PROSPECTS OF BILATERAL DEVELOPMENT IN PAK-CHINA ECONOMIC RELATIONS

*Dr. Mussarat Jabeen

ABSTRACT

Pakistan and China enjoy a multi-dimensional friendship that has passed the test of international vicissitudes. Both sides never disturb their friendly ties despite changes on regional and global environment. Since 1980s, China's foreign relations have become economy-centric and it has launched major economic and social reforms to modernize the country. Its economy enjoyed sustained and rapid development. The GNP increased at the rate of 9.9 percent annually from 1975 to 1995, and income of urban and rural population raised and touched the figure of 6.3 percent. This growing economy has made China an economic power of the world. Pakistan needs to take benefit of its time-tested friendship, which is not yielding desired results in economic field. In Pakistan, there is need of commitment with vigorous efforts to move on the path of economic reforms. With Chinese support, Pakistan has completed many projects while several are underway. There are still several areas, which want the attention of both sides urging mutual attempts to get benefits. New avenues of cooperation should be explored with a view to constantly expand the scope of economic development and laying solid foundation for closer bilateral ties. The paper is aimed to highlight those areas where more Chinese cooperation and assistance are required with discussion on the impediments that need to be addressed with proactive and supportive policies.

Key Words: *Economic relations, bilateral cooperation, trade, export, import, industry, agriculture, treaties, forums.*

INTRODUCTION

The diplomatic contacts between Pakistan and China were established on 21 May 1951. At that time, both countries valued their diplomatic and strategic relations while the economic ties remained low on the policy agenda. However, both countries subsequently moved towards the trade relations after strengthening political connections and military relationship. The trade relations began in the early 1950s, but a formal Trade Agreement for mutual benefit and cooperation was signed in

**Assistant professor, Department of IR & Political Sciences, University of Sargodha*

January 1963. In the early 1950s, Pakistan was searching the markets for its raw jute and cotton while suppliers of coal were also required. In 1952, Pakistan's exports to China reached up to US$ 83.8 million and imports from China were only US$ 2.2 million.[1] From 1952 to 1957, the trade balance remained in favour of Pakistan otherwise China enjoyed this position all the years. In those days, Pakistan had multi-modal trade with China including barter trade and cash trade. In the aftermath of the Korean War, bilateral trade faced a sharp decline. The trade between China and Pakistan had generally been conducted under Trade Agreement in 1963. After signing this agreement, both states granted Most Favourite Nation (MFN) status to each other. This status explains that state policy leads towards favourable trade interaction. This agreement was for one year with condition to extend automatically unless any one of the parties gave notice of the three months before the expiry date.[2] In 1963, bilateral trade was US$ 10 million, which reached to US$ 9.3 billion in 2010 and is expected that the bilateral trade volume would reach to $15 billion within the next five years.[3]

Among the other earliest landmark agreements for bilateral cooperation include the construction of the Karakoram Highway that was to link mountainous Northern Pakistan with Western China and was officially opened in 1978. The other significant gesture was the civil aviation accord, which was signed by China to a non-Communist country. It made the PIA as the first airline in the world to provide a service to and from China and to fly over Moscow and beyond. PIA started its Karachi-Kabul-Moscow service in 1964. On one hand, this agreement benefited Pakistan while on the other blocked US$ 4.3 million American aid for up gradation of Dhaka airport. The US believed that connection with communist nation would damage the free world and warned Pakistan against its consequences. But Pakistan promoted its

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[1] - Fazal-urRahman, "Pakistan-China economic relations: opportunities and challenges,"*Strategic Studies,* 26, no. 2. (Summer 2006),http://www.issi.org.pk/journal/2006_files/no_2/article/a3.htm

[2]- YaccovVerberger, "The political economy of Sino-Pak relations: trade and aid 1963-82," *Asian Survey*, vol., 23, no., 5, (May 1983), pp 637-52.

[3]- *People's Daily,* April 15, 2010.

relation irrespective of any external pressure.[4] Pakistan also followed one-China policy. Since then the friendship touched a level where it can truly be said higher than mountains and deeper than oceans.

Bilateral Steps to improve Economic Relations

The post-Mao leadership in China adopted a pragmatic approach and economy was kept on the high table of diplomacy under the leadership of Deng Xiaoping. He moved from the revolutionary zeal of Mao Zedong towards open door policy expanding China's economy to the external world, and focused on the promotion of cordial and normal relations with other countries, particularly regional countries. His reform program also accelerated the economic development.[5] The establishment of these relations led to the reduction of tension on the borders through the resolution of territorial disputes in the periphery. China became one of the major economic powers. According to current parity rate, its economy is third in the world with a volume of US$ 1.3 trillion while in terms of purchasing power is in the second position.[6]

Following a well-defined strategy, China has successfully engaged its neighbouring countries in mutually beneficial trade and economic cooperation. Owing to closed friendly relations with China, bilateral trade began to show signs of upraise in the 1980s and the two countries formulated 'Pakistan-China Joint Committee for Economy, Trade and Technology' in October 1982. The volume of trade was increased from US$ 122 million to US$ 203 million.[7]

4- *Ahmad Rashid Malik, Pakistan-Japan Relations: Continuity and Change in Economic Relations and Security Interests, London: Routledge, 2008.*

5- *Joshua Eisenman, Eric Heginbotham and Derek Mitchell (ed.), China and the developing World: Beijing's Strategy for Twenty first Century, New York: M. E Sharpe, 2006.*

6- *Dawn (Editorial), December 17, 2004.*

7 - AtulKumar, "China-Pakistan economic relations," *Special Report 30,* September 2006.

At the dawn of the 21st century, both Pakistan and China realized the missing economic dimension in their evolving political and strategic ties. Both nations increased cooperation and signs of improvement were visible in terms of investment and commercial contacts. China responded in enhancing economic activity with Pakistan. It is acknowledged by the two countries that sustainable development and comprehensive trade relations with substantive interaction in economic areas would strengthen the political and strategic ties. Economic cooperation is not only key to consolidate the bilateral relations but also a vehicle to achieve common aspirations for development, peace, prosperity, and stability in the region. Chinese Prime Minister, Zhu Rongji, was the first Chinese leader who visited Pakistan in the 21st Century. His visit was to celebrate the half-century old all-weather friendship in May 2001. He urged to "boost cooperation in agriculture, infrastructure, information technology and other fields under the principle of reciprocity and mutual benefit for achieving common prosperity." His views were endorsed by Pakistan's leadership calling them crucial for promotion of economic and commercial ties for the development of the country.[8]

The Chinese contribution for agreeing projects was US$ 1 billion dollars in terms of money. Moving to further cooperation and making substantive initiative for expanding economic ties, both sides signed six agreements and a Memorandum of Understanding (MoU). These agreements included; Economic and Technical Cooperation, Tourism Cooperation, Lease Agreement on Sandak Copper-Gold Project, Supply of Locomotives to Pakistan Railways, Supply of Passenger Coaches to Pakistan Railways, and White Oil Pipeline. Another MoU was signed between Pakistan Telecommunications Co. Ltd and China's Zhong Xing Telecommunication Equipment (ZTE). China consented to provide 50 million Yuan under the agreement on 'Economic and Technical Cooperation, which was to promote economic cooperation in technical areas.[9] Both countries have taken several initiatives to strengthen the economic ties. The following bilateral steps have been taken by the two nations.

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[8]- *Dawn*, May 24, 2001.

[9]- *The Post* (Lahore), July 9, 2010.

Full Market Economy Status

During the visit of former Prime Minister Shaukat Aziz in December 2004, Pakistan gave Full Market Economy (FME) status to China.[10] Premier Wen Jiabao of the State Council appreciated Pakistan's recognition of China's status during his talks with Aziz. Both sides hoped for promotion of further development. They also signed seven agreements in trade, communication, and energy sectors. These agreements paved the path of bilateral trade and Chinese investment by setting up of joint agro-based industrial zone in Pakistan. The Chinese side also responded positively to Pakistan's proposal of establishing a Pakistan-China Joint Investment Company and a Joint Infrastructure Development Fund for investment in Pakistan. It was agreed that the Joint Economic Commission would review it. The foundation stone was laid in Shanghai for building Pakistan consulate there.[11]

Preferential Trade Agreement

The preferential trade agreement was signed in 2005. Both countries signed eight agreements during the visit of President Pervez Musharraf to China in February 2006. The most important was the Preferential Trade Agreement (PTA) between the two countries. This agreement extended concession in tariff for 839 items from China to Pakistan while 200 items were listed for concession by Pakistan. This agreement led to strengthen the economic ties and established a better trade balance between the two countries. A general loan agreement regarding the use of preferential buyer's credit of US$ 500 million for setting up projects in Pakistan with the help of Chinese companies was also included in this agreement.[12] It was also decided that China would

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[10] - "Pakistan recognizes China's full market economy status," December 16, 2004.<http://www.fmprc.gov.cn/eng/wjb/zzjg/yzs/gjib/2757/2758/t176556.htm>

[11]- Khalid Mahmud, "Sino-Pak ties: India factor," *Dawn* (Karachi), April 14, 2001.

[12] - *Dawn,* December 17, 2004.

invest US$ 12 billion in Pakistani projects.[13]Taking reciprocating act, Musharraf, the president of Pakistan, promised with Chinese entrepreneurs in launching various industrial zones in Pakistan.[14]Following this precedent, other regional nations can initiate towards this dimension to take benefit of preferential trade for enhancing economic activity. The Vision East Asia policy of Pakistan also played a leading role in the country's trade expansion after 2004.

Free Trade Agreement

The talks on free trade agreement were started during the visit of Wen Jiabao to Pakistan in 2003 and a year later, a protocol was signed during the Aziz's visit to China for the establishment of the Free Trade Agreement (FTA) between the two nations. At that time, the annual trade volume was US$ 2.5 billion.[15] However, the difference between Chinese and Pakistani goods in bilateral trade was relatively vast and the number of their competing goods was small. From January 2006, the two countries decided to implement the Early Harvest Programme (EHP) that was to facilitate the growth in trade.[16] This was the first step towards establishing a free trade area between the two countries. It was expected that this zone would emerge as a possible commercial hub of the region due to drop of tariff. China decided to bring a zero tariff on 767 items while Pakistan responded this gesture by offering the same facility on 464 items.[17]During the visit of Chinese President Hu Jintao to Pakistan in November 2006, the two countries signed 18 agreements, including a free trade agreement. It was expected that boost of the trade would be from US$ 4.26 billion to US$ 15 billion within five years. Both countries also signed a pact on a five-year plan to set up a comprehensive framework for enhancing economic ties.[18]

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[13]- "China will Invest US$12 billion in Pakistan," *Shanghai Daily*, March 9, 2006.

[14] - *New York Times*, January 18, 2006.

[15]- *Pakistan Times*, December 18, 2004.

[16]- Rehman, op., cit.

[17]- *Zhang Lijun, , "Closer ties," Beijing Review, vol., 49, no. 2. (January 12, 2006).* http://www.bjreview.com.cn/06-02-e/w-3.htm

[18]- *Reuter, <http://today.reuters.com/news/articlenews.aspx?type=worldNews&story*

After completion of all process, FTA has been in operation since July 2007. It is expected FTA would cover90 percent and remaining 10 percent would be listed as the sensitive commodities.[19] An FTA between China and Pakistan means zero percent tariff for many products, which would make the market more attractive and lucrative for two-way trade. In 2005, overseas investment was about US$ 50 billion by the Chinese companies and the contract volume was US$ 22.4 billion.[20] On February 21, 2009, the Agreement on Trade in Service was signed between the two countries that came into force in October 2009. In 2007, Pak-China trade volume was US$ 6.5 billion while Chinese export was US$ 5.4 billion and imports were US$ 1.1 billion. Bilateral trade reached US$ 7 billion in 2008 and no change occurred in proportion of import-export.[21]Currently, the sectors identified for Chinese investment are mining, food processing, agriculture, motorcycles, air conditioners, energy-related projects, telecommunications, infrastructural projects, automobiles, and electronic instrument for domestic use.

China is also investing in the private sector of Pakistan. Chinese entrepreneurs have poured capital into different private sector including Zhongxing Telecom (Pvt) Ltd, SaigolsQingqi Motors Ltd, Sehala Chemical Complex, Pak Glass Ltd., Glass Industry, SaifNadeem Ltd., Haier Home Appliances and Sino-Pak Metal Foundry in Nooriabad.[22] Pakistani railway is also taking Chinese help in technical field to build locomotives and passenger coaches. President Asif Ali Zardari informed the members of China's Northern Railway Corporation, headed by its chief executive officer that "Pakistan planned to convert from broad gauge to standard gauge and also to build new lines for access to Central Asian, West Asian, Chinese and European markets, and invited CNR to form a consortium with Pakistan Railways for

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id=2006-11-24T091640Z_01_ISL301598_RTRUKOC_0_US-PAKISTAN-CHINA.xml&src=rss>).

[19]- *Rehman, op., cit.*

[20]- *"World Business Briefing-Asia: China 2005, Overseas Investment topped US$ 50 billion," New York Times, January 18, 2006.*

[21] - *"Sino-Pak FTA implemented," (2009). http://english.people.com.cn/90001/90776/90883/6951695.html).*

[22]- Kumar, op., cit.

development of these and other projects on the basis of equity partnership."[23] No doubt, the trade balance is still heavily against Pakistan as Chinese exports are massive as compared to Pakistani commodities. A comparison of two-sided trade indicated that Pakistani share was US$13. 6 billion in 2005, which was less than half of the total trade volume of the two sides.[24]

An upward trend was observed after these institutional arrangements and trade jumped from US$ 2.7 billion to US$ 9.2 billion in 2010 and the opportunities for Pakistani exports to China are growing.[25] The Chinese Custom Authority commented that "Pakistan's export to China showed an upward trend, registering an increase of about 39.2 percent in 2005. China's investment in Pakistan at present stands at US$ 4 billion plus, and at least 114 Chinese projects are underway." In December 2010, Chinese Premier Wen Jiabao paid a visit to Pakistan, which was unique in its nature as it covered the strategic, political and economic dimensions. During his visit, Jiabao held meetings with all stakeholders. He also concluded with economic deals worth US$ 35 billion with Pakistan. There are about 120 Chinese enterprises working in Pakistan.[26]

Sino-Pak Trade 2001-2008

(US$ Million)

Year	Total		China Export		China Import		Balance	
	Value	Change	Value	Change	Value	Change	Value	Change
2001	1,397	20.4%	815	21.6%	582	18.8%	233	31.1%

[23]- Khalil-urRehman, (July 21, 2010), *Business Recorder* (Islamabad). http://www.brecorder.com/index.php?id=1082751&currPageNo=1&query=&search=&term=&supDate.

[24] - "India-China relations set to scale new heights in 2006," *The Hindu*, December 9, 2005.

[25] - ErfanShahzad, "Pak-China-relations in the 21st century: regional situation, security, economic and trade cooperation," *Policy Perspectives*, vol., 1, no.1. 2010. http://www.ips.org.pk/global-issues-and-politics/182- html (accessed March 19, 2010).

[26]Reuters, op., cit.

2002	1,800	28.8%	1,242	52.4%	558	-4.2%	684	193.5%
2003	2,430	35.0%	1,855	49.4%	575	3.0%	1,280	86.9%
2004	3,061	26.0%	2,466	32.9%	595	3.5%	1,871	46.2%
2005	4,260	39.0%	3,430	39.0%	830	40.0%	2,600	39.0%
2006	5,247	23.1%	4,240	23.7%	1,007	20.9%	3,233	24.3%
2007	6,539	24.6%	5,433	28.2%	1,105	9.7%	4,328	33.9%
2008	6,981	1.3%	5,975	3.2%	1,006	-8.9%	4,969	6.1%

Source: China Ministry of Commerce, and China Customs

The total bilateral trade between China and Pakistan in 2009 was US$ 4.7 billion with Pakistan's share of US$ 974 million showing increase of 42.7 percent. In 2010, total import-export volume was US$ 9.2 billion while Pakistan's share was of US$ 1.5 billion, which was double to last year with an increase of 103 percent showing an upward trend.

Construction of Gwadar Sea Port and the Karakoram Highway

Gwadar seaport, Karakoram Highwayand the Coastal Highway are listed as the major infrastructure projects for boosting of economic activity. These projects are in the process of construction. This port is a supplement to Karachi port and port Qasim, which was constructed in the late 1980s. About 50 million tons of cargo is covered by Karachi port annually while Pakistan's economy is to be grown at the rate of six percent per annum. It is expected that the volume of trade would rise to be around 75 million tons up till 2015. The government has undertaken measures to expand the two ports to meet the growing demands of trading and commercial activities. China is the major investor in the port-project. Gwadar seaport is strategically located just 150 nautical miles from the straits of Hormuz, which is route for 40 to 60 per cent of the world's oil supplies. The work of the port

started in March 2002 and China provided US$ 198 million as the total amount required for the phase-one was US$ 248 million.[27] Initially China was hesitant to assist the project but ultimately agreed to provide the funds with condition of having "sovereign guarantees to the port facilities." Pakistan accepted this condition, which annoyed the United States.[28] The first phase has been completed in a record time in 2006 with the whole hearted support of China.

China has also invested in supporting the infrastructure of the port and provided funds for a highway linking Gwadar to central Balochistan as well as developing links with the Central Asian Republics (CRSs) through the Karakoram Highway (KKH). A railway track was completed in 2008, which is the first ever train routes near KKH. This highway would connect the Chinese side of the KKH to the Russian-built highway, which is already linked all the five Central Asian Republics. Gwadar will also get access to Xinjiang and the CRSs through an all-weather highway as this network would provide a direct route.[29]

Both the KKH and the coastal highway are vital trade routes to secure the economic interest. In the current position, KKH links western China to Pakistan. The development of Ratodero-Khuzdar road would provide the shortest route between Gwadar and Western China, the region becoming the hub of economic activity as a huge economic transformation is undergoing. Owing to short and secure route, it would serve as an alternate to the sea route that passes through the Straits of Malacca.[30] Up gradation of these links would increase trade interaction as economic cooperation is crucial for strategic cooperation between the two countries.

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[27]- *"Gwadar's rich potential," Dawn, June 13, 2006.*

[28]- *TariqueNiazi, "Gwadar: China's Naval Outpost on the Indian Ocean", The Jamestown Foundation, (February 28, 2005).<http://www.jamestown.org/news_details.php?news_id=93>*

[29] - *Rajeev RanjanChaturvedy, "Interpreting China's Grand Strategy at Gwadar", Institute for Peace and Conflict States, (February 14, 2006), <http://www.ipcs.org/China_east_asia_articles2.jsp?action=showView&kValue=1952&keyArticle=1009&issue=1009&status=article&mod=a*

[30]- *Ibid*

The port will provide an access to the regional actors with vast energy resources of Central Asia to global markets, transit fees. The investment in Balochistan would earn profits for Pakistan. The proposals are being given to make this port area as a free trade zone. According to the Pakistani business community, Gwadar port would provide incentives to Chinese traders, and resultantly economy would be boosted.[31]The region would draw attention of new stakeholders in Afghanistan aiming to get the benefits of the transit trade to Central Asia through Gwadar. This activity may change the situation in the war-torn country with improving the relation between Kabul and Islamabad.[32]

The estimated cost of phase two is US$ 600 million. The plan includes the construction of ten more berths with an approach channel of five kmlong that will take vessel up to 50,000 DWT. The construction of the 600 km long coastal line would give boost to fisheries and crab exports as well as food processing industries. Gwadar could become a potential source of offshore gas and oil exploration due to its location in the vicinity of the oil-rich Gulf region.[33]About Gwadar port, President Musharraf said, "When the Karakoram Highway was built, the world called it the eighth wonder. We can create the ninth and tenth wonders by establishing energy pipelines and railway linkages between the two fastest growing economies."[34]

Impediments inhibiting the Bilateral Trade between Pakistan and China

Traditionally, the trade relations between China and Pakistan did not boost like strategic relations and are facing a chronic trade deficit and consequently trade is still tilting in favour of China. There are several hurdles, which are blocking the route of smooth flow. These include the following:

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[31]- *ZiadHaider, "Baluchis, Beijing, and Pakistan's Gwadar Port," Georgetown Journal of International Affair Winter/Spring 2005.*

[32]- *Dawn, June 13, 2006.*

[33] - TalatMasood, "Gwadar strategic importance,*Dawn* , February 14, 2005.

[34]- "Pakistan, China agree to boost energy cooperation," *The Daily Times,* April 6, 2006.

- There is a structural imbalance in bilateral trade. China is competing in almost all the major areas of export zones in Pakistan, which are limited in number. Except the Korean War, the trade balance remained in favour of China all the times.
- Lack of diversification is another problem. Pakistan cannot increase its exports without diversifying exportable items. Chinese investors are not interested in the projects having no value to their market. In all the major sectors of export, China is competing Pakistan. The cotton - based industry is only exporting its products. Currently more than 70 percent of Pakistani exports are cotton yarn or cotton fabric. Since China itself is a major textile manufacturer and cotton industry is fulfilling Chinese need leaving no space for imports.[35]
- At the level of cottage industries, Pakistani manufacturers are far behind in international standard and are not in a position to earn through this industry, while Chinese entrepreneurs are ahead in this sector. These unexplored areas want attention on both sides. For example, soft stuffed toy industry needs Chinese guidance and assistance.
- Another challenge to bilateral trade relations is posed by extremism, militancy, terrorism and drug trafficking. Due to increased militancy and terrorism, the situation of security and law and order is the worst affected and hurdling all other areas of common interests.
- Pakistani business community is obsessed with the quality of western products and contented with their established export links with the Western and American countries. They are hesitant to join new markets and change in their trading partners, so they take no serious attempt to explore other areas and markets for bilateral trade. At the same time, Chinese products are not popular like famous Western brand and this competition usually goes against China and reduces the market of Chinese goods and in return affect the exports of Pakistan, which is already imbalanced.
- Lack of effective means of communication and infrastructure is another hurdle in trade activity. The Karakoram Highway

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[35]- Kumar, op., cit.

was inaugurated in 1978 but could not be used as it works for half of the year. In addition, an underdeveloped shipping industry has limited the trade routes and depressed the growth in trade volume. Gwadar seaport is in process and is not fully functional to deepen the mutual interests in economic and strategic arenas.

- The absence of the common economic forum is also hurdle towards enhancement of trade relations. A joint forum provides opportunities to promote the cooperation and communication, which encourage entrepreneurs to invest in megaprojects of mutual benefits by increasing cooperation and by learning from each other experiences.
- Chinese investment is very low in the private sector due to state-controlled economic policies, however, the Chinese government is taking supportive measures in this direction but desired results are not available.
- Chinese products are manufactured on low rates while the cost of Pakistani goods is high. This ultimately leads to increased cost of exports as compared to imports from China.

Suggestion to Improve Relations

There are several suggestions to improve the economic relations:

- There is a need to compensate low trade volume and trade deficit of Pakistan. For this purpose, generous Chinese assistance is required to build infrastructure as well as to acquire self-sufficiency. No doubt, the most part of the aid given by China was either in the form of grants or interest-free loans, which led Pakistan to complete several major projects. But more generous aid is required as the current share is insufficient.
- Diversification in exportable goods is crucial with an effective trade policy. It would enhance the expertise and rectify the trade imbalance with China. It is not possible for Pakistan to increase its exports to China without bringing change in its commodities.
- Exploration of new areas is necessary for enhancing trade volume. There is a huge space for investment and joint ventures in textile, leather, oil exploration and fisheries.

Leather and leather products are currently earning US$ 600 million while world's total exports are US$ 50 billion in this sector. It is a matter of a great concern that despite having a strong industrial base in the leather sector, the industry is not getting the maximum benefit of its potentials. Chinese investment in these industries would increase the value of the products and Pakistan's exports would make a quantum jump. There are a number of textile quotas in which Pakistan does not have enough expertise. The textile sector demands quick and huge investment to get profit. The textile experts opined that increasing Chinese investment along with increased quota and friendly attitude of the buyers, Pakistan's textile could easily develop. Another potential area is the polyester fiber industry, which is a value added industry though it developed in 1982. The capacity of the exports was 300,000 tons per year up till the year 2002. This area demands joint ventures of both sides to strengthen the economy.[36]

- It is the need of the hour that the trade and industry go hand in hand for proper value addition. For this purpose, aggressive marketing techniques and timely steps can play a crucial role to achieve the desired results.The agenda of discussion, with Chinese counterparts should concentrate on seeking help in up-gradation of quality products, raw materials of fine quality, modern equipment and plants, professional skills, quick and timely decisions, business ethics, and promotion of joint ventures.
- China never attaches strings with its aid to Pakistan and this policy is supportive for Pakistan in increasing its exports without any accepting dictation or constraint on domestic or regional security policies.[37]
- Chinese government's persuasion to state-controlled industry is helpful in improving the trade balance and project-specific

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[36]- PriyadarshiMukherji, *Indian Defence Review*, Issue 25, vol, .3. (July-Sep 2010).www.indiandefencereview.com/author/Prof-priyadarshi-mukherji/ (Accessed 27 September 2011).

[37] - *Pakistan-China relations: a prospective on all-weather friendship (2011, May 31), Aljazeera Centre for Studies. www.aljazeera.net/studies.*

investments are major reasons of better trade and investment from China. But the private sector's engagement is crucial as the changing global trend has made it the main engine of growth in bilateral economic relations; it still is at a low level. In the past, China has made valuable contributions to Pakistan's economy, particularly for developing infrastructure and basic industries. This practice need to be continued in future.

- It is the need of hour to change trends of Westernization in different commodities. In recent years, China has made enviable progress in trade and commercial areas and boost of its economy has strengthened its position in the world economy as markets are flooded with Chinese products. However, regional countries are not beneficent and looking to the West for technology. To enhance cooperation between China and the regional states, transfer of technology is very important. Chinese technology has an easy access and would reduce dependency on the West. China would earn foreign exchange and boost in its economy would benefit the entire region.
- Many Chinese entrepreneurs are investing all over the world but South Asia is more in need of investment owing to the low level of economic development of the regional nations. The volume of Foreign Direct Investment (FDI) is very little in the region. The countries need to make their laws favourable to Chinese investment.
- Regional exchange programmes are necessary for the promotion of regional cooperation in trade. These would provide opportunities for the countries to buy each other's products. To introduce the commodities, exhibitions and fairs should be organized at the regional level. To achieve the desired results, participation of traders and investors should be ensured.
- There is a dire need to improve the communication facilities in the region. Gwadar port would increase interaction and can become economic hub after completion. To fully exploit the port, improve infrastructure is required for getting access to the commercial centres of the Gulf and beyond. The port is also significant for exploitation of energy resources in the

Central Asia, particularly in Kazakhstan and Turkmenistan. The developed countries are attempting to explore these resources through their multinational companies, which are trying to make routes for access to these resources. The fast developing Gwadar Port is the nearest port to Central Asia. Here Chinese investors have an opportunity to utilise the port facilities for their investment. Another way is to take the benefits of the skills and expertise of Western countries. They have an edge in oil exploration technology. The joint ventures and investment for the use of these resources can bring prosperity and betterment to the region. To quote, a senior diplomat: "An improved Karakorum highway, a rail-link, an energy corridor, and optical fibber cable link across Pakistan-China border will ensure greater economic and commercial transactions. This is, after all, one of the traditional silk routes of the past."[38]

- Without expansion of banking facilities, economic and trade cooperation is difficult in the present scenario. Banking links are insufficient and opening of the new branches of national banks is the need of hour. China, Pakistan and other countries should think about the common banks or joint funds.
- In 1995, an agreement on transit traffic was signed between China, Pakistan, Kyrghyzstan, and Kazakhstan but that was not implemented in time. The agreement was enforced in October 2003 after eight years due to minor issues like transit fees and route-permits. Such slow pace of enactment of policies impedes regional cooperation and must be curbed in future. Other is expansion of such agreements for the benefit of other landlocked countries of the region.
- There is a growing realisation about the joint efforts and common strategies at regional levels to make collective benefit. China and Pakistan enjoy deep and strong bilateral relations but do not have any joint regional forum. Furthermore, the regional forums that exist are not effective for certain reasons. The SAARC is ineffective owing to Pakistan-India rivalry. Same is case of ECO which, despite passing two decades, is not fully functional due to continued fighting and the security situation of Afghanistan. However, a

[38] - *Ibid.*

joint forum is crucial to enhance the 'all-weather friendship. The second annual Boao Asia Forum Conference, which was held in China's southern province Hunnan was of great significance. Addressing the forum, Pakistan's President emphasized the need of designing a comprehensive plan for Asian development enumerating hurdles in the realization of this vision. The regional cooperation would reduce the poverty and deprivation of the people as a whole whose estimated number is more than 650 million, and are living below the poverty line.[39]

- It is observed that since the setting up of Sino-Pak diplomatic relations, China never gave preference or showed favour for any specific government. Contrary to it, friendly relations were developed with no sense of loss irrespective of who ruled Pakistan. It indicates that whatever time it might be, China will offer powerful backing to Pakistan like a friend indeed. It is important for Pakistan to take benefit of this position and develop long-term economic projects to accelerate its economy.
- The region is rich in minerals like gold, copper and costly gemstones. In China, nearly 171 minerals have been explored, which are 12 per cent of the world's total mineral resources. Huge energy reserves are also found in Pakistan's province Balochistan: the location of Gwadar seaport. The utilisation of natural resources would enhance the regional development.
- Both Pakistan and China need to improve the security situation of the region by taking countermeasures against terrorism and extremism. Though closer cooperation on fighting terrorism is also evident from a joint anti-terrorism drill, code-named "Friendship-2010," yet more effective efforts are required to counter this menace. In Pakistan, almost 120 Chinese companies and 10,000 Chinese workers are busy in various areas like mining, energy exploration and infrastructure. In recent visits of high leadership, China has

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[39] - *"China Pakistan Joint Declaration" (November 4, 2003).* *<http://www.fmprc.gov.cn/eng/wjb/zzjg/yzs/gjib/2757/2758/t40148.htm>.*

unfolded a package of US$ 30 billion which is a leap forward to invigorate Pakistan's economy. A soft loan of about US$1.7-2 billion is required for Pakistan.[40]This amount would be met by China. Pakistan and China have decided to step up efforts against terrorism, separatism and religious extremism, terming it a threat to both nations. Chinese Premier WunJiabao asked for a higher level of cooperation between both countries for economic development.[41]

CONCLUSION

Pakistan and China enjoy an all-weather friendship and time-tested partnership. This friendship is reaping the fruit in strategic and political areas while economic relations are relatively on a lower ranking. However, both countries are taking different measures for economic cooperation, which are equally crucial to progress by leaps and bounds. For the last two decades, the economic interaction is increasing and many projects are underway with Chinese support. Both countries share the vision of economic direction through a number of high-level meetings, conferences and seminar on trade, economic and commercial activities. At these forums, the two governments have made decisions to follow different strategies to enhance economic cooperation. These formal steps need to be implemented. This paper has explored different areas and suggested several initiatives for economic development. However, implementation of these strategies is not easy. The other issue is respective economic position of both countries. China is an economic power while Pakistan is passing through the developmental process. Pakistan needs Chinese support to overcome its economic problems and implementation of suggested measures, which demand active and favourable Chinese policies. Without Chinese support, Pakistan is not in the position to do this uphill task. The benefits of economic ventures would only be realized after the successful imposition of the agreements made at different levels for the promotion of trade and investment. There is great importance of joint efforts and common strategies for collective benefits. These all steps would pave the path of development.

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[40] - *Shahzad, op., cit.*

[41]- *Ibid.*

Pakistan and China have observer status in SCO and SAARC respectively. This status should be raised to a full membership for real benefit of joint and friendly forums. No doubt, Sino-Pakistani relations are thus summarised that whatever the time it might be, China offers powerful backing and support to Pakistan. More importantly, it promises a 'positive domino effect' in terms of economic growth tempting other regional countries. Another positive gesture on the Chinese side is generating opportunities in the economic domain that are suitable for Pakistani setting. Despite the overwhelming counterterrorism factor in the scenario, China's economic achievements are exemplary to emulate and a guarantee for regional stability. China never blocked economic and military aid to Pakistan alleging the violation of so-called international norms, if a vacuum is created by such acts, is ready to fill it. Pakistan needs to get the benefit of Chinese experience and expertise in agriculture and industrial sectors to enhance the production. Being a developing country in science and technology, Pakistani scientists and engineers need to learn from China. Another is up-gradation of existing infrastructure to speed the economic growth.