

ANALYZING THE CHINA-PAKISTAN FREE TRADE AGREEMENT: IMPLICATIONS AND LESSONS FOR PAKISTAN'S FUTURE FREE TRADE AGREEMENTS

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Abstract

One notable development in the two nation's bilateral trade relations is the formation of the China-Pakistan Free Trade Agreement (CPFTA) in 2007. However, CPFTA has run into several flaws and difficulties, giving Pakistan invaluable experience negotiating new FTAs with other nations. This study aims to provide a critical analysis of CPFTA by highlighting some damaging facts concerning Pakistan's economy. The study found that Pakistan has always been on the losing side since 2007, signing the CPFTA. The trade deficit is one most important and key reasons that increased due to unsuitable tariff concessions and massive imports from China. This disparity draws attention to the need for more equitable trade agreements and raises questions about the unequal distribution of benefits. Pakistan's low export capacity and lack of competitiveness in several industries have made it difficult for the country to fully reap the benefits of the CPFTA. In light of these shortcomings, it is suggested that thorough impact analyses are necessary to foresee and reduce any potential negative effects on local businesses and the economy. To guarantee a more equitable distribution of gains and shield vulnerable sectors from unjust harm, safety mechanisms and the involvement of local stakeholders must be included.

KEYWORDS: *Free Trade Agreement, China-Pakistan Free Trade Agreement, Bilateral Trade Negotiations, Import, Export*

1- Introduction:

A Free trade agreement (FTA) is an accord in which trade barriers with non-member countries are maintained in place while tariffs on goods produced within the member countries are eliminated.⁴ However, in practice, tariff concessions are frequently awarded on a selective basis, perhaps due to genuine concerns about the difficulties associated with industrial adjustment brought on by trade liberalization, as well as pressure from lobby groups during the FTA negotiating process.⁵ The range of lists that qualify for different FTAs varies significantly. Tariff preferences are only granted to items that comply with the rules of origin (RoOs), a crucial element of any FTA.⁶ Because "free trade agreement" is a bit of a misnomer, many well-known trade economists prefer the phrase "preferential trade agreement" which more accurately captures the subtleties involved.⁷ However, we will stick with the commonly used name "FTA" in this study.

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⁴ Shintaro Hamanaka, Aiken Tafgar, and Dorothea Lazaro, 'Trade Facilitation Measures under Free Trade Agreements: Are They Discriminatory against Non-Members?' (2010) 55 ADB Working Paper Series on Regional Economic Integration <<https://hdl.handle.net/10419/109566>>

⁵ Tamara Manolache, 'Concessions in Free Trade Agreement Negotiations: An Examination of Turkey-Chile and Turkey-Egypt FTAs' (2023) PRISM Repository, University of Calgary <<https://prism.ucalgary.ca>> <https://hdl.handle.net/1880/117746>

⁶ Mitsuyo Ando, Shujiro Urata and Kenta Yamanouchi, 'Dissimilar FTA Strategies of Japan and the United States: An Analysis of the Product-Specific Rules of Origin' (2023) 22(3) *Asian Economic Papers* <<https://direct.mit.edu/asep/article-abstract/22/3/97/117837/Dissimilar-FTA-Strategies-of-Japan-and-the-United>>

⁷ Sharon McKenna Camara, 'Preferential trade agreements and quality of government in Sub-Saharan Africa' (2016) The University of Southern Mississippi <<https://www.proquest.com/openview/eb4bb08bda892c59d64a46efeea434fb/1?pq-origsite=scholar&cbl=18750>>

Developments in international trade also contribute to the stabilization of national economies. Countries participate in FTAs to increase their export capacity and potential. FTAs are important instruments for promoting global trade. Studies show that about 10 years after the FTA's introduction, bilateral commerce between two FTA member nations almost doubled.⁸ Developing countries have placed a great deal of emphasis on diversifying their export offerings.⁹ Different nations employ various strategies and policies to meet their trading objectives. One of the primary objectives of free trade agreements is the establishment of trade equilibrium.¹⁰

In the course of negotiating and implementing a free trade agreement, officials often lose sight of important supply-side issues. This is because senior technocrats and political leaders find FTA negotiations so appealing that they frequently take precedence over domestic reform initiatives. FTAs are often the subject of media attention, as international leaders press nations to ratify them, providing plenty of self-projection.¹¹

Unexpected institutional repercussions could result from the increased rush to sign free trade agreements. A nation's tariff system may become increasingly diverse as a result of the growing number of free trade agreements, creating inefficiencies in the use of resources. Standard most favored nation (MFN) tariff rates, FTA tariff concessions, and the various rules of origin linked to these concessions overlap, making customs administration more difficult, undermining efforts to improve system efficiency, and opening doors for corruption.¹²

The degree to which a nation's trading patterns coincide with those of its trading partners is referred to as trade compatibility. It shows whether goods that are mainly imported by one partner nation and exported by another are predominant.¹³

Many scholars argue that FTAs can help a nation's manufacturing sector become more integrated into global production networks, or what is known as the global manufacturing value chain, by luring multinational corporations (MNEs) to set up operations for specialized jobs or processes. This theory is based on the idea that because these operations, which are also referred to as "slicing of the value chain", have lower profit margins per unit than traditional manufacturing, they are especially vulnerable to tariff increases.¹⁴

Countries all over the world have been aggressively pursuing free trade agreements in the last several decades to promote commerce and economic expansion. To increase trade and economic exchanges, Pakistan has signed several trade agreements with nations including China, Malaysia, Sri Lanka, Afghanistan, and Iran, reflecting this trend of economic integration.¹⁵

The improvement in trade balance, GDP growth, and overall welfare of the country has been attributed to the Pakistan-Malaysia Free Trade Agreement (PFAI), which has led to a rise in exports from Pakistan.

⁸ Franco-Bedoya, Sebastian and Erik Frohm, 'Reduced 'border effects', free trade agreements and international trade' (2022) 45(2) *The World Economy* <https://doi.org/10.1177/002234332311809>

⁹ Bebczuk, Ricardo Néstor and Daniel Berrettoni, 'Explaining export diversification: an empirical analysis' (2006) *Documentos de Trabajo* <<https://sedici.unlp.edu.ar/handle/10915/3557>>

¹⁰ Ian Tsung-yen Chen, 'Trading for survival: trade policy as a credible signal, alliance strategy, and public preferences in Taiwan' (2023) 31(1) *Review of International Political Economy* <<https://doi.org/10.1080/09692290.2023.2190922>>

¹¹ Baccini, Leonardo and Johannes Urpelainen, 'Strategic side payments: Preferential trading agreements, economic reform, and foreign aid' (2012) 74(4) *The Journal of Politics* <<https://www.journals.uchicago.edu/doi/abs/10.1017/S0022381612000485>>

¹² Pravin Krishna, 'Preferential trade agreements and the world trade system: a multilateralist view. In *Globalization in an age of crisis: Multilateral economic cooperation in the twenty-first century*' (2013) University of Chicago Press, <<https://www.nber.org/system/files/chapters/c12584/c12584.pdf>>

¹³ Akram, Hafiz Wasim, Alam Ahmad, Leo-Paul Dana, Asif Khan, and Samreen Akhtar, 'Do Trade Agreements Enhance Bilateral Trade? Focus on India and Sri Lanka' (2023) 16(2) *Sustainability* <<https://doi.org/10.3390/su16020582>>

¹⁴ Farok J. Contractor, 'Punching above their weight" the sources of competitive advantage for emerging market multinationals' (2013) 8(4) *International Journal of Emerging Markets* <<https://www.emerald.com/insight/content/doi/10.1108/IJoEM-06-2013-0102/full/html>>

¹⁵ See official data from Ministry of Commerce|Government of Pakistan <<https://www.commerce.gov.pk/>>

Scholars advise Pakistan to adopt a long-term plan aimed at fostering these companies and wisely allocating resources.¹⁶

Pakistan stands to gain a great deal from the Free Trade Agreements with ASEAN by collaborating in fields including human resource development, education, tourism, and agriculture. Pakistan and ASEAN countries have similar goals for peace, development, and prosperity in the region, hence it is beneficial for both to work together on a wider range of issues for mutual benefit.¹⁷

The China-Pakistan Free Trade Agreement (CPFTA) has resulted in a steady expansion in trade relations between China and Pakistan. But even with this expansion, Pakistan has found it difficult to establish a fair trading relationship with China once the CPFTA was put into effect.¹⁸ Researchers are still interested in and continue to debate the CPFTA, which was adopted in 2006 when it comes to trade liberalization.¹⁹ Ever since Pakistan and China signed the FTA, there has been a steady increase in the trade imbalance against Pakistan. Although Pakistan's exports to China have increased significantly, there is also a growing trade imbalance in Pakistan as a result of the Chinese products that have entered the country. Notably, a large amount of trade deficit between China and Pakistan is caused by products that were added to Pakistan's import list after the CPFTA was established, but which Pakistan had not previously sourced from China.²⁰

As a result, the Pakistani government still has serious concerns about the trade disparity. With numerous other nations, Pakistan has ratified and carried out FTAs and preferential trade agreements (PTAs). Pakistan is also presently negotiating free trade agreements with several other countries.²¹

This study will give a critical evaluation of the dynamics of bilateral commerce that have developed since the CPFTA went into effect. The leading research question for this study is: What lessons can Pakistan gain from the CPFTA to negotiate new free trade agreements with other nations?

To address the above research question, after introduction, this paper is organized into four parts which are Part 1: History of Pakistan's Negotiations on FTAs Part 2: Analysis of CPFTA, Part 3: Learning Experiences of CPFTA for Pakistan with Recommendations for Pakistan's future FTAs and the last Part 4 will have concluding remarks.

2- Part 1: History of Pakistan's Negotiations on FTAs

Pakistan, a significant participant in the developing global economy, has strong economic relations with several other nations, most notably China. Pakistan has been a founding member of both the 1948-founded General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) since 1995.²² A country's main goal, when it enters into a FTA, is to increase international trade and guarantee economic stability.

With Sri Lanka, Malaysia, and China, Pakistan has successfully negotiated FTAs, all of which are currently in force. On the other hand, talks are still going on for bilateral free trade agreements with Iran, Singapore, Thailand, and Turkey.²³

In August 2002, a framework was created with Sri Lanka. Pakistan's FTA has 206 tariff lines whereas Sri Lanka's FTA contains 102 duty-free tariff lines which were exempted from taxes. Both countries agreed

¹⁶ Muhammad Umar Zahid, Zeeshan Atiq, and Aamir Hussain Siddique, 'Impact Of Free Trade Agreement For Trade Creation And Diversion: A Case Study Of Pakistan' (2021) 18(10) *PalArch's Journal of Archaeology of Egypt/Egyptology* <<https://archives.palarch.nl/index.php/jae/article/view/10371>>

¹⁷ Muhammad Saqib Irshad, and Qi Xin, 'A new perspective of the China-ASEAN free trade area and the story of top ten products' (2014) *European Journal of Business and Management, Forthcoming* <<https://ssrn.com/abstract=2502381>>

¹⁸ Mukhtar, Hamid. "Undergoing Re-negotiations between Pakistan and China for Free Trade Agreement." *China and WTO Review* 4, no. 2 (2018): 363-368. <http://cwto.net/index.php/CWR/article/view/105>

¹⁹ Yang Li, 'China's Free Trade Agreement Diplomacy' (2015) PhD diss <<https://hdl.handle.net/2440/103486>>

²⁰ Awais Dastgeer, Ali Hassan, Muhammad Ali Husnain, Muhammad Kamran Bhatti and Aiman Javed, 'THE IMPACT OF THE CHINA-PAKISTAN FREE TRADE AGREEMENT (FTA) ON THE ECONOMIC GROWTH OF PAKISTAN' (2023) 11(3) *Russian Law Journal* <<https://cyberleninka.ru/article/n/the-impact-of-the-china-pakistan-free-trade-agreement-fts-on-the-economic-growth-of-pakistan>>

²¹ Siegfried O Wolf, *The China-Pakistan economic corridor of the Belt and Road initiative*. Cham, (Springer International Publishing, 2020)

²² See Pakistan's mission Towards The World Trade Organization <<http://www.wto-pakistan.org/>>

²³ See Free Trade Agreements of Pakistan <http://www.commerce.gov.pk/?page_id=9>

to allow duty-free imports of ten thousand metric tons of tea and twelve thousand metric tons of betel leaves.²⁴

Pakistan and Malaysia started talking about enhancing their economic ties in 2005, which resulted in the start of talks for a comprehensive free trade agreement. A bilateral Early Harvest Program (EHP) was created by the two economies in October 2005, and it started to run in January 2006.²⁵ The aforementioned endeavor established the foundation for the subsequent execution of a free trade agreement, which became operative on January 1, 2008. Intellectual property rights, investment, commerce in products and services, and economic cooperation were all covered by the Malaysia-Pakistan Free Commerce Agreement (MPFTA).²⁶ Pakistan and Malaysia continue to have a trade imbalance despite the expanded scope of the FTA, however, Malaysia's trade balance has changed.

On August 13, 2015, at a Joint Trade Committee meeting of Pakistan-Thailand which was held in Islamabad, formal negotiations for a bilateral FTA were initiated.²⁷ There were six rounds of negotiations to reach a conclusion of bilateral FTA between Thailand and Pakistan. FTA was subject to the private sectors of both nations reaching an agreement on the protection of indigenous industries. The two countries have traded lists of goods to be included in the free trade pact, which includes industries like autos and textiles.²⁸

In October 2015, formal discussions were held in Ankara, Turkey, for a FTA between Pakistan and Turkey. The two nations convened for their seventh round of negotiations on July 9, 2017.²⁹ Moreover, since 2005, talks have been going on for the Singapore-Pakistan Free Trade Agreement, however, they haven't ended.³⁰

Additionally, discussions are nearing completion for an additional FTA between Pakistan and Iran. It is expected that the Pak-Iran Free Trade Agreement will be completed soon when banking connections between the State Bank of Pakistan and the Central Bank of Iran have been restored.³¹

3- Analysis of the China-Pakistan Free Trade Agreement

3.1- CPFTA (Phase I)

Long-standing and complex, mutual trust, cooperation, and strategic partnership define China-Pakistan's relationship. Pakistan was among the first nations to recognize China in the 1950s. To fortify their relationship, China and Pakistan started discussions on establishing a free trade area in April 2005, during Premier Wen Jiabao's visit to the country. The Free Trade Agreement was then finalized by both nations in November 2006 and it became operative in July 2007.³² Furthermore, the China-Pakistan Free Trade Agreement on Trade in Services was signed in February 2009 and became operative on October 10th, 2009.³³ The two main phases of the CPFTA outline a comprehensive strategy for economic cooperation. December 2012 saw the end of Phase I of the CPFTA, which was a major turning point in the two countries'

²⁴ Nufile, S. Santhirasegaram and S. M. M. Ismail, 'Pakistan-Sri Lanka Free Trade Agreement (PSFTA): A Comparison with SAARC and SAFTA' (2013) University of Ruhuna <<http://ir.lib.ruh.ac.lk/xmlui/handle/iruor/14845>> 4

²⁵ Razeen Sally, 'Free trade agreements and the prospects for regional integration in East Asia.' (2006) 1(2) *Asian economic policy review* <<https://doi.org/10.1111/j.1748-3131.2006.00036.x>>

²⁶ Ch Mazhar Hussain, and Syed Zulfiqar Ali Shah, 'Analyzing the Trade Effect of Pakistan and Malaysia Free Trade Agreement' (2020) 13 (1) *Abasyn University Journal of Social Sciences* <<https://web.p.ebscohost.com/ehost/detail/detail?vid=0&sid=943a6be5-598e-485b-a62a-2b3c2bd8853d%40redis&bdata=JkF1dGhUeXBIPWNvb2tpZSxpcCxcGlkImN1c3RpZD1zNjlyMjA2OCZzaXRIPWVob3N0LWxpdmUmc2NvcGU9c2l0ZQ%3d%3d#db=a9h&AN=145450924>>

²⁷ See <<http://lovacedon.tumblr.com/post/156059131505/thai-delegation-negotiating-fta-with-pakistan>>

²⁸ See <<https://timesofislamabad.com/pak-thailand-fta-negotiation-held-may/2017/04/20/>>

²⁹ Anas HAROON, and Yunus OZCAN, 'Economic Relationship Between Turkey And Pakistan' (2021) 2(2) *İşletme* <<https://dergipark.org.tr/en/pub/isletme/issue/59853/981249>>

³⁰ Jayant Menon, 'Dealing with the proliferation of bilateral free trade agreements' (2009) 32(10) *World Economy* <<https://doi.org/10.1111/j.1467-9701.2009.01187.x>>

³¹ Muhammad Maqbool Khan and Muhammad Aslam Waseem, 'Pakistan-Iran Relations Prospects for Trade' (2019) 10(2) *Pakistan Study Centre*

³² Yang Jiang, '16. China's policy on free trade agreements' (2019) 281 *Handbook on the International Political Economy of China* <<https://doi.org/10.4337/9781786435064.00024>>

³³ Hassan Daud Butt, Ms Urooj Aijaz, and Sadaf Majeed, 'LEVERAGING CPFTA FOR NATIONAL ECONOMIC GROWTH AMIDST GLOBAL CRISES' (2022) 5(3) *Pakistan Journal of International Affairs* <<http://pjia.com.pk/index.php/pjia/article/download/549/405>>

bilateral trading relationship. As Phase I was successfully concluded, Phase II negotiations started in July 2013, indicating a deliberate attempt to further deepen and broaden the trade agreement's scope. This strategic split into phases highlights a purposeful and methodical approach to boosting economic cooperation, enabling China and Pakistan to take advantage of new prospects for mutual gain and adapt to the world's changing trade dynamics.³⁴

Under Phase II of the CPFTA, six rounds of talks were held³⁵. Both countries wrote a lot of provisions for a new free trade agreement in response to complaints from Pakistani producers who claimed that the 2006 pact disproportionately benefited China. As a result, the parties have reached a consensus on a new set of principles to address the issues that surfaced during the China-Pakistan Free Trade Agreement's initial implementation in 2006. The determination of China and Pakistan to recalculate the trade agreement in a way that promotes equal advantages and fixes the apparent inequities that have developed over time is emphasized by this negotiation process.³⁶

Since the CPFTA went into effect, there has been a noticeable increase in the two country's bilateral trade connections. This increasing trend has been further reinforced by the China-Pakistan Economic Corridor (CPEC), which was formally inaugurated in 2015 and is an integral part of China's One Belt One Road (OBOR) initiative. As a result, the dynamics of bilateral commerce between China and Pakistan have significantly improved, opening the door for further expansion.³⁷

Notwithstanding the general increase in trade volume, worries about the mounting trade disparity between Pakistan and China. China has profited greatly from the CPFTA, using a large amount of the accord to increase its exports to Pakistan. On the other hand, Pakistan has faced difficulties in fully utilizing the deal to increase its exports to China.³⁸ But at the same, it's a well-known fact that Pakistan benefits from the CPFTA for many reasons. Moreover, future trade talks must carefully take these variables into account to prevent making the same mistakes, while negotiating with other countries regarding FTA.

The following table shows yearly statics for Trade between China and Pakistan after the implementation of CPFTA.

Table 3.1.1: Trade Quantum of Pakistan 2008-2021 (Amount is in Million US Dollars)

Imports (I)	Exports (E)	Total Trade	Year
4,738	726	5,464	2008
3,779	997	4,776	2009
5,247	1,435	6,682	2010
6,470	1,678	8,148	2011
6,687	2,619	9,306	2012
6,626	2,652	9,278	2013
9,588	2,252	11,840	2014

³⁴Rafia Khan, Abdul Samad Shaikh and Haris Masood, 'Impact of Pak-China free trade agreement (FTA) on trade and industry of Pakistan' (2019) 1(4) *Electronic Research Journal of Social Sciences and Humanities* <https://d1wqtxts1xzle7.cloudfront.net/60799283/1_FTA20191004-69069-2hqozj-libre.pdf?1570216941=&response-content-disposition=inline%3B+filename%3DImpact_of_Pak_China_Free_Trade_Agreement.pdf&Expires=1711433410&Signature=SmgYWLpJlX1aQqz11Rb5Pxl-UAjYWI-oV1gxyZctKN2pbFuYJtd~6~sXhlmvAhtGgt1l-F08PogLcutlw-4fitEYdpCD6jH9r~SXR5jNa6mBnXb1o2XVO41A77DgilNqRrpGV51cN7lMr4jIJWwC8hNWYvaYHo5lvjbcm6dpdXiAaAyb5otxvYB~QyAaZPp4P3x9zq~vyMCH5d-JzK5yOVlk2liI50UOBU3H-n~x~HpZAI8z1kKlieEIDXALibYiYMsDx~EKZ5U7s7Duh-HfkRBYc0W518bczf~RIBk7pGxcA8R69S1ZPhVk6lhpsemFFhkXc-48idJMV8C3~mMNIw__&Key-Pair-Id=APKAJLOHF5GGSLRBV4ZA>

³⁵ Francis Snyder, 'China, regional trade agreements and WTO law' (2009) 43(1) *Journal of World Trade* <<https://doi.org/10.54648/trad2009001>>

³⁶ Ahmad Rashid Malik, 'The Pakistan-China Bilateral Trade' (2017) 37(1) *Strategic Studies* <<https://www.jstor.org/stable/48535987>>

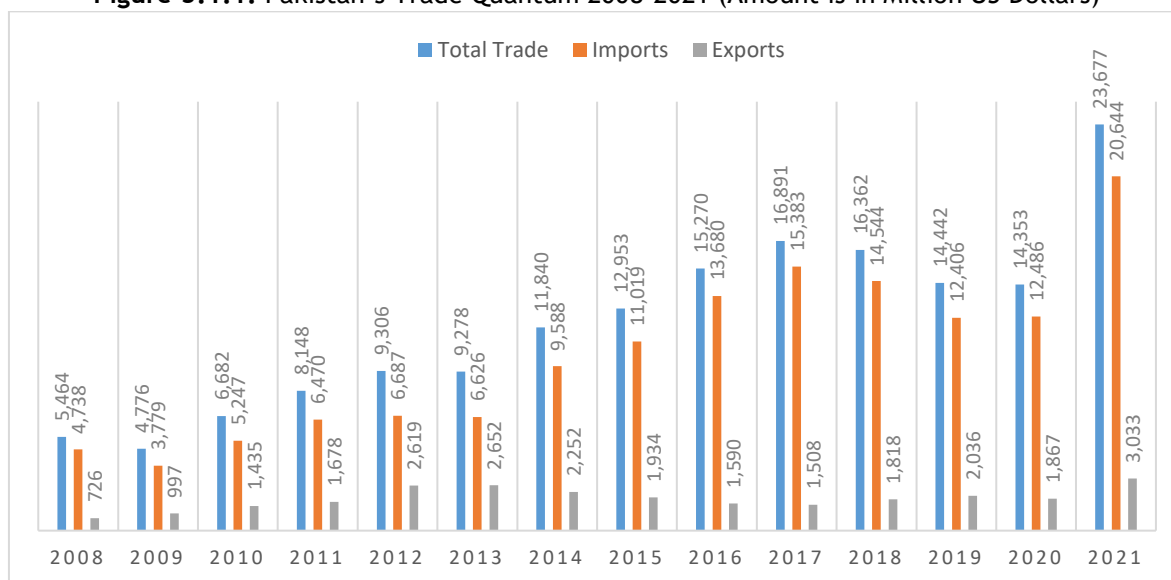
³⁷ Muhammad Saqib Irshad, 'SWOT analysis of Pakistan-China free trade agreement: Pros and Cons' (2017) 7(1) *International Journal of Asian Social Science* <<https://ssrn.com/abstract=2803990>>

³⁸ Syed H Shah, Muhammad A. Kamal and Da L. Yu, 'Did China-Pakistan free trade agreement promote trade and development in Pakistan?' (2022) 27(3) *International Journal of Finance & Economics* <<https://doi.org/10.1002/ijfe.2331>>

11,019	1,934	12,953	2015
13,680	1,590	15,270	2016
15,383	1,508	16,891	2017
14,544	1,818	16,362	2018
12,406	2,036	14,442	2019
12,486	1,867	14,353	2020
20,644	3,033	23,677	2021

Source: Self-calculations based on the World Bank's declared data³⁹

Figure 3.1.1: Pakistan's Trade Quantum 2008-2021 (Amount is in Million US Dollars)



Source: Data extracted from Table 3.1.1

Table 3.1.1 shows that from \$5,464 million in 2008 to \$23,667 million by the end of 2021, China and Pakistan's bilateral trade volume increased significantly. Data shows that Pakistan's trade deficit has significantly increased since the FTA went into effect. China has made good use of the FTA, utilizing about 60% of the concessions offered, while Pakistan has only used around 7% of the concessions made available by the FTA. Although the total trade volume increased after the implementation of CPFTA Pakistan's imports from China have a major part in this massive increase in bilateral trade.⁴⁰

Pakistan agreed to lower or eliminate tariffs on 6,711 Chinese product lines during the initial phase of CPFTA. Whereas, China consented to give Pakistan comparable advantages on 6,418 product lines in exchange.⁴¹ The reduction of tariffs to zero percent tax on 90% of the tariff lines is mandated in the second phase of the China-Pakistan Free Trade Agreement⁴²

It is important to note that Pakistan benefited from a trade balance in the agricultural sector when agricultural items were included. Pakistan exported \$430 million worth of agricultural products to China in 2015, the majority of these exports, were rice. Pakistan also sent \$320 million worth of fruits and

³⁹ See

<<https://wits.worldbank.org/CountryProfile/en/Country/PAK/Year/2014/TradeFlow/EXPIMP/Partner/CHN/Product/All-Groups>>

⁴⁰ Fatima Sahibzada, 'STRENGTHENING TRADE BETWEEN PAKISTAN AND CHINA; A CASE STUDY OF FREE TRADE AGREEMENT' (2021) 1(1) *JHEDS* <<https://doi.org/10.59219/jheds.v1i1.5>>

⁴¹ Farhat Saba and Tahir Jamil, 'CHINA-PAKISTAN ECONOMIC CORRIDOR (CPEC): BENEFITS, GEO-POLITICAL IMPLICATIONS, AND IMPACTS OF COVID-19 ON ITS PROGRESS' <https://www.researchgate.net/profile/Farhat-Saba-2/publication/362618448_KOREA_REVIEW_OF_INTERNATIONAL_STUDIES_CHINA-PAKISTAN_ECONOMIC_CORRIDOR_CPEC_BENEFITS_GEO-POLITICAL_IMPLICATIONS_AND_IMPACTS_OF_COVID-19_ON_ITS_PROGRESS/links/62f4665379550d6d1c71917d/KOREA-REVIEW-OF-INTERNATIONAL-STUDIES-CHINA-PAKISTAN-ECONOMIC-CORRIDOR-CPEC-BENEFITS-GEO-POLITICAL-IMPLICATIONS-AND-IMPACTS-OF-COVID-19-ON-ITS-PROGRESS.pdf>

⁴² Tauseef Javed and Natasha Khan, 'Analysing Pakistan's Exports to China' (2022) 38(2) *CENTRE FOR STRATEGIC AND CONTEMPORARY RESEARCH* <<https://cscr.pk/pdf/perspectives/Analysing-Pakistan's-Exports-to-China.pdf>>

vegetables to China.⁴³ To its main trading and strategic partner, Pakistan, tariff rates on 5,686 (8-digit) tariff lines have been reduced or eliminated. This comprises different raw products that are essential to Pakistan's industrial sector, machinery, and electronic equipment, all of which enjoy zero tariff rates.⁴⁴ According to statistics, cotton accounts for 61% of Pakistan's total exports to China. Rice makes up 14% of the material, ores, slag, and ash make up 5%, and fish and other aquatic invertebrates make up 3%. The remaining 17% is made up of several categories. Pakistan's exports to China consist of 75% rice and cotton together. Pakistan achieved a significant milestone when China started importing more rice from Pakistan in 2012 as a result of growing domestic demand and declining gasoline prices. Due to this, the percentage of rice exported rose from 1.3% in 2011 to 24.4% in 2012.⁴⁵

Trade volume between the two countries increased dramatically, rising from \$9 billion in 2013, to \$16 billion in 2017, and \$23.7 billion in 2021. This increase was primarily attributed to the signing of 51 Memorandums of Understanding (MoUs) and agreements spanning diverse sectors of cooperation. Pakistan's imports from China significantly increased as a result of this.⁴⁶ There is a lot of room for local manufacturing of many of the goods listed for import into Pakistan. The import list's inclusion of these goods is thought to be harmful to the local production line, which is one of the main concerns expressed by the Pakistani business community about the CPFTA.⁴⁷ Pakistan needs to learn from the CPFTA experience before entering into any new free trade agreements.

The data and graph related to Table 3.1.2 illustrate the percentage of Chinese imports into Pakistan and the corresponding share of Pakistani imports into China. It shows a clear discrepancy, with China's import percentage of goods coming from Pakistan significantly lower than Pakistan's import share of goods from China. In addition, there is a noticeable pattern of China's export percentage to Pakistan increasing gradually since the Pakistan-China Free Trade Agreement was concluded in 2006.

Table 3.1.2: China and Pakistan Imports (Amount is in Billion US Dollars)

Pakistan's Imports from China	China's Imports from Pakistan	Year
4.7	0.98	2008
3.78	1.26	2009
5.24	1.73	2010
6.47	2.11	2011
6.68	3.14	2012
6.62	3.19	2013
9.58	2.75	2014
11.01	2.47	2015
13.68	1.91	2016
15.38	1.83	2017
14.54	2.17	2018
12.4	1.80	2019
12.48	2.12	2020
20.64	2.58	2021

⁴³ See

<<https://wits.worldbank.org/CountryProfile/en/Country/PAK/Year/2014/TradeFlow/EXPIMP/Partner/CHN/Product/All-Groups>>

⁴⁴ Ahsan Abbas and Saira Ali, 'China regional trade pattern and prospects for Pakistan' (2018) *Centre of Excellence for China Pakistan Economic Corridor* <<https://cpec-centre.pk/wp-content/uploads/2018/04/015.pdf>>

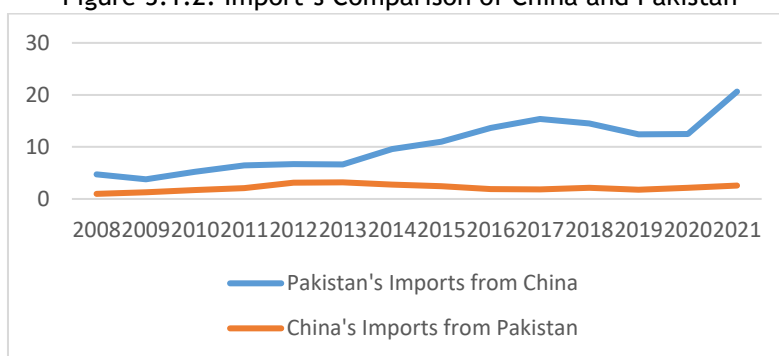
⁴⁵ Amjad Masood, Sami Ullah, Yasmin Tahira and Manan Aslam, 'Impact of China-Pakistan Regional Trade Agreement on Pakistan's Exports: An Analysis Using Gravity Trade Model' (2021) 31(1) *Pakistan Journal of Applied Economics* <<https://www.aerc.edu.pk/wp-content/uploads/2021/08/Paper-939-AMJAD-MASOOD-V-1.pdf>>

⁴⁶ Amir Mustafa and Abdul Qayyum, 'Impact of technical barriers to trade on trade between China and Pakistan' (2016) *The Pakistan Development Review* <<https://www.jstor.org/stable/44986486>>

⁴⁷ Mirajul Haq, Asghar Ali and Iftikhar Ahmad, 'Exploring Manufacturing Firms' Absorption Capacity of Imported Technology in Pakistan' (2021) 11(8) *Asian Economic and Financial Review* <DOI:10.18488/journal.aefr.2021.118.591.602>

Source: Own calculations based upon the World Bank's declared data ⁴⁸

Figure 3.1.2: Import's Comparison of China and Pakistan



Source: Data extracted from table 3.1.2

The graph depicts the impact of CPFTA on the trading relations of both nations, revealing that China's imports from Pakistan have remained stagnant from the beginning of 2008 until the end of 2021. Conversely, Pakistan's imports from China have increased significantly, leading to a substantial trade deficit between the two nations.

3.2- CPFTA (Phase II)

Both countries finished the second phase of the CPFTA in early 2019 and began implementing it on January 1, 2020. The second phase of the CPFTA will cover the years 2019 to 2024. With careful negotiation, CPFTA-II is anticipated to significantly improve Pakistani exporter's access to the huge two trillion US dollar Chinese import market, helping to reduce the country's rapidly growing trade deficit.⁴⁹ Significant improvements in Pakistan's tariff-free market access to China are offered by CPFTA-II. Pakistan has to make sure that its exporters can successfully compete with China's other trading partners to gain market share if it is to take full advantage of this potential. This involves promoting business matchmaking services between the two nations and offering thorough market data for China.

4- Pakistan's learning experiences from the CPFTA

Pakistan, as a developing nation, ought to learn the following experiences from the CPFTA discussions to make future free trade agreements.

4.1- Pakistan's inadequate use of trade commodities under CPFTA

Pakistan can gain significant insights into the underutilization of trade commodities from its experience with the CPFTA. Table 4.1.1 shows key product figures regarding %age share of trade under FTA.

Table 4.1.1: Key products %age share⁵⁰

Products	Pakistan's imports from China (share in %)		Pakistan's exports to China (Share in %)	
	2008	2021	2008	2021
Food Products	.394	0.30	0.86	5.98
Stone and Glass	3.41	1.03	0.26	0.15
Minerals	0.08	0.08	22.85	6.00
Transportation	1.83	3.62	0.09	.02
Metals	9.78	8.83	4.54	28.75
Plastic or Rubber	3.79	4.87	1.95	0.82
Raw materials	1.46	.98	30.70	17.51
Textiles and Clothing	8.79	7.50	54.19	29.71
Chemicals	13.55	21.67	0.40	0.34

⁴⁸ See

https://wits.worldbank.org/CountryProfile/en/Country/CHN/StartYear/2008/EndYear/2019/TradeFlow/Import/Indicator/MPRT-PRDCT-SHR/Partner/PAK/Product/16-24_FoodProd

⁴⁹ Muhammad Imran, Abdul Sattar and Md Shabbir Alam, 'Heterogeneous analysis of free trade agreement between Pakistan and China: a policy guideline for CPEC' (2023) 40(1) *Journal of Economic and Administrative Sciences* <<https://www.emerald.com/insight/content/doi/10.1108/JEAS-02-2022-0051/full/html> >

⁵⁰ See for more details

https://wits.worldbank.org/CountryProfile/en/Country/CHN/StartYear/2008/EndYear/2019/TradeFlow/Import/Indicator/MPRT-PRDCT-SHR/Partner/PAK/Product/16-24_FoodProd

Table 4.1.2: China and Pakistan products utilization

AGREEMENT	No. of products offered by China to Pakistan	Utilization by Pakistan	No. of products offered by Pakistan to China	Utilization by China
3-YEARS consumption (100% tax-free)	2681	169	2423	1332
5-YEARS consumption (100% tax-free)	2604	72	1338	747
TOTAL	5285	241 (<5%)	3806	2079 (>50%)

Source: Own calculations based upon the World Bank's declared data⁵¹

Table 4.1.2 shows the overall position regarding China and Pakistan product utilization under CPFTA. Data shows that 5285 products were offered by China as 100% tax-free (0-rated products) for 2 and 5 years but Pakistan utilized less than 5% of products only. On the other hand, 3806 products were offered by Pakistan as 0-rated products for 3 and 5 years and China utilized more than 50% of the offered products category.

To overcome these issues, Pakistan needs to learn multiple facts like **a) Market Analysis and Research:** The use of trade commodities under the CPFTA has been hampered by some trade gaps and barriers, which can be found with the support of market analysis. Pakistan needs to carry out thorough market research and analysis before signing trade deals. The competitive environment, customer preferences, and demand dynamics of target markets can all be used to identify possible export opportunities and adjust trade agreements.⁵² Moreover, investigating market dynamics can yield important information about customer preferences, demand trends, and competitive environments. This knowledge can help guide negotiations by pointing out areas for trade expansion and areas where trade laws or regulations may need to be changed to allow for increased trading products. Pakistan can streamline trade procedures and facilitate market access for goods and services by using this information to prioritize regulatory harmonization and convergence activities as part of the forthcoming FTA discussions. Pakistani negotiators can create a comprehensive and successful agreement that closes trade gaps, eliminates obstacles, and maximizes trade potential with other nations by utilizing market insights, economic data, and stakeholder input. **b) Product Diversification:** Pakistan is not able to take full advantage of CPFTA as its export portfolio is mostly composed of a limited number of products. The nation ought to concentrate on broadening the variety of goods it exports to encompass a wider range of goods with relative advantages in its intended markets.⁵³ Product diversification increases the range of goods and services covered by the FTA, creating additional opportunities for trade expansion. Pakistan must give top priority to industries with unrealized potential and support trade liberalization policies that open up markets to a greater range of goods. Pakistani negotiators can encourage economic growth and lessen dependency on a small number of commodities by bringing in a variety of businesses, such as technology, healthcare, and renewable energy. To maximize the utilization of trade commodities, product diversification is crucial during the negotiation of a new free trade agreement. Pakistan may enhance its economic growth prospects and fortify its bilateral trade connections with its trading partners by broadening the range of products it covers, reducing risks, and promoting innovation. **c) Capacity Building:** It is imperative to enhance the ability of Pakistani industries to adhere to global quality and standard norms. Infrastructure, technology, and skill development investments might help Pakistani exporters become more competitive and better prepared to take advantage of trade agreements. The institutional framework required for putting the FTA into effect and upholding it can

⁵¹ See for more details

https://wits.worldbank.org/CountryProfile/en/Country/CHN/StartYear/2008/EndYear/2019/TradeFlow/Import/Indicator/MPRT-PRDCT-SHR/Partner/PAK/Product/16-24_FoodProd

⁵² Yun Ah Song and Haider Irfan, 'Comparative Study on Trade Policies between Korea and Pakistan.' (2023)

46(4) *기업과혁신연구* <<https://www.dbpia.co.kr/Journal/articleDetail?nodeId=NODE11646223>>

⁵³ Chu Tien Minh and Nguyen Ngoc Diep, 'Vietnam's Seafood Imports Under the Impact of the United Kingdom–Vietnam Free Trade Agreement' (2022) *Conference on Contemporary Economic Issues in Asian Countries* Springer Nature Singapore <https://link.springer.com/chapter/10.1007/978-981-19-9669-6_5>

be strengthened through capacity training.⁵⁴ Improving standards compliance, trade facilitation systems, and customs procedures are some ways to make cross-border trade go more smoothly. Through capacity-building activities, trade processes can be made more reliable and efficient, leading to a larger use of trade commodities under any FTA. This can be achieved by funding technical support and training for appropriate government agencies. d) **Monitoring and Evaluation:** The aims and objectives of an FTA negotiating process can be more precisely defined with the aid of monitoring and evaluation (M&E). Negotiators can guarantee that the agreement is in line with the intended results by routinely assessing progress toward the country's trade-related objectives.⁵⁵ Learning from CPFTA, negotiators can evaluate the possible effects of FTA on employment, investment, and GDP growth by using monitoring and evaluation. Making educated judgments during negotiations is facilitated by this approach, which also helps in comprehending the trade-offs involved. After the FTA is put into effect, M&E can assist in keeping an eye on whether the terms are being followed or not. This includes monitoring tariff reductions, removing non-tariff obstacles, and making sure regulations are followed. M&E strengthens the agreement's efficacy and credibility by making parties responsible for their promises. Through information sharing and progress reporting, M&E encourages accountability and transparency in the negotiation process. This openness strengthens support for the agreement's execution by fostering confidence in it. Moreover, M&E makes it possible to do a thorough analysis of the advantages and disadvantages of FTA. Pakistani negotiators can evaluate the agreement's overall influence on the economy and society and decide whether it is worthwhile by carrying out thorough cost-benefit studies. Furthermore, the most crucial lesson Pakistan can take away from the CPFTA is that it should always include commodities on the concession list when negotiating free trade agreements with other nations, particularly those in which Pakistan excels and has a comparative advantage.⁵⁶

4.2- Unsuitable Tariff Concessions under FTA

At first glance, China's tariff concessions to Pakistan could appear generous. A further look reveals, however, that China's concessions to countries of the Association of Southeast Asian Nations (ASEAN) are more advantageous as compared to Pakistan's main exports, in which it has a comparative advantage.⁵⁷ For example, in 2011, identical products had tariff rates dropped to 0% for ASEAN nations, whereas China reduced tariff reductions under the category of 100% concession to 10% for Pakistan.⁵⁸ Under the terms of the FTA with Pakistan, China granted incentives for 35% of the total products.⁵⁹ Pakistan can glean important lessons from any inappropriate tariff concessions granted under the CPFTA which may include a) **Strategic Negotiation:** To correct inappropriate tariff concessions, strategic negotiation is essential while renegotiating a new FTA. To identify areas of concern, Pakistani negotiators need to carefully examine the current concessions. With this knowledge, they may create a reciprocity-focused bargaining strategy that guarantees tariff modifications benefit both trading sides equally. Pakistan can draft an FTA that maximizes tariff structures, minimizes negative effects, and promotes mutually beneficial economic relations by carefully aligning priorities and looking for compromises. Strategic negotiation ultimately results in a new Free Trade Agreement that more effectively meets the economic demands of both countries by fostering a cooperative climate where both parties feel their interests are represented. Moreover, Pakistan might get insight into the significance of carrying out exhaustive evaluations of tariff concessions during trade talks. This entails assessing the possible effects on the home industry and making sure that any concessions made are in

⁵⁴ Ismael Rezaeinejad, Sajjad Zeraat Peyma and Dou Zhen, 'International economic policy of Iran, Pakistan and Kazakhstan within China" Belt and Road" initiative.' (2023) 381 In *E3S Web of Conferences*, EDP Sciences <<https://doi.org/10.1051/e3sconf/202338102029>>

⁵⁵ Michael Sampson and Tom Theuns, 'Comparing Chinese and EU trade agreement strategies: lessons for normative power Europe?' (2023) *International Relations* <<https://doi.org/10.1177/00471178231153554>>

⁵⁶ Abdul R Kemal, 'Exploring Pakistan's regional economic cooperation potential' (2004) *The Pakistan Development Review* <<https://www.jstor.org/stable/41260693>>

⁵⁷ Juthathip Jongwanich, 'Free trade agreements (FTAs) and export structures: evidence from Thailand' (2023) *Journal of the Asia Pacific Economy* <<https://doi.org/10.1080/13547860.2023.2300584>>

⁵⁸ Suanin, Wanissa and Panit Wattanakoon, *Demographic Shifts and Potential Food Trade Impacts: A case of ASEAN food export* (Faculty of Economics, Thammasat University 2023)

⁵⁹ See China Offered list, <<https://www.tdap.gov.pk/pdf/>> & ASEAN related China's Offer list <http://www.mtib.gov.my/repository/woodspot/website_acfta_23july09.pdf>

line with the nation's objectives for economic development.⁶⁰ **b) Protecting Local Industries:** Protecting important indigenous sectors from unfair competition brought on by incorrect tariff concessions should be Pakistan's top priority. Anti-dumping duties, safeguards, and tariff caps are a few examples of policies that can be put in place to lessen negative effects on home producers.⁶¹ Pakistani negotiators can push for policies that reduce the negative consequences of tariff reductions and protect home businesses from unfair competition. This could entail negotiating quotas, phased reduction plans, or tariff exemptions for industries that are particularly vulnerable. In this way, negotiators can safeguard employment, economic stability, and the general well-being of communities by defending regional industries. Pakistan can facilitate a fairer and more enduring FTA that is advantageous to all stakeholders by finding a middle ground between trade liberalization and safeguarding domestic businesses. **c) Stakeholder Consultation:** It is essential to include all pertinent parties in the negotiation process, such as trade specialists and representatives of the sector. Their knowledge can be used to spot possible dangers and make sure that tariff breaks benefit the nation's economy.⁶² **e) Flexibility in Trade Agreements:** To address inappropriate tariff reductions, trade agreements must be flexible to facilitate the negotiation of new FTAs. Negotiators from Pakistan may allay worries about tariff reductions that might have a detrimental effect on particular companies or sectors by introducing flexibility into their negotiations. Because of this adaptability, tariff schedules can be customized by negotiators to meet the demands and sensitivities of trading sides. For example, they can offer prolonged transition periods, exemptions, or progressive reductions for particular products or industries. In addition, flexibility guarantees that parties can adapt to changing conditions by offering departure options or renegotiation clauses if tariff reductions have a substantial negative impact. Generally, flexible trade agreements encourage positive discussion, resulting in accords that strike a balance between trade liberalization and the protection of home sectors, ultimately advancing mutually beneficial trade ties. So, Pakistan can get insight into the significance of incorporating adaptability in trade agreements to meet evolving industry dynamics and economic situations. FTAs Clauses for renewing tariff breaks or putting in place short-term solutions are used to deal with newly observed issues.⁶³

4.3- Local Industries at Risk from China's Massive Imports

Under CPFTA, was able to receive cheaper raw materials from China more easily, which is necessary for the creation of many Pakistani products, due to to zero-rated categories and modest concessions. Imports of completed goods from China have significantly increased due to the exorbitant tariff concessions. As a result, under CPFTA, Chinese goods sold at significantly lower rates have flooded the Pakistani market, endangering domestic industries.⁶⁴ Due to the large surge of low-cost Chinese goods flooding the Pakistani market, local industries are at risk because Pakistani companies are unable to match the competitive pricing of Chinese products.⁶⁵ Chinese goods are taking market share away from Pakistani goods as they establish their superiority in the country. Important industries where Pakistani businesses once flourished, such as steel, iron, chemicals, textiles, and footwear, are now heavily dependent on imports from China.⁶⁶

Pakistan needs to learn a lot from the hardships of its local businesses as a result of the substantial imports of Chinese goods under the CPFTA, particularly when it comes to negotiating new free trade

⁶⁰ United Nations Environment Programme. International Resource Panel, United Nations Environment Programme. Sustainable Consumption, and Production Branch. *Decoupling natural resource use and environmental impacts from economic growth*. (UNEP/Earthprint 2011)

⁶¹ Martin Richardson, Safeguards, Anti-dumping Actions and Countervailing Duties' In *Negotiating a Preferential Trading Agreement*. (Edward Elgar Publishing 2009)

⁶² Fatoumata Jawara, and Aileen Kwa, *Behind the scenes at the WTO: the real world of international trade negotiations* (Zed Books 2004)

⁶³ Shah Masood, Nabila Khurshid, Maqsood Haider, Jamila Khurshid and Arif Masih Khokhar, 'Trade potential of Pakistan with the South Asian Countries: A gravity model approach.' (2023) 28(1) *Asia Pacific Management Review* < <https://doi.org/10.1016/j.apmr.2022.02.001> >

⁶⁴ Farwa Sial, Juvaria Jafri and Abdul Khaliq, 'Pakistan, China and the Structures of Debt Distress: Resisting Bretton Woods' (2023) 54(5) *Development and Change* < <https://doi.org/10.1111/dech.12798> >

⁶⁵ A. Shaji George, 'Causes and Consequences of Pakistan's Economic Crisis' (2023) 1(5) *Partners Universal International Innovation Journal* < <https://doi.org/10.5281/zenodo.8436578> >

⁶⁶ Ali Zafar, *Emerging markets: Anatomy, characteristics, and history*. In *Emerging markets in a world of chaos: Pathways for economic growth and development*, (Springer Nature Switzerland 2023). <https://link.springer.com/chapter/10.1007/978-3-031-29949-0_3 >

agreements. Some important points that Pakistan needs to consider are a) **Impact Assessment:** Before signing agreements, thoroughly evaluate the possible effects of free trade agreements on regional sectors. Analyze the dangers associated with rising imports and determine how competitive home producers are against international rivals.⁶⁷ Pakistan can obtain important information about the possible ramifications of trade liberalization on its local industry and economy by performing impact assessments. These evaluations can be used to pinpoint susceptible industries, estimate the financial effects of rising imports, and weigh available policy alternatives to lessen negative effects. Pakistan might modify its bargaining tactics to cater to the particular needs and interests of domestic companies by taking into account the experiences of those sectors impacted by China's imports. Impact assessments also make it easier for stakeholders to participate in the negotiation process by giving representatives of the industry and other interested parties a chance to voice their opinions and make sure their concerns are considered.⁶⁸ Pakistan can negotiate a Free Trade Agreement that balances trade liberalization with safeguarding the interests of its domestic sectors, thereby ensuring sustainable economic growth and development, by utilizing the results of impact assessments. b) **Safeguard Mechanisms:** Pakistan needs to include safeguards in FTAs to shield the home industry from unexpected spikes in imports. Put safeguards, tariff quotas, and anti-dumping duties into effect to stop unfair competition and market disruptions.⁶⁹ To keep tabs on the amount and patterns of imports from China, Pakistan can support the creation of import monitoring systems. Pakistan can detect new risks to domestic sectors and take proactive steps to mitigate them by keeping an eye on import data. Pakistan can also push for rules of origin clauses to be included in the FTA, guaranteeing that goods receiving tariff breaks are indeed made in Pakistan. Strict rules of origin standards protect domestic industry interests by preventing transshipment and ensuring that tariff benefits are not misused. Pakistan can achieve a more equitable and balanced trade relationship with its trading partner and better protect its local sectors from the negative consequences of increased imports by negotiating safeguard mechanisms into a new FTA.

So, Pakistan can better safeguard and advance the interests of its domestic producers while pursuing international trade opportunities by taking note of the difficulties local industries have faced as a result of the flood of Chinese imports and applying these lessons to future FTAs.

4.4- Trade Imbalance between China and Pakistan:

The following table shows the huge trade deficit between China and Pakistan after the CPFTA. The growing trade deficit between China and Pakistan is mainly attributable to the unequal benefits that China receives from the FTA. The trade deficit between Pakistan and China is being widened by China's fast-increasing exports to Pakistan, while Pakistan's exports to China are growing gradually. Data shows that total trade was 5,464 Billion in 2008 and the trade deficit was 4,012 Billion USD. Moving further, in 2021 total trade volume was 23,677 Billion USD whereas the trade deficit was 17,611.


Table 4.4.1: Pakistan's Trade Deficit (Amount is in Million US Dollars)

Trade Deficit (Export-Import)	Total Trade	Year
4,012	5,464	2008
2,782	4,776	2009
3,812	6,682	2010
4,792	8,148	2011
4,068	9,306	2012
3,974	9,278	2013
7,336	11,840	2014
9,085	12,953	2015
12,090	15,270	2016
13,875	16,891	2017
12,726	16,362	2018
10,370	14,442	2019

⁶⁷ Woori Lee, Alen Mulabdic and Michele Ruta, 'Third-country effects of regional trade agreements: A firm-level analysis.' (2023) 140 *Journal of International Economics* <<https://doi.org/10.1016/j.jinteco.2022.103688>>

⁶⁸ Yue Yin, 'The impact of FTAs on export duration: Evidence from China's agricultural firms.' (2023) 32(5) *The Journal of International Trade & Economic Development* <<https://doi.org/10.1080/09638199.2022.2138507>>

⁶⁹ Alla Shlapak, Olha Yatsenko, Tetiana Tananaiko, and Lesia Lyskova, 'Institutional provision of tariff and non-tariff regulation of cross-border trade' (2023) 7 *Economics. Ecology. Social* <<https://elibrary.kubg.edu.ua/id/eprint/45730/>>



10,619	14,353	2020
17,611	23,677	2021

Source: *Own calculations based upon the World Bank's declared data*⁷⁰

Pakistan might gain valuable insights into future free trade agreements by examining the trade gap with China which may include a) **Balanced Negotiations:** Pakistan needs to negotiate a new FTA in a balanced manner, especially considering the disparity in trade between China and Pakistan. To guarantee that both parties gain from the free trade agreement, Pakistan can push for reciprocity in terms of tariff reductions and market access clauses. Pakistan can establish a more equitable commercial relationship with its trading partner that fosters fair competition and mutually beneficial outcomes by requesting comparable concessions from the latter. Moreover, Concerns regarding the potential negative impact of greater imports from China on domestic sectors might be addressed by Pakistan by giving priority to the inclusion of protective measures.⁷¹ Pakistan can reduce the risk of market disruption and protect the interests of local producers by negotiating for safeguards like temporary tariffs or quotas. b) **Diversification of Export Markets:** In light of the trade deficit between China and Pakistan, Pakistan may find it extremely helpful to diversify its export markets when negotiating new FTAs. To reduce the possibility of trade imbalances, Pakistan needs to look at ways to increase trade with a variety of nations. During the negotiations on new FTAs, Pakistan may give priority to industries with significant export potential, including services, agriculture, and textiles. Pakistan may use chances for export diversification and growth by concentrating on industries where it has a competitive advantage and focusing on markets with increasing demand.⁷² In addition, Pakistan can bargain for clauses in the new FTAs that will aid in export financing, trade facilitation, and market access. Pakistan should further promote export diversification by learning from its trade imbalance with China, which it can do by making its goods more competitive and assisting exporters in reaching new markets. d) **Safeguard Measures:** Pakistan needs to include safeguards in trade agreements to reduce the possibility of trade imbalances and shield home industries from unfair competition. Put in place measures to deal with unexpected spikes in imports, such as anti-dumping tariffs and safeguards.⁷³

4.5- New FTAs and involvement of Local Businesses

The peculiarities of FTAs originating from the business community's lack of participation during negotiations provide Pakistan with numerous valuable lessons like a) **Stakeholder Engagement:** Pakistan's negotiations for a new Free Trade Agreement should heavily rely on stakeholder engagement, especially when it comes to local firm's participation. Pakistan might utilize stakeholder engagement to guarantee that the interests and concerns of local firms are suitably represented during the negotiating process, given their significance as major stakeholders. Their knowledge and experience may be a great asset in ensuring that trade agreements reflect the demands and interests of the private sector.⁷⁴ Pakistan might set up systems for continuous feedback and communication during the negotiating process to tell nearby companies about changes and solicit their opinions on important matters. This proactive strategy guarantees local firms a say in determining the terms of the FTA, while also fostering transparency and inclusivity. Pakistan may also include local companies in technical working groups or advisory committees that address certain industries or matters pertinent to the free trade agreement negotiations. Pakistan should leverage the knowledge and viewpoints of regional companies to assist in decision-making and improve the FTA's overall efficacy by establishing avenues for direct participation and cooperation. b) **Industry Input:** To guarantee that trade agreements accurately represent the varied

⁷⁰ See trade deficit

https://wits.worldbank.org/CountryProfile/en/Country/CHN/StartYear/2008/EndYear/2019/TradeFlow/Import/Indicator/MPRT-PRDCT-SHR/Partner/PAK/Product/16-24_FoodProd

⁷¹ Matthew McCartney, 'The China-Pakistan Economic Corridor (CPEC): infrastructure, social savings, spillovers, and economic growth in Pakistan.' (2022) 63(2) *Eurasian Geography and Economics* <<https://doi.org/10.1080/15387216.2020.18369860>>

⁷² Umar Khan, 'PAKISTAN'S ROAD TO CENTRAL ASIA: A PERSPECTIVE THROUGH PRISM OF TRANSIT TRADE TREATIES.' (2023) 6(2) *Pakistan Journal of International Affairs* <<https://doi.org/10.52337/pjia.v6i2.790>>

⁷³Yin Jiyuan and Daniel Drache, 'The Politics of Anti-Dumping in Dispute Settlement: The Trade Predator's Monster' (2013) 3 J. *WTO & China* <<https://heinonline.org/HOL/LandingPage?handle=hein.journals/jwtoch3&div=29&id=&page=>>

⁷⁴ Dani Rodrik, 'What do trade agreements do?' (2018) 32(2) *Journal of economic perspectives* <<https://www.aeaweb.org/articles?id=10.1257/jep.32.2.73>>

interests of different sectors, include representatives from a range of industries in the negotiation process.⁷⁵ This can assist in identifying possible opportunities and difficulties for various businesses and adjust the negotiation plan appropriately c) **Long-Term Planning:** When engaging in trade negotiations, take a long-term approach and take into account how agreements may affect different sectors of the economy. Long-term planning that involves the business community can help predict future trends and changes and guarantee that trade agreements are in line with national development objectives.⁷⁶ d) **Post-Negotiation Engagement:** Post-negotiation engagement with local businesses is crucial for Pakistan in successfully implementing new FTAs and ensuring the active involvement of local businesses in its provisions. Provide channels for continuing communication and input to handle any issues that may surface throughout the implementation stage.⁷⁷ Pakistan can provide training courses, seminars, and workshops to inform nearby companies about the new FTA's consequences and how they might take advantage of it. Enabling local firms to fully benefit from the FTA will require providing information and direction on how to reach new markets, comply with FTA regulations, and leverage opportunities provided by the agreement. So, Pakistan must engage with local firms after the negotiations to guarantee that the new free trade agreement is inclusive, sensitive to local requirements, and produces real economic gains for the country. Pakistan may encourage trade and investment by actively involving local firms in the implementation process, which would propel economic growth and prosperity. Lastly, Pakistan can improve the efficacy and legitimacy of its trade agreements, ultimately fostering economic growth and development, by taking note of the peculiarities of FTAs resulting from the absence of business community input and applying these lessons to subsequent negotiation processes.


5- Conclusion

Since its establishment in 2007, the CPFTA has surely unlocked substantial trade possibilities between the two countries. But as Pakistan considers its CPFTA experiences, several important lessons become clear, which will influence Pakistan's strategy when it comes to negotiating new free trade agreements with other nations. To begin with, the comprehensive impact assessment should always be carried out before signing trade agreements, as it was severely missing during the negotiations for CPFTA. The CPFTA was designed to increase trade between China and Pakistan, but there have been obstacles in the way of its implementation, such as Pakistan's growing trade deficit with China. This emphasizes the significance of conducting thorough impact assessments, regarding suitable tariff concessions under new FTAs, to predict and mitigate any potential negative effects on domestic industries and the economy at large. To ensure that future free trade agreements benefit Pakistan's economic growth and development, the country must give top priority to carrying out thorough investigations to better comprehend the ramifications of trade liberalization. Second, Pakistan's low export potential and lack of competitiveness in several industries have made it difficult for the country to fully reap the benefits of the CPFTA. This emphasizes how crucial it is to have safety nets, such as temporary taxes or quotas, to protect home businesses from unexpected increases in imports and guarantee a more equitable sharing of advantages. To protect its native industries and encourage fair competition, Pakistan, during negotiations for new FTAs, must consider including strong safeguard clauses in any future free trade agreements. Pakistan's experience with the CPFTA has demonstrated that, to address issues and guarantee that the interests of all parties are fairly reflected, the active participation of local enterprises, industry associations, and government agencies is necessary. By fostering a sense of ownership among stakeholders, this inclusive approach not only improves the legitimacy and acceptance of free trade agreements but also facilitates their implementation and monitoring more effectively. Through the implementation of safeguard mechanisms, thorough impact assessments, stable and suitable tariff lines, and stakeholder involvement as a top priority, Pakistan may negotiate trade agreements that foster mutually beneficial and balanced economic relations while simultaneously protecting its domestic interests. In short, the CPFTA has opened up a lot of trade opportunities for China and Pakistan, but it has also taught Pakistan valuable lessons for its upcoming trade talks with other nations. By applying these lessons and adopting a more strategic and inclusive approach, Pakistan may be able to negotiate free trade agreements that support

⁷⁵ Yannick Stiller, 'Bargaining Power in a Globalized World: The Effect of Global Value Chains in Trade Negotiations.' (2023) 25(2) *Business and Politics* <<https://doi.org/10.1017/bap.2023.5>>

⁷⁶ M. Ayhan Kose and Franziska Ohnsorge, 'Falling long-term growth prospects: trends, expectations, and policies.' (World Bank Publications, 2023)

⁷⁷ Ancellam Nnorom, 'The role of the World Trade Organisation's Committee on Regional Trade Agreements, between 1996 and 2010' (2017) PhD diss., University of East London <<https://repository.uel.ac.uk/item/84w05>>



its economic development, promote just and equitable trade relations, and take into account the interests and concerns of its domestic sector and stakeholders. Lessons learned from the CPFTA could be extremely helpful in guiding Pakistan's future trade strategy and negotiations as it moves closer to achieving its trade potential.