

Post CPFTA-II Pak-China Trade Management: A Swot Analysis of Pakistan's Export-Oriented Industry

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Abstract: CPFTA Phase-II has ushered in a new era of bilateral trade between China and Pakistan. Both the countries have provided tariff and trade concessions to enable their local industries grow up and provide mutual benefits to each other. However, this bilateral trade arrangement is subject of debate in terms of the capacity and effectiveness of Pakistan's export industry in availing these concessions. This paper would evaluate CPFTA-II, highlighting its main features and various sectors identified for the purpose. It would also discuss the tariffs and trade concessions as per the said agreement and would also make SWOT analysis of Pakistan's export-oriented industry in the wake of this bilateral arrangement between China and Pakistan, focusing on Pakistan's export industry capacity issues, Non-Tariff Barriers (NTB) and Pakistan's government response to the challenges faced by the industry. The study is done on the principle of Mix method. While examining the strengths, weaknesses, opportunities and threats for Pakistan's export-oriented industry in the backdrop of CPFTA Phase-II, some policy measures would be suggested to get maximum benefits out of this new trade regime.

Introduction

There is no denying the fact that in today's world, bilateral trade plays a vital role in providing boost to domestic industry, revenue generation and economic growth. Realizing this fact, both China and Pakistan improved upon the PAK-CHINA Free Trade Agreement signed in 2007 and after thorough sessions of negotiations signed the Phase-II of CPFTA in 2019 (Meriyum Ali, 2020). The main objectives were to maximize bilateral trade, reduction of tariffs and increased access to each other's markets. Some of the main sectors in this regard include textiles, garments, meat, leather, chemicals, plastics, oil seeds, foot wear, home appliances and auto parts. While this agreement is a welcome development, there are questions and concerns about the capacity and effectiveness of Pakistan's export-oriented industry to get maximum advantage from the bilateral trade. Before reaching any conclusion, it is desirable to shed light on main features of CPFTA-II and make SWOT analysis of Pakistan's export-oriented industry.

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Analysis of Issues and Challenges

The analysis would focus on post CPFTA-II Pak-China Trade Regime and SWOT Analysis of Pakistan's Export-Oriented Industry keeping in view the various features of the CPFTA-II.

(A) Major Features

1. China has given concessions to Pakistan against 8238 tariff lines.(Nazish Afraz, Nadia Mukhtar, 2019).
2. Pakistan has been granted immediate duty-free access by China on 783 tariff lines which did not attract zero percent tariff in CPFTA-1(Nazish Afraz, Nadia Mukhtar, 2019).
3. In terms of tariff lines that Pakistan exports, 845 lines will have duty-free access by 2030(Nazish Afraz, Nadia Mukhtar, 2019).
4. At the same time, 813 tariff lines fall in Category-II where China has given no concession(Nazish Afraz, Nadia Mukhtar, 2019).
5. Safeguard clauses have been included that feature as standard in FTAs over the world.
6. Real-time electronic exchange of trade data has been allowed which was not included in Phase-1.

(B) SWOT Analysis

Strengths

1. The textile industry is now having competitive access in comparison to top five China importers as there is zero tariff on products like men's or boy's ensembles of cotton, trousers and uncombed single cotton yarn etc. Similarly leather and footwear industry are enjoying duty free access to Chinese markets specially in products like Otherbovine/equine leather and footwear with rubber soles etc.Mines and Minerals sector can export articles of stones or of other mineral substances with no tariff duty. Similarly, duties for Agriculture sector have been eliminated for food items like frozen juices, natural honey and fish etc.
2. Pakistan's export industry is well placed to divert its exports to China as it has already been exporting such products to the world except China. Now Pakistan has competitive advantage vis-à-vis other five top competitors. In the industrial sector such products include cement clinkers, sanitary ware and paints etc while the textile sector includes blankets of synthetic fibers, men's or boy's under paints and shirts etc.
3. Exporters have option of discovering new products for export to China which in the current regime has given competitive access to Pakistan in products like parts and accessories for motor vehicles,vertical machining centres and appliances etc.
4. Safeguard measures can be invoked in case of any threat to its domestic industry against surge in imports from China for a longer period of 10 to 23 years (Meriyum Ali, 2020).
5. In case there is BOP crises, Pakistan could levy additional duties to avert the balance of payment crises.
6. In order to avoid mis-declaration and under-invoicing of imports from China, a system of Electronic Data Exchange has been enforced on the trade, which will reduce revenue losses for Pakistan.
7. Pakistan's export industry has the advantage of increasing its exports to China as in the present regime main industries are protected as Pakistan has not given any concessions to China. Such

products comprise of almost 37 percent of Pakistan imports from China(Nazish Afraz, Nadia Mukhtar, 2019).

8. Pakistan recorded nearly 70% increase in exports to China in the first quarter of 2021 which is very impressive as compared to the last year exports to China(The Nation, 2021)

Weaknesses

1. Agriculture sector's main products like semi or wholly milled rice and cotton industry items like blankets and rugs etc. are facing worse access than India and Vietnam.
2. Products of cotton paper and paper board are not enjoying competitive access while Agriculture products like process food and edible fruits, processed vegetables and seed oils and manufacturing industry like machinery and mechanical appliances are also facing higher tariffs in competition to the top five exporting countries to China.
3. There is a lack of information about Chinese market at all levels, starting with pre-production, as well as the production and post production stages. Exporters have greater familiarity with European and American markets than the Chinese markets.
4. Export promotion strategy is faulty as policy makers are focused on the export of low value-added products ignoring the need for effective import substitution.

Opportunities

1. As Pakistan is having billions of investment in infrastructure sector from China, in CPEC initiatives, Pakistan's export industries have the opportunities of improved infrastructure and accessibility(Engagement with Punjab under CPEC, A proposed framework for Industry working paper, 2017).
2. Pakistan's top export sector of readymade garments (RMG) both knit wear and woven (except babies garments) have tremendous opportunities to boom as it already has an established potential and now it has zero duty access to Chinese markets like China's other developing countries partners such as Bangladesh, Thailand, Vietnam and Cambodia and faces lower tariffs than competitors such as India, Italy, USA and Sri Lanka(Nazish Afraz, Nadia Mukhtar, 2019).
3. In the CPFTA-II favourable trade environment, Pakistan can increase its exports of mine and minerals, especially chromite and nephrite. The exporters can easily import additional raw material from Afghanistan and export finished products to China(Dynamimcs of Chrome Trading, 2012).
4. Fruits like mangoes and oranges can have huge demand in China by properly branding Pakistani mangoes and availability of seedless oranges in the Chinese market.
5. Exporters can diversify its exports to China as there is zero-duty on the products which Pakistan is already exporting to the world but not to China. China is importing these products from other countries. Pakistan has now better competitive advantage as by the year 2024, 75% of all such products will have duty free access to China(Nazish Afraz, Nadia Mukhtar, 2019)

Threats

1. Pakistani exporters face difficulties to meet large orders, due to capacity issues, unskilled labour, capital issues and energy crises.

2. One-window operations for export to China are absent.
3. Pakistan is facing an underdeveloped infrastructure with the existing poor supply chain and the exporters cannot fully benefit from the concessions given in tariffs to Chinese markets.
4. Exporters' timelines are unreliable due to Government export and import procedures such as custom clearance and uncertainty in trade policy.
5. Pakistan is using the prevailing traditional methods of production in general and Agriculture/Agro-based industries in particular. This is neither cost effective, nor suitable to fulfill requirements of modern market.
6. Pakistani exporter's understanding of the Chinese market is limited and is worsened by the lack of capacity and interest on part of commercial counsellors and TDAP. Due to language barrier and absence of network in China, the exporters find it difficult to find reliable partners in China (Nazish Afraz, Nadia Mukhtar, 2019).
7. The import of products where Pakistan has domestic advantage like dairy products etc. tends to widen the trade gap.

Conclusion

It is evident that CPFTA Phase-II has opened new windows of opportunity for Pakistan's local industry to excel and compete by enhancing its capacity to capture Chinese markets. Some of the tariff concessions are unprecedented as compared to what has been happening in the past. This agreement may open up more avenues for bilateral trade. However, as mentioned earlier, Pakistan's domestic industry may not be in a position to fully capitalize on these concessions unless it adds value to the methods of productions and update itself to meet the challenging requirements of modern-day technological advancement. In case Pakistan fails to fully avail this opportunity, it may cause huge set back to the industry while Chinese products may overwhelm Pakistani markets. A closer look at the CPFTA-II reveals that there are still areas of mutual cooperation which may be included in the trade regime. Both China and Pakistan are cognizant of the fact that their mutual economic cooperation would help both countries to ensure sustainable economic development. Hence, they have a long way to go to explore and cover this new route of bilateral trade.

Recommendations

1. To address the issue of lack of consumer awareness and technical barriers in trade, it is required to strengthen role and capacity of commercial counsellors and TDAP and enhancing their role in matching Chinese partners with Pakistani exporters, sponsoring business-to-business fora/meetings and visits, helping Pakistani exporters in distributing their exports in China and in removing bans and technical barriers.
2. At the federal level, to further facilitate trade and improve coordination, there should be highly efficient trade facilitation desk for China having dedicated one window cell to deal with quality and trade related issues. The desk should work for improving coordination between the federal and provincial departments which is facing serious hurdles to the exporters and develop a portal to consolidate SPS and other import requirements of China by tariff line and standardizing local accreditation.
3. The Government must ensure support to the domestic industries by offering free certification in metrology, testing and accreditation services to smaller exporters and ensuring pre shipment inspection for efficient cargo handling.

4. TDAP may initiate a special incentive programme for exporters to China in the shape of relaxation on duties in import of raw materials and machinery for their exports.
5. Instead of exporting a raw material of mine and minerals like chromite and nephrite, Pakistan should import processing machinery from China and export the value-added products to China instead of exporting raw material.
6. In order to encourage the exporters, duties on import of raw materials may be minimized specially for import of synthetic fabrics and encouraging China in production of non-cotton garments through duty-free import of Chinese fabric for jointly owned companies in Pakistan.
7. The Government should patronize Pakistan China Joint Business Council to enhance its capacity in providing match making, branding and promotion of services for Pakistan exporters to China and establishing its network in China through mutual collaboration.
8. Serious negotiation with China for lifting ban on poultry would help Pakistan increase its export of frozen chicken cuts, in which Pakistan now has better tariff access than competitors. The exporters are keen to access the Halal food market in China for approximately 30 million Muslims.
9. Pakistan may seek technical assistance from China to develop Karachi harbor and Gawader Port so that it can promote sustainable and eco-friendly fishing practices.
10. CPFTA-II oriented Research and Analysis wing should be established at TDAP level for China and present quarterly review regularly alongwith suggestions. It should support and encourage the Pakistan Business Council to conduct analysis of the post CPFTA-II on the pattern of the one it conducted in 2019.

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