

# PAK-CHINA ECONOMIC COOPERATION IN NEW DIMENSIONS

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## ABSTRACT

*Pak China relation in friendship and trade begins since China's year of independence 1949. Pakistan is the first country in the world to accept china at UNO forum. China respects the stand and support of Pakistan. China is the only country in the world, which helps Pakistan at every forum, for instance trade, commerce, agriculture, defence etc. Presently they are contributing on large scale in Power and Energy sector to tackle the shortage of electricity and power problems in Pakistan. Additionally China is helping Pakistan in defence related activities.*

*In long-term the two governments have accorded to continue to play the lead role in providing a strategic framework and institutions of cooperation and guiding and facilitating economic and commercial interaction. The two countries agreed to strengthen the cooperation between the private enterprises, which will be the real operators. Collaboration between research institutions will help in analyzing the situation, identifying the potential areas and providing assessment that will help the collaboration process. An interaction between government agencies, business community and the research institutions will have synergic impact.*

## INTRODUCTION

Relations between China-Pakistan have grown from strength to strength, with standing the test of time and changing global and regional scene. Besides strong political and strategic ties, the two countries also enjoy close economic links. A question often raised relates to sustainability of these relations in future, changing global situation and market orientation. Some apprehend that as the past relations were nurtured by special and peculiar compulsions of the time, their intensity is likely to impair with the emergence of new realities, in particular, owing to rapid growth and opening up of the Chinese economy (Hassan 2006). China is already one of Pakistan's key trading partners. The current volume of trade is around US \$5BN. However, the governments of the two countries, in the spirit of friendship and cooperation that has existed for over 4 decades now, have decided to form a Pak-China Investment company that will invest billions in Pakistan and will also triple trade volume to \$15BN in the next 4 years to 2012 (see study by Bordonaro 2006). This paper dilates upon various aspects of this issue. The paper is divided in to the following sections:

- a. Overview of past and Current Sino-Pak Economic Relations
- b. Emerging global and national scenario bearing on bilateral relations
- c. Prospects for new phase collaboration
- d. Conclusion

## Overview of Sino-Pak Economic Relations

### *Past collaboration*

Pakistan is among forerunners in establishing close links with China. Ever since recognition of the newly established Peoples' Republic of China by Pakistan in 1950, economic relations between the two countries grew persistently (Daily Times 2006). Some landmarks are:

- Air Transportation Agreement (1959) followed by inaugural flight of PIA to Shanghai in April 1964
- Bilateral Trade Agreement (1963) granting MFN status to mutual trade
- Border Trade Agreement (1963) facilitating trade across border of Northern Areas of Pakistan and Xingjian province of China
- Setting up of China-Pakistan Commission on Economic, Trade and Technology (1982)
- Construction of Karakoram Highway (August 1970s)
- Setting up Heavy Mechanical, Heavy Electrical and Aeronautical Complexes in Pakistan with Chinese assistance and collaboration
- Construction of Saindak (Balochistan) Integrated Mineral Project
- Building Chasma Nuclear Plant with Chinese collaboration
- Chinese collaboration in various projects in Pakistan (i.e., cement, fertilizers, glass, paper, power, etc.,)

### ***Current Areas of Cooperation***

The collaboration has entered a new phase in recent years with strengthening and widening cooperation in multiple directions. Besides ongoing collaboration, according to FTA (2005) the additional areas include:

### ***Investment***

- New Proposals and projects with sizeable Chinese investment. Special zones for Chinese investors announced and one such zone has been established near Lahore.
- Pakistan-China Joint Investment Company established (PCICL)
- Additional investment by China in Sandak Copper and Gold Mines.
- China Metallurgical Construction Corporation (MCC), which already runs a copper mine in Pakistan's Balochistan province, is showing renewed interest in expanding and modernizing Pakistan Steel Mills (PSM), the country's only integrated steel-manufacturing plant, at a cost of US\$2.2 billion.

### ***Trade and Transit***

- Sino-Pak Free Trade Area has been enforced. The FTA envisages elimination of import tariffs on a large number of items of export interests to each other. An important development is the inclusion of services and investment in the purview of the Arrangement FTA (2005).
- Implementation of Four-nation Transit Agreement (China, Pakistan, Kazakhstan and Kyrgyzstan) The Agreement was signed in 1993, reinforced in 2000, but yet to be fully operational.

### ***Communications***

- The first phase of Gwadar Deep Sea Port has been completed and inaugurated. The first container ship has already anchored at the port.
- Linking Gwadar with rest of the country, particularly the commercial centers. Projects include Markran Coastal Highway and Gwadar-Quetta Road.
- Additional Chinese assistance for development of Gwadar port.
- Chinese assistance for up-gradation of Karakoram Highway. Work has been started in November 2007 on Pakistani side, while on Chinese side; KKH has already been upgraded to China's national standards.
- Undertaking feasibility for rail link between Pakistan and China.

### ***Tele Communication Sectors***

- China Mobile Pakistan has announced that the company will invest USD \$500 million in constructions of Networks and infrastructures in Pakistan this year to help its "Zong" brand in the country.
- ZTE Corporation is China's largest listed telecommunications manufacturer and wireless solutions provider.
- *Huawei* is a leading global telecommunications company solutions provider with long-term partnerships with operators in Pakistan around the world.

### ***Automobiles***

- According to the new agreement CHINA provide Car Trucks and CNG Buses
- CNG compressor for CNG stations
- CHANGAN |Kalam motor
- KARAKORAM MOTORS |Raftar km50

### ***Energy***

- Chinese collaboration in exploitation of Thar coal and its use for power generation
- Proposal for setting up Oil Refinery in Gwadar along with oil storage and petrochemical complex
- Proposal for setting up oil pipeline from Gwadar to Kashgar
- Examining the feasibility of installing additional nuclear power plants in Pakistan (besides two units already set up at Chashma)
- China upgrades our dame and also making new dames for us (Besham dame, Malakand Power House Warsak dame)

### ***Construction***

- Increased participation of Chinese firms in construction works in Pakistan (roads, telecommunications, ports, industry, etc.,)

### ***Defense***

- Expanding joint defense production (Aeronautical complex, JF 17 Thunder, Frigates for Pakistan navy)
- In Air Craft Karakoram\_8(K 8) and super 7 fighter as known as CF 1 for Pakistani air force

## **Emerging National And Global Scene**

### ***National Scenario***

It should be recognized that the past collaboration had nurtured in a different environment than prevailing now. At that time China was following socialistic and state-controlled path while Pakistan was pursuing a planned and relatively mixed economic approach. Mutual cooperation was therefore confined to state enterprises and agencies. The situation has changed in recent years. Since eighties the two countries are pursuing policies of liberalization, deregulation and promotion of private enterprise. China has registered sustained high growth rate of around 10 percent per annum for about three decades. Its global trade is equal to one-third of the GDP, capturing the world market through sustained expansion in exports. It is a leading destination for foreign direct investment and transfer of technology. With membership in WTO (2001) and IMF (2001) coupled with regional arrangements such as APEC and Shanghai Cooperation Council, China has assumed a critical role in global affairs (PCIC 2005).

Pakistan has also revived a high growth path (6-7 % GDP growth) in recent years with liberalization of economy and attracting foreign direct investment. These developments should be kept in view in future relationships. The government to government cooperation should be supplemented by market oriented approach and greater cooperation between business enterprise (PCIC 2005).

### ***Global Scene***

The global economy, dominated by industrialized North, is once again facing mounting challenges after a decade of sustained growth following the Asian financial crisis of 1997. The challenges include slowing down of economic growth, higher oil and food prices, and liquidity crunch, particularly in the world's largest economy United States. The IMF projects that world economy will grow at 3.7 % during 2008, as compared to 5.2 per cent in 2007 and earlier projection of 4.2 per cent. The notable feature of the global economy today, however, is that while US, Europe and Japan continue to hold the major share of world production and consumption, the contribution of other emerging economies from Asia, Middle East, Africa and Latin America is also increasing (PCBF 2005). China, with its fast paced and sustained economic growth, is poised to play a bigger role in the world economy from now onwards. It is expected to become world's largest economy on Purchasing Power Parity basis in 2015. China will also become a major player in world trade – as a leading exporter and destination of imports. Its global competitiveness is likely to continue though there will be a shift from factor driven competitiveness to technology driven and innovation driven. Pakistan, on the other hand, will remain in the factor-driven category for some more years to come. This will also enhance the scope of collaboration through inter-industry linkages and joint ventures.

The global, regional and national realities should underscore future efforts of mutual cooperation. These events should be seen as a source of strength for enhancing mutually beneficial cooperation (Khan 2004).

### **Prospects for New Phase Collaboration**

The emergence of China as a global economic power should be viewed as a source of strength for China-Pak relations. As discussed in the earlier section the possibilities have expanded and diversified. Concerted efforts should be made to realize the potential fully. Areas needing attention are discussed below.

#### ***Adopting long term integrated planning***

The nature and content of the agreed fields of cooperation warrant the adoption of a long term and integrated strategy and plan. Many issues are inter-related and should be pursued in integrated framework. It is desirable to adopt multi-year and integrated strategy (5-10 years) for promotion of cooperation between two countries. Good to note that a framework agreement for comprehensive economic cooperation covering five years period has been enforced. This needs to be continued, with well in advance planning through mutual consultation. The Chinese assistance policy to Pakistan should also be shifted from project to multi-year programme approach focusing on medium term needs and potential of two economies (Ministry of Commerce 2004).

#### ***Improving implementation mechanism***

Despite wide ranging programmes and agreements that are agreed during visits of head of state and government in recent years, the implementation remains slow and inadequate. The desired results are not being achieved. This aspect should be seriously considered by both the sides and steps taken to strengthen and improve the implementation mechanism at bilateral and inter-agency levels (Pakistan Forum Report 2009).

#### ***Using market based approach***

China-Pak relations began in a different environment than the one prevailing today. At that time the two countries were pursuing planned and relatively controlled and state-managed path of economic development. Mutual cooperation was also confined to government agencies and state enterprises. Economic and financial viability of project was not given high priority. The Chinese closed economy of yester-years is moving swiftly to market oriented one. The future collaboration between the two countries would largely be dependent on the active participation of their private enterprises. This requires a shift in approach. The two governments should

assume the role of promoters and facilitators of private sector collaboration, in addition to pursuing their own collaboration. Private sector should be closely associated in developing the programmes. Contacts and collaboration among research institutions should also be encouraged (Pakistan Steel Report 2005).

### ***Free Trade Area as harbinger of greater cooperation***

The size of China-Pak trade, though expanding, remains low. While bilateral trade is expected to reach \$ 8 billion by the end of this year, and the two countries have resolved to take it to \$ 15 billion by 2010, annual imports and exports remain very low as percentage of total of both the countries. The Free Trade Agreement should help in boosting trade and reducing the trade gap. Besides it should also help in expending investment and collaboration in services sector. Effective mechanisms should be devised to implement the Agreement (see <http://www.karakorammotors.com/>).

It may be mentioned that the selection of items for tariff elimination under FTA is normally based on existing pattern of trade and does not take into account the potential production possibilities. Mechanism should be built into the Agreement to induct potential items of trade interest in it.

### ***Enhancing regional context of collaboration***

China-Pakistan economic collaboration seems to have entered a new phase where projects of regional import are also being promoted (i.e., oil pipeline, four nation transit trade agreement, rail link). This regional dimension should also be given due consideration in formulating programmes (Geo TV Report 2009).

### ***Considering new areas of collaboration***

Cooperation in following areas may also be explored:

- Electronics, computers and telecommunications
- Outsourcing and sub-contracting by Chinese to Pakistani firms
- Seeking joint construction contracts in third countries
- Enhancing technology collaboration and joint research programmes
- Collaboration in human resource development
- Raising productivity, quality and competitiveness of their products and services to penetrate in global market

## **CONCLUSIONS AND RECOMMENDATIONS**

This paper highlights Pak-China trade and economic relations. Pak China relation in friendship and trade begins since China's year of independence 1949. Currently China and Pakistan are collaborating in trade, commerce, agriculture, defense, telecommunication, and energy sectors. Additionally, the two countries have agreed upon continuing to play the lead role in providing a strategic framework and institutions of cooperation and guiding and facilitating economic and commercial interaction through strengthening the cooperation between private enterprises. Collaboration between research institutions will help in analyzing the situation, identifying the potential areas and providing assessment that will help the collaboration process. In this research the past and present areas of collaboration are reviewed and critical conclusions are drawn.

Pakistan is among forerunners in establishing close links with China. Ever since recognition of the newly established Peoples' Republic of China by Pakistan in 1950, economic relations between the two countries grew persistently. The collaboration has entered a new phase in recent years with strengthening and widening cooperation in multiple directions for example, telecommunication, construction, infra-structure development, defense, and energy sectors. The cooperation between the two countries can be enhanced by adopting long term integrated planning, improving implementation mechanism, using market based approach etc. By doing so it is expected that the current level of bi-lateral trade of \$ 8 billion between the countries will reach up to the level of \$ 15 billion by 2010.

The emergence of China as a global economic power should be viewed as a source of strength for China-Pak relations. China-Pakistan economic collaboration seems to have entered a new phase where projects of regional import are also being promoted (i.e., oil pipeline, four nation transit trade agreement, rail link). This regional dimension should also be given due consideration in formulating programmes.

In addition to above, cooperation in other areas for example electronics, computers and telecommunications, outsourcing and sub-contracting by Chinese to Pakistani firms, collaboration in human resource development, Seeking joint construction contracts in third countries etc. may also be explored.

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## ACKNOWLEDGEMENTS

In preparing this research paper the support provided by King Saud University Riyadh Saudi Arabia is thankfully acknowledged. The author is also grateful to the efforts made by Dr. Abid Ali Shah in reviewing and finalizing this manuscript.