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China-Pakistan Economic Corridor

**CHINA REGIONAL TRADE PATTERN
AND PROSPECTS FOR PAKISTAN**

Dr. Ahsan Abbas
Senior Research Fellow
Centre of Excellence CPEC

Saira Ali
Research Associate
Centre of Excellence CPEC



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Centre of Excellence for CPEC

Email: info@cpec-centre.pk

Website: <https://cpec-centre.pk/>

Executive Summary

China remained one of the top economies of the world, with respect to trade volume it is the first largest exporting and the 2nd largest importing country. Manufacturing sector is the key trading sector (imports and exports) of China which accounts for 94% of its total exports and about 65% of its total imports. Prime trading partners includes USA, the largest destination constitutes 18.5% of total exports of China and EU the largest supplier covers 10% of China's total imports. China has opened 32% of its economy whereas USA and EU have opened their economies around 19% and 64% respectively.

This study has also analyzed the trade between China and Asia. In Asia, Pakistan is 13th largest trading partner with respect to trade volume with China. China exports 58% of Electrical Machinery, code 85 to Asia and imports 67% of Electrical Machinery from Asia as well. Major trading regions from Asia are East and South East Asia.

From South Asia Association for Regional Corporation (SAARC) countries, India is the first and Pakistan is the 2nd largest trading partner of China. Major imports of China from this region are Pearls, gems and Cotton. Pakistan is the 3rd largest supplier of cotton to China. Pakistan is blessed with abundant natural resources and cotton is one of them. Some of the other abundant natural resources which have potential of export to China includes Rice, Salt, marble, Copper, gems stones and gold, all these reserves have significant potential to capture the China's market.

Comparison of tariff rates for different tariff lines under FTA of China with Pakistan and Association of Southeast Asian Nations (ASEAN) countries is also made and it is found that ASEAN countries have much low tariff rates than Pakistan therefore offering a tough competition to Pakistan. FTAs of China with other countries of the region are also under negotiation and some are under consideration which may intensify the competition especially for Pakistan.

We are only able to export 3.3% of agreed tariff lines under FTA to China. We exported raw and semi-finished goods to China and ASEAN successfully captured the China's market through offering value added goods. We were not able to capitalize on FTA with China due to lack of capacity to add value.

We should encourage industries for value addition and negotiate with China for market access for our competitive products like textile, fruits etc. We have to also look for the tariff concession China will offer under new FTA with other countries in the region to prepare ourselves to compete.

1. China Trade: An overview

U.S.A and China remained the largest economies of the world with 24.32% and 14.84% share of global economy respectively. These two economies are also ranked at top with respect to trade volume. China is the top exporter with export volume of US\$2097.6 billion whereas U.S.A is the second largest exporter with US\$1450.5 billion. The import volume of U.S.A is greater than China and has become the top importer with US\$2248.2 billion. USA is facing trade deficit of US\$797.8 billion whereas China is enjoying trade surplus. Top ten economies with respect to trade volume is graphically represented in figure 1.

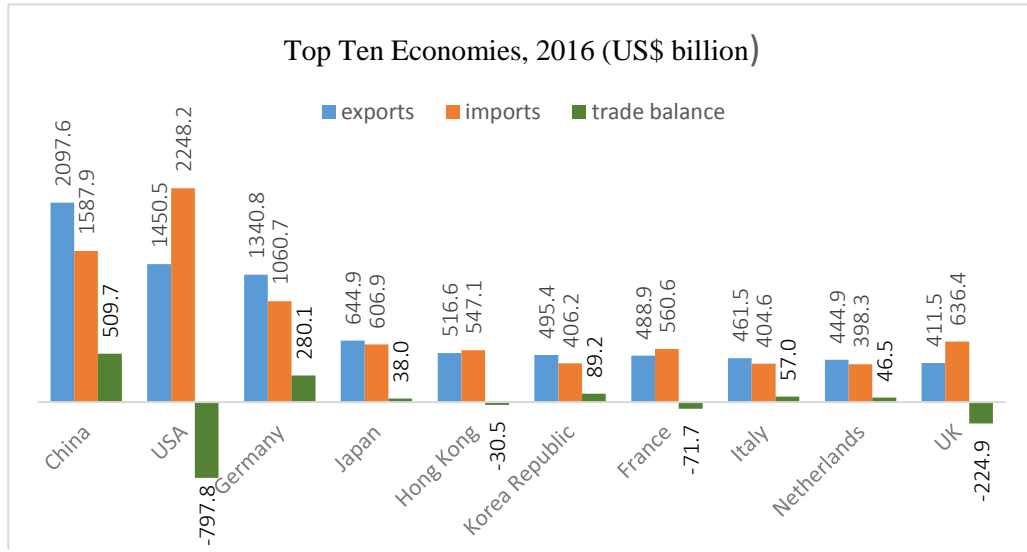


Fig.1 Source: wto.com

China has shown miraculous growth after opening up its economy and its trade significantly increased over the years. Figure 2 shown the percentage contribution of imports and exports in total trade and it can be seen that the percentage of exports in total trade remained dominant over the last ten years. Fluctuation in exports can easily be seen over the last ten years drastic increase has been experienced after 2009 from US\$1201 billion to US\$2342 billion in 2014. In 2015 exports dropped to US\$2273 billion a further drop has been witnessed in 2016 (US\$2097 billion).

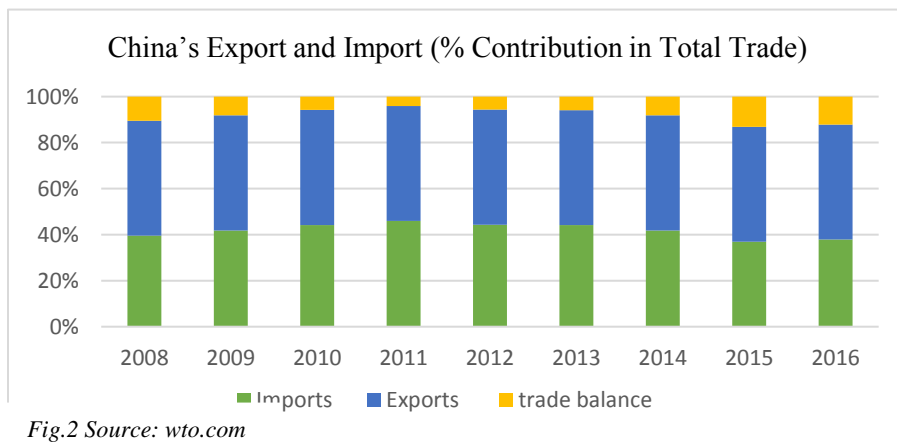


Fig.2 Source: wto.com

1.1 China's Top Global Trade Partners

China export volume is US\$2097.6 billion, prime destinations where China export its products includes U.S.A (US\$358.6 billion), Hong Kong (US\$287.2 billion) and Japan (US\$129.2 billion) which makes 18.39%, 13.69% and 6.16% of its total exports. A large percentage of imports are from Korea (10.01%), Japan (9.17%), Taipei (8.74%) and U.S.A (8.51%). Figure 3 representing the percentage of its total exports to top ten destinations and percentage of its total imports from top ten countries.

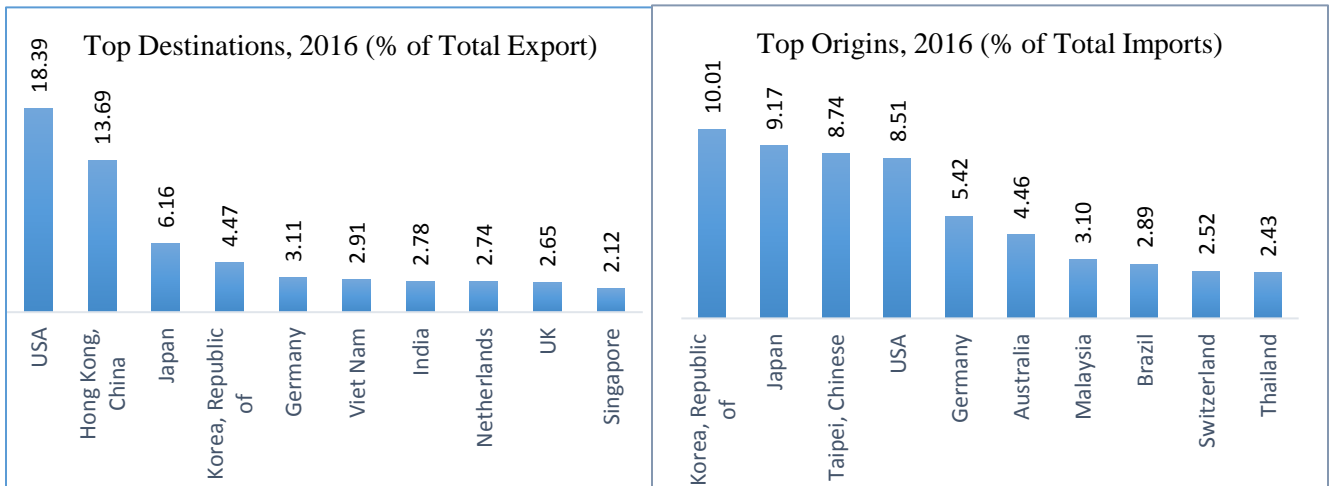


Fig 3, Source: wto.org

From EU, Germany is the main destination and also the major supplier to China. China export 3.11% of its total export to Germany and imports about 5.42% from Germany. Aggregated export to EU is 16% whereas aggregated imports from EU is about 13%. This makes EU as a whole 2nd largest export destination and 1st largest supplier to China.

1.2 Top Exports and Imports of China

China primarily trade in manufacturing sector. China took focused strategy to boost this sector. Special economic zones and industrial zones played key role to foster the growth of manufacturing sector. Manufacturing sector constitutes 94.3% of its total exports. This sector also has the largest portion in imports. 2nd largest export sector is Agriculture accounted 3.2% of total exports.

Imports of Agri-products consists of 9.5% of total imports. After

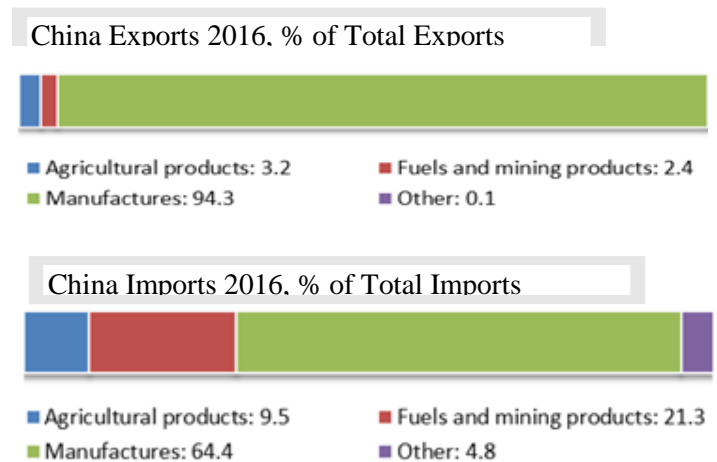


Fig 4, wto.org

manufacturing sector fuels and mining products have significant share in imports which is about 21.3%.

If we analyze the product wise trade of China, Electrical, equipment and parts, code 85 stand on top in exports and imports. Whereas minerals and fuels, ash, slag and ores, natural and cultured pearls, oil seeds, oleaginous fruits are among the top imports of China. Figure 5 show the percentage of top exported and imported products of China for the year 2016.

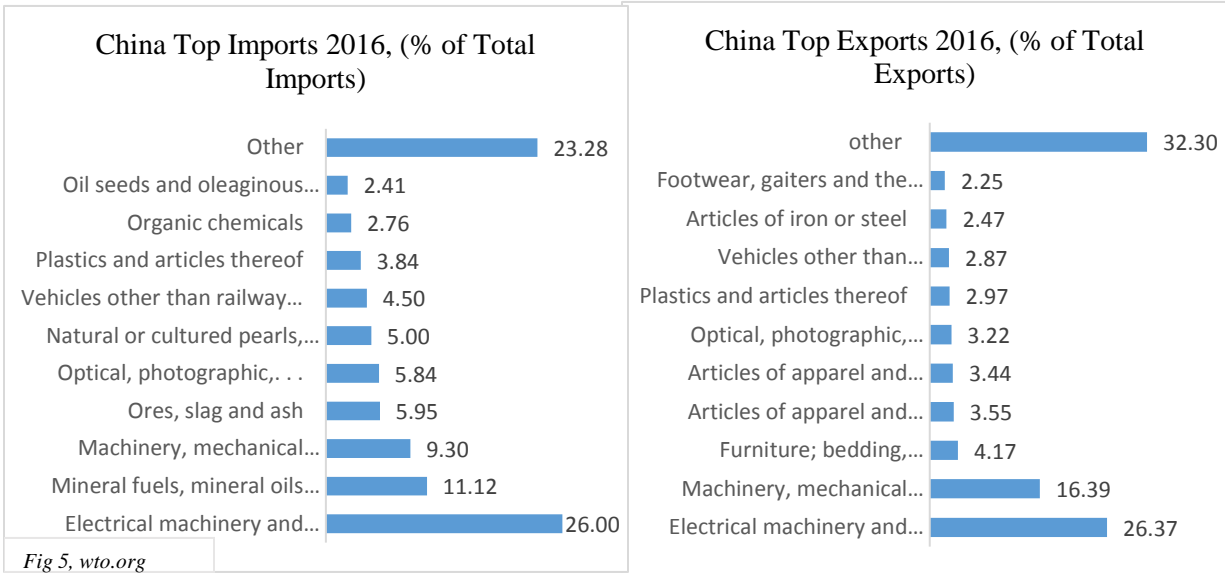


Fig 5, wto.org

Taipei, Korea, Japan, Malaysia and U.S.A are the top supplier of electrical machinery and equipment to China whereas Hong Kong, U.S.A, Korea, Japan and Netherland are among the top destinations where China exports its Electrical Machinery.

2. Trade Between China and Asia

Asia is the largest continent by population (60% of world population) with 50 independent states. China is the largest economy in Asia, India is second and Japan is 3rd largest economy with GDP (PPP) US\$21,140 bn, US\$8,271bn and US\$4,932 bn respectively.

2.1 Trade Balance of China with Asian Countries

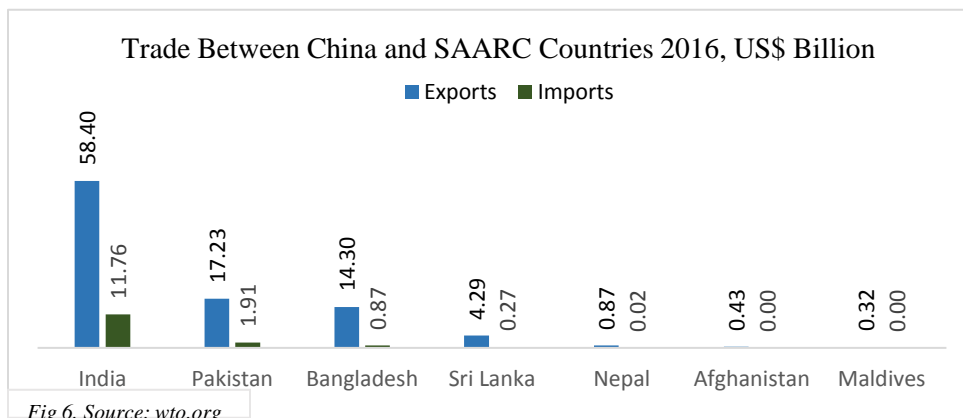
In Asia Hong Kong, the independent territory is the largest trade partner of China. Whereas Pakistan is the 13th largest trade partner of China in ASIA. China has negative trade balance with Japan, Korea, Malaysia, Thailand and Saudi Arabia (these countries are from top 13 Asian trade partners of China).

China mainly trade in Electrical Machinery, code 85 with Asia. China export 58% of total exports of “Electrical Machinery, code 85” to Asia. China also imports about 67% of total imports of “Electrical Machinery, code 85” from Asia which means that Asia is the significant market for this product as well as also a significant supplier to China.

To further narrow down the trade with the countries of this region with similar endowments. Next part is a snapshot of trade between China and South Asian countries.

2.2 Trade Between China and South Asia

South Asia is the Southern Region of the Asia. The South Asian Association for Regional Cooperation (SAARC) established in 1985 for economic and social development of the southern region. It consists of 8 countries and Pakistan is one of them. Countries in this region almost have similar type of endowments therefore it is very important to analyze the trade of these countries

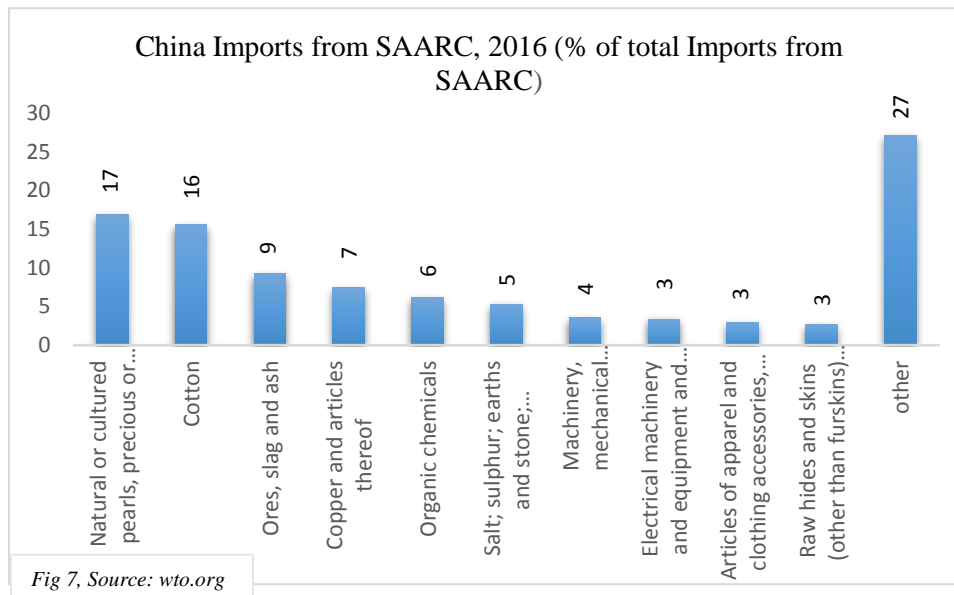


with China. From figure 6, it can be seen that India is the largest and Pakistan is the 2nd largest export destination for China. India is also the largest supplier to China as well despite of this fact it is experiencing the trade deficit with China which jumps from \$44.87 billion in 2015 to \$46.56 billion in 2016 whereas trade deficit of Pakistan with China is persistently increasing and it has jumped from \$2.00 billion in 2009 to approximately \$12 billion in 2016.

2.3 Major Imports from South Asian Countries

Top imports of China from SAARC countries are natural or cultured pearls, cotton and ores, slag and ash which is about 12%, 41% and 12% of total imports of these products from ASIA. China prime imports are natural or cultured pearl, precious and semi-precious stones from SAARC countries. China is the 2nd largest importer of these products. Being the 2nd largest importer of semi and precious stones, China imports about 12% of global imports of natural or cultured pearls. China is also the first largest importer of cotton which is about 0.48% of its total imports. SAARC countries are naturally rich in these products. Therefore, it is important to mention the percentage trade of China in these products with SAARC countries.

Major imports of China from SAARC countries are precious and semi-precious stones (17% of total imports from SAARC), Cotton (16% of total imports from SAARC)and ores, slag and ash (9% of total imports from SAARC). Pakistan which is naturally blessed with semi and precious stones supplies only 4.5% to China. Pakistan also has the largest reserves of copper but supplies only 9.8% of total supplies from SAARC to China.



2.4 China Major Exports to SAARC countries

China export 4.5% of global export to SAARC countries. Major exports to SAARC countries are “Electrical Machinery and equipments”, organic chemicals and plastic. Exports has increased from US\$ 70 billion to US\$95 billion in last five years.

3. China's Free Trade Agreements (FTAs) with SAARC Countries

Among the SAARC countries China signed FTA with Pakistan only. FTA with other countries like Maldives and Sri Lanka are under negotiation and FTA with Bangladesh is under consideration. We have to put efforts to maximize the benefits from this FTA. Bangladesh would give tough time to Pakistan if FTA between China and Bangladesh concluded especially in textile industry as Bangladesh's export is increasing significantly in textile sector.

3.1 China Pakistan FTA

The prime objective of FTA between China and Pakistan is to deepen the friendship and encourage the trade through eliminating the barriers and facilitating the movement across border. Agreements on trade in goods was officially announced in 2006 and effected in July 2007. While the trade agreement in services was announced in 2009.

China currently has signed 14 FTAs with 22 countries (at individual level and in group e.g. ASEAN etc.) Additional eight FTAs and five bilateral FTAs are in progress.

The second phase of negotiation between China and Pakistan is under negotiation where both countries will share their concerns. During negotiations Pakistan requested the market access for about 280 priority items. Concluding tariff lines would be more than 80% of Pakistan's current export to China¹ after the conclusion of 2nd phase of negotiation.

3.2 China's Trade with Pakistan

Pakistan is blessed with abundant natural resources and arable land. Pakistan has largest salt reserves and ranked 2nd, 3rd in copper reserves, 5th in coal, iron ore and gold reserves, 4th in cotton and milk production, 8th in wheat and 11th in rice production in the world. Pakistan's current trend of trade with China presented in figure 8. Large percentage of exports to China consists of Cotton. Unfortunately we could not able to earn maximum of naturally available resources.

Pakistan's prime import from China is electrical machinery. And Cotton is the major export to China as shown in figure 8. Trade balance with China is negative and getting widened over the years. Current trade balance is more than the double of trade balance in 2012. 18% increase has been witnessed in imports of Machinery and related products from China in 2016. Figure 9 is a snapshot of top trading products between China and Pakistan.

¹ tribune.com.pk/story/1507734/china-consider-favourable-market-access-pakistan/

4.2 China-Pakistan Free Trade Agreement Analysis

China-Pakistan Free trade Agreement (CPFTA) was signed in 2006 and came into effect in 2007, to give friendship a chance to grow stronger and aim to achieve an increase in the trade volume. Over the period of 10 years, Pakistan could not able to achieve the big success out of it and traded only in 253 lines out of 7550 tariff lines with China which is only 3.3% of agreed lines.

The overall trade (import+export) between China and Pakistan has increased as shown in (Fig A). The line that divides the trend into two parts, showing Pakistan's trade with China before and after happening of CPFTA.

Though there is an increase in trade but major part of the trade is imports. Figure B display an abrupt increase in imports from China after FTA, whereas export to China in now facing a decreasing trend after 2013.

It is true that imports from China has been increased since the inception of CPEC. Only 38% of imports increase due to CPEC². Decrease in exports to China is also alarming. 22% of Agri exports to China has been dropped³. Being a developing country trade deficit is something, that is absolute. But we have to take the decrease in export to China seriously.

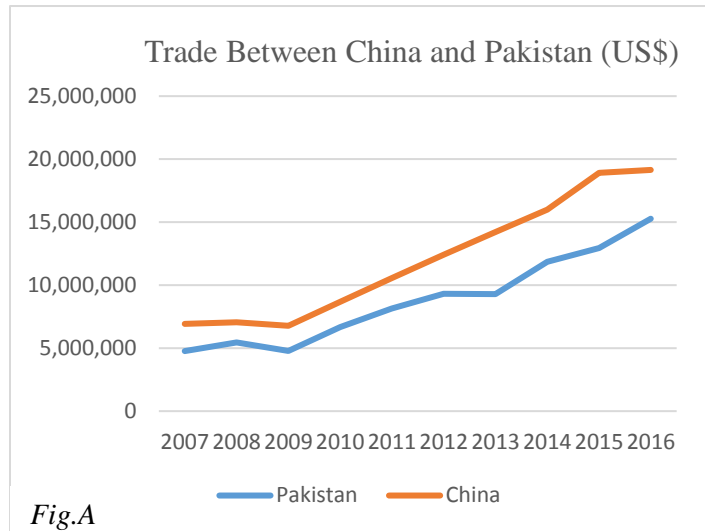


Fig.A

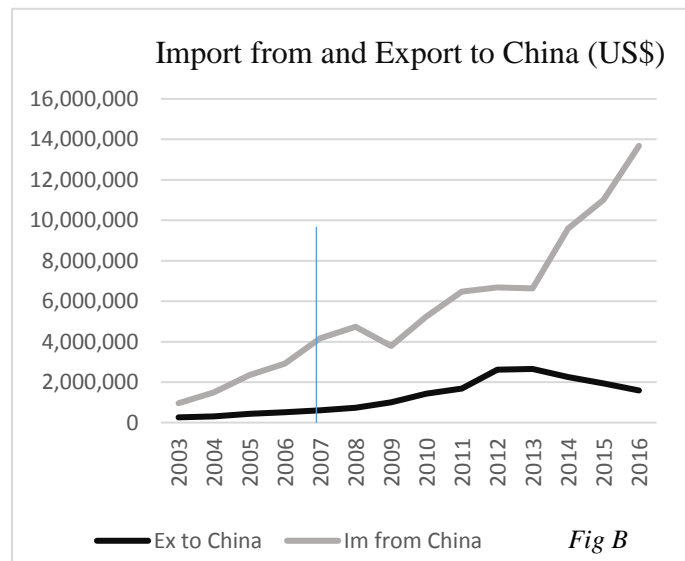


Fig B

China has got the greater market access by signing the FTA with different countries and soon China will be able to sign FTA with other countries of this region which will intense the competition for all signed trading partners.

² <https://herald.dawn.com/news/1153812>

³ <https://herald.dawn.com/news/1153812>

China is still in top five markets to export for Pakistan. And Pakistan is also the second largest market among other South Asian countries and India is on top to trade with China. China and India has not signed trade agreement regardless the facts that both are strong trading partners.

Association of South East Asian Nations (ASEAN) are also in agreement with China for trade and provides China with a huge market. ASEAN has competitive advantage as ASEAN trade at low tariff rates and covers about 90% of tariff lines⁴. Below is the table of comparison against different product lines which shows the edge ASEAN countries have over Pakistan.

⁴ https://www.tdap.gov/China_brief.pdf

Chapter	Description of Item	MFN Rate	Tariff for Pakistan (FTA)	Tariff for ASEAN (FTA)
Chapter-I	Live animals	10%	6.7%	0% all
Chapter-2	Meat	12-15%	8%	0%
Chapter-3	Fish etc.	10-16%	5-14.8 some zero	0%
Chapter-4	Dairy Produce	10-15%	6.7-13%	0%
Chapter-7	Edible vegetables and certain roots and tubers	7-13%	0-8.7%	0%
Chapter-8	Fruits	10-30%	6.7-16.5%. Zero on mangoes, oranges and dates	0%
Chapter-11	Cereals	5-18%	6.7-15.7%	0%
Chapter-12	Oil Seeds	6-15%	5.3-8%	0%
Chapter-16	Meat/fish preparation	5-15%	5.3-8%	0%
Chapter-27	Mineral fuels	3-11%	0-5.7%	0%
Chapter-29	Organic chemicals	2-5.6%	5.5%	0%
Chapter-32	Dyes,paints/varnishes	6.5-10%	5.5-6.7%	0%
Chapter-33	Perfumery, cosmetic or toilet preparation	10-15%	6.7-13%	0%
Chapter-39	Plastics	6.5-10%	5.5-6.7%	0%
Chapter-41	Raw hides/skins & leather	5-14%	5-12.2 % Few zero	0%
Chapter-42	Article of Leather	10-20%	6.7-14%	0%
Chapter-51	Wool	5-10%	5.3-6.7%	0%
Chapter-52	Cotton	5-10%	0-4.5%	0%
Chapter-57	Carpets	10-14%	6.7-12.2%	0% all
Chapter-61	Articles of apparel knitted or crocheted	14-17.5%	9.4-13.9%	0%
Chapter-62	Articles of apparel, not knitted/crocheted	14-16%	9.4-15.2 % some zero	0%
Chapter-63	Textile made up articles	14-16%	9.4-13.9%	0%
Chapter-68	Articles of stone	8-24%	0-13%	0%
Chapter-69	Ceramic products	8-15%	6-13%	0%
Chapter-70	Glass and glassware	8-	6-15.2%	0%
Chapter-72	Iron and steels	2-10%	0-5.7%	0%
Chapter-73	Article of iron/steel		Upto 8%	0%
Chapter-82	Tools/cutlery, spoons/forks of base metal	8-18%	6-16.2%	0%
Chapter-84	Machinery & Equipments	4-15%	0-18.2%	0%
Chapter-94	Furniture	10-12%	6.7-25.2%	0%

Source: www.tdap.gov.pk/china_brief.pdf

The tariff concession offered to ASEAN countries and to Pakistan is not same thus giving tough competition to Pakistan. Even against the same commodity, ASEAN offered close to 0% tariff rates while Pakistan has offered little low concession from MFN rates under GATT, WTO. Pakistan lost preference on 79% exports to China after signing FTA⁵ with other countries especially with ASEAN countries.

4.3 Conclusion of 2nd Phase Negotiation, CPFTA

2nd Phase of negotiation has concluded in September, 2017. At the end of 2nd phase, FTA with China covers more than 7000 tariff lines at the 8digit level of the HS code with zero percent tariff. Pakistan has secured market access for immediate exportable products such as blended fabrics, cotton fabrics, synthetic yarn and fabrics, knit fabrics, home textiles, cutlery, minerals, sports goods, surgical goods, kinnoos, mangoes and industrial alcohol etc⁶.

China has further eased export of Pakistani agriculture products, especially citrus and mangoes, by dropping the condition of pre-clearance. The protocols signed earlier between the Chinese General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and Pakistan's Ministry of National Food and Security (MNFSR) are applicable now and export can be done without any pre-clearance. This relaxation will benefit fruit growing areas, including Gilgit-Baltistan⁷.

4.4 China's Trade in Agriculture and Prospects for Pakistan

China's second largest trading sector is agriculture, constitute 9% of its total imports. Top imports are;

Soya beans mainly from Brazil and USA

Malt extracts mainly from Netherlands and Ireland,

Swine meat mainly from Brazil,

Palm oil mainly from Indonesia and Malaysia and

Edible offal of bovine animals from Brazil and USA.

To support the trade in agriculture products, collaboration between Pakistan Agriculture Research Council (PARC) and China's Hybrid Rice Seeds research organization has initiated a campaign to promote hybrid seed cultivation across the crop growing areas of the country.

Farmers are encouraged to cultivate Canola crop as it is highly profitable and will help to satisfy the local demand and will lower import bills⁸.

⁵ <https://tribune.com.pk/story/1507734/china-consider-favourable-market-access-pakistan/>

⁶ <https://fp.brecorder.com/2017/09/20170909216100/>

⁷ www.dawn.com/news/1174772

⁸ <http://nation.com.pk/business/17-Sep-2017/news-brief>

Other related industries in which Pakistan has potential to export to China are listed below with the countries from which China imports.

Dairy and related products from New Zealand and Australia

Edible fruits and nuts, peel of citrus fruits mainly from Chile, Thailand, Vietnam and USA

Beverages from France and Australia

Copper from Chile and Japan

Wheat and Maslin from Australia and Canada

Rice, from Vietnam, Thailand and Pakistan

Cotton from Vietnam India Pakistan

Bread, pastry, cakes, biscuits and other bakers' wares from Indonesia

Pakistan has huge potential in dairy for being 5th largest milk producer, also in copper, rice, fruits and cotton where we can increase our export base through value addition and innovation. Other consumer goods like beverages, bread and bakery needed to be streamline for export to China.

5. Conclusion

China is the largest trading country of the world, bordered with Pakistan. Pakistan-China trade ties strengthened after signing FTA but unfortunately Pakistan could not exploit this opportunity at its maximum level. Pakistan trade in only 253 out of 7550 tariff lines with China which is only 3.3% of agreed lines.

Pakistan mainly export raw material and intermediate goods to China and failed to add value and export value added goods. Pakistan not only has to focus on value addition which includes investment in packaging meeting international standards, marketing and branding of goods but also has to increase the export base.

Over taxation of inputs, exchange rate and currency value are also critical factors causing fall in exports. Other factors including the availability of infrastructure, human skills and investment can play strong role to earn from this opportunity. Keeping in mind that soon China will have trade agreements with different countries from the region having similar type of endowments will be a big challenge so we have to gear up ourselves today for tough future.