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### **Free Trade Agreement between Pakistan and China: Pros and Cons**

To enhance the trade volume between Pakistan and China it was decided by the government of respective states to inked down the Free Trade Agreement (FTA) between them. FTA was not concluded in one setting, infact it was processed in three steps and its completion took almost three years. Firstly it came functional in the form of Preferential Trade Agreement (PTA) that was abolished by the implementation of Early Harvest Programme (EHP) and finally EHP fused into FTA in 2006. The reaction on this agreement was mixed in Pakistan. Many people were supporter while few had strong reservations about FTA. It is an attempt to highlight, how FTA was inked down between Pakistan and China and what were its pros and cons for the economy of Pakistan.



## **Free Trade Agreement between Pakistan and China: Pros and Cons**

Dr. Unsa Jamshed

### **Introduction**

During the 21<sup>st</sup> century the economic dimension of Pakistan-China relations got special attention. Gen. Musharraf was keen to develop economic relations with China on high grounds. The concerned authorities of both the states put their efforts to enhance the influx of trade between them that was below the existing potential. One of such efforts was the signing of Free Trade Agreement (FTA) between them. The first step towards the signing of FTA was Preferential Trade Agreement (PTA).

PTA was inked down in November 2003, when President of Pakistan Gen. Musharraf was on an official visit of China.<sup>1</sup> PTA intended to decrease traffic on some specific items to be imported or exported between Pakistan and China.<sup>2</sup> Deputy Director General, Department of International Trade and Economic Affairs, Zhu Hong and Commercial Counsellor in Pakistan Embassy Shahid Mahmood inked the formal document of PTA on the behalf of their respective governments.<sup>3</sup> It was believed that the implementation of PTA would discourage the influx of illegal trade as under this agreement maximum concession would be given on custom duty of specific items.<sup>4</sup> Pakistani and Chinese high official showed their satisfaction over the signing of PTA as it was step towards the boosting of trade between the two states. While commenting on PTA the Foreign Minister of Pakistan Shaukat Aziz, who was also a renowned economist, believed that the ratification of PTA was a breakthrough for augmenting trade between the two



countries.<sup>5</sup> Humayun Akhtar Khan, the Commerce Minister of Pakistan, believed that although Pakistan was not a signatory of Bangkok agreement, China had given it the same traffic concession as it had extended to the member states.<sup>6</sup> He said India too had discussed a PTA with China.<sup>7</sup> According to Kamal Afsan, Secretary Commerce, China had played a bigger role as it had given more concession to Pakistani item than Pakistan had given to Chinese products. China had decided to extend the traffic concession to Pakistan on almost 893 export items while Pakistan reciprocate with traffic concession on only 200 Chinese export items.<sup>8</sup> On the other hand Chinese officials also believed that PTA would enhance the trade between the two states through the land route and would provide an opportunity to Pakistani products to access the Chinese markets.<sup>9</sup>

Although PTA was inked down in November 2003 but implementation on it was commenced from January 1, 2004. The delay in implementation was done just because of the request of Pakistani authorities. Chinese authorities wanted to implement this agreement from December 20, 2003 but Pakistani officials requested for two more weeks to do the requisite homework to carry out the agreement. So officials from both sides mutually decided to implement the agreement from January 1, 2004. According to some economists, “the contract was anticipated to upsurge Pakistan’s export to China by 100% while Chinese exports to Pakistan were estimated to increase by 25%.”<sup>10</sup>

The bilateral trade between Pakistan and China indicated a mounting trend after the inclusion of PTA. In January 2004, “Pakistani exports to China increased by 50.16% and imports were 48.43% as compared to the quantum of trade in January 2003.”<sup>11</sup> A trade delegation under the supervision of Tasneem Noorani, Secretary Commerce, visited China in November (2004). During his Official stay at China, Noorani met with Yi Xiao Zhun,



Chinese Assistant Commerce and Trade Minister. During their meeting they discussed the possibilities of expansion of PTA and signing of Free Trade Agreement (FTA) to further boost the economic collaboration between the two states.<sup>12</sup> After his meeting with Zhun, Noorani revealed that it would take some time to finalize the FTA because there were some issues to be fixed first.<sup>13</sup> Prime Minister of Pakistan Shaukat Aziz went on an official visit to China in December for the same purpose as Noorani did. He was successful in his purpose and during his stay at China a protocol was inked down between Pakistan and China to initiate a study on FTA.<sup>14</sup> In this protocol both states had decided to form a Joint Study Group (JSG). The purpose of the formation of JSG was to work out measures in the time frame of six-month's to ratify the FTA.<sup>15</sup>

To discuss the draft of FTA, Zhun, visited Pakistan in February 2005. During his stay at Pakistan he met with the Acting President of FPCCI, Akber Abdullah. According to Abdullah the draft of FTA that was discussed between China and Pakistan did not bring desired results of enhancing bilateral trade.<sup>16</sup> For the implementation on FTA, a draft on Early Harvest Programme (EHP) was approved by Prime Minister of Pakistan. This draft of EHP was modified from previous one. The intention behind the approval of this modified draft was that instead of implementation of FTA at once, it would be enforced in different phases. It was recommended that the first phase would include 30-40 articles and then EHP would be merged into FTA.<sup>17</sup> When in April Chinese Premier Wen Jiabao came to Pakistan the issue of implementation of FTA was again discussed with him by Aziz.<sup>18</sup> Along with Aziz, Muhammad Saeed, Chief FPCCI also discussed the trade deficit with Wen. The discussion of Wen and Aziz brought fruitful results and EHP was inked down on April 5<sup>th</sup> in Islamabad.<sup>19</sup> During a press briefing, Commerce Minister Humayun



disclosed that the EHP had been signed between Pakistan and China but would be effective from January 1, 2006.<sup>20</sup> After the implementation of EHP, PTA would be abolished.<sup>21</sup> Customs duties on bilaterally agreed articles were brought to zero under EHP.<sup>22</sup> It was mutually decided by the officials of two states that first reduction in custom duty would be effective from January 1, 2006, and till the January 1, 2008, tariff on all articles would be reduced to zero.<sup>23</sup> The Chinese officials believed that the trade volume would be enhanced between the two states when Pakistan would export quality rice to China under EHP.<sup>24</sup> The Export Promotion Bureau of Pakistan and the Chinese Commerce Ministry signed an agreement during the visit of Wen.<sup>25</sup> Under this agreement, fifty-two articles were mutually enlisted by Chinese and Pakistani officials on whom the custom duty would be brought to zero rates by January 1, 2006.<sup>26</sup> The fifty-two articles that Pakistan would export to China include “bed linen, table linen and other house textiles, terry towels, blended fabrics, synthetic yarn, synthetic fabrics, mangoes, oranges, dates, terrapin, marble articles like tiles etc, surgical goods, sports goods, cutlery, certain dyes, guar gum and medicine.” The articles Pakistan would import from China include “industrial machinery and chemical raw materials.”<sup>27</sup>

After the signing of EHP, it was decided to hold rounds of talks between the concerned officials of two states to look after the possibilities for the enactment of the FTA. For this purpose the first round of talks was held on August 15-16, 2005 in China (Urumqi). To participate in first round of talks a seven-member delegation under the supervision of Shahid Bashir, the Joint Secretary Ministry of Commerce visited Urumqi.<sup>28</sup> Bashir presented Pakistani stance while Chinese views were portrayed by Zhun during the negotiations. The out-come of first round of negotiation was that official from both sides



would try their best to figure out the material that would be helpful to enhance the trade volume between the two states while protecting their respective business interests.<sup>29</sup> After the first talks the second round of talks were held in December 2005. Again this round of negotiation was held in China. At this time a six-member delegation visited China. This delegation was again headed by Bashir.<sup>30</sup> As an outcome of this round of talks Commerce Minister of Pakistan signed an agreement with his counterpart Bo Xilai on December 10, 2005. According to this agreement EHP would be enforced from January 1, 2006.<sup>31</sup> Humayun acknowledged due to the efforts of officials of both states EHP would be finalized in a short span of time and had made substantial progress towards FTA.<sup>32</sup> He also revealed that the two states would reduce tariff on almost '3,000 items', in three steps till January, 2008.<sup>33</sup> It was mutually decided during the negotiation that China would reduce the custom duty to zero on '769 items' during the first phase,<sup>34</sup> while Pakistan would reduce custom duty to zero on '486 items'.<sup>35</sup> The President of Pakistan Gen. Musharraf acknowledged that both sides had put their maximum efforts to enforce the EHP and try their best to facilitate the talks on FTA.<sup>36</sup> He said that Pakistan was the first state with which China will establish FTA in the region.<sup>37</sup>

The series of negotiations continued on FTA in 2006. The third round was held on May 16<sup>th</sup> 2006. This round lasted for two days. The first two series of negotiations were held in China while this one was organized in Islamabad. To participate in third round a fifteen-member Chinese delegation visited Pakistan, the members of delegation were almost doubled from the previous delegations that had visited China from Pakistan. This delegation was comprised of high officials of Chinese Commerce Ministry.<sup>38</sup> This series of talks brought more fruits as first time chapters of FTA were came under discussion.<sup>39</sup>



The draft of FTA was decided between the two states in very pleasant and constructive atmosphere.<sup>40</sup> On the conclusion of this round of talks the officials from both sides expressed their satisfaction.<sup>41</sup> An official of International Trade Department of China's Ministry of Commerce, Chen Chao, revealed that the Pakistan-China friendship was the dynamic or vibrant factor for constructive talks on FTA.<sup>42</sup>

To further proceed on FTA in August (2006), the fourth round of talks were held. The motive behind these talks was to figure out some basic and essential matters like reducing maximum custom duties on trade articles.<sup>43</sup> The fifth round of talks, proved to be final round of negotiation on FTA. The officials from both states concluded the final draft on FTA.<sup>44</sup> After the fifth round of talks, FTA was inked down on November 24<sup>th</sup>, by Humayun and his counterpart Bo. The ceremony of signing of FTA was also attended by President Musharraf and Chinese President Hu. This ceremony was held in Islamabad.<sup>45</sup> This FTA was Pakistan's second FTA as it had first one with Sri Lanka. But this one was with the second largest economy of the world that was also its neighbour.<sup>46</sup> This could be analyzed, it was expected in Pakistan that this FTA would bring more favourable results than the first one. China also inked down its first FTA with Chile and it was its second with Pakistan. The draft of FTA addressed that the agreement would become functional from July 1, 2007 and after its effectiveness the EHP would automatically merge into it that was functional from January 1, 2006.<sup>47</sup> The FTA would scale down the export tariff on "5,104 Pakistani items to zero per cent tax and 3,942 items were to be charged zero to 5% tax within five years after the implementation of the agreement."<sup>48</sup>

The signing of FTA got mix response in Pakistan. Many people received it positively. According to them this agreement had enhanced the trade volume between Pakistan and



China. Few people had showed their reservations about this agreement. The group of people that supported this agreement claimed that due to reduction in custom duties, Chinese imports would become inexpensive and reachable to common men and eventually elevate the living standard of them.<sup>49</sup> The agreement was highly recommended by the business sector of Karachi. Karachi Chamber of Commerce and Industry (KCCI) highly appreciated this advancement and regarded it as a good signal to boost the two-way trade that would be helpful in the balance of trade of two states.<sup>50</sup> On the other hand the group of people that criticized the signing of FTA with China was of the opinion that China had granted concessions to Pakistan on those items on which it had granted concessions to India under Bangkok Trade Agreement (BTA). The concession on same products to India and Pakistan had created a great competition for the Pakistani items to gain the attention of Chinese markets.<sup>51</sup> A renowned Economist, Prof. Qaiser Bengali, at the ShaheedZulfiqar Ali Bhutto Institute of Science and Technology, had not taken signing of FTA in positive sense. He expressed his views by saying, it was an international custom that prevail all over the World, when two states signed a FTA between them the weaker state was offered more profits but the FTA signed between Pakistan and China, later was more beneficiary than earlier one. He also identified that through this agreement more Chinese products would penetrate in the markets of Pakistan. The main cause of penetration of Chinese products in Pakistani market was their cheap price that would provide purchasing accessibility to common men.<sup>52</sup> Another critic on this agreement was that some important products like “cotton yarn, leather, raw hide skin, petroleum oil obtained from bituminous minerals,” were not enlisted in FTA. Chinese markets were the major importer of these products while Pakistan was the main



source of exports of these items. They believed that China deliberately did not include these products in the list of FTA. The main factor behind this Chinese act was to protect its trade with Hong Kong. In mainland China almost '95%' leather and related products came from Hong Kong.<sup>53</sup> China did it to keep its national interest above all other things. Pakistani officials should have to follow the same path and they would have to highlight this issue with Chinese authorities while signing the FTA but unfortunately this was not seen in any round of talks.

### **Conclusion**

The trade volume between Pakistan and China was lower than the current potential of two states. The balance of trade was in favor of China. An effort in the form of Free Trade Agreement was done to enhance the trade relations between Pakistan and China but unluckily it could not bring fruitful results. Again the recipient of this agreement was China and Pakistan was loser in it. Retaining to FTA, the flood of Chinese items increased in Pakistan and became the cause of closure of many industries. Rather than enhancing the economy of the state it became a foundation of deterioration of economic condition of Pakistan. Current government was revisiting the foundations of FTA. Engineer Khurram Khan, Commerce Minister was also an opponent of this agreement and was making plans to revise this agreement.

The government and concerned officials should shun such agreements, Memorandum of Understanding (MoU), and contracts that were not in imposition to boost the economy of Pakistan. Before signing an agreement or contract with any other state of the world including China the responsible authorities should do appropriate home-work. So, before



concluding the contract, they should have the knowledge of outcomes or they should know the pros and cons of the contract on the economy of the state. National interests should be kept as holy before concluding the contracts or agreements with other states while personal interests should be avoided. Local items should be fortified and such items that were manufactured locally should not be imported to protect local industries.

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