



Pak-China Economic and Trade Relations

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The world of rapid economic globalisation and regionalization continues to intensify since the last decade involving phenomenal change in the international economic spectrum, particularly after establishment of WTO. Countries are looking for the business opportunities abroad. Free trade and investment agreements have become almost the need of the hour.

While international trade has been there throughout the history, its economic, social, and political importance has also increased. Industrialization, ICT revolution, advanced transportation, globalisation, growth of MNCs' and outsourcing etc had major impact on it. Trade is regarded as a major source of economic revenue, investment and modern technology.

Pakistan and China are two friendly countries and partners in international trade and investment. Consistent growth in economic relations amplifies the strength off their relationship.

Pakistan-China economic relations at present can be termed as evolving and getting stronger day by day. Bilateral trade is surging, investment is increasing, and the number of development projects and joint ventures is also increasing.

In the past, China has made valuable contribution to Pakistan's economic development, particularly, in the development of infrastructure and setting up of basic industries. Pakistan and China are already cooperating closely in the development of Gwadar Port, which would help economic activity in Pakistan and provide important access route to the sea for China's Western regions, Afghanistan and Central Asian states. A large number of important projects such as the up-gradation of Karakoram Highway, Thar Coal Mining, up-gradation of Pakistan Railways and Power Generation Projects – both nuclear and non-nuclear – are some of the examples of this expanding economic cooperation. Chinese support for

Pakistan in economic sphere is being considered as integral to Pakistan's development.

Although the two-way trade has increased but, the volume of trade is still low. Traditionally, the trade balance has always been tilted in favour of China, except for a short while in 1952, owing to China's involvement in the Korean War. For decades China's constant increase in exports to Pakistan resulted in a persistent and growing trade imbalance. The balance of trade increased from US \$1.49 billion in 2004-2005 to US \$4.0 billion in 2007-2008.

Traditionally, throughout in its trade relations with China, Pakistan has shown a chronic trade deficit. It is primarily because China is competing in almost all the major sectors of Pakistan's potential export areas, which ironically happened to be very limited. Secondly, Pakistani business community remained contented with their established export destinations, i.e., US and the Western Europe, and hardly made serious efforts either to diversify the export base or to explore other areas and regions for enhancing the volume of their exports. This mental fixation with the Western markets and non-innovative export approach has constantly been undermining country's export potential. Table-1 shows trade balance between Pakistan and China.

Exports to China

Pakistan's exports to China lack diversity and both the countries are competitors in the textile sector. Diversification of exports from Pakistan in the non-traditional items will lead to minimising the trade imbalance. Another important factor of our trade deficit with China is growing exports of Chinese products to Pakistan. Since these are more economical, businessmen are inclined to buy more from China. Pakistan therefore, should be looking at China not simply as an export market but as a primary source for import of capital goods and industrial raw material.

Exports from Pakistan to China increased from US \$354.1 million in 2004-2005 to US \$684.8 million in 2007-08, thus showing an average increase of 35% per annum. The main items of Pakistan's exports to China are cotton fabrics, cotton yarn, bed

Table 2: Export of textile products from Pakistan to China (Value: US \$ 000)

Products	2007-08	2006-07
Raw cotton	4,588	50
Cotton yarn	307,269	329,247
Yarn other than cotton yarn	703	2,904
Knitted / crochet	72	425
Textile made-ups	520	595
Bedwear	150	414
Tents and canvas	3,860	35
Synthetic textile	868	1,433
All others	366,763	240,800
Total	684,793	575,903

Source: Trade Development Authority of Pakistan.

wear, surgical instruments, tent and canvas, marble, fish and its preparations, leather, fruits and vegetables. Unfortunately, mix of Pakistan's products exported to China is very narrow. Almost around 80% of its exports consist of cotton yarn and other textile products. Export of textile and other items from Pakistan to China is given in Table-2.

Imports from China

China has become one of the top five import sources of Pakistan. Major imports from China are machinery, chemicals, garments and other textile products, stationery, construction materials like tiles, sanitary wares and crockery, etc. Imports from China also increased from US\$ 1.84 billion in 2004-2005 to US\$ 4.69 billion in 2007-2008, thus showing an average increase of 55% per annum. Textile machinery and electrical appliances are the major parts of overall exports. Bilateral trade had reached around US \$ 4.9 billion in 2008.

However, amongst other reasons, one of the reasons for improvement in trade and investment from China is the Chinese government's persuasion of its state-controlled enterprises to import Pakistani products in order to improve the trade balance and make more project specific investments. The private sectors' engagement, which would be the main engine for growth in bilateral economic relations in the future, still is at a low level. Import of textile machinery from China to Pakistan is given in Table-3.

Challenges and opportunities

❖ While the trade volume with China is on the increase, Pakistan's exports do not show as sharp a rise as Pakistan's imports from China. One major reason of increased imports from China is the supply of machinery and equipments.

Table-1: Pak - China Trade Balance (Million US \$)

Year	Exports	Imports	Trade Balance
2004 - 05	354.1	1,842.8	- 1,488.7
2005 - 06	436.9	2,706.0	- 2,242.1
2006 - 07	575.9	3,533.8	- 2,957.9
2007 - 08	684.8	4,688.2	- 4,003.4
2008 -09 (July to April)	557.6	4,780.1	- 4,724.5

Source: State Bank of Pakistan.



- ❖ Pakistan's exports are centered mainly on cotton yarn and cotton fabric, surgical instruments, Tent and canvas, marble and stone.. However, there is an increasing trend in the export of seafood and leather. This potential can only be realized by revamping the processing technologies and producing internationally acceptable quality.
- ❖ Given Pakistan's narrow base for exportable commodities – more than 80% of our exports originate from four items, namely cotton products, surgical, leather and sports goods. A diversification in exportable commodities and a proactive export policy of Pakistan could enhance the volume of trade and also rectify to a degree the trade imbalance.
- ❖ Security environment in Pakistan, especially in the two of its western provinces

is deterrence for Chinese private sector investment. The three unfortunate incidents in which Chinese workers got killed had a negative impact on the future investment potential from China. China is fast integrating into the global economic system and its trade, investment and economic cooperation is now increasingly being directed by market forces rather than state planning as it used to be in the past.

In the last few years, the two governments have convened a number of high-level conferences/forums, inaugurated by their respective leadership in Pakistan and China, to promote economic cooperation thereby exhibiting interest, resolve and patronage to the private sector business community of the two countries.

Prime Minister, Syed Yousuf Raza Gilani on his recent visit to China, proposed the

creation of a joint 'Pakistan-China Holding Company,' aimed at facilitating financing for Chinese companies intending to invest in Pakistan. The Prime Minister sought more investment in Pakistan's hydro power and infrastructure development projects and said it would go a long way in generating economic activity and employment opportunities in the country. He urged the CICC to consider the possibility of collaboration in banking and financial sectors between the two countries by setting up consortiums to invest in Pakistan.

Pakistan and China now have created a clear and shared vision of the direction of their economic relations. Clarity in the direction has been achieved due to the frequent exchange of ideas at the high-level consultations between the leadership of the two countries.◆

Table-3: Import of Textile Machinery from China to Pakistan (Major Items)
Value : in Rs . 000

Machinery	Unit	2007-08		2006-07	
		Quantity	Value	Quantity	Value
Machinery Extrusion Cut mm Textile Material	No	97	134,085	141	82,428
Carding Machines	Kg	355	330,542	447	420,249
Drawing / Roving Machines	No	253	204,786	246	267,859
Combing Machines	No	--	--	1	683
Blow Room Machinery	No	134	132,910	99	117,339
Machinery Textile Fibre	No	38	26,059	86	73,025
Textile Spinning Machines	No	1,888	1,203,882	1,228	1,344,903
Textile Doubling or Twist Machines	No	55	39,152	92	55,876
Weft Winding Machines	No	13	9,858	12	11,484
Cone / Bobbin Winding Machines	No	10	2,049	7	6,742
Textile Winding Machines	No	43	19,286	23	20,914
Machinery Textile Fibre	No	142	113,194	164	131,146
Power Looms	No	12	6,062	14	8,700
Other Looms	No	52	11,866	163	83,965
Weaving Machinery (Shuttleless)	No	258	95,223	351	83,944
Circular Knitting Machines	No	2	905	25	14,916
Cylinder Diameter exceed 165 mm	No	1	1,239	52	53,966
Flat Knitting Machines	No	25	9,399	130	23,446
Knitting Machines	No	2,453	1,657,711	1,265	803,396
Dobbies Jacquard copy Machines	No	6	821	36	2,737
Top and Flat Card Clothing	Kg	90	93,324	11	8,972
Other Card Clothing	Kg	137	102,384	36	21,809
Spindle Flyer Ring Travellers	Kg	3,950	4,269	32,786	16,829
Spinning Rings	Kg	254	131,581	268	112,421
Reeds for Looms	Kg	128	32,046	95	26,297
Healds and Healds Frame	000 Kg	234	96,259	154	43,956
Shuttles	000 Kg	19	5,541	12	2,562
Power Looms (Weaving exceed 30 cm)	000 Kg	101	55,270	161	49,916
Other Parts		--	294,191	--	162,647
Total	--	--	4,813,894	--	4,053,127

Source: Federal Bureau of Statistics, Government of Pakistan.