



KCCI - Country Wrap: China

China – a brief overview

People's Republic of China (PRC) is an East Asian country with the highest population in the World, having estimated population of ~1.4Bn. China has become the world's fastest-growing major economy since the introduction of economic reforms in 1978. China is the 2nd largest economy in the world. It is the largest creditor nation in the world and is a major holder of debt of leading countries; as an example, China holds around 20.8% of all foreign-owned US Treasury securities. The renminbi (RMB) is the currency of China, denominated as the Yuan (CNY or ¥). Through most of its history, the value of the renminbi has been pegged to the U.S. dollar and has often been officially devalued to increase China's competitiveness in the global context.

China's major trading partners

The major importing partners of China are South Korea (9.7%), Japan (9.1%), U.S. (8.5%), Germany (5.43) and Australia (5.1%). The major export partners of China are U.S. (19%), Japan (6%), South Korea (4.5%) and Hong Kong (12.4%).

Pak-China Free Trade Agreement

CPFTA-I: Pakistan and China signed a Free Trade Agreement (FTA) in 2006. In the first phase of the tariff reduction program (from 2007-12), tariffs on Pakistani exports to China were eliminated on 70% of the product lines, while tariff reduction of 20-50% was implemented on 15% of lines. From imports point of view, Pakistan eliminated tariffs on 55.5% of the lines and reduced tariff in the range of 20-50% on 28% of lines. Pakistan had expressed dissatisfaction over the lopsided outcome of the FTA phase-I, highlighting unequal gains due to erosion of the margin of preference and Phase II should be based on the principle of less than reciprocity in favor of Pakistan.

CPFTA-II: Duty-free market access on 313 tariff lines to China will be provided besides investments in various other socio-economic projects. An increase of 10% in the protected list of Pakistan also agreed during CPFTA-I has been raised to 25% (that comes to around 1,760 tariff lines and covers 37% of Pakistan's imports from China). During PM Imran Khan's first official visit to China in Nov'18, Pakistan managed to secure \$ 1Bn worth of duty-free market access into China.

Trade between Pakistan and China

The trade quantum between Pakistan and China has improved significantly in the last decade. During 2018, Pakistan exported commodities worth \$ 2.2Bn to China as against exports of \$ 1.83Bn in 2017 showing an increase in growth by 20.2%. The goods imported by Pakistan from China during 2018 stood at \$ 16.9Bn as against imports of \$ 18.3Bn in 2017 showing decline of 7.7% in imports. The trade balance is in China's favor at \$ 14.8Bn in 2018 as compared with \$ 16.4Bn in 2017, a decrease of 9.8%.

Economic Relations between Pakistan and China

Of the \$ 62Bn CPEC project, the up-gradation of Karakoram Highway, Thar Coal Mining, up-gradation of Pakistan Railways and Power Generation Projects, both nuclear and non-nuclear, are some of the other key projects reflecting expanding economic cooperation. Recently, during PM of Pakistan's visit to China it was discussed that new growth points created by CPEC will further boost economic ties between China and Pakistan in the long run as more resources are deployed for technological collaboration, infrastructure development and people-to-people exchanges.

In Jul'18, in order to help Pakistan contain its depreciation forex reserves, China granted Pakistan a loan of \$ 2Bn and then Yuan 15Bn (\$ 2.1Bn) in Mar'19. The Chinese govt. has also offered Pakistan market access for rice, sugar and yarn worth \$ 1Bn for 2019. Furthermore, China has extended a currency swap agreement to Pakistan.

Under CPEC, at the end of 2018, 11 projects had been completed and 20 more are under construction. Out of 15 energy projects planned as priority with a total generation capacity of 11,110 MW, seven have been completed. CPEC's focus is being expanded to focus on industrialization, agriculture cooperation and socio-economic development. 7 Chinese companies have expressed willingness to relocate their industrial units to Pakistan, while a plan for the fast-track development in the 7 notified Special Economic Zones (SEZs) in next two years has been drawn up. In order to promote business opportunities under CPEC, Pak-China business council is also under consideration.

Commerce Potential between Pakistan and China

-Pakistan needs to think out-of-the-box to attract relocating Chinese industries which may well locate to countries like Far East, Ethiopia and Egypt

-Pakistani businesses should take advantage of the CPFTA and increase exports under the many opportunities it offers.

-There is substantial room available for Pakistani products like cereals, seafood, textiles, cotton, where Pakistan can enhance its export to China.

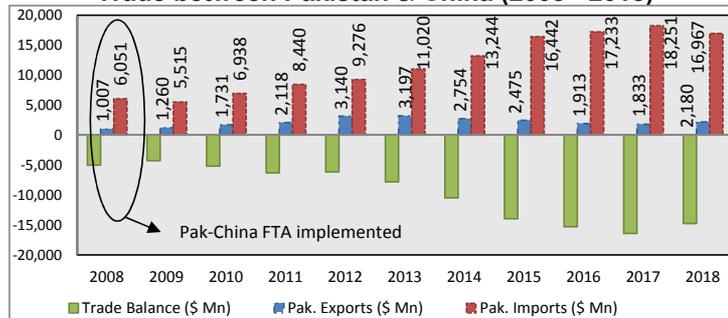
-China is one of the largest buyers of Pakistani textiles. However, most of the exports in textile are from non-value additive category, which should be a cause of concern for both Pakistani exporters and the govt.

Economic Indicators

Indicators	Unit	2016	2017	Change
GDP (PPP)	\$ Bn	21,700	23,160	6.73%
GDP per Capita	\$	15,700	16,700	6.37%
GDP growth	%	6.70	6.90	0.20%
Forex Reserves	\$ Bn	3,098	3,187	2.87%
External Debt	\$ Bn	1,429	1,607	12.46%
Exports of Goods	\$ Bn	1,990	2,157	8.39%
Imports of Goods	\$ Bn	1,495	1,731	15.79%
Trade Balance	\$ Bn	495	426	-13.94%
Current Account	\$ Bn	202.20	164.90	-18.45%
FDI - at Home	\$ Bn	1,391	1,514	8.84%
FDI - at Abroad	\$ Bn	1,227	1,342	9.37%
CPI	%	2.00	1.60	-0.40%
Prime Lending Rate	%	4.30	4.30	-0.40%
Population	Bn	1.38	1.39	0.97%
Unemployment	%	4.00	3.90	-0.10%

Sources: KCCI Research, CIA Factbook

Trade between Pakistan & China (2008 - 2018)



2018: Pak Exports: \$ 2.18Bn Pak Imports: \$ 16.97Bn

Source: KCCI Research, Trademap

China's Trade with World - Top 10 Trade Items (2018)

Top 10 Export Items	(\$ Bn)	Top 10 Import Items	(\$ Bn)
Electrical machinery, equip.	664.43	Elec. machinery & equip.	521.54
Machinery, Mech. apps	429.95	Mineral fuels & oils	347.78
Furniture; bedding, mattress	96.42	Machinery & appl.	202.32
Plastics & articles	80.14	Ores, slag & ash	135.91
Vehicles, not railway	75.09	Optical, photo. or surgical	102.53
Articles of apparel, knitted	73.53	Vehicles, not railway	81.49
Articles of apparel, not knitted	71.45	Plastics & articles	74.87
Optical, photo. or surgical	71.44	Organic chemicals	67.39
Articles of iron or steel	65.56	Natural or cultured pearls	61.96
Organic chemicals	59.80	Copper & articles	47.65

Sources: KCCI Research, Trademap

Pakistan - China Top 10 Trade Items (2018)

Pakistan's Top Exports	(\$ Mn)	Pakistan's Top Imports	(\$ Mn)
Cotton	950.05	Machinery & appl.	2,958.46
Copper & articles	286.96	Elec. machinery & equip.	2,855.85
Ores, slag & ash	161.91	Iron & steel	1,079.51
Beverages, spirits & vinegar	150.08	Man-made filaments	987.80
Cereals	145.36	Organic chemicals	874.30
Fish & crustaceans	86.16	Fertilisers	642.62
Raw hides & skins	67.75	Articles of iron or steel	640.91
Articles of apparel, knitted	46.65	Plastics & articles	539.85
Salt, sulphur & stone	42.37	Man-made staple fibres	519.97
Residues & waste from food	36.57	Vehicles, not railway	469.96

Sources: KCCI Research, Trademap