The Trajectory of Pakistan-China Economic and Commercial Cooperation and the Economic Corridor

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Abstract

This paper examines the current status of Pak-China commercial cooperation, the convergence of this cooperation towards the realisation of China-Pakistan Economic Corridor (CPEC), and the challenges and opportunities envisioned for this relationship. Constructivism is the best possible characterisation of the nature of Pakistan’s commercial relations with China, as these do not amount to a zero-sum regional game that would seek maximisation of power at the cost of their Asian neighbours. The current trajectory of Beijing-Islamabad relations transcends the geopolitical and geo-economic expediencies that could beckon prosperity and economic cooperation. Both countries have an interest in creating an enabling security, political, and trade environment for the envisioned growth and sustainability of their commercial relations. An environment of peace and stability will not happen in a vacuum, especially if other regional and extra-regional powers are not willing to tango. For the first time in Pakistan’s history, its territory shall set a course of economic cooperation rather than geopolitical competition. The CPEC is not only the pivot of Pakistan-China politico-economic relations, but holds similar promise for the region and beyond. In the aforementioned context, the paper explains multifarious economic and trade linkages between the two countries, and proffers recommendations for deepening commercial cooperation through optimisation of trade balance, export diversification, and foreign direct investment (FDI) inflows.

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Over the years, thanks to the nurturing of generations of leaders and people from all sectors of both countries, China-Pakistan friendship has flourished like a tree growing tall and strong. No matter how the circumstances in our two countries, the region and the world change, our bilateral relations have enjoyed sound and steady growth. We have always respected, understood and supported each other on issues concerning our respective core interests.... It is important that we maintain close communication and coordination to protect our common interests and foster a peaceful and stable neighbouring environment.

– President Xi Jinping

Backdrop

Pakistan-China relations date back to the 1950s. The relationship was initially based on security and defence cooperation, and was later diversified to encompass the political, economic, education and trade areas. Just as this friendship has endured the geopolitical shifts of yesteryears, it seems poised to withstand the stresses of an international system that remains in flux. A deep economic alliance between China and Pakistan is essential for the sustainability of this relationship. This paper suggests that Pak-China relations have the potential of keeping the wheel of regional prosperity running through the proposed China-Pakistan Economic Corridor (CPEC), which is an integral component of the Chinese President Xi Jinping’s insightful “One Road One Belt” vision, and a similar progressive design for Pakistan.

Even if Pakistan’s relations diversify, its friendship with China will remain the cornerstone of its foreign policy. Almost seven decades of policies crafted by successive (and internally conflicted) Pakistani governments, and reciprocity by the Chinese leadership bear witness to this centrality of their bilateral relations. Pakistan was the first Muslim nation to accept China as a nation-state, and continues to be its strategic ally. Likewise, this undiminished support plays a vital role in maintaining social stability and economic progress through extensive commercial cooperation as well.
The focus of Pak-China commercial relations is on trade, export-import centric investment (their trade balance) and foreign direct investment (FDI). Once seen in the context of economic reforms, commercial relations also encompass real exchange rates, export promotion, import liberalisation and free trade agreements.\(^3\)

**China’s Economic Strides Through Three Decades**

China’s undertakings in the project of inclusive economic uplift, sans borders, support its belief in economic coexistence. China has emerged as the most prominent outward investor in the global economy and has carved for itself an exclusive niche in the international political economy.\(^4\) appearing amongst countries with the fastest growth rates during the next twenty years.\(^5\) These strides have been made possible by the country’s leadership and its well planned, coordinated, consolidated, sustained and swift reforms for the previous three decades.

China initiated pragmatic and efficient economic reforms in 1978, which resulted in a giant leap in productivity and beckoned it towards the “formation of rural enterprises and private businesses, liberalised foreign trade and investment, relaxed state control over some prices and invest(ment) in industrial production and the education of its workforce.”\(^6\) Aside from these factors, this economic turnaround was also possible due to the Chinese market-oriented economic reforms and focus on FDI, controlled import regime, competitive exchange rates, and significant free trades agreements with the emerging economies of Asia.\(^7\)

With a GDP of $10.36 trillion (nominal; 2014 est.), China has almost $4 trillion in foreign currency reserves.\(^8\) The country’s trade surplus was recorded as $59.49 billion in May 2015, while the balance of trade reached a record high in February 2015, amounting to $70.9 hundred million in February 2015.\(^9\) China’s key export commodities include machinery, textiles, optical and medical equipment, iron, and steel. The import commodities are mainly machinery, metal ores, organic chemicals, and plastics.\(^10\)

For almost three decades, China has had a high average growth rate of about 10 per cent, and approximately 500 million people have been
lifted out of poverty. By far, China is likely to become the world’s largest economy before 2030, and is the global destination for technology transfer and FDI. The country’s FDI outflows rose to $101 billion in 2014. President Xi’s goal is set to take China beyond the age of new consumption by introducing a strong socioeconomic sector through robust politico-economic policies in this regard. The efficient labour force and the government’s policies focused towards the provision of strong infrastructure account for the significant FDI inflows in China of about $538.30 hundred million in May 2015.

China is investing almost two per cent more than the projected requirement for infrastructural development – 8.5 per cent of GDP spending, against a requirement of 6.4 per cent. This percentage is above the global average, and implies that the country can afford to reduce its future investment in infrastructure while still maintaining a good ratio. Moreover, the e-commerce activity has exceeded to $1.6 billion in China, and makes it the largest online retail market.

Instead of responding to geopolitical competition and efforts to contain it, China’s priorities are regional integration through a number of significant economic initiatives. The China-South Asia Business Forum (CSABF) is the first initiative of its kind, in which China reached out to the South Asian Association for Regional Cooperation’s (SAARC) member countries’ commercial and industrial community. Likewise, the China Council for Promotion of International Trade (CCPIT), Islamabad-based SAARC Chamber of Commerce and Industry (SCCI), and the People’s Government of Yunnan Province, China, jointly sponsor the forum. So far, nine events have been arranged since 2004 for enhanced collaboration and communication between business communities. Such initiatives would contribute to regional harmony and economic stability. China participates actively in other regional forums such as the Association of South East Asian Nations Plus Three (ASEAN+3), Shanghai Cooperation Organisation (SCO), and an association of five emerging economies that are also members of the G-20 forum, namely BRICS (Brazil, Russia, India, China and South Africa).
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The Pace of Pakistan’s Economic Development

Pakistan’s GDP grew by 4.14 per cent during the fiscal year 2013-14, which has been considered the highest annual growth rate since 2008-09. The country, however, is an emerging economy with myriad challenges at the domestic and regional fronts. Pakistan’s exports are increasing feebly amidst a global economic slowdown; delays in policy and product upgradation, adaptation, and implementation; difficulties in managing the economic sector; and mainstreaming it with the global supply chain. Some of these dire challenges pertain to slow export promotion and trade imbalances. In order to develop lasting commercial relations with Beijing, Islamabad would have to triage its policies to foster production-based structural transformation. Chinese assistance holds significant value in this case.

Pakistan’s current fiscal target of $27 billion is at risk to the tune of a billion dollars. However, the exports increased by 27 per cent during 2010-11, and attained a good level of $24.8 billion, which saw a slight dive of 4.7 per cent during 2011-2012. This can be fixed through sustainable implementation of Pakistan’s Vision 2025, which ranks sustained indigenous and inclusive growth as a high priority.

Pakistan’s economy relies heavily on the agriculture sector, which employs almost 43.7 per cent of its total labour force and contributes 21 per cent of the GDP. This sector consists of forestry, livestock, fisheries and crops. Pakistan is amongst the leading world producers of cotton. Textiles are thus a chief driver of export earnings.

The industrial sector employs 20.7 per cent of the total labour force, and by composition is 21.6 per cent of the GDP. As its sub-sector, manufacturing contributes 18.5 per cent of the GDP. Major industries rely on resource-based and low-tech forms of food processing, textiles and apparel, construction material, paper products, fertilizer, shrimp and pharmaceuticals. Moreover, Pakistan’s burgeoning labour force of 59.21 million is the tenth largest in the world, and can play a significant role in labour-intensive sectors of the economy through properly chalked-out plans.
The service sector’s contribution to the GDP has increased to 58.1 per cent in 2013-14. The services exports in 2011-12 were worth $5 billion. In order to optimise this sector’s potential as a nucleus for exports promotion, Pakistan’s Services Trade Development Council will work with relevant sectors.

Consumption, investment, and export are the three integral components of economic growth. Starting from a consumption-based market, Pakistan has to make a massive shift in creating a balanced system that gives it an export surplus. Pakistani exports comprise $25.11 billion (FY 2014 est.), mainly to the US (15 per cent), China (9.6 per cent), UAE (8.5 per cent), Afghanistan (7.5 per cent), UK (6.3 per cent) and Germany (4.6 per cent). Commodities for import mostly include machinery, petroleum and its products, transportation equipment, tea, iron and steel, paper and paperboard, and edible oils. Imports of almost $45.07 billion are from China (17.1 per cent), UAE (12.1 per cent), Saudi Arabia (9.9 per cent), and Kuwait (7.5 per cent). Major export commodities include textiles, rice, leather and sporting products, chemicals, and carpets.

In order to diversify the export basket, the non-textile sector’s share was increased from 36.5 per cent of Pakistan’s total exports in 2006-07 to a figure of 48 per cent in 2011-12. However, value addition to export products and creating enabling procedures is still a bull that needs to be taken by its horns. The government of Pakistan has launched a consolidated plan to attract investment and FDI inflows. The policies align with the pursuit of liberalisation, de-regulation, privatisation, and facilitation.

Pakistan’s economic trajectory relies heavily on FDI, which may eventually help it gain greater access to the foreign markets and acquire cutting-edge technologies. FDI reached $750.9 million in 2014 with the inflows stemming largely from the US, the UK, Hong Kong, the UAE, and Switzerland. Internal security challenges and poor infrastructure together have affected these inflows of FDI.
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The Vision of Pak-China Commercial Cooperation

A World Bank report captures the sense of China’s role in creating win-win solutions for itself and the world:

*China’s uniqueness among developing countries is not what it did to achieve success, but how it did it. China adapted a strategy known as “crossing the river by feeling stones,” which encouraged the local governments to undertake bold pilot experiments within the broader context of reform priorities. By introducing market-oriented reforms in a gradual, experimental way and by providing incentives for local governments, the country was able to discover workable transitional institutions at each stage of development.*

This should be Pakistan’s ultimate objective for achieving socioeconomic stability through sound development policies. The trajectory of Pak-China commercial cooperation shows promise. If one navigates the course of Pak-China commercial cooperation, it is easy to infer that the two friendly nations have both the outstanding potential and strategic vision required for strong bilateral relations. The year 2015 is being celebrated as the Year of Friendly Exchanges, and these efforts should be merged with the CPEC plan.

Being the world’s second-largest economy and leading creditor, China has acquired the center stage of the global economy, while Pakistan’s potential and geographical position indicate that the latter has a potential of becoming a regional commercial hub. The “iron” cooperation would play a mid- and long-term integrated role. Pakistan and China are set to broaden economic and technical cooperation in agriculture, health, education, and public transport and other projects that benefit the people.

The CPEC exhibits the zenith of the two countries’ commercial collaboration. The project spreads over the next 15 years, and is the natural and ideal 3000-kilometers-long connection between Gwadar and the Chinese port of Shanghai via Xinjiang. The prospective economic activity generated by the corridor shall bring regional prosperity and would contribute to stability. Projected well-developed transportation networks and infrastructure would open access to the western provinces
of China – for instance, through the proposed oil pipeline from Gwadar port – and lead to enhanced socioeconomic activity in Pakistan.

The economic corridor can be seen as the touchstone for the already initiated ventures and various other projects resulting from Pakistan-China cooperation. Some of the significant ones are the cross-border fiber optic cable project, up-gradation of Karakoram Highway, solar and biomass energy and wireless broadband projects, exploration of the idea of constructing industrial parks along the Corridor and in Gwadar, construction of special economic zones, and the implementation of the Digital Television Terrestrial Multimedia Broadcasting and commercial operation of TD-LTE in Pakistan.  

**Current Status of Pakistan-China Commercial Cooperation**

Beginning in 1952, Pak-China cooperation recently reached a new landmark when the first batch of exports left the Gwadar Port on May 12, 2015. Contemporary commercial cooperation between China and Pakistan would be a fusion of the Chinese vision of transforming its western region and Pakistan’s Asian Tiger dream, that is contingent on the rejuvenation of the socioeconomic sector. To seek fruition of this bilateral framework, the two sides have envisioned trade liberalisation besides cooperation in trade, investment, energy, agriculture, mining, food security, environment, finance, and other fields.

Key landmark Pak-China joint projects include: the bilateral trade agreement of 1963 that granted MFN status to mutual trade; the construction of Karakoram Highway - completed in 1969 and considered as the Eighth Wonder of the World; the Saindak mineral project; the Heavy Mechanical Complex, Heavy Electrical and Aeronautical Complex; the 1963 Border Trade Agreement; the Chashma Nuclear Power Plants; the Karachi Nuclear Power Plants (KANUPP)-2 and KANUPP-3 in Karachi; the JF 17 aircraft project; several energy projects such as the recent Thar Coal Power project, 1000 megawatt (MW) Quaid-e-Azam Solar Park in Bahawalpur, and many more that will collectively add 10,400 MW of electricity in the national grid at the cost of $15.5 billion by 2018.
After his oath taking in 2013 as prime minister, Nawaz Sharif paid his first visit to China. The leadership of both the countries vowed to revive the April 2005 Treaty of Friendship, Cooperation and Good Neighbourly Relations that seeks to promote policies which can advance the cause of peace, co-operation, and harmony for creating a win-win situation in the region. They also “reaffirmed their commitment to pursue people-centric policies that could mitigate poverty, promote social and economic development, and diminish the roots of conflict.”

Pakistan’s Minister for Planning, Development, and National Reforms Ahsan Iqbal says; “In the past, the economic relationship could not match the political one. Now the leadership on both sides has realised that we have to bridge that gap.”

China presently has a trade volume of about $16 billion with Pakistan, and plans to raise this volume to $20 billion by 2018. The CPEC would take this bilateralism to the next level through the injection of $46 billion into the CPEC projects – almost 20 per cent of Pakistan’s annual GDP – that focus on building a network of roads, railways, and pipelines. This amount is said to be three times more than the total FDI received by Pakistan since 2008.

The CPEC plan seeks joint monetary support from both the countries. However, financial modalities are yet to be decided, and will also include investment from the Chinese government and banks for involvement of Chinese companies in projects as commercial ventures. The main expenditure out of the allocated $46 billion include approximately $33.8 billion in various energy projects, and $11.8 billion in infrastructure projects to be completed by 2017. Also, the agreement reserves about $622 million for Gwadar Port and $15.5 billion for coal, wind, solar, and hydro energy projects, and $44 million for optical fiber cable. Around $28 billion will be used for immediate projects, and the rest for long-term investments.

The incumbent government recognises that this relationship has “outgrown its bilateral dimension to acquire regional and global significance.” They have also shown resolve to implement the Agreement on Maritime Cooperation, and the 2010-2020 Space Cooperation Outline between China National Space Administration and Pakistan Space and
Upper Atmosphere Research Commission, in a bid to increase space research and technology cooperation.\textsuperscript{42}

The two countries have reaffirmed complete implementation of the Additional Agreement to extend the Five Year Development Program on China-Pakistan Trade and Economic Cooperation and the Free Trade Agreement.

The commercial cooperation between Pakistan and China covers a spectrum of government-to-government, business-to-business, and business-to-consumers ventures. Many Chinese nationals and enterprises are working in Pakistan on major infrastructure and development projects, and vice versa. For instance, the Pakistan-China Business Council of Federation of Pakistan Chambers of Commerce and Industry (FPCCI) follows a variety of objectives to enhance \textquoteleft{economic cooperation and friendship between the two countries and to prepare plans and programs towards that objective.\textquoteright\textsuperscript{43}

Pak-China trade agreements are of three types: Free Trade Agreement (FTA) in goods and investment signed on November 24, 2006; FTA in services signed on February 21, 2009; and Pak-China early harvest programme that started operating on January 1, 2006, and was merged into the FTA in goods and investment.\textsuperscript{44}

The FTA in goods and investment package includes zero duty on market access for Pakistan on industrial alcohol, cotton fabrics, bed-linen and other home textiles, marble and other tiles, leather articles, sports goods, mangoes, citrus fruit and other fruits and vegetables, iron and steel products, and engineering goods. Also, it was proposed that China would reduce its tariff by 50 per cent on fish, dairy sectors, frozen orange juice, plastic products, rubber products, leather products, knitwear, and woven garments. China gained access to the Pakistani market on machinery, organic and inorganic chemicals, fruits and vegetables, medicaments and other raw materials for various industries including engineering sector, intermediary goods for engineering sectors, et cetera.\textsuperscript{45}

The FTA in services is geared towards 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 services. Timely implementation of this FTA was meant to promise job creation in Pakistan along with capacity building of the local service suppliers, and technology transfer.\textsuperscript{46} The service sector reserves its importance in complementing trade in goods, so the vision of this FTA is directly focused on maximising the potential of Pakistan’s exports in Chinese markets and beyond.

There are other forms of cooperation such as the bilateral Currency Swap Agreement (CSA) between the State Bank of Pakistan (SBP) and the People’s Bank of China (PBoC), which amounts to PKR 140 billion and Chinese Yuan (CNY) 10 billion (equal to about $1.6 billion). The agreement augments investment and trade between the two countries in their respective local currencies.\textsuperscript{47}

**Reforms in the Economic Sphere and China-Pakistan Economic Corridor**

Economic reforms are critical to Pakistan’s sustainable development and must be an integral component of the envisioned Pak-China cooperation. The Chinese model of best economic practices gives Pakistan many options not only to become a global destination for trade, but also to deal with the latter’s challenges of alleviating poverty, raising per-capita income, increasing productivity of domestic firms and manufacturing and services sector, enhancing development of an economic system based on competitive exports and high technology sector, training of labour force and management of FDI inflows. Pakistan’s economic interdependence with China has been notably growing despite these challenges, particularly during the previous decade. Optimisation of FTAs and enhanced Pakistani export products in Chinese markets will boost Pakistan’s socioeconomic conditions.

Pakistan has to make significant strides for developing its commercial relations with China further from the existing level. This can materialise effectively if Pakistan’s GDP sees a sustainable growth from its current slow trend.
China’s support for Pakistan has been instrumental in the latter’s new advances, particularly in the realms of defence technologies, trade, infrastructure, and most recently in the energy sector. In Pakistan, major trends in political and socioeconomic spheres are emerging and a robust Pak-China cooperation is capable of unleashing enormous potential for regional harmony, gelled with their respective development.

The CPEC is the most important component of this vision. The CPEC can be best understood as an “infrastructure-driven economic development”* model for China and Pakistan and gives the golden touch to their relations. It is a combination of infrastructural, logistical, and energy-centric projects that will eventually lead to an overall development of the socioeconomic sectors of Pakistan and Western China. In terms of its geo-economic and geo-strategic significance, this initiative is believed to be a game changer and its worth exceeds all other regional initiatives. CPEC encompasses cooperation in various areas such as construction, economic and technical cooperation, people-to people and cultural exchanges, and exchanges between local governments and organisations.48

The CPEC project comprises of a number of effective steps. In 2013, China and Pakistan had agreed to establish the Joint Cooperation Committee on the Long-Term Plan for the CPEC in collaboration with leading ministries like National Development and Reforms Commission of China, and Pakistan’s Ministry of Planning, Development and Reforms. A secretariat has been created that will operate in both countries.

Both countries have also reaffirmed the complete implementation of an additional agreement to extend the Five Year Development

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*This model holds that a nation must systematically allocate a substantial proportion of its resources towards development of long-term assets such as energy, transportation, social infrastructure to ensure economic efficiency - Rephann, Terance and Isserman, Andrew. “New Highways as Economic Development Tools.” Regional Research Institute, West Virginia University, http://www.equotient.net/papers/HIGHPAP.pdf
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Programme on China-Pakistan Trade and Economic Cooperation and the FTA. Working groups for the CPEC on planning, transport, infrastructure, and energy were inaugurated in 2014.49

The Pak-China Economic Corridor Council (PCECC) was launched on April 9, 2015 in Islamabad. Its purpose is to support and assist in the successful and speedy implementation of all the projects planned under the Belt and Road Initiative. The PCECC has several experts from diverse backgrounds and works on a twelve-point agenda that includes planning, performance evaluation of the projects, coordination between business institutions of the two countries, the proposition to declare twin cities between Pakistan and China, facilitation and assistance to Chinese investors and experts, improving health and education indicators, and promoting culture and tourism in both the countries.50 The PCECC will provide a momentum51 to the corridor and will be an effective forum for the individuals or parties that aspire to contribute their services and knowledge to the CPEC.

Pakistan has taken several steps to make its transit, transportation and trade efficient, in the context of CPEC. The approved plan of Pakistan Land Port Authority (PLPA) for overseeing cross-border movement of people and goods is part of an Integrated Transit Trade Management Systems (ITTMS). The proposed PLPA would supervise construction, management, and maintenance of the integrated border crossing points and future extension and will be a common platform for all regulatory bodies for shipping, banks and security.52

A China-Pak Joint Energy Working Group has been working to deepen cooperation in many sources of energy including conventional and renewable ones. In a similar fashion, China-Pak Agricultural Technology Demonstration Zones (ATDCs) have also been planned in line with Chinese interest creating in developing hybrid seeds for rice, wheat, rapeseed, maize and cotton in Pakistan.

Pakistan and China have also established a number of forums for institutionalised enhancement of their economic relations. These initiatives include the Pak-China Joint Investment Company that was launched in July 2010. This forum seeks to promote investment, trade,
and economic growth in Pakistan. There will be investment-banking services for sectors like IT, agriculture, industry, services, real estate, infrastructure and manufacturing. Pakistan’s Ministry of Finance and the state-owned China Development Bank contribute to its equity.\(^{53}\)

The CPEC nevertheless is not a low-hanging fruit, as it requires serious and sustained efforts by all the stakeholders. Pakistan requires more jobs and better living conditions for its people, which is possible only through a rich resource base and strong technological capacity. The realisation of CPEC plans promises success of many other industries aligned with the development of Pakistan’s socioeconomic sector. As the land bridge between Central Asia and the Arabian Sea, Pakistan offers immense opportunities for the economic corridor. The project is no less than a benchmark and initiator of specialised economic zones, science and technology parks, infrastructural facilities such as dams and rail networks, and logistical support. It would assure a package of positive externalities for South Asia, Central Asia, and beyond. China has technological and financial strength and Pakistan offers an efficient work force, a buoyant market, and an ideal geographical opening to success.

The CPEC in itself is an enormous opportunity for the two friendly nations. Pakistan’s territory will be the show-ground for this landmark project. This provides China ample motives to help Pakistan focus on the lynchpin of this success plan – manufacturing and industry.

**Recommendations**

*Over a long period of time, China and Pakistan have conducted all-round, mutually beneficial and fruitful cooperation in various fields, bringing tangible benefits to the people of both countries. At present, the two sides are working together to steadily advance the China-Pakistan Economic Corridor. Committed to building a China-Pakistan community of common destiny, we cooperate to expand our converging interests and strive for common development. Our aim is to deliver even more benefits to our peoples and realise brighter development prospects.*

President Xi Jinping\(^{54}\)
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The economic cooperation between China and Pakistan must be followed in a manner that ensures overall welfare, particularly of the two countries. In the context of the CPEC, creating an enabling security, political, and trade environment would be a major challenge, which has to be addressed through sustainable policy designs, their strict implementation, and by introducing a pool of specialists for relevant fields of operations.

Pakistan’s economy, as compared to China’s, faces a multitude of problems and is in a transitional development phase. However, serious and continuous Chinese help in human and capital resource domains will be equally rewarding for the two stakeholders of CPEC.

In order to take stock of the strengths and weaknesses of the Pak-China commercial relationship, exploring three avenues would be useful: Firstly, enhancing bilateral trade and reducing deficit; secondly, the role of their respective trade and investment regimes and trade liberalisation in balancing their bilateral trade; thirdly, effect of the FTA and other initiatives on bilateral trade. Moreover, transparency and accountability in all forms of dealings will be instrumental in strengthening this relationship.

Identification of following areas and recommendations for improvement in these will prove to be vital for the smooth and transparent implementation of the CPEC plan:

I. Bridging the Trade Deficit and Promoting Exports

The trade deficit has to be mutually covered through a series of measures and follow-up of bilateral agreements. The FTA offers zero duty in the Chinese markets for Pakistani products such as textiles, sports goods, and vegetables and fruits, among others. However, non-tariff barriers are likely to cause economic losses by not allowing trade to function properly and hindering the potential for export of goods that can be of high value for Pakistan, such as cotton and sports goods. It is significant to note that Pakistan’s export products are already available in abundance in the Chinese market, or can be made available from inexpensive markets elsewhere in the region. To address this issue,
special arrangements are required to facilitate Pakistani exporters in China.

The obligations under the FTAs must be firmly adhered to so that they provide a competitive edge to Pakistani products through elimination of tariffs and non-tariff barriers. The 2006 FTA covered trade in goods and investment, and sought gradual elimination of tariff on the entire bilateral trade within five years, i.e. by January 1, 2012.

The reciprocal reduction or dismantling of barriers to trade, mutually accepted trade facilitation agreements with functional legal set-ups, and procedures for the protection of investors’ rights shall boost the technology accession and business practices. Chinese investment in Pakistan shall enhance economic competitiveness. For the FDI inflows, however, investors from both sides must focus on the strength of the investment, rather than using the opening for merely acquiring an access to the market.

Chinese export products are the prime drivers of its unrivaled export performance since 1978. The balance of trade between China and Pakistan has a potential to widen beyond current levels; the trade strategy between China and Pakistan, however, calls for stability. Pakistani enterprises can be encouraged to invest in Chinese markets through special incentives. China has credible import potential too. Its industrial procedures facilitate a potential market of about $1 trillion and Pakistan can tap into it. By minimising the trade deficit and adding dividends through huge financial reserves emanating from export surpluses, large multimodal and cross border infrastructure can be financed and strengthened. The CPEC will not only be a road but a catalyst for a dynamic, mature, and sustainable cooperation for building infrastructure on both sides of the border.

II. The Implementation of Memoranda of Understandings (MoUs)

The implementation of MoUs poses a considerable challenge. Benchmarking and implementation of CPEC-based MoUs must be amongst the governments’ priorities.
III. Role of Private Sector

The private sector has immense potential to supplement the CPEC projects. This sector includes small- and medium- enterprises, and major national and international corporations. Their role will accelerate development and must expand to generate employment, scale up practical solutions especially for non-infrastructure development along the CPEC such as healthcare, water and food supplies, education, and housing, and to plug gaps in developmental and financial challenges. Best global models and practices must be replicated in Pakistan in order to ensure that the public and private sectors partner effectively towards shared goals.

There is a need to regularly revise trade and other regulatory frameworks. Steps must be taken to curtail or arrange protection clauses for trade in services and industry sectors in order to optimise mutual gains. Small and medium enterprises (SMEs) can play a vital role and their extraordinary success in China’s socioeconomic uplift can be emulated by Pakistan. Both countries can work together for the growth of micro, small and medium industry in Pakistan. For smooth and speedy implementation of the CPEC, the Chambers of Commerce must be involved for matchmaking of concerned industries in China and Pakistan.

Another challenge is harnessing the private sector for effective trade. Being proponents of the market-oriented approach, both governments must strategise to boost the private sector and R&D organisations to take active part in the CPEC project. Also, serious attempts by the governments for mutually beneficial trade policies have to ensure that unscrupulous business forums do not find a way to collude and evade mandatory duties and taxes, thus creating loss to the national exchequer.

IV. Pakistan’s Shift to High-Tech Sector

In order to address and expedite the issues of economic transformation, Pakistan needs a shift from resource-based and low technology exports to the adoption and development of medium- and high-technology productions, and technological sophistication. Almost 81 per cent of Pakistan’s exports are resource-based items. In the absence
of local manufacturing facilities, Pakistani consumers rely heavily on inexpensive imports from China. Chinese government and firms can play a positive role in this context.

The most important sector in this regard is manufacturing. Its 13.8 per cent share in Pakistan’s GDP in 2005-06 depicts almost a standstill, even in 2013-14 with a share of 13.5 per cent in GDP.56 Pakistan’s industrial production is ranked 87th in the world.57 Joint ventures for improving this sector in Pakistan are crucial for implementing long-term programmes of cooperation.

Although bureaucratic hurdles on both sides occasionally impede business progress, the domestic competition policies should align with commercial policies. This will curtail any chances of misuse of power and opportunities, thus ensuring viable options and practices.

V. Pakistan’s Membership of Multilateral Forums

There are few bilateral or multilateral economic and commercial forums, with the exception of the World Trade Organisation, that binds both China and Pakistan together. Pakistan – despite facing pressing challenges on security and economic fronts – has incessantly endeavoured to play its part as a responsible regional and global actor. Pakistan also has an emerging economy. This performance merits its inclusion in bilateral and multilateral economic cooperation forums, and its inclusion would be the harbinger of politico-economic peace in the region.

Pakistan won the full membership of Shanghai Cooperation Organisation (SCO) in July 2015. Likewise, the time is ripe to add Pakistan as the seventh member of ASEAN+ 6 partnership. Islamabad’s participation in these forums offers a win-win opportunity for these regional countries that are the engines of global economy. From the Pakistani perspective, membership of these organisations also means embracing developmental strategies and common practices such as that of the prospective Asian Monetary Unit (AMU).
VI. Relocation of Chinese Labour-Intensive Industry to Pakistan

The emerging middle-income countries, with their focus on manufacturing and services, open new windows of opportunities for the labour-intensive sectors of the low-income countries. In the last three decades, Chinese exports have gradually risen in the value chain, the surplus labour force has been absorbed, and wages have improved. Consequently, the exporters are gauging the prospect of repositioning their labour-intensive industries elsewhere in order to manage the increasingly spiking wages. There are strong signs that China’s aging population and the country’s shift to the services sector may slow its overall growth – as is the case in many other countries as well. In this case, Pakistan’s teeming young population can be won over through training and job placements. Almost 15,000 Chinese will be working for the CPEC in Pakistan. In the same vein, Pakistani engineers, doctors, labourers and others can be employed for CPEC’s portion in the Chinese territory.

Furthermore, while adopting the “flying geese model of Asian economic development”, China – which has now shifted more towards manufacturing sophisticated products – can relocate its labour-intensive products and procedures to Pakistan. This step will not only enhance the low-skilled labour-intensive market’s production efficiency in Pakistan, but will also be eventually instrumental in technology transfers, channelising the economies of scale, and adding value to the production chains in various sectors like agriculture and industry. Pakistan’s market-oriented economy and the increasing domestic demand will absorb and complement this technology relocation for mutual sustainable growth.

VII. Infrastructural Development and the CPEC

Infrastructure development is one of the biggest priorities of the Chinese government. This also tops Pakistan’s list of priorities because rails, roads, dams, energy facilities, and telecommunication systems determine the pace of modern economic frameworks. Such initiatives will and must directly be aligned with the CPEC vision, which should focus on massive construction of dams and rail networks throughout the designated route.
VIII. Financial Sector

Cooperation in financial sector shall fast-track market ventures and the complete CEPC project. The two countries need to set up considerable liquidity support arrangements in the form of bond funds, for instance. Introducing Pakistani banks in major Chinese cities and vice versa will lead to diversification of economic cooperation through better relations among customers and corporate entities, and will also make commercial procedures easy for visiting and established entrepreneurs from either country.

The Industrial and Commercial Bank of China Limited (ICBC) – which is a joint-stock limited company with assets worth $3.062 trillion and is world’s largest bank in terms of capitalisation\(^6\) - is functional in Karachi and Islamabad since 2011, and President Xi has inaugurated its Lahore branch during his April 2015 visit. The ICBC will provide consultative services and technical cooperation to the government in sectors such as agriculture and automobile.\(^6\) The Bank of China (BoC) is also likely to come to Pakistan. Pakistan must work likewise and the Chinese government’s help in promoting this activity will be important. To support Pakistan’s trade balance in an organised fashion, the government should also expedite the expected establishment of Exim Bank of Pakistan so that it can work efficiently with its Chinese counterpart.

The Chinese Sovereign Wealth Fund has substantial stakes in the Bank of China and the latter focuses on corporate, investment, and personal banking. Many giants of Chinese financial market are already working in regions like Africa. Pakistan’s market has also attracted them and this entry is likely to improve trends.\(^6\) The establishment of foreign banks introduces latest financial technologies, enhanced efficiency, and increased inter-bank competition,\(^6\) and thus will boost commercial cooperation.
IX. Promotion of Industrial Research and Development (R&D) and Intellectual Capital

The commercial cooperation must also envision massive promotion of industrial R&D. Pakistan’s huge intellectual capital can be given exposure to the Chinese best practices through training courses, workshops, and degree programmes. Raising this intellectual capacity for operationalisation of the CPEC will be a golden opportunity, especially for Pakistan. Strong R&D knowledge will be equally rewarding in terms of technology spillovers from FDI to domestic firms.

Seminars, conferences and management courses aiming at bridging the knowledge gap and bringing all stakeholders (government and private) on board must be planned. The triangular relations between the government entities, business enterprises and R&D-based institutions is required. Also, there is a need of integrating the basic knowledge of CPEC in secondary and tertiary level curricula to inculcate the spirit of development and to pursue a long-term plan of making an indigenous pool of experts and specialists in the fields that are relevant to CPEC in particular and Pak-China’s socioeconomic sector in general.

X. Formation of Regional Trading Systems

China has healthy bilateral trade relations with almost all its neighbours, and with Pakistan’s support it can influence the initiation of a structure for regional trading system, which will ensure regional harmony through multilateral forums and will directly affect the success of the CPEC. The launch of Asian Infrastructure Investment Bank (AIIB) in 2014 – which was proposed by China and will be completely established by the end of 2015 – promises swift reforms and better governance for members of the developing world. The Asian Development Bank Institute’s report indicates the crucial requirement of an investment of US $8 trillion for the continued economic development of this region from 2010 to 2020.64 The AIIB is a timely opportunity to address this demand while playing an important role in materialising the One Belt One Road Initiative including the CPEC. Pakistan is among the twenty-one countries mainly from the South, Central, and South East Asia and the Middle East, which have signed its Memorandum of Understanding
XI. Special Economic Zones and Science Parks

The CPEC must focus on the establishment and development of special economic zones (SEZs), export promotion zones (EPZs), and science parks. Pakistan seeks Chinese collaboration in this regard, and some of these have already been constructed, namely Lahore’s SEZ, and Saindak and Duddar EPZs in Balochistan, all of which are functional. Also, the Karachi EPZ will be a perfect place for China’s FDI in sectors which are open for investment, such as hi-tech industry, software, information-based industries, and precision engineering. The Pakistan Land Port Authority must manage dry ports across Pak-China border, which will complement the CPEC.

Likewise, the establishment of science parks in eminent Pakistani universities shall impressively complement the knowledge-based course of CPEC. The proposed National Science and Technology Park (NSTP), for instance, is an integral component of the knowledge ecosystem at National University of Sciences and Technology (NUST), Islamabad, and shall pioneer such initiatives. These projects will bear fruit through serious patronage at the highest levels of governance.

XII. Travel and Tourism

The vision of CPEC also spurs the prospects of mutually enhancing another significant industry with immense avenues for business: tourism. Both countries must work on boosting and optimising the tourism activities. Pakistanis are always eager to visit China and there are many historical sites in Pakistan also that would interest the Chinese. Soft visa and travel arrangements, and introduction of direct flights from Pakistan to China and vice versa will facilitate the overall process. These steps are rather important for efficacy of all types of linkages.

XIII. Addressing Regional Concerns

The plan of enhancing Pak-China cooperation through the CPEC should not be a cause of concern for the South Asian regional players.
because it would create a win-win situation for all concerned parties. Its financial and economic potential for the Pacific Rim States and the African countries would be substantial because the Pakistani territory, by virtue of its geographic location, can and would serve as the best land bridge connecting China and Eurasia to the Indian Ocean.

This concern takes strength from India’s objection to the CPEC expressed by its prime minister before and during his visit to China in May 2015. It is interesting to note that despite decades of distrust, the Indo-China economic movement is increasing gradually with a bilateral trade volume of $70.59 billion as of 2014, with a 7.9 per cent projected increase per year. Although India leaves no stone unturned in recording its concerns about China’s growing power and its presumed hegemonic interests, India remains eager to boost economic ties with China, like all other global actors. However, it has not been successful in resolving disputes through negotiations.

The Pakistan-China cooperation has unswervingly contributed to their respective and regional socioeconomic calculi in a constructive manner. However, a school of naysayers thinks otherwise and may see the seemingly slow and gradual implementation of their commercial cooperation strategies in this light. However, a famous Chinese proverb befittingly expresses the optimism: “A diamond with a flaw is worth more than a pebble without imperfection.” Pak-China friendship surpasses even the glimmer of diamonds, and the CPEC is its highpoint. The project thus has to be carried out mutually as an overarching culture of development by the two nations and its peoples.

The CPEC, in any sense, must not be perceived as a mere network of roads but an overarching umbrella of multifarious, well-established development opportunities for China and Pakistan.

XIV. Addressing Security and Terrorism Issues

The sound Pak-China commercial relations rightly address the geopolitical question in the present regional order. It will bring prosperity to all states willing to play their roles as mature members of this community. The CPEC shall be instrumental in solving cross-border
skirmishes in South Asia and beyond. It will play a significant role for Pakistan to manage terrorism and proxies in its western part and for China to address and curtail the ethno-religious troubles in Xinjiang. In this context, socioeconomic development may just be the answer to the burning issue of extremism. Economic reforms have a distinct quality of bringing people and states closer, and China and Pakistan have found this unique opportunity of capitalising on their common resources and economic geography through CPEC.

**Conclusion**

The Pak-China commercial relations have moved onto a strategic trajectory. These relations depend largely on efficient mechanisms of balance and diversification of trade, exposure to markets and increased FDI. Moreover, the FTAs make them well-poised to tap into multiple opportunities.

Pakistan is an emerging economy and it has a historic opportunity to learn from Chinese best practices for economic transformation, in general, and a proficient consumption-investment-export based economic regime, in particular. The envisioned bilateral framework comprises trade liberalisation, and cooperation in trade, investment, energy, agriculture, mining, food security, environment, finance, and other fields.

China is one of Pakistan’s largest trade partners. The strides in this context shall, however, depend largely upon the success of the CPEC. This corridor must not be simply taken as a road but a mega-project that would benefit China, Pakistan and the region through improved commercial relations and a dynamic network of infrastructure. This plan must also envisage Pakistan’s socioeconomic development through rapid GDP growth, improved FDI inflows, export promotion, poverty alleviation, better productivity, higher high-tech manufacturing thresholds, generation of employment, and a skilled labour force.

Together, Pakistan and China have to work with mutual trust and harmony to let the future generations reap the benefits. Even if implementation is piecemeal, “[both] should not be afraid of growing slowly, [but should] be afraid only of standing still” – a Chinese proverb.
points out rightly. The continued multi-faceted mutual support of the two countries shall contribute in dealing with existing and new challenges and addressing uncertainties, thus presenting an exemplary practice to the region and the world at large.

Notes and References


28. Ibid.


30. Ibid.


32. Data collected by the Embassy of Pakistan, Beijing, People’s Republic of China.


