

## Implication of Sino-Pak Trade Relations

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### Abstract:

*Pakistan and China are enjoying multi-dimensional friendship which is to be considered as a symbol in the world. The 60<sup>th</sup> anniversary of Sino-Pak bilateral relations was celebrated in 2011. The diplomatic relations was established between China and Pakistan in 1951. The relationship between Pakistan and China may be justified by eulogizing it as a friendship "higher than the mountains, deeper than the sea's and sweeter than honey." The relationship between China and Pakistan is indeed a role model for countries under the guidance of the five principles of peaceful co-existence, and example of good neighborliness and friendship. Since 1980, China's foreign relations have become economy-centric and have launched many economic and social reforms to modernize the country. With Chinese support, Pakistan has completed many projects while several are in progress. The aim of the paper is to highlight the trade relations between Pakistan and China, because these two countries are not only friends but also good neighbor and supporters of each other, their relations are based on respect, trust and mutual co-operation.*

**Key words:** Sino-Pak, trade relations, investment, export, import, industries, agreements.

### INTRODUCTION:

Pakistan was amongst the first countries which recognized China in 1950. The bilateral relations between Pakistan and China were established on 21 May 1951. Both the countries

valued their diplomatic and strategic relations, were low on the policy agenda at that time. Soon after both countries started their way towards the trade relations with strengthening their military and political relationship. The trade relations began in the early 1950's, but a formal agreement of trade was signed in 1963. The Pakistan was searching the markets in 1950's for its raw material jute and cotton on the other hand supplies of coal were also needed. Pakistan exports to China reached up to US \$ 83.8 million and imports from China were only US \$2.2million in 1952.<sup>1</sup>

Pakistan had multi-model trade in those days, including barter trade and cash trade. Following the ceasefire in Korean War, bilateral trade sharply declined. For decades China's constant increase in exports to Pakistan resulted in a persistent and over growing trade imbalance. The main items of Pakistan's imports from China are machinery and parts, iron elements, medical and pharmaceutical products. The main items of Pakistan's exports to China are cotton fabrics, cotton yarn, petroleum and its products, fish and its preparations, leather, fruits and vegetables. Unfortunately the range of Pakistan's products exported to China is very narrow. The maximum trade between China and Pakistan had been carried out through the trade agreement in 1963.<sup>2</sup> After signing this agreement, both states granted Most Favourite Nation (MFN) status to each other. The bilateral trade in 1963 was US\$10 million which reached to US\$ 9.3 million in 2010, and it has been expected within the five years to reach up to US\$ 15billion. Karakoram highway is landmark of bilateral cooperation which was constructed to link the mountainous Northern Pakistan with Western China and opened officially in 1978.

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<sup>1</sup> Fazal-ur-rehman "Pakistan –China economic relations: strategic studies" 2006

<sup>2</sup> Yaccoverberger "The political economy of Sino-Pak relations: trade and aid 1963-82

The other remarkable gesture was the civil aviation accord, which was signed by China to a non-communist country. It made the PIA as the first airline in the world to provide a service to and from China and to fly over Moscow and beyond started in 1964.<sup>3</sup> Pakistan and china signed a Bilateral Investment Treaty (BIT) on February 12, 1989, that encouraged promotion of bilateral investment in both the countries. The treaty covers all kinds of investments, protects investors, and investments of both the countries against discrimination and expropriation.<sup>4</sup>

## **PAST PAK-CHINA TRADE RELATIONS**

Pakistan is among the forerunners in establishing close links with China. Ever since recognition of the newly established People's Republic of China by Pakistan in 1950, economic relations between the two countries grew persistently. Some landmarks are:

1. Air Transportation Agreement (1959), followed by inaugural flight of PIA to Shanghai in April 1964.
2. Bilateral Trade Agreement (1963) granting MFN status to mutual trade.
3. Border Trade Agreement (1963) facilitating trade across border of Northern Areas of Pakistan and Xingjian province of China.
4. Setting up of Pak-Chinaistan commission on economic, trade and technology (1982).
5. Construction of Karakoram highway (1970).
6. Setting up heavy mechanical, heavy electrical and Aeronautical complexes in Pakistan with Chinese assistance and collaboration.
7. Construction of Sandik (Balochistan) Integrated Mineral Project.

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<sup>3</sup> Ahmed Rashid Malik, *Pakistan Japan relations: community and change in economic relations and security Interests*, London: Routledge, 2008

<sup>4</sup> "Sino-Pak bilateral economic and trade statistics 2010"

8. Building Chashma Nuclear plant with Chinese collaboration.
9. Chinese collaboration in various projects in Pakistan (i.e. cement, fertilizer, glass, paper, power etc).

## **SINO-PAK FREE TRADE AGREEMENT**

In 2003 by the visit of Wen Jiabao to Pakistan, the talks on free trade agreement were started and a year later, a protocol was signed during the Aziz's visit to China for the establishment of Free Trade Agreement (FTA) between the two countries. At that time the annual trade volume was US\$ 2.5billion.<sup>5</sup>

Therefore a joint feasibility study for a bilateral FTA was conducted and simultaneously an agreement on an Early Harvest Programme (EHP) of the FTA was negotiated in 2005 as explained by commerce Ministry of China and Pakistan. Despite all the difficulties, negotiations were completed in five rounds of discussions on 11<sup>th</sup> November, 2006 at Beijing. This was the first step towards establishing a free trade area between the two countries. It was expected this zone would emerge as a possible commercial hub of the region due to drop of tariff. China decided to bring a zero tariff on 767 items while Pakistan responded this gesture by offering the facility on 464 items.<sup>6</sup> During the visit of Chinese president HU Jintao to Pakistan in November 2006, the two countries signed 18 agreements, including a free trade agreement. It was expected that the boost of trade would be from US\$ 4.26billion to US\$ 15billion within five years. On February 21, 2009, the agreement on trade in service was signed between the two countries that came into force in October 2009.

An upward trend was observed after these institutional arrangements and trade jumped from US\$ 2.7billion to US\$ 9.2billion in 2010 and the opportunities for Pakistan exports to

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<sup>5</sup> Pakistan times, December

<sup>6</sup> Zhanglijian, "Closer ties"(Jan 12, 2006)

China are growing.<sup>7</sup> The Chinese Custom Authority commented that “Pakistan’s export to China showed an upward trend, registering an increase of about 39.2 percent in 2005. China’s investment in Pakistan at present stands at US\$ 4billion plus, and at least 114 Chinese projects are underway”. In December 2010, Chinese premier Wen Jiabao paid a visit to Pakistan, which was unique in its nature, as it covered the strategic, political and economic dimensions. During his visit, Jiabao held meetings with all stakeholders. It also concluded with economic deals worth US\$ 35 billion with Pakistan. There are 120 Chinese enterprises working in Pakistan.<sup>8</sup>

The FTA between China and Pakistan would open new avenues and vitals for the investors of both the countries. The bilateral FTA will help the two countries to fully take advantage of each others; comparative advantages tap the Cooperation potentials up to the maximum. Pakistan will be welcoming Chinese Foreign Direct Investment in canning of fruits, vegetables, seafood and livestock products, electrical and non-electrical machinery, electronics, automobiles, textile and engineering, Pakistani firms also need to fully exploit the opportunities being presented by china’s opening up policy. Therefore China and Pakistan should actively promote investment facilitation and explore new forms of investment cooperation.

## **FACTORS INHIBITING PROGRESS IN TRADE AND INVESTMENT COOPERATION BETWEEN CHINA AND PAKISTAN**

There are a number of factors which are inhibiting the desired growth in bilateral trade and investment cooperation:

Some of these factors are given below.

1. The primary reason for low-level could be attributed to non-complementarity and the fact that China has been

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<sup>7</sup> Erfan Shahzad, “Pak-China relations in the 21<sup>st</sup> century: regional study”

<sup>8</sup> Reuters, op. cit.

competing in almost all major sectors of Pakistan's exportable commodities.

2. A non-variable factor which continues to persist even today has been the Pakistani business community's narrow vision which has remained locked onto their established export destinations such as the US, Western Europe and the Middle East. Pakistani supporters have hardly made serious efforts, either to diversify the base of exportable commodities or to explore their markets, especially in East Asia, for enhancing the volume of their exports. This mental fixation with the Western markets, which fetches relatively high profit-margins, and a non-innovative export approach, has constantly been undermining Pakistan's export potential for the Chinese markets.
3. The security environment in Pakistan, especially two of its Western provinces is deterring Chinese private sector investments. Over half a dozen unfortunate incidents in which Chinese workers and citizens lost their lives have negatively impacted the image of Pakistan as an investment destination for the Chinese business community. In an environment of worsening law and order situation, ensuring the security of Chinese worker is a serious challenge.
4. China is fast integrating into the global economic system and its trade, investment and economic cooperation is now increasing being driven by market forces, and not by the directives of the state apparatus it used to be the case in the past. Cooperation and industries are making their decisions purely on commercial viability and profitability of projects rather than directions or instructions from the Chinese government, the Chinese government has engaging the Chinese private sector on long-term basis, which is important for sustainable economic and trade relations.

5. Also, making the Pakistani private sector more innovative and pro-active is essential to produce any tangible results without which it may even lose the current level of trade to more competitive and aggressive market forces. It cannot be seen to happen in a big way, though the government in Pakistan is patronizing the private sector and the role of the public sector is being curtailed to create an enabling environment for the private sector endeavours.
6. Pakistan's export to China is centered mainly on cotton yarn and cotton fabric. There is an increasing trend in the export of seafood and leather. This potential can only be realized by revamping the process technologies and producing internationally acceptable quality. Pakistan should seek China's assistance to meet Chinese standards of seafood import.
7. While most of Pakistan's imports from china are value added, more than 85% of its exports to China are raw materials, such as cotton yarn and fabric, gold from the Sandik copper-gold project is exported to China in semi-finished form and re-exported to Pakistan after adding value. Chrome ore is exported to China in raw form. China has technology, and constructing smelting plants in Pakistan can add value to Pakistan's chrome exports to China. We must add value to our exportable raw materials and other commodities to country. It can be in the shape of joint ventures with the Chinese companies as they have technology and wherewithal to do so.
8. Another challenge to sustaining a progressive economic relationship is to establish best trade practices. It has been reported that the machinery being imported from China is usually is under-invoiced in order to evade taxes. Such practices can be curtailed with the joint efforts of both countries. Another challenge, for which both the countries have to work together, is the

unregistered trade. There are huge quantities of a wide variety of items that are being smuggled into Pakistan. Pakistani markets are to be flooded with such commodities. Pakistan and China need to establish best business practices.

9. The common perception amongst the Pakistani business community is that the Chinese private and public sector is not interested in investing in the areas which could enable Pakistan to create export surplus for the Chinese markets, and other destinations. Rather, the Chinese entrepreneurs simply want to sell their products and make quick profits. They are interested in generating profits while based in China and does not seem to be interested in generating profits from Pakistan through joint ventures of private foreign ownerships.

## **SUGGESTIONS FOR IMPROVEMENT OF BILATERAL TRADE RELATIONS**

There are several suggestions to improve the trade relations:

1. There is need to compensate low trade volume and trade deficit of Pakistan. For this purpose, generous Chinese assistance is required to build infra structure as well as to acquire self-sufficiency. No doubt, the most part of the aid given by China was either in the form of grants or interest -free loans, which led Pakistan to complete several major projects.
2. Diversification in exportable goods is crucial with an effective trade policy. It would enhance the expertise and rectify the trade imbalance with China. It is not possible for Pakistan to increase its exports to china without bringing change in its commodities.
3. Exploration of new areas is necessary for enhancing trade volume. There is huge space for investment and joint ventures in textile, leather, oil exploration, and fisheries. The textile experts opined that increasing

Chinese investment along with increased quota and friendly attitude of the buyers, Pakistan's textile could easily develop. Another potential are is the polyester fiber industry which is a value added industry though it developed in 1982. The capacity of the exports was 300,000 tons per year up till the year 2002. This area demands joint ventures of both sides to strengthen the economy.

4. It is the need of the hour that the trade and industry go hand in hand for proper value addition. For this purpose, aggressive marketing techniques and timely steps can play a crucial role to achieve the desired results. The agenda of discussion, with Chinese counterparts should concentrate on seeking help in up-gradation of quality products, raw materials of fine quality, modern equipment and plants, professional skills, quick and timely decisions, business ethics, and promotion of joint ventures.
5. China never attaches strings with its aid to Pakistan and this policy is supportive for Pakistan in increasing its exports without any accepting dictation or constraint on domestic or regional security policy.
6. Many Chinese entrepreneurs are investing all over the world but South Asia is more in need of investment owing to the low level of trade development of the regional nations. The volume of the foreign direct investment (FDI) is very little in the region. The countries need to make their laws favorable to Chinese investment.
7. Regional exchange programmes are necessary for the promotion of regional cooperation in trade. These would provide opportunities for the countries to buy each other's products. To introduce the commodities, exhibitions and fairs should be organized at the regional level. To achieve the desired results, participation of traders and investors should be ensured.

8. Without expansion of banking facilities, economic and trade cooperation is difficult in the present scenario. Banking links are insufficient and opening of the new branches of national banks is the need of hour. China, Pakistan and other countries should think about the common banks or joint funds.
9. In 1995, an agreement on transit traffic was signed between china and Pakistan, Kyrghyzstan and Kazakhstan but that was not implemented in time. The agreement was enforced in October 2003 after eight years due to minor issues like transit fees and route-permits. Such slow pace of enactment of policies impedes regional cooperation and must be curbed in future. Other is expansion of such agreements for the benefits of other landlocked countries of the region.
10. The region is rich in minerals like gold, copper and costly gemstones. In China, nearly 171 minerals have been explored, which are 12 per cent of the world' total mineral resources. Huge energy reserves are also found in Pakistan's province Balochistan: the location of Gwadar seaport. The utilization of natural resources would enhance the regional development.

## **CONCLUSION**

Pakistan and China enjoy an all-weather friendship and time-tested partnership. This friendship is reaping the fruit in strategic and political areas while trade relations are relatively on a lower ranking. However, both countries are taking different measures for trade cooperation, which are equally crucial to progress by leaps and bounds. For the last two decades, the economic interaction is increasing and many projects are underway with Chinese support. Both countries share the share the vision of economic direction through a number of high-level meetings, conferences and seminar on trade, economic and commercial activities. At these forums, the two governments have made decisions to follow different

strategies to enhance the trade cooperation. These formal steps need to be implemented. This paper has explored different areas and suggested several initiatives for economic development. However, implementation of these strategies is not easy. The other issue is respective economic position of both countries. China is an economic power while Pakistan is passing through the development process. Pakistan needs Chinese support to overcome its economic problems and implementation of suggested measures, which demands active and favorable Chinese policies. Without Chinese support, Pakistan is not in a position to do this uphill task. The benefits of economic ventures would only be realized after the successful imposition of trade and investment. There is great importance of joint efforts and common strategies for collective benefits. These all steps would have the path of development. Pakistan and China have observer status in SCO and SAARC respectively. This status should be raised to a full membership for real benefit of joint and friendly forums. No doubt, Sino-Pakistan relations are thus summarized that whatever the time it might be, China offers powerful backing and support to Pakistan. More importantly, it promises a 'positive domino effect' in terms of trade growth tempting other regional countries. Another positive gesture on the Chinese side is generating opportunities in the economic domain that are suitable for Pakistani setting. Despite the overwhelming counterterrorism factor in the scenario, China's economic achievements are exemplary to emulate and guarantee for regional stability. China never blocked trade and military aid to Pakistan alleging the violation of so-called international norms, if a vacuum is created by such acts, is ready to fill it. Pakistan needs to get the benefit of Chinese experience and expertise in agriculture and industrial sectors to enhance the production. Being a developing country in science and technology, Pakistani scientists and engineers need to learn from China. Another is up-gradation of existing infrastructure to speed the economic growth.