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## DELTOID ANALYSIS OF PAKISTAN-ASEAN-CHINA FREE TRADE AGREEMENTS AND OPPORTUNITIES FOR PAKISTAN

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## ABSTRACT

*The interaction of nations shaped by their bilateral ties and the multilateral associations in the shape of triangles demonstrates an opportunity to acknowledge some interesting and motivating dynamics of the existing international trade relations among nations. This study on Pakistan- Association of Southeast Asian Nations-China Free Trade Agreement is an effort to highlight the potentials of the structure of this triangle and opportunities for Pakistan. The analysis shows Pakistan trade with China and ASEAN countries is rapidly growing in recent years but exports are still in lacking position. China-Pakistan Economics Corridor totally favorable for Pakistan and it will create more opportunities and long terms benefits for Pakistan. FTA with ASEAN is really potential from which Pakistan can get advantage in various areas to make cooperation such as trade and industry, environment, investment, science and technology, narcotics control, information technology, agriculture, education, tourism and human resource development. Pakistan and ASEAN countries share familiar aspirations for peace, development and prosperity of the region: therefore, it will be great if both parties can cooperate on a larger scale to benefit from each other.*

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**Keywords:** Pakistan, China, ASEAN, Free trade agreement, Pakistan-China bilateral trade, CPEC.

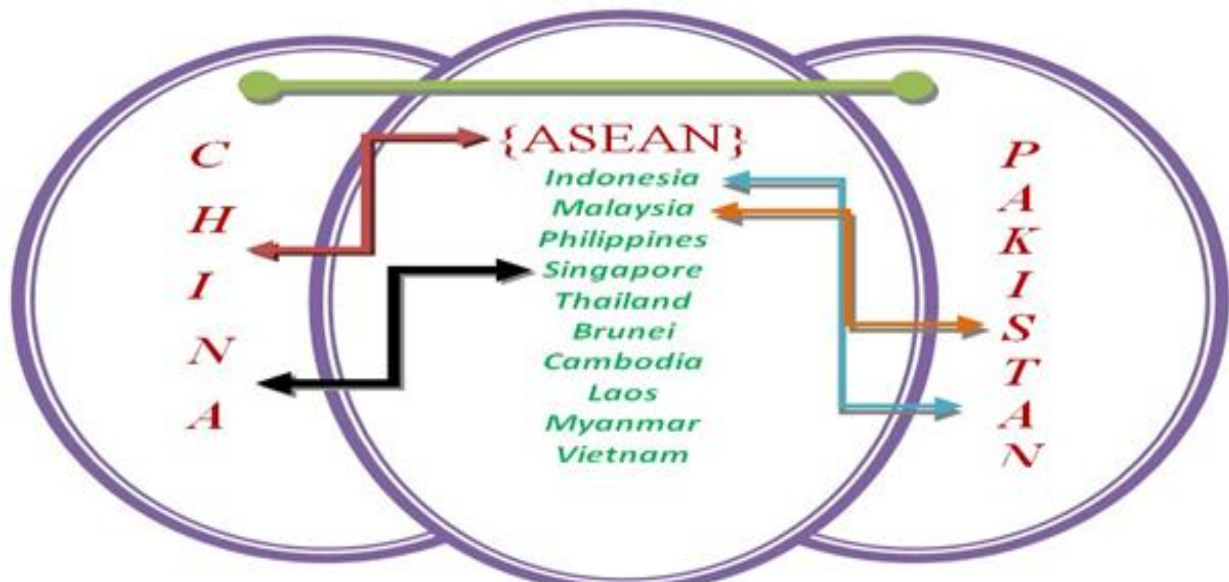
## Contribution/ Originality

This study is one of very few studies which have investigated and highlighted the opportunities for Pakistan's economy from free trade agreement among Pakistan-ASEAN-China. This study also revealed that Pakistan can get advantage from ASEAN at large scale. Moreover, China's recent investment in Pakistan will create long terms benefits for Pakistani Nation.

## 1. INTRODUCTION

Rising trend in globalisation and new realities that are emerging on the international horizon are also pushing Pakistan to reassert its position in East Asia and Oceania and chase a pro-active policy toward these regions. This transform has been well reflected in Pakistan's strategy toward these regions in recent years with a focus on enhancing diplomatic and high level exchanges, Increasing trade, attracting investment, and boosting up cooperation in many disciplines under the broad framework of Vision East Asia formulated in October 2003 (Ahmad, 2006). Pakistan is located in Southwest of Asia and is the sixth heavily populated country in the world that also has the

second major Muslim population in the world after Indonesia (Summaira and Amatul, 2012). In this paper, we will analyze Pakistan's Vision East Asia especially with China and ASEAN mostly from an economic approach. Furthermore, we will throw light on security and strategic paradigms wherever deemed essential with a peculiar emphasis on country's rising ties in the areas of trade and investment as well as economic cooperation with Japan, South Korea, and the Chinas in Northeast Asia as members of the Association of the South East Asian Nations (ASEAN). The rising regionalism in Asia, which is going beyond the traditional set up (in the form of ASEAN) such as the Asian Cooperation Dialogue (ACD), and Shanghai Cooperation Organization (SCO), is significantly influencing the Asian region from North East Asia to South Asia, and up from Central Asia to South West Asia. China has some unusual developments in its relationship with other countries; it is that as a developing country, China has been very active towards implementing free trade agreements (FTAs) since its first proposal of FTA to ASEAN in 2000. The free trade area came into effect on 1 January 2010. The ASEAN–China Free Trade Area is the largest free trade area in terms of population and third largest in terms of nominal GDP (Walker, 2010); (Gooch, 2009).



**Figure-1.** Shows FTAs and PTAs among Nations

Source: Asian Development Bank, Asian Regional Integration Center

China Pakistan inter into free trade agreement in 2006 which was effect in July, 2007. After that trade volume went up due to the agreement between the two nations was US\$ 16 billion in 2014, and reached US\$ 20 billion by 2015 when both countries signed 51 agreements and memorandums of understanding (MoUs) for cooperation in various fields. Both sides agreed to strengthen the mutual opening up of banking industry in both countries, further improve the liberalization level of the service trade of China-Pakistan Free Trade Area and provide more financing convenience to enterprises of the two countries. The signing of the above agreement will play an active role in enriching and consolidating the China-Pakistan all-weather strategic cooperative partnership. Pakistan is making efforts to sign FTA with ASEAN countries to promote trade and exports to these countries. Pakistan signed PTA (Preferential Trade Agreement) with Indonesia in July 2013. Bilateral trade rose dramatically from approximately US\$ 1.1 billion in year 2013 to US\$ 2.2 billion in year 2014. With a free trade agreement, Indonesia will also have more comfortable access to Central Asian trade markets, via Pakistan as a transit point, which will advantage to Pakistan as well. Malaysia and Pakistan FTA negotiations launched in April 2005 and FTA took effect in January

2008 which is aim to promote market opportunity for goods, services, investment and enhance tariff reduction on maximum products.

## 2. METHODOLOGY

To evaluate Pakistan-ASEAN-China FTAs and their trade performances (merchandise imports and exports) data from recent years have been used to analyze, triangle of ASEAN-China-Pakistan FTAs. The trade data employed in this study is at HS-2 digit level for the estimation of overall trade performances under concession-wise multiple tracks offered under the FTA and without FTA, the top ranked products from the earner's and loser's end, and calculation of Pakistan's export competitiveness with ASEAN and China. The major data source used for current analysis is from International trade center and UN COMTRADE statistics along with certain other additional commerce and trade data sources. The investigation conducted in this article mainly comprise of shares analysis and results of certain trade signs and indices.

## 3. MOTIVATIONS BEHIND FTA

An FTA aims to integrate two countries or more than two countries by removing the majority or all of the tariffs on goods and be supposed to convey economic benefits to both sides of the FTA partners or FTA assist the free flow of trade and investment and bring as regards closer economic integration among the binding parties by eliminating tariff/limits on each other's commodities. Nevertheless, put eyes on FTAs that China has launched so far, it is not complicated to observe that China's decisions on FTA allies are not totally based on economic reasons. China is one of the world's leading economies and has an average GDP growth of approximately 8% in the past years. Exports have been the key source of GDP expansion and China has wanted its exports to grow up after the consent into World trade organization. Despite the fact that, the growth tempo has been underneath the expectation, consequently China desires some other instant strategies to amplify exports and one of them is launch FTAs with other nations around the world. With the rising significance of emerging economies in South and East Asia, Asia Pacific and South America, Pakistan desires to strengthen its trading relations and economic relations with the economies of those regions. Keeping in mind the significance friendly relations with China, as the largest economy of the world over and above an instant neighbor of Pakistan, Pakistan should think about to strengthening its economic ties, separately from their previously burly strategic and military relations. Pakistan called an early conclusion of FTA with ASEAN from which Pakistan can get advantage in various areas and make cooperation such as trade and industry, environment, investment, science and technology, narcotics control, information technology, agriculture, education, tourism and human resource development. Pakistan and ASEAN countries share familiar aspirations for peace, development and prosperity of the region. A major change in economic policy from the previous decades was the adoption of a managed floating exchange rate system. The transition to the new system led to an adjustment in the rupee which boosted Pakistan's exports (Summaira and Amatul, 2011).

### 3.1. China's Situation for Regional Free Trade Agreements

China has a number of vast advantages or competitive advantages in trading.

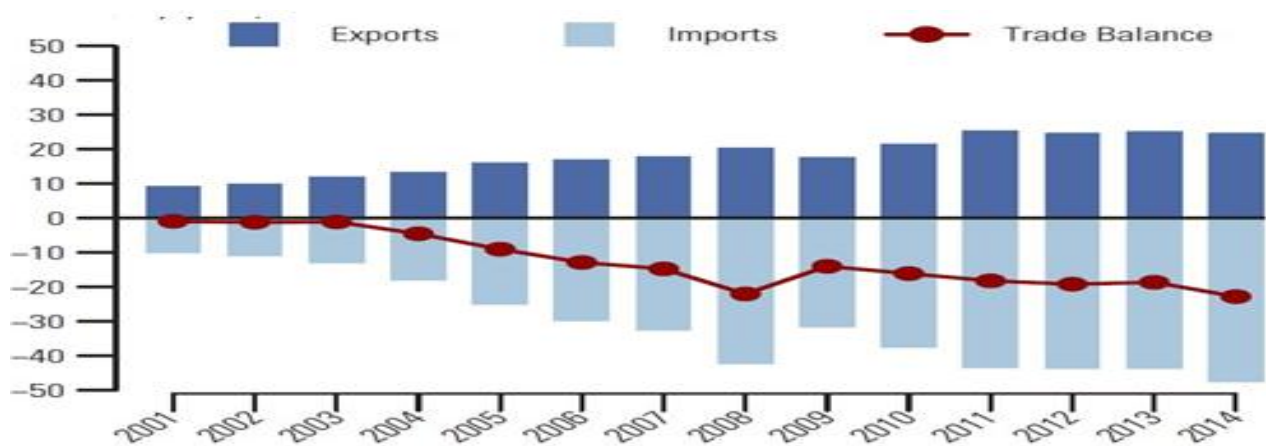
- Firstly, it has a more rapidly development rate than the other developing nations which gives China a more urbanized and well balanced industry.
- Secondly, the Chinese government is willing to have sufficient resources to expand exports, new export processing zones (EPZs) and new Industries.

- Thirdly, China has special zones for special manufacturing purposes like labour intensive factories, producing small spare parts and assembling different parts; special region for industries that needs a lot of capitals, for example, mobile phones, notebooks and computers, as well as cars, etc.
- Before I finish, China is a giant country with a residents of 1.3 billion which means that it has an enormous labour force which contain approximately two-thirds of the world's EPZs workers. The labour in China is low-priced and so products from China are relatively inexpensive.

These advantages demonstrate that China has a very flourishing manufacturing industry, on the other hand, in order to sustain the GDP growth, China had to encourage its exports. It is done by trade liberalization. China started to set up a market-oriented economy since 1980s. Trading was no longer premeditated and a lot of overseas companies were set up since then. Despite the fact that promoting exports, China introduced well-built import safeguard measures which have hindered exports by growing cost of capital goods. Tariffs were increased and non-tariff barriers were introduced in order to defend the domestic market. These were improved during the course of the WTO consent cooperation as China had to demonstrate its commitments to open trades. In order to join the WTO, China decided to decrease its tariffs on dissimilar produces and eliminate all the quotas, licenses and other non-tariff barriers for manufactured goods since 2008.

### 3.2. Pakistan-ASEAN- China FTA Analysis

Pakistan has been aggressively pursuing an open gate economic policy over the past decades. It was the first country in South Asia that adopted a liberal economic policy by deregulating and lessening government control, encouraging private sector, and privatising state's assets and liabilities. Therefore, Pakistan has been actively pursuing an economic diplomacy on rational grounds. Pakistan's policy toward China is based on mutual self-respect and principles of unity, peace, and progress in the larger Asian context. Both countries' relations are often described as a model for friendship. In 2014 the value of merchandise exports of Pakistan decreased slightly by 1.6 percent to reach US\$ 24.7 billion, while its merchandise imports increased moderately by 8.6 percent to reach US\$ 47.5 billion. The merchandise trade balance recorded a large deficit of US\$ 22.8 billion. The largest merchandise trade balance was with Western Asia total US\$ 13.2 billion.

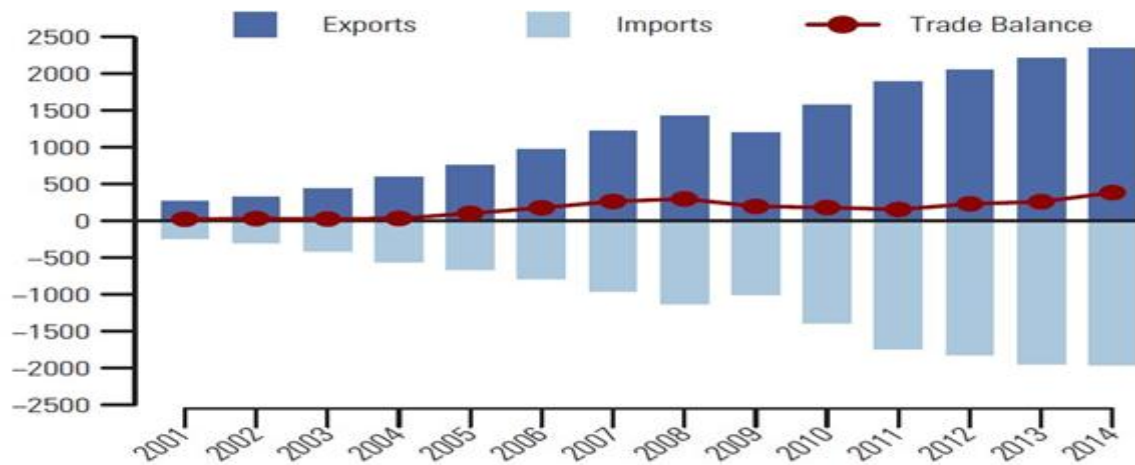


Graph-1. Pakistan's Total Merchandise trade in recent years. (US\$ billions)

Source: International Trade Statistics Yearbook 2014, Volume I

Merchandise exports in Pakistan were diversified among partners; imports were also expanded. The top 24 partners accounted for 80 percent or more of exports and 15 partners valued for 80 percent or more of imports. In 2013, the growth of exports of services of Pakistan decreased significantly by 25.8 percent, reaching US\$ 4.9 billion,

although its imports of services diminished moderately by 7.0 percent and arrived at US\$ 7.8 billion. There was a moderate trade in services deficit of US\$ 2.9 billion (see graph 1).



Graph-2. China total merchandise trade in recent years. (US\$ billions)

Source: International Trade Statistics Yearbook 2014, Volume I

In 2014, the worth of merchandise exports of China amplified fairly by 6.0 percent to arrive at US\$ 2342.3 billion, while its merchandise imports improved slightly by 0.4 percent to make US\$ 1958 billion. The trade balance recorded a surplus of US\$ 384.3 billion, the largest surplus recorded in year 2014. The major merchandise trade balance was with Developed North America at US\$ 242.2 billion. In 2014, China was the world's top exporter of merchandise goods. Merchandise exports in China were expanding amongst partners; imports were also expanded (see graph 2). China used to be an international price-taker in the world market and a rule-taker in the world economy. China has always been concerned about issues such as how to integrate into the world economy, how to respond to the changes in the world economy and so on (Qi *et al.*, 2014).

Table-1. Bilateral trade between China and ASEAN countries in recent years (US\$ billions)

ASEAN		China's Imports from ASEAN			China's Exports to ASEAN		
		2012	2013	2014	2012	2013	2014
NO.	Total	195.87	199.56	208.21	204.27	244.04	272.06
1	Malaysia	58.30	60.15	55.65	36.53	45.93	46.36
2	Thailand	38.55	38.52	38.37	31.20	32.72	34.29
3	Singapore	28.53	30.06	30.81	40.75	45.83	48.91
4	Indonesia	31.96	31.42	24.49	34.29	36.93	39
5	Philippines	19.64	18.18	20.98	16.73	19.87	23.47
6	Viet Nam	16.23	16.89	19.90	34.21	48.60	63.73
7	Myanmar	1.30	2.86	15.60	5.67	7.34	9.37
8	Laos	0.79	1	1.77	0.94	1.72	1.84
9	Cambodia	0.21	0.36	0.48	2.71	3.41	3.27
10	Brunei	0.37	0.09	0.19	1.25	1.70	1.75

Source: Author's own calculations based on ITC & UN COMTRADE statistics

Table 1, shows Imports and exports values of China's FTA with ASEAN countries. It is also shows that China's FTA with ASEAN is totally favorable to China in recent years. The Agreement on Trade in Goods (TIG) of the model Agreement on wide-ranging Economic Cooperation between China and ASEAN has been signed on 29 November 2004. Beneath the TIG agreement, the modes for tariff decrease and elimination have been established where for ASEAN 6 and China; the majority of the tariffs have been absolutely eliminated since 2010 while, rest of tariffs will be eliminated by 2015. China and ASEAN should keep on to make stronger the development of high-tech



products and persistently improve the export structure to get mutual benefits (Jialin and Cai, 2013). Manufactured products trade accounted for a larger share of trade between China and ASEAN countries, mainly in the food and beverages and textile industry, tobacco industry, machinery, transport equipment and chemical industry (Muhammad and Qi, 2014).

**Table-2.** Trade between Pakistan and ASEAN countries in recent years (US\$ million)

ASEAN		Pakistan's Imports from ASEAN			Pakistan's Exports to ASEAN		
		2012	2013	2014	2012	2013	2014
<b>NO.</b>	Total	5154	4742	5474	1092	968	1119
<b>1</b>	Indonesia	1351	1208	2107	307	262	260
<b>2</b>	Malaysia	2131	1919	1280	59	86	245
<b>3</b>	Singapore	770	745	1149	233	204	233
<b>4</b>	Thailand	716	715	730	236	144	138
<b>5</b>	Viet Nam	97	108	146	109	117	118
<b>6</b>	Philippines	33	33	40	91	91	76
<b>7</b>	Myanmar	52	11	20	40	48	33
<b>8</b>	Cambodia	0.33	0.61	0.25	13	12	13
<b>9</b>	Brunei	0	0.03	0.02	0.47	0.76	0.76
<b>10</b>	Laos	0	0.17	0	0.51	0.40	0.69

Source: Author's own calculations based on ITC & UN COMTRADE statistics

Pakistan trade with ASEAN is getting rich in recent years. Imports are higher than exports which results negative trade balance. Pakistan imports from Malaysia mainly HS-chapter 15 "animal, vegetable fats and oils" 48 percent of total imports from Malaysia in year 2014. Pakistan's largest imports from Indonesia which is HS-chapter 15 "animal, vegetable fats and oils" covered 67 percent of total imports from Indonesia in year 2014. Indonesia offered preferential market access to Pakistan on 232 tariff lines. further than these, 103 tariff lines which are of Pakistan's export importance are zero rated and comprises fresh fruits, readymade garments, cotton yarn/fabrics, fans, leather goods, sports goods and other industrial products.

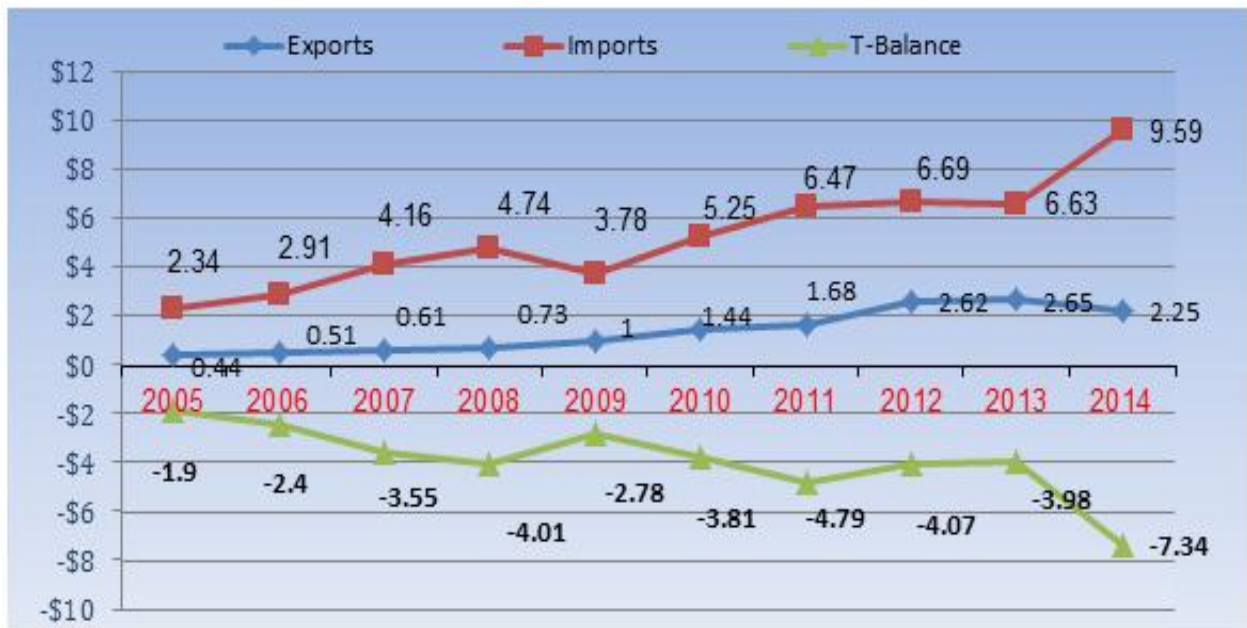
Vietnam stood at first at exports side of Pakistan following Singapore and Malaysia. HS- chapter 3 "fish, crustaceans, mollusks, aquatic etc" and Hs-chapter 52 "cotton" shares 33 percent and 30 percent respectively in the total exports to Vietnam. In 2014, ASEAN's total trade with Pakistan amounted to US\$ 6.6 billion. ASEAN's exports to Pakistan witnessed at US\$5.5 billion while imports by ASEAN accounted at US\$ 1.1 billion. Foreign Direct Investment to ASEAN from Pakistan in 2013 was US\$ 13 million.

**Table-3.** Trade flows of Pakistan and China in 2014. (US\$ Billions)

❖	Pakistan to/from World	China to/from World	Pakistan to/from China
<b>Imports</b>	47.54	1958	9.6
<b>Exports</b>	24.72	2342	2.25
<b>Total</b>	72.26	4300	11.85
<b>Trade Balance</b>	-22.82	384	-7.35

Source: Author's own calculations based on ITC & UN COMTRADE statistics

However, Table 3 shows how China trades as much as multiple times more than what Pakistan does. In addition, China has emerged as an exports-driven nation with its growth rate of exports surpassing that of its imports. Pakistan's export growth rate is still lagging at the back its import growth rates (Muhammad and Qi, 2015).



**Graph-3.** Bilateral trade between Pakistan and China in recent years. (US\$ Billions)

Source: Author's own calculations based on ITC & UN COMTRADE statistics

Pakistan and China signed a bilateral trade agreement in 2006 which came into effect in 2007. In graph 3 we can see the upward trend in imports since FTA commitments began but at the export side not that much excitement and balance of trade between Pakistan and China getting increase each year. This is the alarming situation for Pakistan to recover the negative effect of trade. Overall trade of Pakistan and China beneath FTA quickly amplified from US\$ 3.5 in 2006 to US\$ 12 billion in 2014. Any discussion on Pakistan's economic and strategic relations with China would be imperfect without at least a concise look at the import side. China was second major importing partner of Pakistan with share of 20% of Pakistan's total imports in 2014.

### 3.3. Opportunities for Pakistan

The FTA therefore provides significant opportunities to Pakistani investors to import raw materials, equipment and machinery at lower duties from China and ASEAN countries and then export the finished goods to the expanding market of world. FTA promotes more import and export between Pakistan and china. The enhancing of the FTA will further improve the economic level and trade as strategic partner between Pakistan and china. Export plays a fundamental position in the economy of each country. Pakistan should maintain a vigorous equilibrium in between foreign trade and foreign exchange reserves with a sustainable development of a country. Pakistan should have a persistent and elevated rate of growth from the exports. Exports have a consequence on the entire industrial environment. In sequence to compete globally, industry needs to have standard quality product, competitive prices, good quality and packaging according international Labeling and packing rules, export acts as the motivating power for a fast developing economy and be able to formulate an important player in the world market (Muhammad and Qi, 2015). Investors from ASEAN and China should invest in Pakistan's agriculture, livestock, infrastructure, energy, automobile and lots of other sectors are welcoming investors from ASEAN and Chin. There is a huge potential for expansion of bilateral or multilateral trade among Pakistan-China-ASEAN triangle as a result of FTA (Musleh et al., 2009). By promoting a more well-organized allocation of resources, bilateral trade will help enhance the productivity, living standards, and long-run growth of the economies. Pakistan-China relations benefit from a distinctive permanence in terms of junction of interests, collaboration and cooperation that has weathered revolutionizes in the arena. The relationship is definitely rich and multidimensional frequently categorized as strategic. Nevertheless, in the

contemporary situation, there is a rising urge to move this bilateral relationship further than stereotypes and if so needed, reinterpret its strategic dimensions in keeping with new realities on the ground (Beenish, 2013). China Pakistan Economic Corridor (CPEC) China has made commitments to Invest around \$46 billion in development arrangements, which is equal to approximately 20 per cent of Pakistan's annual GDP (Stevens, 2015). China's biggest foreign direct investment deal to invest in Pakistan. In totality, the economic corridor project plans to add some 17,000 megawatts of electricity generation at a cost of around \$34 billion. The rest of the money will be spent on transport infrastructure, including upgrading the railway line between the port megacity of Karachi and the northwest city of Peshawar (Shah, 2015). China has assured to offer further facilities and market access to Pakistan's products under the phase two of Pakistan China Free Trade Agreement (PCFTA), which is under process to be signed between the two countries.

Both sides should contribute to strengthen the joint opening up of banking industry in cooperation both countries, additionally improve the liberalization stage of the service trade of PCFTA and offer additional financing convenience to enterprises of the two nations. The above agreement will play an energetic role in enriching and merging the China-Pakistan all-weather strategic cooperative partnership.

### 3.4. Pakistan's Trade Potential and the Proposed Regional Comprehensive Economic Partnership

Pakistan, like many other developing countries, is enthusiastically pursuing a policy of enhancing regional economic cooperation. Efforts by the ASEAN+6 to construct a RCEP are in progress. The partners of the ASEAN+6 which include the ASEAN, China, India, New Zealand, Japan, Korea and Australia. The spirit of the laid down aims of the RCEP is to widen and deepen integration in the region, resting on existing economic linkages. Pakistan, not having a FTA with ASEAN, is not a negotiating associate to the RCEP. Nevertheless, approximately all of the invited non-ASEAN partners, to connect the RCEP, are either direct or indirect rivals of Pakistan's exports to major markets for example, Malaysia, China, Indonesia, India, Singapore and Australia. These nations will get pleasure from major concessions upon joining the RCEP, which will propitiously affect Pakistan's exports to the region.

Pakistan is well-integrated with the ASEAN+6. Pakistan's trade within the region has amplified significantly over the last decade. Six of the ASEAN+6 countries are placed along with the top 10 import nations for Pakistan; these comprise China, Japan, Malaysia, Indonesia, India, and Korea. Furthermore, seven out of the top ten Pakistani import product groups match with the top ten traded commodity collections of the ASEAN partners. Nevertheless, the probable formation of the RCEP takes with it the threat of diverting trade away from Pakistan, to the members of the new alliance. Statistics show that Pakistan's bilateral trade agreements have significantly hit its trade with the partner countries. Similarly, Pakistan's bilateral trade with all of its preferential trading regions has also found a substantial boost over time. High level of complementarity between Pakistan and the affiliate states of the proposed RCEP, which has increased over time. Given this high level of complementarity, Pakistan's entry into the RCEP will reduce potential trade expenses between potential trading nations. Pakistan has previously signed bilateral trade agreements with China, Malaysia, Sri Lanka and Indonesia. With these agreements, Pakistan can play an essential position in encouraging trade amongst the RCEP. One point to be addressed, though, is that before seeking to join the trading bloc, Pakistan must try to eradicate its own supply-side constraints. Admission into the trading bloc would push Pakistan to take serious and wise steps to deal with these constraints in advance. Pakistan may, therefore continue its efforts to remain in the dialogue process to become a member of the proposed RCEP.

## 4. CONCLUSION

Pakistan's geographical position would prove to be a strategic and intentional asset for the Asia-Pacific regions to establish faultless connectivity inside the Asia. In conclusion, this paper proposes that the entry of Pakistan in the



proposed trading bloc with ASEAN nations will boost the quantum of bilateral trade among the member states. Furthermore, the geographical location of Pakistan will propose the member states more rapidly and cheaper access to a multiple markets, including the Middle East and also the Central Asian Republic. Eventually, the entry of Pakistan in the proposed trading bloc is a win-win development in which every region can get advantage from greater intra-regional trade and investment flows, cheap transactions costs, and enhanced access to essential markets. Pakistan's FTA with China has positively had an encouraging impact on the trade levels. China's share in Pakistan's total trade with the world has increased. Both countries should negotiate on diverse issues like tariff reduction modalities, trade in services and to promote cooperation for investment in various fields. Other obstacles of trade such as sanitary and phytosanitary rules, technical barriers to trade, electronic data distribution and sharing, customs related matters are involved.

#### 4.1. Policy Suggestion and Recommendations

From the study it is clear that FTA with ASEAN and China has vast prospective from Pakistan in imports and exports, if precise policy proceedings are taken. On the ground of the determinations of our analysis following policy suggestions may be drawn;

- To fortify vocational training institutes and guarantee provision of modern and upgraded technologies to enhance production capacity, quality and superiority of exporting goods.
- To make sure the complexity level of exporting goods, export sympathize the trading partners' income levels.
- The distance among ASEAN nations are considered as a trade opposition factor or trade barriers for example, market access obstacles, delivery time and cultural multifariousness. The supply of commodities to overseas markets will be superior with lowering of the resistance issues. These resistance factors can be minimized by using technological advancement and modern electronic media, by broadcasting industries, promotions and advertisement of commodities and services worldwide.
- Trade with neighboring economies should be amplified as lesser transportation expenditures may lead to a raise in demand for exports and imports.
- Pakistan should exports his merchandise goods to economies having larger land areas to generate excess demand and bigger acceptability of different cultures as well as foreign cultures.
- Government should concentrate on top exporting sectors to boost up Pakistan's export demand. This leads to increase in GDP growth rate.
- Pakistan should developing air freight capacity to facilitate and encourage exports in all ASEAN nations.
- Pakistan has not sufficient infrastructure and system of transportation that is impediment for manufacturing goods trade surges. Hence there is required to focus on infrastructure that serves as the requirement for trade. Once infrastructure and network of transportation are developed, several isolated areas will be attached and goods from all sectors will approach to the market and will ready to export to international market.
- Pakistan needs to move from exporting primary merchandise goods and simple manufactures to higher-value-added goods, if export expansion is to be persistent and exports are to contribute to growing employment and GDP in the country.

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