade Agreements are important instruments to boost up international trade. Empirical studies show that bilateral trade of the two members of FTA is raised approximately to the double after 10 Years from the implementation of FTA.<sup>2</sup> Different countries adopt different policies and means to achieve the desired trade goals. One of the major purposes of Free Trade Agreements is to achieve trade balance<sup>3</sup>. China- Pakistan bilateral trade has been increasing continuously as a result of China Pakistan Free Trade Agreement (CPFTA). But Pakistan has not been able to gain balance in bilateral trade with

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<sup>1</sup> Edwards S. Openness, trade liberalization, and growth in developing countries. *Journal of economic Literature*. 1993 Sep 1;31(3):1358-93.

<sup>2</sup> Baier SL, Bergstrand JH. Do free trade agreements actually increase members' international trade?. *Journal of international Economics*. 2007 Mar 8;71(1):72-95.

<sup>3</sup> Chang HJ. *Bad Samaritans: The myth of free trade and the secret history of capitalism*. Bloomsbury Publishing USA; 2007 Dec 26.

China after the implementation of CPFTA. Pakistan is still in the phase of export development.<sup>4</sup> Imbalance in bilateral trade has been increasing continuously against Pakistan, after the implementation of FTA between Pakistan and China.<sup>5</sup> Although Pakistani exports to China have increased to a considerable volume but due to the heavy imports of Chinese Products into Pakistan, trade imbalance has also been growing. It is important to mention here that a large portion of trade imbalance between Pakistan and China is due to the inclusion of those products in the imports list of Pakistan, which Pakistan was not importing from China prior to the implementation of China Pakistan FTA.<sup>6</sup> As noted by Chaudhry, A., & Andaman that significant balance of payments has been the most deteriorating problem for Pakistan.<sup>7</sup> Therefore, trade imbalance has been a major cause of concern for Pakistani authorities. Pakistan has signed and implemented Free Trade agreements and Preferential Trade Agreements with many countries. Pakistan is further negotiating with a number of Countries for Free Trade Agreements. Whilst Pakistan's negotiations for FTAs are on the way, it is necessary for Pakistan to learn from the experience of China-Pakistan Free Trade Agreement (CPFTA).

### Overview of Pakistan's Free Trade Agreements' Negotiations

The major purpose of FTA for a State is to enhance foreign trade and stabilize economic situation through international trade. Pakistan is an important economic player in the developing world and enjoys strong economic relations with different countries around the globe including USA, EU, Turkey, Sri Lanka, China etc. Pakistan is one of the founding Members of the World Trade Organization (WTO) since 1995, and its predecessor the General Agreement on Tariffs and Trade (GATT) established in 1948.<sup>8</sup> Pakistan has already signed FTAs with Sri Lanka, Malaysia and China which are currently effective<sup>9</sup>, whereas, negotiations of Pakistan with Thailand, Turkey, Singapore and Iran for bilateral FTAs are under way.<sup>10</sup>

Negotiations for Pakistan-Thailand bilateral FTA were launched formally on August 13, 2015 during meeting of the Pakistan-Thailand Joint Trade Committee held in Islamabad.<sup>11</sup> Until now, eight rounds of negotiations have already been taken place with the hope to finalize discussions in the start of 2018<sup>12</sup>. Thailand and Pakistan would finalize the Bilateral FTA after achieving unanimity between the private sectors of both sides to protect the local industries.

<sup>4</sup> See Special Section 3: What has Caused Stagnation in Pakistan's Exports State Bank of Pakistan Annual Report 2014-15, available at <http://www.sbp.org.pk/reports/annual/arFY15/Special-Section3.pdf> (Last Visited on June 5, 2017)

<sup>5</sup> Council PB. Preliminary study on Pakistan and China trade partnership post-FTA. Karachi: The Pakistan business Council. 2013.

<sup>6</sup> Ibid

<sup>7</sup> Chaudhry, A., & Andaman, G. (2014). The Need for a Coordinated Industrial Strategy to Boost Pakistani Exports.

<sup>8</sup> For more details, see Permanent Mission of Pakistan Towards The World Trade Organization, available at <http://www.wto-pakistan.org/>, (Last Visited on July 7, 2017)

<sup>9</sup> For more details see Free Trade Agreements of Pakistan, Available at [http://www.commerce.gov.pk/?page\\_id=9](http://www.commerce.gov.pk/?page_id=9) (Last Visited on Oct 30, 2017)

<sup>10</sup> Pakistan's pursuit: Making FTAs more effective, available at <https://tribune.com.pk/story/1125890/pakistans-pursuit-making-ftas-effective/> (Last Visited on Oct 30, 2017)

<sup>11</sup> Thai delegation negotiating FTA with Pakistan, available at <http://lovacedon.tumblr.com/post/156059131505/thai-delegation-negotiating-fta-with-pakistan> (Last Visited on Oct 30, 2017)

<sup>12</sup> Pak-Thailand FTA negotiation to be held in May, available at <https://timesofislamabad.com/pak-thailand-fta-negotiation-held-may/2017/04/20/> (Last Visited on Oct 30, 2017) and Pakistan seeks changes in free trade agreement with China, available at <https://www.dawn.com/news/1356432> (Last Visited on Oct 30, 2017)

Both the countries have exchanged the list of items to be included in free trade agreement including textile sectors and automobiles.<sup>13</sup>

Negotiations for FTA between Pakistan and Turkey were started formally in Ankara, in October 2015<sup>14</sup>. The seventh round of talks between Pakistan and Turkey was held on 9<sup>th</sup> July, 2017. FTA between Pakistan and Turkey is also expected to be concluded soon<sup>15</sup>.

Furthermore, Singapore-Pakistan Free Trade Agreement is also under negotiations since 2005 and has not been finalized yet.<sup>16</sup>

Moreover, another FTA Pakistan and Islamic Republic of Iran, is also in the final stage of negotiations. Pak-Iran FTA is expected to be concluded soon after the Central Bank of Iran and the State Bank of Pakistan resume banking channels.<sup>17</sup>

Whilst the negotiations for FTAs are being undertaken, it would be prudent for Pakistan to examine the experiences gained from its one of the most important FTAs, namely the China-Pakistan FTA to learn lessons before finalizing its FTAs with the other countries. This research paper critically analyzes the bilateral trade situation created after the implementation of China-Pakistan Free Trade Agreement (CPFTA). This research focuses on the following questions:

1. How did CPFTA impact Pak-China Bilateral Trade?
2. Why has trade deficit of Pakistan with China been increasing after the implementation of CPFTA?
3. What are the lessons which Pakistan needs to learn from CPFTA while negotiating for its upcoming FTAs with other countries?

### **Evaluating China-Pakistan Free Trade Agreement**

China and Pakistan are close neighbors and possess long term friendly, political and economic relations. Their friendship is termed as “all-weather-friendship”. In order to strengthen this relationship, China and Pakistan, in April 2005 started negotiations on free trade area during the Chinese Premier Wen Jiabao's visit to Pakistan and later on two countries concluded the Free Trade Agreement in November 2006, which came into effect in July 2007<sup>18</sup>. Furthermore, On February 21, 2009 China and Pakistan signed the Free Trade Agreement on Trade in Services which entered into force on Oct.10th, 2009.<sup>19</sup> China-Pakistan FTA was divided into

<sup>13</sup> Ibid

<sup>14</sup> Pakistan, Turkey move closer to inking free trade agreement, available at <https://tribune.com.pk/story/1174509/free-trade-pakistan-turkey-move-closer-inking-fta/> (Last Visited on Oct 30, 2017)

<sup>15</sup> 7th round of Pak-Turkey FTA negotiation a milestone to final agreement, available at <https://www.app.com.pk/7th-round-of-pak-turkey-fta-negotiation-a-milestone-to-final-agreement/> (Last Visited on Oct 30, 2017)

<sup>16</sup> Singapore-Pakistan FTA Negotiations, available at <http://artnet.unescap.org/APTIAD/viewagreement.aspx?id=PAKISTAN-SINGAPORE> (Last Visited on Oct 30, 2017)

<sup>17</sup> FTA to be signed between Pak-Iran after resumption of banking channels, available at <https://www.app.com.pk/fta-to-be-signed-between-pak-iran-after-resumption-of-banking-channels-4/> (Last Visited on Oct 30, 2017)

<sup>18</sup> China-Pakistan FTA, available at <http://fta.mofcom.gov.cn/topic/enpakistan.shtml> (Last Visited on Oct 30, 2017)

<sup>19</sup> Ibid

two phases, with Phase I ending in December 2012 and negotiations for Phase II were started in July 2013<sup>20</sup>. Eight meetings for negotiations under Phase II of China-Pakistan FTA have been held but no consensus has been reached until now. In the second phase both the countries are negotiating FTA afresh as Pakistani producers complained that 2006 FTA was highly in favor of China. China agreed to renegotiate FTA with Pakistan. Fresh principles were agreed by both the sides to address the concerns raised in result of CPFTA 2006<sup>21</sup>. Overall, bilateral trade of Pakistan with China has increased as a result of CPFTA. China-Pakistan bilateral trade has further improved after the initiation of China-Pakistan Economic Corridor (CPEC) project, which was formally launched in 2015. CPEC is an important part of the Chinese One Belt One Road (OBOR) initiative. Under the emerging scenario, bilateral trade between China and Pakistan is expected to be increased further in future. Although China- Pakistan trade volume has been enlarged to a considerable size but at the same time trade imbalance between China and Pakistan has also been increasing. China is getting desired benefits as a result of CPFTA, as China is successfully utilizing a major portion of the agreement for exporting its products to Pakistan but, unfortunately Pakistan has not been successful while it comes to export its products to China. There are a number of factors which are behind the usefulness of CPFTA for Pakistan, which Pakistan needs to take into consideration while negotiating FTAs with other countries so that Pakistani trade may be placed at balanced position in its upcoming FTAs.

By the end of 2016, as shown in table 1, bilateral trade volume between China and Pakistan was recorded at 15,270 million USD as compared to 4,689 million USD in 2008. Trade balance has grown in favor of China after the implementation of CPFTA. China has utilized FTA efficiently and availed around 57% of the concessions available under FTA while Pakistan could only avail 5 % of the concessions available under FTA.

**Table1: Pakistan's Bilateral Trade with China: 2008-16**

Years	Imports	Exports	Total	Trade Deficit
<b>2008</b>	3,774	915	4,689	2859
<b>2009</b>	7,629	973	8,602	6656
<b>2010</b>	7,629	1,573	9,202	6056
<b>2011</b>	9,282	1,930	11,212	7352
<b>2012</b>	10,207	2,856	13,063	7371
<b>2013</b>	12,117	2,916	15,033	9201
<b>2014</b>	14,573	2,509	17,082	12064
<b>2015</b>	11,019	1,935	12,954	9084
<b>2016</b>	13,680	1,590	15,270	12090

Source: Author's own calculations based on World Bank, ITC & UN COMTRADE statistics

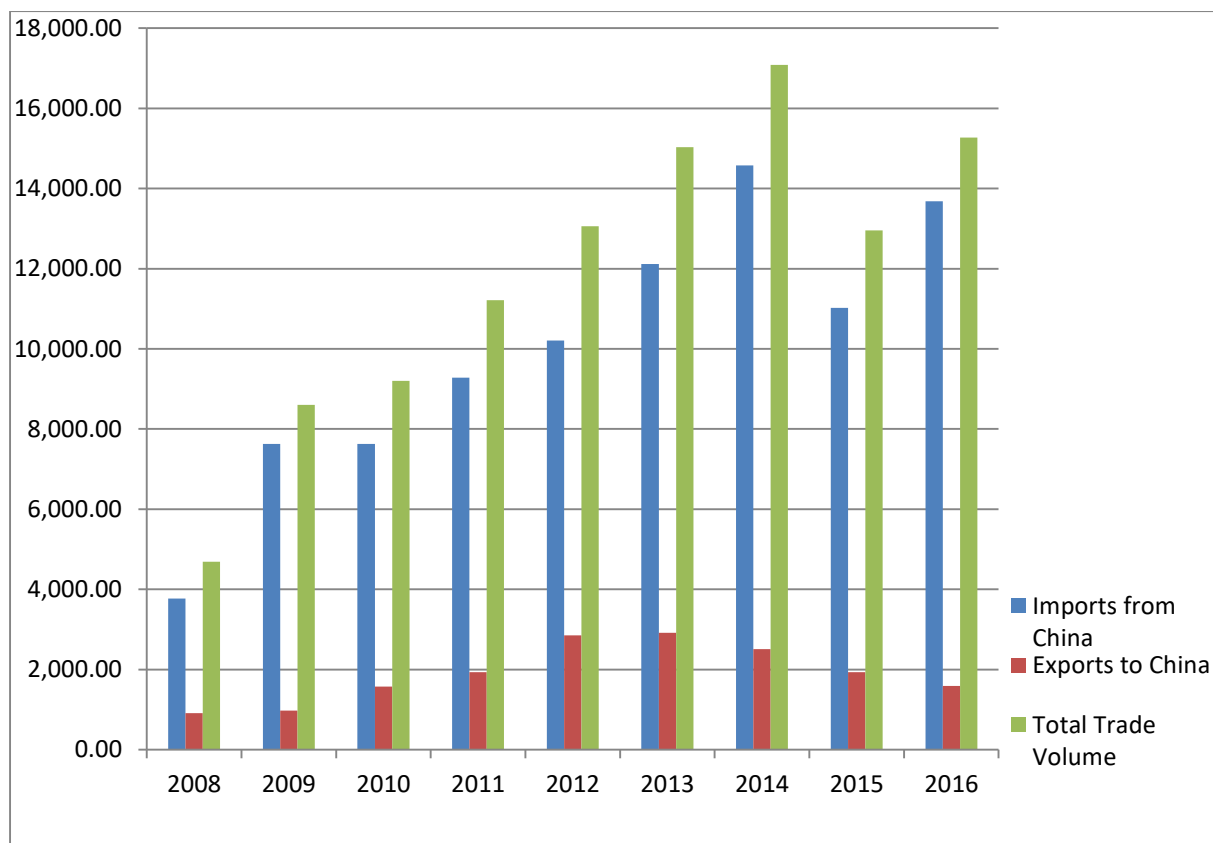
As shown in the figure 1 below, China-Pakistan Bilateral trade increased by 325% from 2008 to 2016 after the implementation of FTA. Chinese exports to Pakistan constitute the major portion of bilateral trade.

<sup>20</sup> Ibid

<sup>21</sup> FTA with China: Pakistan offers to scrap duties on 50% of products, available at, <https://tribune.com.pk/story/821418/fta-with-china-pakistan-offers-to-scrap-duties-on-50-of-products/> (Last Visited on Oct 30, 2017)

Under Phase I of CPFTA, Pakistan agreed to eliminate/reduce tariffs on 6711 product lines for China, whereas, China agreed to offer similar concessions on 6418 product lines for Pakistan<sup>22</sup>. Under Phase II of CPFTA, tariffs are required to be reduced on 90 % of the tariff lines to zero % duty. Eight meetings for negotiations under Phase II of China-Pakistan FTA have been held but no consensus has been reached until now.<sup>23</sup>

**Figure 1: Pakistan's Bilateral Trade with China: 2008-16**



Source: Author's own calculations based on World Bank, ITC & UN COMTRADE statistics

It is important to mention here that due to the exports of agricultural products to China, balance of trade in agricultural sector was in favor of Pakistan as in 2015 Pakistan exported agricultural products, of which rice constituted 85%, worth \$430 million to China and exported vegetables and fruits of worth \$320 million.<sup>24</sup> There exist discrepancies in the reporting of mutual trade data between two countries. Official figure of Chinese Exports to Pakistani market is also disputed one. Independent economists consider that Chinese exports to Pakistan are \$5bn higher than that of reported officially by Pakistan.<sup>25</sup>

<sup>22</sup> Third Review of the Pakistan-China FTA and Recommendations for Phase 2 Negotiations, available at, [http://pbc.org.pk/wp-content/uploads/2016/11/Pak\\_China\\_Book\\_pdf\\_for\\_upload.pdf](http://pbc.org.pk/wp-content/uploads/2016/11/Pak_China_Book_pdf_for_upload.pdf) (Last Visited on Oct 30, 2017)

<sup>23</sup> Signing FTAs: Weak negotiations have led to disastrous results, available at Signing FTAs: Weak negotiations have led to disastrous results (Last Visited on Oct 30, 2017)

<sup>24</sup> China invites Pakistan to tap halal food market, available at <https://tribune.com.pk/story/1130293/halal-food-china-invites-pakistan-tap-market/> (Last Visited on Oct 30, 2017)

<sup>25</sup> Trade balance tilts further in Beijing's favour, available at <https://www.dawn.com/news/1349800/trade-balance-tilts-further-in-beijings-favour> (Last Visited on Oct 30, 2017)



Pakistani imports products are covered under 8-digit HS code, namely woven silk fabrics, plastics and rubber items, articles of paperboard paper, inorganic and Organic Chemicals, unbleached woven fabrics cotton, polyester fibers, nylon fabric for tyre cord, non-woven fabrics, net fabrics, carpets, knitted fabric, footwear, clothing items, boilers and nuclear reactors, products of steel- iron, cranes and heavy machinery, condensers, transformers and electric generating products, transport motor vehicles, railway coaches, and optical appliances etc.<sup>26</sup> Pakistani local production itself has a considerable potential of production in many of these items. Inclusion of these products in the Pakistani imports list amounts to damage the local production line which is one of the major reservations of Pakistani business community against CPFTA. Therefore, under the mentioned circumstance, before entering into further Free Trade Agreements, Pakistan needs to learn following lessons from CPFTA.

### **Learning Experiences for Pakistan from CPFTA**

As the negotiations for prospective FTAs are under way, it would be prudent for Pakistan to consider following experiences from CPFTA in order to place its prospective FTAs in a balanced position.

#### **Experience 1: Unsatisfactory Utilization of Trade Products by Pakistan under FTA**

A Study conducted by Pakistan Business council shows that although 7,550 products ( at Eight-Digit HS Code) have been covered under China-Pakistan FTA for Pakistan's exports list to China but Pakistani exports were concentrated in 350 product lines only which constitute 4.64% of the total concessional products. While 2681 products were eligible for 0-rated tariff category but Pakistani exports were focused on 169 products which constitute only 6.30% out of the 0-rated total products.<sup>27</sup> See table 2 for tariff reduction details. No exports from Pakistan to China were recorded in 1400 products which have been offered concessions by China to Pakistan under FTA. On the other hand, concessions which have been offered by Pakistan to China under FTA appear to be more favorable for China both in terms of variety of Products (Types of Products) and coverage (number of Products).

Exports from China to Pakistan were recorded in 3800 products out of 6803 products which have been offered concessions by Pakistan. Hence China utilized 55.87 % out of the total products. Moreover, among the 0 rated categories, product utilization rate by China was also more than 50%. Whereas, Pakistan could only utilize 5% of the 0 rated products category.

Therefore, first lesson which Pakistan should learn from China-Pak FTA is that while negotiating FTAs with other countries i.e. Thailand, turkey and Iran etc., Pakistan should negotiate with the partner country to include those products in the concessions list in which Pakistan contains high potential as well as those products in which Pakistan enjoys the comparative advantage as compared to the other countries. Research should be conducted by Pakistan to identify the potential products. Furthermore, Pakistan should try to enlarge its exports product basket while negotiating for the new FTA.

#### **Table 2: Tariff Lines under the China Pakistan Free Trade Agreement**

<sup>26</sup> Preliminary study on Pakistan and China trade partnership post FTA, available at [http://www.pbc.org.pk/assets/pdf/21-Oct\\_Pakistan\\_China\\_Trade\\_Study\\_2013.pdf](http://www.pbc.org.pk/assets/pdf/21-Oct_Pakistan_China_Trade_Study_2013.pdf) (Last Visited on Oct 30, 2017)

<sup>27</sup> Council PB. Preliminary study on Pakistan and China trade partnership post-FTA. Karachi: The Pakistan business Council. 2013.

FTA Phase I	Pakistan's Offer List for China	China's Utilization of FTA	China's Offer List for Pakistan	Pakistan's Utilization of FTA
100% reduction (Three Years )	2423	1332	2681	169
0-5% (Five Years)	1338	747	2604	72
Reduction on Margin of Preference of 50% (Five Years)	157	92	604	31
Reduction on Margin of Preference of 20% (Five Years)	1768	1174	529	29
No Concession (Sensitive List)	1026	556	1132	49
Exclusion (Not to be Imported)	92	8	-	-
<b>Total</b>	<b><u>6803</u></b>	<b><u>3909(57%)</u></b>	<b><u>7550</u></b>	<b><u>350(5%)</u></b>

Data Source: Study Conducted by Pakistan Business Council<sup>28</sup>

## Experience 2: Inappropriate Tariff Concessions under FTA

The tariff concessions which have been extended to Pakistan by China appear to be liberal in first instance. However, for all top exports, including those in which Pakistan has a comparative advantage, China has awarded equal or even higher concessions to the Association of Southeast Asian Nations (ASEAN) Countries. For instance tariff reductions under the category of 100 % concession were reduced to 10 % in 2011 by China for Pakistan. These products account for 35 % of the total products on which concessions have been offered by China under FTA. While Tariff rates were reduced to 0 % on the similar products for ASEAN by China.<sup>29</sup> Margin of preference of Pakistan eroded due to China's FTA with other countries, especially with ASEAN member countries.<sup>30</sup> The volume of Pakistani exports to China subsequent to FTA has increased; it is significant to mention here that increase has also been recorded in exports of those products which have been placed outside the scope of FTA. Although demand for those products in China is huge but Pakistan is contributing less than 1 % in the supply of those products to china.

<sup>28</sup> Ibid

<sup>29</sup> For details see Pak-China FTA, China's Offer list, available at , [https://www.tdap.gov.pk/pdf/CN-offer\(Cat-2\).pdf](https://www.tdap.gov.pk/pdf/CN-offer(Cat-2).pdf), accessed on 2017/05/05 and ASEAN-CHINA FREE TRADE AGREEMENT (ACFTA), China's Offer list, available at [http://www.mtib.gov.my/repository/woodspot/website\\_acfta\\_23july09.pdf](http://www.mtib.gov.my/repository/woodspot/website_acfta_23july09.pdf) (Last Visited on Oct 30, 2017)

<sup>30</sup> China has provided Pakistan zero duty on 35 percent of the total tariff lines, compared with over 90 percent to Malaysia, Indonesia, Philippines and Thailand, provided under ACFTA (ASEAN-China Free Trade Area).

China's share in Pakistan's overall exports to the world market remained below 10% even after the implementation of China-Pak FTA whereas; China's export share in Pakistani market has increased significantly after the FTA. China has become the second largest source of imports constituting over 25 % of the Total Pakistani imports except petroleum products.<sup>31</sup>

There is a need for Pakistan and China to renegotiate the concessions under FTA in order to bring them equal or more generous than those provided to the products of other countries by China. Furthermore, Pakistan is not getting satisfactory benefits from CPFTA despite the generous concessions provided by China. One reason for this is that Pakistani business community was not engaged in the process of negotiation for CPFTA. Pakistan is reluctant to negotiate with China on the 2<sup>nd</sup> phase of FTA as stated by Khurram Dastgir Khan, the Commerce Minister of Pakistan *"Our margin of preference has been eroded by the subsequent accords China has done," Khan said in an interview on May 19. "First address this imbalance, and then of course we can begin to negotiate further expansion and liberalization."*<sup>32</sup>

Therefore, the second learning experience for Pakistan from CPFTA is that it needs to negotiate for similar or more favored concessions with its future FTA partner countries in order to make sure that similar or more favorable concessions should not be awarded by its FTA partner countries to other partners. It will be beneficial for Pakistan to consult the business community during the FTA negotiation process, as businessmen are the ultimate user of the FTA and they can provide fruitful recommendations.

### **Experience 3: Damage to the Domestic Industries**

On the one hand zero-rated category and other low concessions have made it possible for Pakistan to bring cheaper raw material from China which is used frequently in manufacturing of Pakistani products, while on the other hand, due to extra tariff concessions, there has also been the huge increase in import of finished products from China and consequently Pakistani market has been flooded by Chinese products which are very cheap in price thus affecting the local industry of Pakistan. Local producers of Pakistan are not in a position to produce as cheap products as Chinese products are. Local Industries of Pakistan are at risk due to heavy dumping of Chinese cheap products into the Pakistani market<sup>33</sup>. Pakistani Products are being replaced by Chinese Products and Chinese Products are becoming a dominant force in Pakistani domestic market.<sup>34</sup> Products of textile, shoes, chemicals, steel and iron in which Pakistani local industry was giving a reasonable output but now those products are also being heavily imported from China. Protection of domestic industries should be taken seriously. National Tariff Commission of Pakistan registers cases on the complaints of local produces against dumping

<sup>31</sup> Council PB. Preliminary study on Pakistan and China trade partnership post-FTA. Karachi: The Pakistan business Council. 2013.

<sup>32</sup> Growing Trade Imbalance Leads Pakistan to Seek China Concessions, available at <https://www.bloomberg.com/news/articles/2017-06-27/growing-trade-imbalance-leads-pakistan-to-seek-china-concessions> (Last Visited on Oct 30, 2017)

<sup>33</sup> FTA with China: Pakistan offers to scrap duties on 50% of products <https://tribune.com.pk/story/821418/fta-with-china-pakistan-offers-to-scrap-duties-on-50-of-products/> (Last Visited on Oct 30, 2017)

<sup>34</sup> Trade balance tilts further in Beijing's favour, available at <https://www.dawn.com/news/1349800/trade-balance-tilts-further-in-beijings-favour> (Last Visited on Oct 30, 2017)



activities of Chinese imports and imposes anti-dumping duties but it is hard to figure out the anti-dumping cases.<sup>35</sup>

Hence another learning experience for Pakistan is that it should discourage the import of those products which are adversely affecting the domestic products of Pakistan; such products should be withdrawn from the import list. On the other hand Pakistan should include those products in the import list which are essential and in which Pakistan doesn't possess the comparative advantage. Furthermore, for the safeguard of domestic industry from the adverse effects of Free Trade, Pakistan should reconsider its legislation on anti-dumping, countervailing and safeguard measures so that the local industry of Pakistan may be protected against unfair free trading activities.

#### **Experience 4: Increase in Trade Imbalance between China and Pakistan**

Imbalance of trade between China and Pakistan has gained an alarming situation. Trade deficit of Pakistan with China has been increasing continuously in since after the FTA. As shown in the table trade deficit was 2,859 million USD in 2008 which rose to 12,090 million USD in 2016 with an increase of almost 422% in trade deficit against Pakistan. For details, see Table 3 and Figure 2.

**Table3: Pakistan's Bilateral Trade with China: Trade Deficit million US \$**

<i>Years</i>	<i>Trade Deficit</i>
<b>2008</b>	-2859
<b>2009</b>	-6656
<b>2010</b>	-6056
<b>2011</b>	-7352
<b>2012</b>	-7371
<b>2013</b>	-9201
<b>2014</b>	-12064
<b>2015</b>	-9084
<b>2016</b>	-12090

Source: Compiled by Author based on World Bank, ITC & UN COMTRADE statistics

Excessive imports from China, constantly increased Pak-China trade deficit from 2859 million USD in 2008 to 12,090 million USD in 2016, making it largest deficit of Pakistan with any trading partner.

Trade deficit between Pakistan and China has been increasing in favour of China and against Pakistan due to the one dimensional trade under CPFTA. Although Pakistan's exports to China

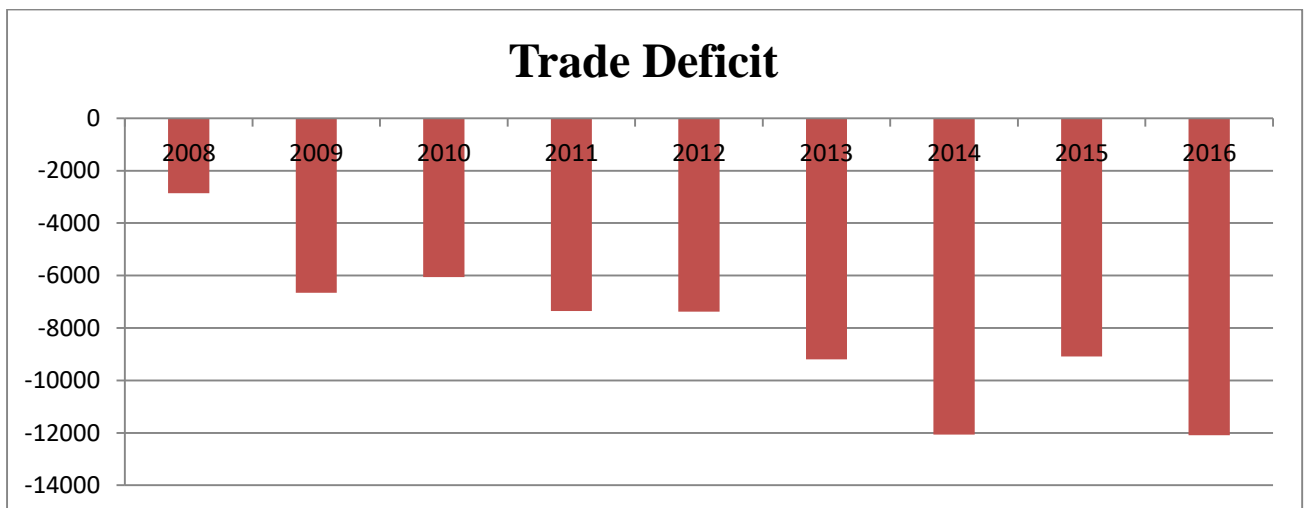
<sup>35</sup> Tariff body gets a new charter, available at <https://www.dawn.com/news/1169743> (Last Visited on Oct 30, 2017)

are also increasing gradually but China's exports to Pakistan are increasing speedily causing the growth of trade imbalance between two countries.

However, the trade imbalance can't be tackled with by discouraging the Chinese imports to Pakistan as Imports from China have become very important for Pakistani industry. Chinese materials are more economical due to tariff concessions under FTA hence; local manufactures of Pakistan are able to obtain cheaper inputs for their products.

Pakistan should focus on the development of domestic industry in order to enhance its exports' line. The sectors which have the export potential should be identified and promoted. In this way Pakistan can overcome its trade imbalance.

**Figure: 2 Trade Deficit of Pakistan with China: 2008-2016 (US\$ million)**



**Source: Prepared by Author based on World Bank, ITC & UN COMTRADE Statistics**

It is important to mention here that many products which have been placed under zero rated categories for Pakistan under FTA are imported by China in large quantities from the other countries but in those products Pakistani export to China is nominal or even zero.

Therefore, while negotiating with other countries, Pakistan should negotiate to include those products in exports list in which Pakistani production market has the high potential in spite of including useless items in the exports list. Furthermore, products which are to be included in the exports list should be produced, promoted and supported by the Government of Pakistan. Pakistan needs to accelerate exports in zero rated categories.

#### **Experience 5: Un-usefulness of FTA due to Non-Involvement of Business Community during negotiations**

Businessmen, producers and exporters etc. are the ultimate user of a free trade agreement but unfortunately Pakistani business community is ignored by the government of Pakistan during the FTA negotiations which renders the FTAs un-useful for Pakistan as was the case during China Pakistan FTA negotiations. Pakistani business community has the severe reservations in

this regard.<sup>36</sup> Therefore, in order to make the FTAs beneficial for Pakistan, Government should encourage the involvement of its local producers, exporters and importers etc. in the future FTAs' negotiations. FTA agreements should also be placed before the parliament for discussion and approval of the people's representatives.

## CONCLUSION

China is a country which is developing very speedily. Free trade agreements of China with the developing countries like Pakistan seem to be more fruitful for China and less fruitful for its partner countries. Due to its stable economic position, China is able to make full use of offers granted by Pakistan under CPFTA, while on the other hand, Pakistan is in a weaker position. Although Pakistan has been granted by China with a number of generous offers under CPFTA but unfortunately due to a number of reasons, Pakistan is not able to make full use of offers provided under CPFTA. Firstly, exports items in which Pakistan enjoys a comparative advantage, same or even lower concessions have also been awarded by China to other FTA partners, due to which Pakistan can't get full use of those offers. Secondly, product coverage is not appropriate, those products in which Pakistan has the expertise, have not been included in the CPFTA and the products in which Pakistan doesn't have expertise, have been included in China's offer list, this is the reason due to that, Pakistani exports were concentrated in 350 product lines which constitute only 4.64% of the total concessional products under CPFTA. After the implementation of FTA, trade volume between China and Pakistan has raised to a significant figure. Chinese exports to Pakistan constitute the major portion of this trade volume. Trade Imbalance has also increased to a significant level due to nominal exports from Pakistan to China. Inappropriate export list under CPFTA has been the one of the major reasons causing the growth of trade balance in favor of China. CPFTA doesn't involve considerable economic benefits for Pakistan.<sup>37</sup> Pakistani products are not so perfect in quality, therefore, incapable to compete with local Chinese products or with those coming from other regions to China.<sup>38</sup> Pakistani manufacturing sector is in lack of advance technologies resulting in substandard products. In order to overcome this problem; Pakistan is in a dire need to bring new technologies in the country.<sup>39</sup> Another reason for trade imbalance between China and Pakistan is the lack of guidance of the business community of Pakistan. They are unable to explore the Chinese market due to lack of knowledge to target the proper Chinese market for Pakistani finished products. Language barrier is also a major obstacle in this regard.<sup>40</sup> For its upcoming FTAs with other countries i.e. Thailand, Turkey, Iran etc., Pakistan needs to learn lessons from the experience of CPFTA. While negotiating for the FTA, Pakistan should negotiate that the concessions which its partner country is going to grant to Pakistan in the offer list, similar or lower concessions should not be awarded by that country to the other FTA partners in their respective offer lists. Furthermore, Pakistan should include those product lines in Pakistan's exports list of FTAs in which Pakistan has the comparative advantage and the sectors which

<sup>36</sup> Pakistan's FTAs have borne no fruit so far, available at <http://www.bilaterals.org/?pakistan-s-ftas-have-borne-no&lang=en> ( Last Visited on Oct 30, 2017)

<sup>37</sup> Shabir S, Kazmi R. Economic effects of the recently signed Pak-China free trade agreement. Lahore Journal of Economics. 2007 Sep 1;12(Special Edition):174-202.

<sup>38</sup> Trade deficit with China up 53pc , available at, <https://www.dawn.com/news/784965> (Last Visited on Oct 30, 2017)

<sup>39</sup> Ibid

<sup>40</sup> Ibid

contain the considerable export potential. Export list of Pakistan should not necessarily be very long. Moreover, Pakistan needs to protect its domestic industry. Areas in which Pakistani domestic producers are providing reasonable output, imports in those areas should be discouraged strictly; it will encourage the domestic industry to develop at a reasonable pace. Pakistani Government should involve local business community in the FTAs' negotiations. In addition, Pakistani producers need to adopt modern techniques to enhance exports to FTA partner countries in order to help the country in decreasing the overall trade imbalance. Proper official research should be conducted in order to find out the potential exports' lines in FTA partner countries. Besides this, Local industry should also be provided with incentives by the Government, this will encourage the local industry of Pakistan to increase their exports. Furthermore, before the conclusion of FTAs, Government should place the draft of FTAs before parliament for discussion and final approval by the people's representatives in order to make it more meaningful for Pakistan.

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