Impact of Pak-China Free Trade Agreement (FTA) on Trade and Industry of Pakistan

by

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Abstract

The study evaluates the impact of Pakistan & China FTA (Free Trade Agreement) on Exports and Trade Flows Growth of Pakistan. This report is analytical in nature based on archival data retrieved from Thompson Reuters, online sources of Ministry of Commerce, Ministry of Textile and ITC (International Trade Center). The Econometric Modeling is performed based on Time Series and Panel Data of Exports of last 15 years from July 2003-June 2017 to evaluate the impact of exports at industry level basis. The report also explicates the impact of exports on growth of trade flows of Pakistan, as researchers have evaluated the impact of the bilateral agreement between Pakistan and China. The researchers focus on Readymade Garments. Pak-China FTA's first phase included Trade in Goods and Investments, while negotiations regarding Trade in Services took place in 2007, to expand the coverage of the agreement. The Data is analyzed though the E-Views. Moreover, Correlation and Multiple Linear Regression Model have been used together with Co-integration test to evaluate the long-term relationship between exports and trade flows of Pakistan. The report also links the strategy of exports with the Textiles Policy of 2014-19 and Revealed Comparative Advantage (RCA) has also been analyzed for the purpose of identifying potential exports. The report explicates at the end certain policy implications based on analysis of Pak China FTA and overall impact of exports on trade flows of Pakistan.

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Introduction:

Research Background:

International trade is an elementary ingredient of the total exploitation attempt and nationwide development of a nation. This is, actually, a vital instrument for industrialization at the same time as entrée to foreign exchange is crucial for persistent economic progress. International trade relations amongst countries are becoming gradually more essential in a hastily changing in the international market, foreign associations and comprehensive concerns among economies have developed into supplementary noticeable surrounded by the international system.

All the way through human history, people have traded goods in order to fulfill their needs and wants. Either people specialize in the production of the goods that satisfy their wants or trade them from others. Similarly, countries that do not specialize in certain goods but want them for consumption purposes need to import them from countries that have a production advantage at it. Alternatively, they export products at which they have a competitive advantage in producing and are demanded by other countries. The reward from trade might be different for each country based on several factors like economic, regional, strategic state of affairs, national welfare and politics. Often when multilateral liberalization seems unachievable, countries often sign mutual free trade agreement. Free trade often adds to national welfare (Krugman & Obstfeld, 2009).

.China and Pakistan are members of the World Trade Organization (WTO) and according to Article XXIV of General Agreement on Tariffs and Trade (GATT), the members of WTO are permitted to enter into regional as well as bilateral agreements. China's exports to Pakistan are huge in volume whereas the product mix of Pakistan's exports is very limited; supported by the fact that only 70% of its exports consist of cotton yarn (Shabir and Kazmi, 2007).

Therefore, Pakistan and China entered into a Free Trade Agreement (FTA) which was concluded in 2006 and came into effect in July 2007. The objectives of the FTA signed between Pakistan and China are:

1. Strengthen the mutual friendship between the parties.
2. Promote diversification and expansion of trade between the parties
3. Abolish barriers of trade and ease the cross-border movement of goods between the parties.
4. Give fair state of competition for trade between the parties
5. Set up a structure for potential bilateral economic co-operation to develop and augment the advantages of agreement.

The first step to strengthen trade and economic relations was the signing of Early harvest program (EHP) that was signed on the 5th of April 2005 and came into operations from 1st January 2006. According to the Government of Pakistan, Ministry of Commerce, EHP was basically a mini fast track leading up to the signing of Pak-China FTA in the following year which was regarded to be a win-win strategy for both the parties. Products with major commercial interests gained superior market access from both the countries. Within the next two years, under EHP program duty free access to a considerable number of products was provided. Nevertheless, many products were approved to be exportable from either side at Margin of Preference, in relation to MFN duty

rate. Hence this allowed Pakistan and China to take advantage of reduced duty rates as compared to the exports of the similar products from other countries.

Pak-China FTA's first phase included Trade in Goods and Investments, while negotiations regarding Trade in Services took place in 2007, to expand the coverage of the mutual agreement. EHP was merged into the bilateral agreement (FTA) signed between Pakistan and China and in the overall package Pakistan got market access on the products at zero duty namely, cotton fabrics, industrial alcohol, marble and other tiles, bed-linen and other home textiles etc.

Pak-China FTA was divided into two phases. Phase 1 requires the removal and/or decreasing the tariff rates in some categories listed below. Whereas, in phase 2 of the agreement Pakistan and China will try to abolish tariffs of no less than 90% of products together in terms of tariff lines and volume of trade in a 'reasonable' time period.

The overall package of Pakistan and China included the provision of market access at zero duty to Pakistan in products like cotton fabrics, bed-linen, leather articles, sports goods, mangoes, other fruits and vegetables etc. China also reduced its tariffs by 50% on products like frozen orange juices, rubber and plastic products, fish, dairy sector, woven garments, knitwear etc. on the other hand, Pakistan gave market access to China mainly on products like fruits and vegetables, raw materials for several industries like engineering sector etc. (MoC, 2018).

Research Problem:

Pakistan is a developing economy with a trade deficit, but it has great export potential in many areas. Most important export earnings are earned by Pakistan from the export of Textile and Clothing products to several countries. Textile and clothing products, ranging from HS50-63 have great export market in not only China but all around the globe. Pak-China FTA has already ended its first phase and negotiations over the second phase started in 2015. Much research has already been done in the first stage of Pak-China FTA but new data needs to be analyzed in order to renegotiate on FTA's second phase. Hence, this research paper aims to study the textile and clothing sector's contribution towards the GDP of Pakistan, and how can this sector achieve the maximum benefits of the FTA signed between the two countries. This study considers time series relationship of exports based on Pakistan & China FTA impacting on Economic growth of Pakistan.

Research Objectives:

This study aims to analyses the impact of Pak-China FTA on the export pattern of Pakistan with China, by first identifying the major exports that it makes to its partner. This research takes into account the data and figures available for 2003 till 2017. The objectives of this research include:

1. To identify the impact of exports of Pakistan to China on the growth of Trade Flows of Pakistan.
2. To identify the impact of exports of Textile Sector of Pakistan, on the growth of Trade Flows of Pakistan, due to Pak-China FTA.
3. To identify the impact of exports of Ready-made garments on the economic growth of Pakistan, due to Pak-China FTA.

Research Questions:

This research paper aims to answer the following questions

1) What is the impact of exports of Pakistan to China on the growth of Trade Flows of Pakistan?
2) What is the impact of exports of Textile Sector of Pakistan, on the growth of Trade Flows of Pakistan, due to Pak-China FTA?
3) What is the impact of exports of Ready-made garments on economic growth of Pakistan, due to Pak-China FTA?

Justification of Study:

In order to answer the above research questions this research will conduct quantitative analysis of data available from 2003 till 2017. The results of the study are based upon facts and figures. This research paper will examine the impact of Pak-China FTA on the export potential of Pakistan, analyzing and identifying which product contributes the most to the export to China in order to benefit the local producers by identifying export trends. Nevertheless, this research will also compare the tariffs imposed, particularly in context with exports.

Scope of Study:

Pak-China FTA is one of the most important agreements signed between the two countries followed by China Pakistan Economic Corridor (CPEC), giving both the countries a chance to engage in bilateral trade flows and taking maximum advantage of trade. This research is important in the sense that it not only contributes to the literature, but instead it will assist the policy makers of Pakistan in the development of suitable trade policy, focusing on the sectors that have great export potential to China. Nonetheless, it will also be useful for the local producers in identifying the opportunities and export trends, having a trickledown effect on the exports of Pakistan and hence, contributing positively to the GDP of Pakistan.

Limitations of research:

This research is based upon the analysis of the annual data of 15 years i.e. 2003-2017. It also studies only the export potential of Pakistan to China and does not focus on the import trends between both the countries. Moreover, the scope of study includes only the Textile and Clothing sector of Pakistan (HS50-63) out of all other several tariff lines.

Literature Review:

The preferential trade agreements are proliferating around the world. By 2007, 26 such agreements have been signed only among the Asian countries in the five years and almost 40 were under negotiations by then (Tumbarello, 2007). Pakistan China Free Trade Agreement was also concluded in 2006 and came into effect in July 2007.

Pakistan and China are two very important strategic partners and share an all-weather friendship. They have stood by each other sides through the thick and thin and China has also helped Pakistan in many of its economic woes. China Pakistan Economic Corridor under the flagship project of One Belt One Road (OBOR) Initiative is ready to provide the countries with mutual benefit in terms of economics, social and cultural exchange and geo-political advantage. It

would not be wrong to say the Pak-China FTA that was signed in 2007 was the first step towards CPEC. However, the signing of Early Harvest Program on the 5th of April 2005, as stated by some officials of the Ministry of Commerce, played a role of a mini fast track ultimately leading to the signing of CPFTA. Hence this allowed Pakistan and China to take advantage of reduced duty rates as compared to the exports of the similar products from other countries.

Free trade agreements basically encourage countries to engage in free trade. Usually, when a free trade agreement is signed between countries, the tariff rates on the product list gets zero. This means that products that come under the free trade agreement do not acquire its importer to pay any border tax. However, unfortunately this is not the case with the free trade agreement signed between Pakistan and China. Many of the textiles tariff lines that are included in the agreement have a border tax to be paid. Hence, the meaning of signing such an agreement has not been fully accomplished.

Critically looking at the trade flows between China and Pakistan, it could be safely concluded that as compared to Pakistan, China has gained much from the signing of the agreement. Concessions were given on 35% of tariff lines under the first phase of FTA. This resulted in huge entry of the Chinese products into the Pakistani market, hence making the local industry weaker and putting before it much more competition than before (Tribune, 2018). Nevertheless, under the second phase of the Free Trade Agreement, China is asking Pakistan concession further on a number of products, which Pakistan is not yet ready for.

The trade volume between China and Pakistan was $4 billion in 2007, the year in which FTA was signed. This spiked to $15.6 billion in 2016-17. In 2017, however, Pakistan's exports to China were mere $1.5 billion but the imported summed up to $14 billion- statistics presented by the Chinese. The main reason behind accelerated imports and cheaper exports is that Pakistan imports expensive capital goods and raw material whereas the exports are heavily dependent on low value-added goods, hence only adding to the trade deficit of Pakistan (Tribune, 2018).

Before-After investigation shows that the trade patterns between both the countries have been enhanced in a general manner however, the trade shortfall of Pakistan has furthermore augmented; the Revealed Comparative Advantage (RCA) and SWOT (Strengths, Weaknesses, Opportunities And Threats) analysis shows that there is a disparity in goods traded between the two countries in world markets and bilaterally apart from the top ranked products (Irshad, Hoa and Arshad, 2017).

Another study conducted to estimate Pakistan's bilateral trade potential with the neighboring country, used the gravity model of trade and analyzed panel data from 1992-2015. The study reached a conclusion that the Pakistan's industry and its exporters must take on new and improved methods to improve and boost the exports made to China so that a rational equality can be reached in mutual relations in terms of trade (Irshad, Hoa and Arshad, 2018).

The first phase of China Pakistan Free trade Agreement has ended a while ago. Both the countries are now negotiating for the signing of the second phase of the FTA, but due to a number of challenges this has been postponing.

Economies of Pakistan and China:

Pakistan and China are two important strategic partners and have strong trade allies. The economy of each partner is highlighted below.

Economy of Pakistan at a Glance:

Pakistan is a South Asian country, sharing its borders with India, China, Iran and Afghanistan. Even though Pakistan is a developing economy but it has much potential of becoming one of the largest economies because of its strategic geographical location on the globe. Pakistan has a trade deficit because of its expensive imports. However, it relies on very low value-added products. Pakistan's receives its largest export earnings from the textile sector. According to International Trade center, Pakistan's imports by 2012 contributed 19.7% to the total GDP of the country, while exports contributed only 11%. This ratio was decreased by 2016, reaching to 17.8% of imports contribution to GDP, while 7.7% of exports contribution. The share of China in Pakistan's exports is 7.75% (ITC, 2016).

In 2016-17, the GDP growth rate reached to 5.28%, being highest in the last 10 years. However, overall trade patterns did not portray a positive image of the Pakistan with imports standing at $43.9 billion and exports at $22.1 billion by 2015, causing a trade deficit of $21 billion.

The Exports of Pakistan to China after the signing of Pakistan China Free Trade Agreement increased to US$ 1906.3 million in 2016 from US$575.93 million in 2006. However, Pakistan has a share of only 0.19% in China's overall imports and 0.89% share in China's exports. The trade imbalance between two trading partners is US$15562.3 million and not in Pakistan's favor.

Economy of China at a Glance:

China is an East Asian country that has been recording consistent trade surpluses. Considered as one of the largest world economies, China stands among the largest exporters and importers of the world. Growth in exports has contributed significantly to the economic growth of the country. China's major exports include labor-intensive and electromechanical products that include textiles, footwear, clothing, plastic products, toys, furniture and bags. On the other hand, major imports include Mineral fuels, oil, Electronic equipment, Machinery, ore, copper, iron, aluminum and soybeans. Major export partners of China are the United States, the European Union, member countries of the Association of Southeast Asian Nations (ASEAN) Japan and the Republic of Korea, while important import partners include EU, ASEAN, Japan, South Korea, Taiwan, Australia, South Africa and Brazil. According to the International Trade center and World Map Statistics, 20% of imports contributed to the GDP of the country while 24.5% of exports contributed to it by 2012. By 2016, 15.1% of imports contributed to the GDP while 19.6% of exports contributed to it. The difference and the disparity that exists between the sizes, of the Pakistan's and China's economy can lead to creation of trade patterns that might affect Pakistan's economy either positively or negatively (Reema, 2007).

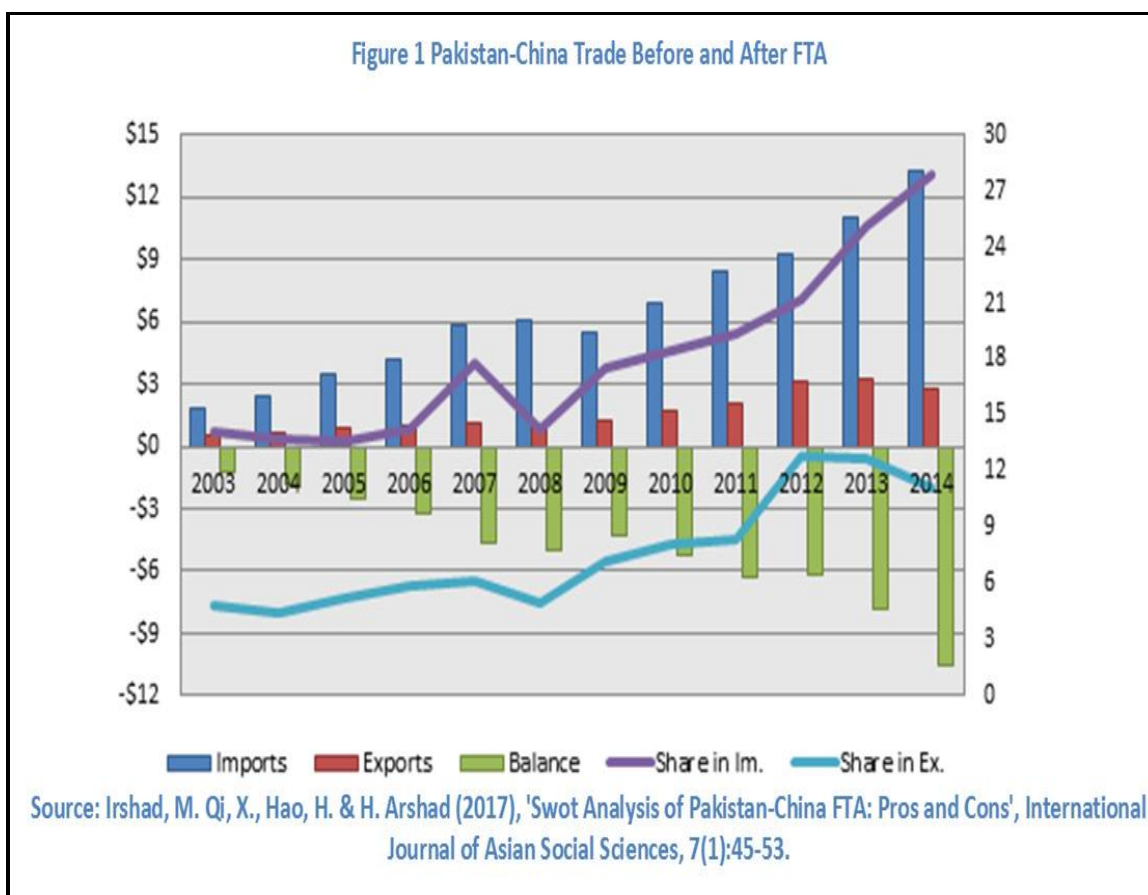**Pakistan's major exports to China (HS-6):**

Cotton, textile and Rice are the major exports of Pakistan to China. Total exports of Pakistan to China have significantly increased from 2007 to 2016, ranging from $506 million to $1,906 million by 2016.

According to International Trade center statistics, cotton contributes 61% to the exports of Pakistan to China. Rice 14%, ores, slag and ash 5%, fish and other aquatic invertebrates 3% while other categories contribute 17% to the exports of Pakistan made to China. Cotton and Rice, contributes to 75% of exports to China. A major breakthrough was achieved by Pakistan, when in 2012, high domestic demand and lower fuel Prices, moved China to import more rice from

Pakistan. Hence, this resultantly caused a shift of export of rice from 1.3% in the year 2011 to 24.4% the following year (SBP, 2017). However, some important considerations to be noted are that the annual growth in the value of exports of Pakistan to China has declined by 12%, between 2012 and 2016 (ITC, 2016).

Figure 1: Statistical Data of Exports to China

Figure 1 Pakistan-China Trade Before and After FTA

Source: Irshad, M. Qi, X., Hao, H. & H. Arshad (2017), 'Swot Analysis of Pakistan-China FTA: Pros and Cons', International Journal of Asian Social Sciences, 7(1):45-53.

[2]The trade volume between the two countries due to the agreement was $13 billion in 2013 and reached to $20 billion in 2015 as a result of 51 agreements and Memorandums of Understanding (MoU) signed between the countries for cooperation in different fields. As a result, the imports of Pakistan from China have significantly increased.

Pakistan's major imports from China:

Nevertheless, China is also one of the main importers of Pakistan. According to the data of World Integrated Trade Solutions, a World Bank Group, China contributes 29% of Pakistan's

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[2] Source: Irshad, Hoa and Arshad (2017) Pak-China FTA

imports from the world making it the top import partners. The second top exporter to Pakistan is UAE (13.2%), followed by Indonesia, United States and Japan.

The major imports of Pakistan from China are high-tech machinery, iron, electrical equipment, man-made filaments, nuclear reactors etc. After Pak-China FTA came into effect in 2007, a significant rise was seen in the import level data of HS-2, which shows that CPFTA has facilitated imports. This can be supported by the fact that the import of Electrical equipment from China increased by 68% out of all the imports of this product from the rest of world (SBP, 2017).

Trade Penetration:

The following figure shows the share of China in Pakistani imports as well as the share of Pakistan is Chinese Imports. The diagram illustrates that the share of China in Pakistani imports is significantly higher and gradually increased after the signing of Pakistan China Free Trade Agreement in 2006. However the share of Pakistan is Chinese Imports hovers around only 1%-2% unfortunately (Ministry of Textile Industry, 2018)

Figure 2: Trade Penetration[3]

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[3] Source: RDA Cell, Ministry of Textile Industry (2018)
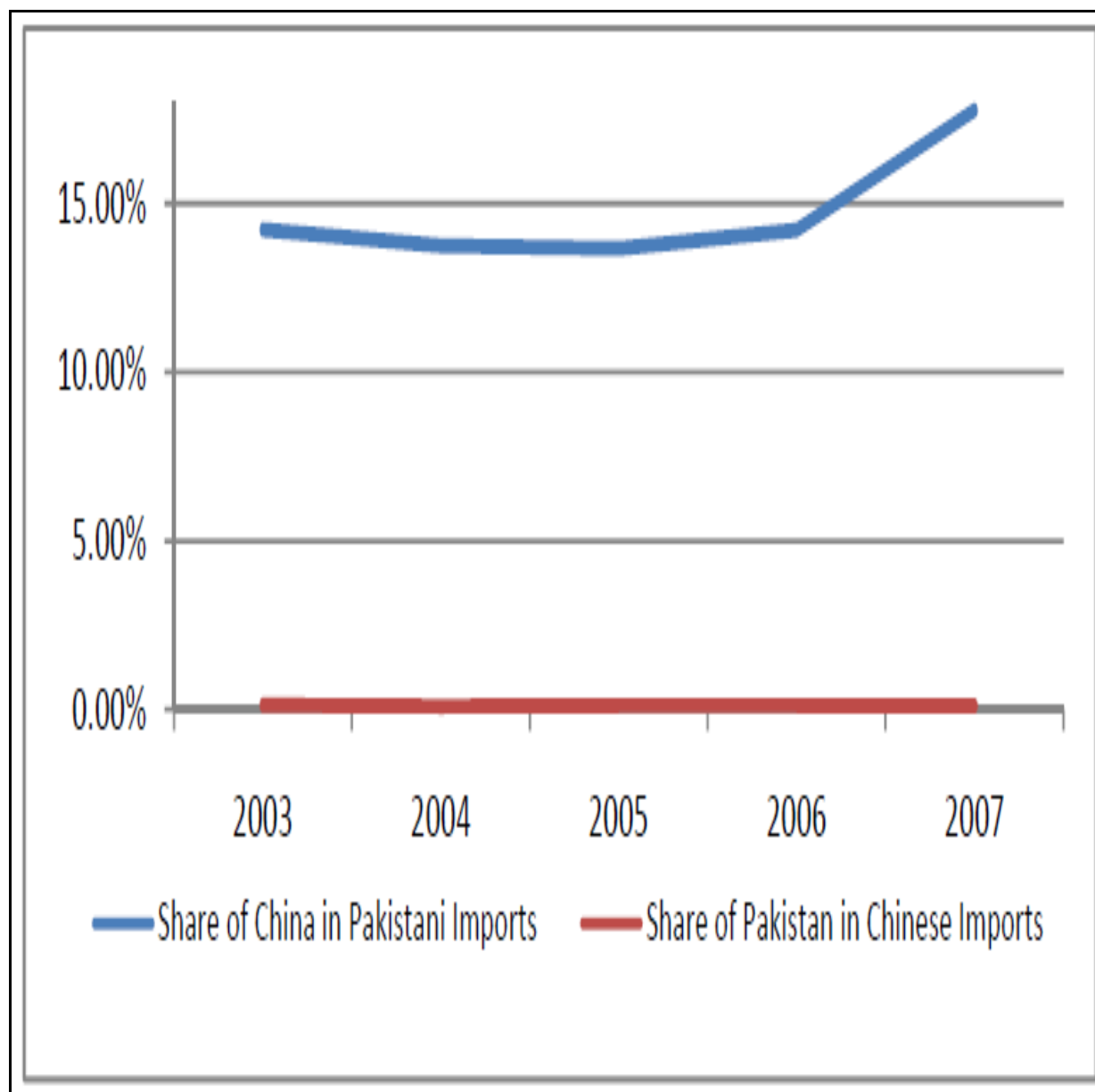
Pakistan's exports to China are mainly concentrated of goods and that too low value-added goods. A study conducted by Irshad, Muhammad Saqib & Xin, Qi, 2015 used the revealed Comparative advantage method and Trade Intensity method and came to a conclusion that the viability of the agreement will depend upon the non-goods components such as for example, services, teamwork in research and development and investments. Also, after signing the Pakistan China Free Trade Agreement in 2006, the production of local industry that has low competitive advantage has been affected badly (SBP, 2017).

Some features of Pakistan's Textile Sector:

The textiles sector stands among the most significant sector of Pakistan's economy. It's market share in the global economy contributes 31% however, the apparels sector contributes only 1% to the global economy (Jawwad and Memon, 2002). According to the Ministry of Textile the

sector contributes 57% to the exports of Pakistan. This sector is heavily dependent upon the spinning activity. Cotton yarn (HS520512) is one of the main exports of Pakistan. According to International Trade center statistics, the average share of textile sector in Pakistan's exports was 36.5% from 2012-2016. This was followed by clothing sector which contributed 20.4% to Pakistan's exports. Cotton yarn and Men/Boys ensembles of cotton not knitted were some of the sectors leading exporting products.

According to a study done by Afia Malik (1996), there are some important structural weaknesses in our textile industry. Even though Pakistan is blessed with natural raw material specially cotton it lacks proper structure and management of resources. The better-quality cotton that is produced is exported rather than being used in the production of high value-added products such as ready-mage garments. One of the basic reasons behind the unfavorable trade balance of Pakistan with China is the export of low value-added goods.

Importance of developing the Ready-made Garments sector for the economy of Pakistan:

Textile Industry is one of the industries that require low fixed costs to set up. In the case of Pakistan, that also enjoys the benefit of low labor cost, development of textile sector is not only vital but relatively easier as well. We have examples available from around the globe of countries that have developed their textile sector and subsequently its economy as well. Such countries include China, Sri Lanka, Bangladesh and nonetheless Turkey as well. According to a trade statistic, the world-wide exports of ready-made garments were valued to be around US$412 billion.

The World Trade Organization (WTO) introduced a trade agreement in 2005 that removed/reduced import duties from textile and clothing leaving imports and exports less discriminating. Hence, as a result of this, countries like China, Bangladesh and India benefited largely and emerged as international leaders of this industry. Lower labor costs together with Preferential Trade Agreements (PTAs) provided an advantage to developing countries. Bangladesh and Sri Lanka hugely benefited from FTAs and PTAs from western countries (TDAP, 2016).

Looking at the example of Bangladesh that has beautifully emerged as the global leaders of the textile industry around the globe, Pakistan has an example to study. It captured a major chunk from the industry of readymade garments, becoming the second largest producer of textile garments. 18% of GDP and 85% of the exports of the country come from the textile garments (TDAP, 2016).

Similarly, Pakistan needs to develop its textile industry by taking advantage of FTAs that it has signed specifically with China as it is one of its main strategic and economic partners. Shifting from the production and exports of low value-added goods to high value goods, structural changes and proper investment in the labor force are some of the essentials for the development of textile and garment sector of Pakistan.

Tariff concessions grants from China:

According to Ministry of Textile Industry, China agreed to reduce/eliminate tariffs on 6,418 8-digit tariff lines, giving market access to Pakistan on products like industrial alcohol, home textiles, bed linen, and sports goods, fruits, vegetables steel, iron and engineering products. Out of the tariff lines granted, 35% came under zero-rated category (from 5 years since the FTA comes into effect in 2007); products covered under this category were cotton fabrics, medical appliances,

leather articles etc. On the other hand, 15% of products received no grant that include cotton, paper, fish, textile products etc.

Tariff concession grants by Pakistan:

The grants in tariff lines provided by Pakistan to its most important trade and strategic partner include reduction or elimination of tariff rates on 5,686 8-digit tariff lines. Electronic appliances, machinery and several categories of raw materials essential to the industrial sector of Pakistan were granted zero tariff rates. But many products such as woven fabrics, paper, synthetic fibers, paper board and footwear received no concession (SBP, 2017).

Textile and Clothing Tariff Lines:

Table 1: Pakistan's commitment (HS Chap 50-63)[4]

	Bindings	Number of Textiles Tariff Lines	Percentage of Tariff Lines	Percentage in Pakistani Total Textile Imports by volume 2006-07	Percentage of Chinese Textile Exports to Pakistan volume 2006-07
Category I	Elimination in 3 years	3	0.33%	0.79%	1.22%
Category II	0-5% in 5 years	130	14.12%	56.08%	12.29%
Category III	50% reduction in 5 years	24	2.61%	0.22%	0.21%
Category IV	20% reduction in 5 years	596	64.71%	18.21%	34.8%
Category V	No concession	166	18.02%	24.54%	51.49%
Category VI	Exclusion	0	0.00%	0.00%	0.00%
	Not Specified	2	0.22%	0.15%	0.06%
	Total	921			

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[4] Source: Ministry of Textile Industry

Textile and Clothing of Pakistan comes under the HS codes from Chapter 50-63. Pakistan has classified this into 921 8-digit HS tariff lines. On the other hand, China has classified it into 1,106 8-digit HS Tariff Lines.

Following tables provide an overview and summary of the bindings and commitments made for tariff concessions on textile and Clothing Tariff Lines (HS Chap 50-63).

Table 2: China's commitment (HS Chap 50-63)[5]

		China's Textile Tariff Lines	Corresponding Pakistani HS Tariff Lines	Percentage of Tariff Lines	Percentage in Pakistan's Total exports by Volume 2006-07	Percentage in Pakistan's exports to China by Volume 2006-07
Category I	Elimination in 3 years	541	451	49%	50.2%	14.08%
Category II	0-5% in 5 years	202	155	16.8%	13.39%	83.39%
Category III	50% reduction in 5 years	227	172	18.7%	17.9%	0.13%
Category IV	20% reduction in 5 years	88	81	8.8%	6.71%	0.21%
Category V	No concession	48	62	6.7%	11.80%	2.18%
	Total	1106	921			

Under category IV, 64% of tariff lines were provided by Pakistan even though the share in imports in 2006-07 for this tariff line was only 18%, as compared to category II under which only 14.12% of tariff lines were agreed even though the import share was much higher (56.08%) in total imports of textile in year 2006-07.

On the other hand, China offered concessions on 1106 tariff lines, or 921 tariff lines, when translated into 8-digit HS product line defined by Pakistan. Under China's commitment with Pakistan, around 50% of tariff lines are placed under category I.

Tariff Concessions on Cotton and Ready-made Garments:

The Government of Pakistan has divided the trade of textile and Clothing into 13 diverse groups. These groups include raw cotton; cotton carded combed, cotton yarn, cotton cloth, carpets, other yarns, knitwear, ready-made garments, bed ware, towels, tents/canvas, synthetic textile, other made-ups and other textile materials.

As per Pakistan, according to the research and development cell of Ministry of Textile Industry, it has reduced 20% or less tariff on three main groups namely cotton yarn, cotton, and other textile materials. In contrast, China has granted 20% or less reduction in Ready garments and

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[5] Source: Ministry of Textile Industry

knitwear while 100% cuts on cotton cloth as well as bed wear, providing Pakistan a major milestone to increase its exports in textile and clothing arena.

Revealed Comparative Advantage:

The Revealed Comparative Advantage is an economic concept that aims to calculate and assess a country's relative advantage, or at times disadvantage in a certain category of products, which is commonly explained by the trade flows of that country. The general concept of RCA says that a comparative advantage in a product is revealed if RCA>1. However, if RCA is lesser than unity then a country does not have revealed comparative advantage in that product or in simple words, has comparative disadvantage at producing that product.

A study conducted by Irshad, Hoa and Arshad , 2017 aimed to analyze that the exports of Pakistan on sector level basis through Revealed Comparative Advantage in the market worldwide. The data ranging from the years 2003-2015 was used and Harmonized System (HS) 1988/92 produced by the World Customs Organization (WCO) were studied. It was observed that the exports of Pakistan were concentrated on a limited range and type of products and no enthusiastic attempts were made to diversify the export base made to the world. Moreover, Pakistan has also not been a major trading player in the international arena. But it has a status of being a major exporter of few items link textile and clothing sector, hides and skins sector and Vegetables.

The Revealed Comparative Advantage figures for the years 2012-16 of Pakistan's sectors with China are illustrated and analyzed below. They have been extracted from online sources of World Integrated Trade Solutions (WITS), and hence should be considered reliable, transparent and reliable for the purpose of analysis.

Table 3: Comparative Advantage of Pakistan's sectors with China[6]

Product Group	2012	2013	2014	2015	2016
Textiles and Clothing	29.71	33.74	35.22	33.23	32.83
Hides and Skins	7.88	8.28	9.36	7.1	8.32
Intermediate goods	4.05	4.3	3.88	3.24	2.98
Vegetable	3.02	2.1	2.31	2.32	3.97
Food Products	1.88	2.08	3.57	4.5	1.55
Animal	1.71	1.13	1.71	1.8	2.05
Metals	1.09	1.06	1.1	1.22	1.18
Minerals	0.92	1.01	1.03	1.05	1.18
Consumer goods	0.89	0.68	0.85	0.91	1.56
Raw materials	0.48	0.5	0.54	0.57	0.59
Plastic or Rubber	0.23	0.28	0.29	0.23	0.24
Footwear	0.05	0.1	0.1	0.04	0.02
Chemicals	0.04	0.01	0.01	0.01	0.01

Normally, the nation which imports and reduces barriers on imports, it is likely that the home country's exports improve with its import partner (Irshad, Xin, Hao, & Arshad, 2017). Therefore, by looking at this phenomenon, if China lowers import barriers on Pakistan's exports,

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[6] Source: World Integrated Trade Solution (WITS)

then Exports of Pakistan to China are likely to increase. The table above shows different sectors of Pakistan with their respective RCA of five years i.e. 2012-16. Products with RCA>1 are likely to have more impact of tariff reductions on exports than vice-versa. In its second term of negotiations with China, Pakistan should consider the fact that China removes tariffs from products that Pakistan has a higher RCA. For example, Pakistan's exports of intermediate goods to China are although high, but the Revealed Comparative Advantage in this sector is relatively lower as compared to that in Textiles and Clothing.

Pak-China FTA and the Textile Policy 2014-19:

The second Textiles Policy (2014-19) developed by the ministry of Textiles Policy made efforts to address issues that exist on sectoral basis including cotton, man-made fibers, knitting, spinning, weaving, garments and made-ups. The policy aimed at promoting fibers apart from cotton that include acrylic, nylon, viscose, Polyester, silk and wool as the reduction of tariffs and promotion of industry in these products will lead to product sophistication and innovation and also towards more value addition in the exported garments.

The textiles policy admits that poor management practices, lack of use of Information Technology and poor inventory control systems have contributed to low per capita productivity. One of the goals of the policy was to double the exports of textile sector from $13 billion per annum to $26 billion per annum in next five years. However, opposite happened and the overall exports to the world decreased to $12.5 billion by 2016. Similarly, the exports made to China fell from $1.5 billion to $1 billion.

According to the textiles policy 2014-19, globally, the demand for man-made fibers is increasing and that for cotton is decreasing. The ratio of cotton to fiber has reversed from 60-40 to 40-60 in the last decade. Three decades back, the ratio for cotton to fiber was 80-20. This drastic change in the consumer preference has left Pakistan in a critical scenario because the increase in the production of man-made fiber and related products is very low. Pakistan should aim to concentrate on such high-value added fibers apart from cotton particularly MMF (Man-made Fibers) to enhance its product mix.

Table 4: Literature Framework (1996 – 2018)

Title of study and Context	Author	Year/country	Findings
Demand For Textile And Clothing Exports Of Pakistan	Afia Malik	1996/Pakistan	Pakistan's share of textile in world trade is marginal
Adding Value: Building Value-Addition Alliances, Backward Linkages In The Textile And Clothing Sector of Pakistan	Wajid Jawwad and Aziz Memon	2002/Pakistan	The textiles sector stands among the most significant sector of Pakistan's economy. It's market share in the global economy contributes 31% however, the apparels sector contributes only 1% to the global economy.
Are Regional Trade Agreements in Asia Stumbling or Building Blocks? Some Implications for the Mekong Countries	Patrizia Tumbarello	2006/ (IMF—Asia and Pacific Department)	Regional integration should be complemented by multilateral and unilateral liberalization in order to avoid in the future welfare-reducing trade diversion

Economic Impacts of the recently signed Pakistan-China Free Trade Agreement	Samina Shabir and Reema Kazmi	2007/Pakistan	FTA offers a huge potential for Pakistan's economy, yet the country needs to make its exports with China more diversified.
Pakistan-China Free Trade Agreement (PCFTA) Treaty Model: Capability, Prospects and Disputes	Irshad, Muhammad Saqib & Xin, Qi	2015/Pakistan	The viability of the agreement will depend upon the non-goods components such as for example, services, teamwork in research and development and investments.
Sectorial Competitiveness and Value Chain Analysis-Ready Made Garments	Ministry of Commerce, Government of Pakistan	2016/Pakistan	Countries like China, Bangladesh and India benefited largely from FTAs and emerged as international leaders of this industry. For Pakistan to achieve the same, highest value addition is required.
Determinants of Exports Competitiveness: An Empirical Analysis through Revealed Comparative Advantage of External Sector of Pakistan	Irshad, Muhammad Saqib & Xin, Qi	2017/Pakistan	Highest level of value addition is required to
Dynamics of Pakistan's Trade Balance with China. SBP Staff Notes	Junaid Kamal and Manzoor Hussain Malik	2017/Pakistan	Production of local industry that has low competitive advantage has been affected badly.
An Empirical Analysis of Pakistan's Bilateral Trade and Trade Potential with China: A Gravity Model Approach	Irshad, Muhammad Saqib & Xin, Qi	2018/Pakistan	Pakistan's industry and its exporters must take on new and improved methods to improve and boost the exports made to China so that a rational equality can be reached in mutual relations in terms of trade.

Research Methodology:

The research methodology refers to the selection of methods used in the study together with explaining the researchers' stance and creating linkages with the field of study. This research is conducted in epistemological context to understand the impact of PAK-CHINA FTA on the economic growth of Pakistan by specifically looking at the contribution made by the textile sector towards the GDP of the country. This research is quantitative in nature and is based upon archival data. The analysis on the data collected is done through E-Views, Unit Root and ADF Test, together with Regression and Panel Co-integration to examine the long-term relationship of Variables.

Demographic Distribution of Sample:

The research is carried out in the domain of finance and stands upon Archival data. The data is collected of the overall exports of Pakistan to China, the exports of the textile sector and the exports of ready-made garments and selected macroeconomic and financial variables specially the trade flows of Pakistan with China. Monthly and time series data of last 15 years has been selected.

Geographic Distribution of Sample:

The research is based on Pakistan and time series data analysis of Pakistan's exports and financial variables to evaluate the impact of CPFTA on the trade flows growth.

Research Design:

Research design gives an in-depth understanding about how the research will take place. It explains the research strategy and methods that will be used to conduct this research. Research philosophy, paradigm, research approach, its types, strategies, methods to be used and data collection sources are specified in the following headings.

Research Philosophy and Paradigm:

This research is executed in epistemological context as it covers the area of management sciences. According to (Saunder, 2009) Epistemology context reflects upon the formation and development of knowledge. Therefore, this research paper focuses on studying the Dependent and independent Variables through Post Positivism approach.

Research Approach:

According to Bryman and Bell, 2011, any research could either be inductive or deductive. This research paper has used deductive approach as it aims to express the relationship between variables based upon theory. Pak-China FTA has affected different economic variables and multiple industries. It has also affected the GDP and Economic Growth of Pakistan. Hence, under the deductive approach the impact of Independent Variables from textile industry is studied on the economic growth of Pakistan.

Research Type:

This research is based upon the use of quantitative research methods. Analysis is done statistically, and results are numerically calculated. Hence, this research is empirical in nature.

Research Strategy:

Out of descriptive, explanatory and exploratory research strategies available to conduct researches, this research paper is explanatory in nature. Due to the study of causal linkages, and because it aims to study the cause-effect relationship between the variables, hence, this research strategy can be concluded as explanatory.

Research Method:

This research is based upon the collection and analysis of secondary data that is collected from renowned and authentic sources, mainly Thompson Reuters and International Trade Center (ITC). Data is statistically tested in order to understand the empirical effect of selected independent variables on dependent variables. Therefore, this research is based upon quantitative research technique. Moreover, it's a cross-sectional study as the results are collected at one point in time.

Data Collection Methods and Sources:

This study examines the data of 15 years, ranging from 2003-2017. The dependent variable is the GDP of Pakistan and the economic growth rate. The series of data for analysis has been gathered from the online sources of International Trade Center (ITC), and Thompson Reuters.

Data and Sources:

The Core variable is considered as Exports of Pakistan and particularly the exports of Textile industry and in Textile industry the exports of Ready-Made Garments at Industry Level basis are selected. The Data is collected from Thomson Reuters, ITC and Textile Industry of Pakistan. The data of last 15 years is collected as the series of Pakistan and China FTA considering the 4 bilateral agreements from 2007 to 20017.
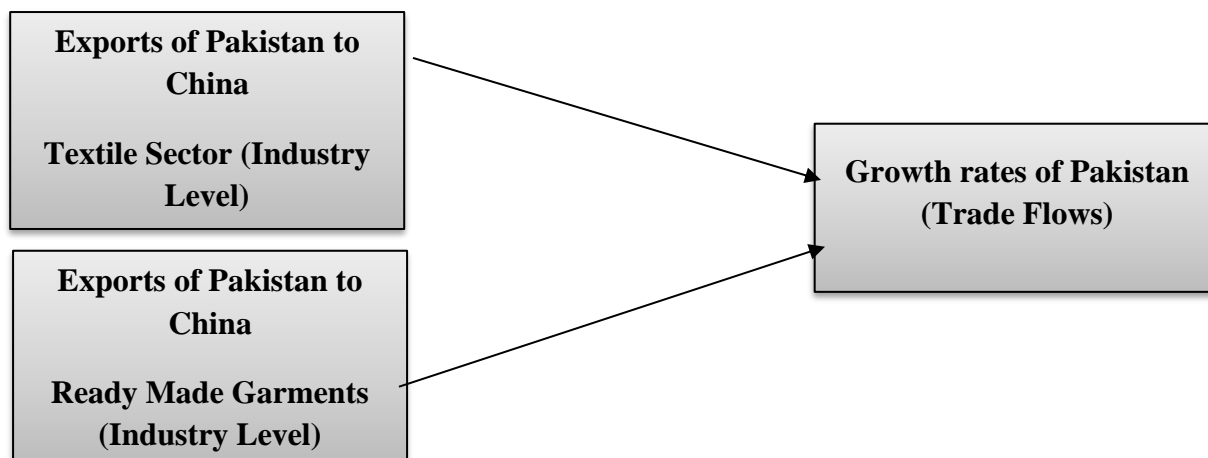
The researchers selected few constructs as independent variable, based on knowledge and data, as Overall exports of Pakistan, Exports of Ready-Made Garments at Industry Level basis and overall Trade flows of textile sector of Pakistan are independent variables and Growth in Exports of Pakistan is the dependent variable.

Conceptual Framework:

Model-1

Exports of Pakistan to China

2003-2017

→ Growth rates of Pakistan (Trade Flows)

Model-2

Exports of Pakistan to China

Textile Sector (Industry Level)

Exports of Pakistan to China

Ready Made Garments (Industry Level)

→ Growth rates of Pakistan (Trade Flows)

Hypothesis Development:

H$_1$: Pak-China Free Trade Agreement has a positive impact on overall trade flows in Pakistan.

H$_2$: Pak-China Free Trade Agreement has a positive impact on the trade flows of textile sector at sector-level basis in Pakistan.

H$_3$: Pak-China Free Trade Agreement has a positive impact on the exports of Ready-made garments at sector-level basis in Pakistan

Econometric Model and Tools used for Data Analysis:

Exports and the data of all independent variables was obtained to measure the effect of variables. The Analysis was then done through multiple linear regression model and afterwards correlation between the trade flows and exports was analyzed. Normality or stationary check of data ADF (augmented dicky fuller) test was used to see the association and impact of variables studied the regression and co-integration approaches applied and assess the short-term relationship.

The collected data was analyzed and processed through E-views Software and a range of tests were carried out to compute the connection and impact of dependent and independent variables.

SPSS (23.0) and E-views (9.5) software was used to process the data and calculate the results.

Table 5: Statistical Tests used for Data Analysis

Tests	Purpose
Test of Stationarity	Unit Root Test, ADF
Correlation Analysis	Pearson Correlation
Multiple Linear Regression Model	Regression Analysis
Johnson Co-integration test	Long term relationship for Predictability

The Unit root test was applied to check and assess if the data is normal and descriptive analysis was applied to check the behavioral trends of different indicators. The Correlation Analysis helped in evaluating the relationship of a variety of factors with trade flows growth rates and two model regression and co-integration was used to examine the effect and long-term association for predicting the impact on the trade flows growth.

Empirical Analysis:

Test of Stationary of Data:

The Data for this research paper is obtained from Thompson Reuters and online sources of ITC (International Trade Center). It is established that the data is stationary because it is made sure that the data accomplishes the essential characteristics for stationary data. Unit root Test is conducted by running ADF (Augmented Dickey Fuller) at Level. As the report analyses time series data from year 2003-2017 hence it is necessary to ensure the data is stationary. In case if the data is not stationary, the data analysis becomes incorrect. As the impact of Independent Variables on the Dependent Variable is being analyzed and the regression analysis is to be done on non-stationary data results unfortunately get incorrect and misleading. Therefore, stationarity of data has been made necessary and when conducting Unit Root Test, Null Hypothesis is adopted and hence, no unit root is present in the data that is analyzed.

Ho: Series does not have Unit root

H1: Series has unit root.

Table 6: Unit root test ADF

Variable	AT LEVEL	Critical value of t at 5%	Decision of Null Hypothesis	At 1st Difference (I)	Decision of Hypothesis
EX	-1.62	-2.88	Rejected	-2.89	Accepted
EXTI	-2.79	-2.88	Rejected	-2.97	Accepted
EXRM	-1.63	-2.88	Rejected	-3.94	Accepted
TFG	-1.49	-2.88	Rejected	-4.12	Accepted

The table shows the results of ADF (Augmented Dickey Fuller) test. The test is performed to evaluate the stationarity in the data. The data must be normally distributed to run the model. The Unit root test is conducted at 95% confidence level and the value must be greater than ±2.88. The first run of the model at level shows the value of Exports to China is -1.62 and hence contains Unit Root. At First Difference, the value obtained is -2.89 (greater than 2.88) and for this reason contains no Unit Root.

The second value is the export of textile sector to China giving the value of -2.79 at Level and contains Unit Root. The test performed at 1st Difference gives the value -2.97 (greater than ±2.88) and hence signals the elimination of Unit Root. The value of exports of ready-made garments is -1.6 with unit root and -3.94 with 1st Difference, contains no Unit Root. The value of growth in Trade Flows is -1.49 at Level and at 1st Difference the value is -4.12 (no Unit Root). As the Unit Root from all the variables is removed, hence the data is safe for running analysis in further steps.

Descriptive Statistics

Table 7: Descriptive Analysis

	ITC_EXP	ITC_EXRM	ITC_EXTI	ITC_TFG
Mean	1305773.	404416.0	906490.5	3.703128
Median	1435943.	381441.0	934646.1	1.708502
Maximum	2652223.	814451.0	1986242.	21.75362
Minimum	259637.0	93101.00	174531.0	-14.09000
Std. Dev.	826146.3	265041.7	593536.9	11.10153
Skewness	0.265228	0.313722	0.478041	0.024069
Kurtosis	1.776509	1.665052	2.022164	1.920524
Jarque-Bera	1.111445	1.359857	1.168909	0.729741
Probability	0.573658	0.506653	0.557410	0.694287
Sum	19586593	6066240.	13597358	55.54693
Sum Sq. Dev.	9.56E+12	9.83E+11	4.93E+12	1725.416
Observations	15	15	15	15

The descriptive analysis table shows the descriptive statistics of the data and illustrates the maximum, minimum and mean values present in the data that is analyzed. The mean of overall exports to China is 1305773 US Thousand Dollars, while the minimum value is 259637 US Thousand Dollars and the highest/maximum value stand at 2652223 US Thousand Dollars. On the other hand, the mean values of exports of ready-made garments, exports to China of the Textile Industry as a whole, and the percentage growth increase are 40,4416 US Thousand Dollars, 906490.5 US Thousand Dollars and 3.7% respectively. The figures of Standard Deviation suggest that there is high volatility in the data available for scrutiny. This is because of the several different movements present in the trade flows between Pakistan and China, involving a number of plunges and upward trends.

Behavioral Trend of Variables:

Figure 3: Exports of Pakistan to China (US$)
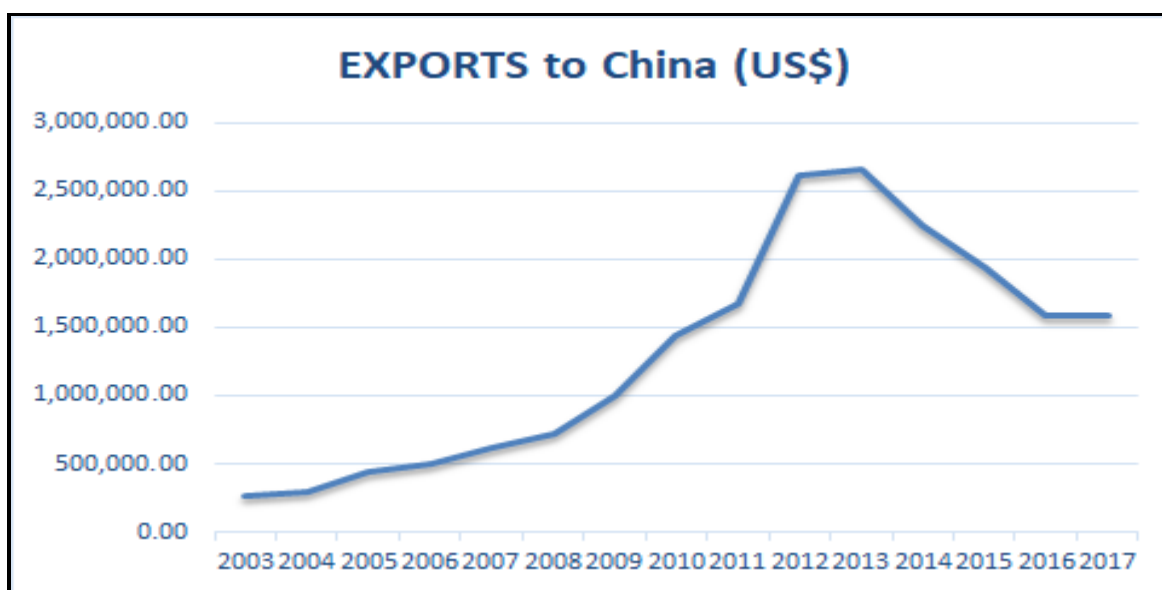
The graph shows the trend of exports of Pakistan to China from years 2003 to 2007. The exports have been gradually increasing from 2003 till 2012 after which for almost two years (2012-2014) they became constant (or minutely changed), followed by a substantial decrease in exports after 2014 till 2017. According to Trade Development Authority of Pakistan there was a 15.05% decrease in the value of exports of Pakistan to China in the in FY2013-14 only. The decrease in the value of exports is contributed by several factors mainly Pakistan's small export basket, low value-added goods, economic slowdown and such related factors.

Figure 4: Textile Exports of Pakistan to China (US$)

As can be seen in the graph, the textile exports of Pakistan to China progressively grew from the years 2003 till 2014 followed by a sharp decline since then, till 2017. A major reason behind this could be China's inclination towards importing high-tech products lather than low value added or low-tech products such as textiles. Nevertheless, China has other important and low-cost importing partners such as Bangladesh, giving China maximum price cuts.

Figure 5: Textile Exports Ready-made Garments of Pakistan to China (US$)

Similarly, the exports of Ready-Made garments have followed the same trend; gradually increasing till US$800,000 until 2014 and then decreasing significantly. Apart from economic

factors, exports with the most important strategic partner have also been affected by social factors such as changes in consumer preferences and trends. Man-made fiber products are now being actively demanded by the buyers while on the other hand; Pakistan's exports of Textile products are dominated by cotton only.

Figure 6: Exports Trade Flows Growth Rates
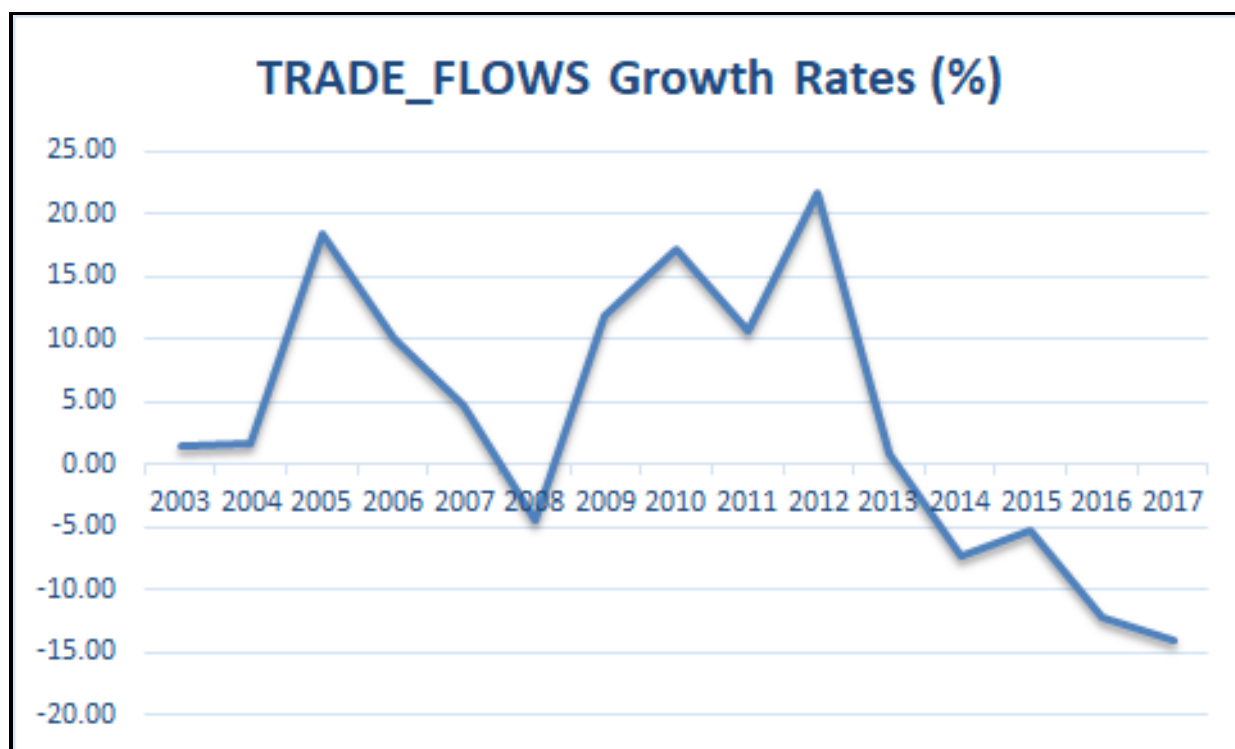
As illustrated by the diagram, the growth rates of trade flows with China have experienced a mixed trend; involving peaks and downturns. However the growth rates finally started following a negative trend since 2013 reaching as low as 15% by 2013-14. Pakistan's trade deficit with China by 2016-17 stood at US$12.67 billion, increasing from US$4.032 b in 2012-13 (Business Recorder, 2017).

Correlation Matrix:

Model -1

Table 8: Total exports to China and Trade Flows

Correlations			
		Exports of Pakistan to China	**Trade Flows Growth %**
Exports of Pakistan to China	Pearson Correlation	1	-.101
	Sig. (2-tailed)		.720
	N	15	15
Trade Flows Growth %	Pearson Correlation	-.101	1
	Sig. (2-tailed)	.720	
	N	15	15

The Correlation Table for Model 1 shows the relationship between Dependent and Independent Variables-the dependent variable being the growth in Trade Flows of Pakistan due to Pak-China FTA, and the independent variable being the overall exports of Pakistan to China, The researchers evaluate the relationship of variables based on probability values greater than 0.05. The sig-value of Pakistan's exports to China is 0.72 which is greater than 0.05 and is considered to be insignificant. The variable is insignificant and there is no relationship to express the value of Dependent Variable.

Model -2:

Table 9: Textile exports and Ready Garments exports

Correlations				
		Textile exports of Pakistan to China	**Exports of Ready-Made Garments to China**	**Trade Flows Growth %**
Textile exports of Pakistan to China	Pearson Correlation	1	.980**	-.064
	Sig. (2-tailed)		.000	.820
	N	15	15	15
Exports of Ready-Made Garments to China	Pearson Correlation	.980**	1	-.002
	Sig. (2-tailed)	.000		.993
	N	15	15	15
Trade Flows Growth %	Pearson Correlation	-.064	-.002	1
	Sig. (2-tailed)	.020	.993	
	N	15	15	15
**. Correlation is significant at the 0.05 level (2-tailed).				

The Model 2 correlation table shows statistics for correlation demonstrating the association between dependent and independent variables while the values for Pearson Correlation express the relationship between Dependent Variable.

The variable of Export of Textile value is 0.02 which is less than 0.05 and hence significant. The value of exports of Ready-Made Garments is 0.993 which is not less than 0.05 therefore it is insignificant, having no relationship with the Dependent Variable.

Hypothesis Testing – Correlation Hypothesis:

Table 10: Alternative Hypothesis

Hypothesis	Significance Value	Hypothesis Decision
H_1: Pak-China Free Trade Agreement has a positive impact with overall trade flows in Pakistan.	**.720**	**Rejected**
H_2: Pak-China Free Trade Agreement has a positive impact on the trade flows of textile sector at sector-level basis in Pakistan.	**0.020**	**Accepted**
H_3: Pak-China Free Trade Agreement has a positive impact on the exports of Ready-made garments at sector-level basis in Pakistan	**0.993**	**Rejected**

H_1: There is no significant relationship between the growths in overall trade flows of Pakistan based on Pak-China Free Trade Agreement; hypothesis rejected at significance level 0.720 with 95% confidence interval.

H_2: There is a significant relationship between the exports of Textile Sector to China and the growth in trade flows of Pakistan; hypothesis has been accepted at significance level 0.020 with 95% confidence interval.

H_3: There is no significant relationship between the exports of Ready-Made Garments to China and the growth in trade flows of Pakistan; hypothesis has been rejected at significance level 0.993 with 95% confidence interval.

Regression Analysis:

Table 11: Regression Analysis

Variable	Co-efficient (B)	t-statistics	Probability
C	6.34	1.12	0.28
EX	3.94	-1.11	0.29
EXTI	6.28	2.11	0.029
EXRM	5.15	0.50	0.62

The table above shows the results of regression output, the values of B-Coefficients, t-statistics and probability values. The Beta Coefficient explains the magnitude or explanatory powers of each Independent Variable and t-statistics show the values of acceptance and rejection of output. The t-value must be greater than ±1.96 at 95% confidence interval.

The first variable of Exports Beta coefficient is 3.84 shows that the 3.94% change brings 1% change in Dependent variable. The value of t is -1.11 which is less than ±1.96 and shows its insignificance explaining that exports cannot predict the growth rate. Moreover, as the probability value is 0.29, and not less than 0.05.

For the other variable of Exports of Textile Industry the t-statistics is 2.11 (greater than ±1.96), is significant and change in the exports of Textile Sector affects the overall trade flows of Pakistan. The third variable t value is 0.05, illustrating insignificance and no impact of trade flows.

Table 12: Model Summery

Statistics	Values
R Square	0.50
Adjusted R2	0.48
Hanan Quien criterion	21.4
F-Statistics	0.93
Probability of F-Statistics	0.045

Model summary of regression analysis illustrates the value of R^2 which explains the predictability of model and how the model can evaluate the relationship and impact among dependent and independent Variables.

The Value of 0.5 shows 50% predictability band in selected two variable exports of Textiles and Ready-made Garments. On the other hand, the F-Statistics show the model significance. The value is 0.93 and P-Value is less than 0.05 hence, the model is significant.

Hypothesis Testing (Regression) Impact Hypothesis:

Table 13: Alternative Hypothesis

Hypothesis	t statistics	Significance Value	Hypothesis Decision
H$_1$: Pak-China Free Trade Agreement has a positive impact with overall trade flows in Pakistan.	**-1.11**	**0.29**	**Rejected**
H$_2$: Pak-China Free Trade Agreement has a positive impact on the trade flows of textile sector at sector-level basis in Pakistan.	**2.11**	**0.029**	**Accepted**
H$_3$: Pak-China Free Trade Agreement has a positive impact on the exports of Ready-made garments at sector-level basis in Pakistan	**0.50**	**0.62**	**Rejected**

H1: There is no significant relationship between the growths in overall trade flows and based on Pak-China Free Trade Agreement; hypothesis is rejected at t -1.11 and P 0.29.

H2: There is a significant relationship between the growths in overall trade flows based on the exports of Textile sector under Pak-China Free Trade Agreement; hypothesis accepted at t 2.11 and P 0.29.

H3: There is no significant relationship between the growth in overall trade flows based on Ready-made Garments under Pak-China Free Trade Agreement; hypothesis rejected at t 0.5 and P 0.62.

Co-integration Analysis:

Table 14: Co-integration test

Unrestricted Co-integration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.879425	56.15767	47.85613	0.0069
At most 1	0.799869	28.65642	29.79707	0.0672
At most 2	0.427237	7.742270	15.49471	0.4934
At most 3	0.037552	0.497582	3.841466	0.4806

Trace test indicates 1 co-integrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Co-integration analyses the long-term relationship of Independent and Dependent Variables. The table explains the relationship at various other levels of integration from Level to 1st Difference and then 2nd Difference. When analyzing the results of Co-integration table, the values of Trace Statistics must be greater than Critical Value for the acceptance of hypothesis. As can be seen in the table above, the value of Trace Statistics shows no long-term co-integration between the selected Independent and Dependent Variables at various levels of integration as the values of Trace Statistics are lesser than the Critical values for each variable and therefore, these variables are unable to predict the changes in rates of trade based upon imports and exports of textiles.

Policy Recommendations:

Figure 7: Bilateral Trade between Pakistan and China in 2017
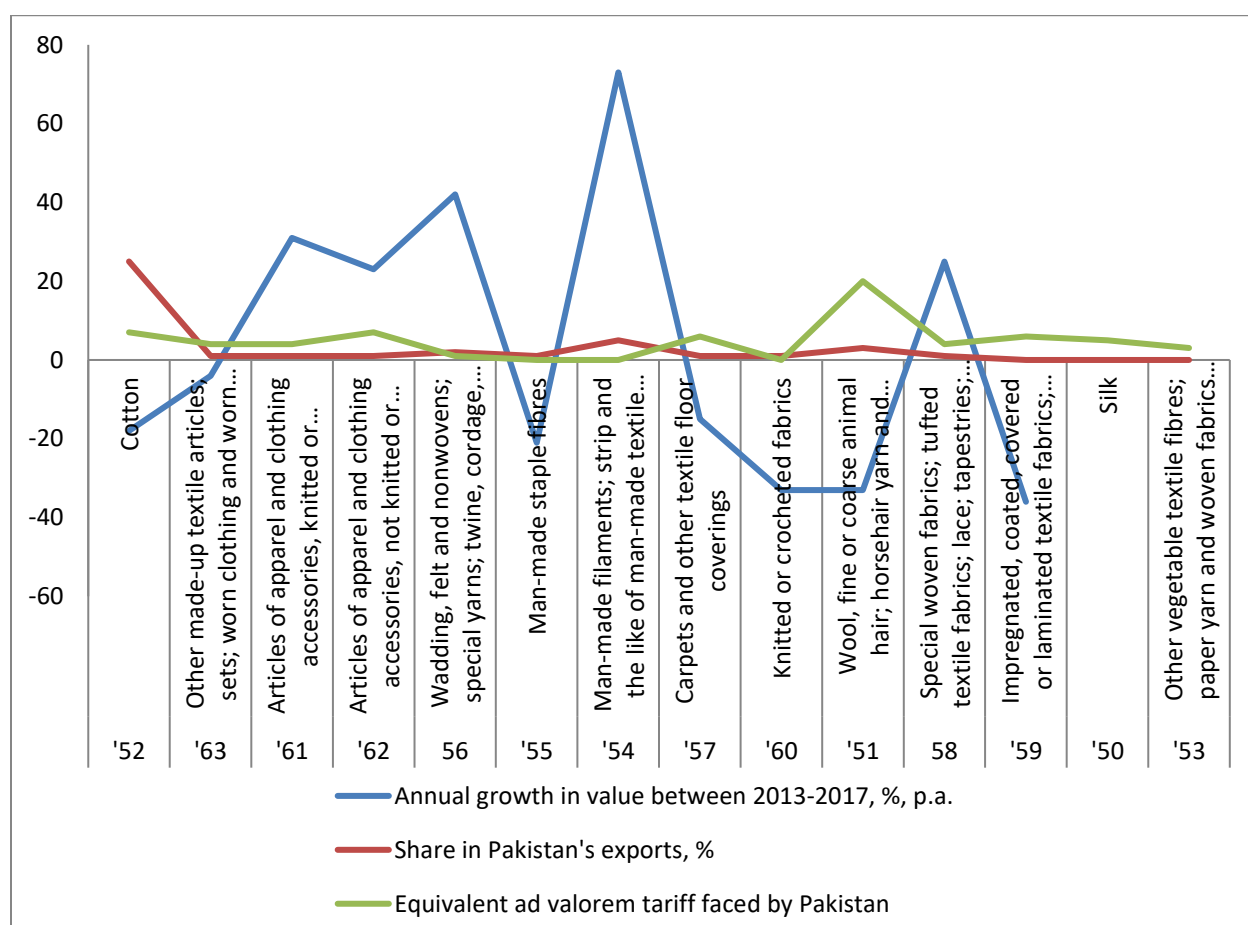
The diagram above shows the trend of the annual percentage growth of exports in value from 2013-2017 and the share of each product type in Pakistan's exports along with the tariffs faced by Pakistan. As can be seen, the annual growth in the exports of cotton (HS-52) has remained negative. Important point to consider here is that cotton is one of the main exports made to China. Cotton along with cotton producers put in 60% in the total exports during the year 2016-17. All the products' share in the exports of Pakistan is very low. However the export of HS 61, 62, 56, 54 and 58 have shown a positive trend.

It is important for Pakistan to realize its potentials in exports in order to renegotiate the CPFTA with the Chinese Government. Pakistan has potential to increase its exports of articles of apparel knitted/crotched and not knitted or crotched, but there are some limitations to it. Products from HS 61 and HS 62, contributed 31% and 23% to the exports but face ad Vole rum Tariff of 7 and 9 respectively that makes the products of Pakistan uncompetitive in terms of prices. HS-54 Man-made filaments; strip and the like of man-made textile materials, have contributed 73% to the total exports but are low value-added products having low value in the international market.

However, as per the findings of this report, Pakistan must focus on developing its textile sector so that it can add positively to the growth of trade flows. Changes in tastes and preferences have been experienced all around the globe. Hence, consumers are more interested in products made of man-made fiber but the exports of Pakistan are based upon cotton alone.

Therefore, Pakistan needs to renegotiate in the second phase of CPFTA, that China must offer the matching concessions that it gives to its ASAEN member states. This would help Pakistan in gaining value for its exports by availing the price cuts. Secondly, Pakistan itself needs to establish its export base. The country's exports heavily rely on a handful of products relating to few categories specially cotton, rice, leather and such other goods.

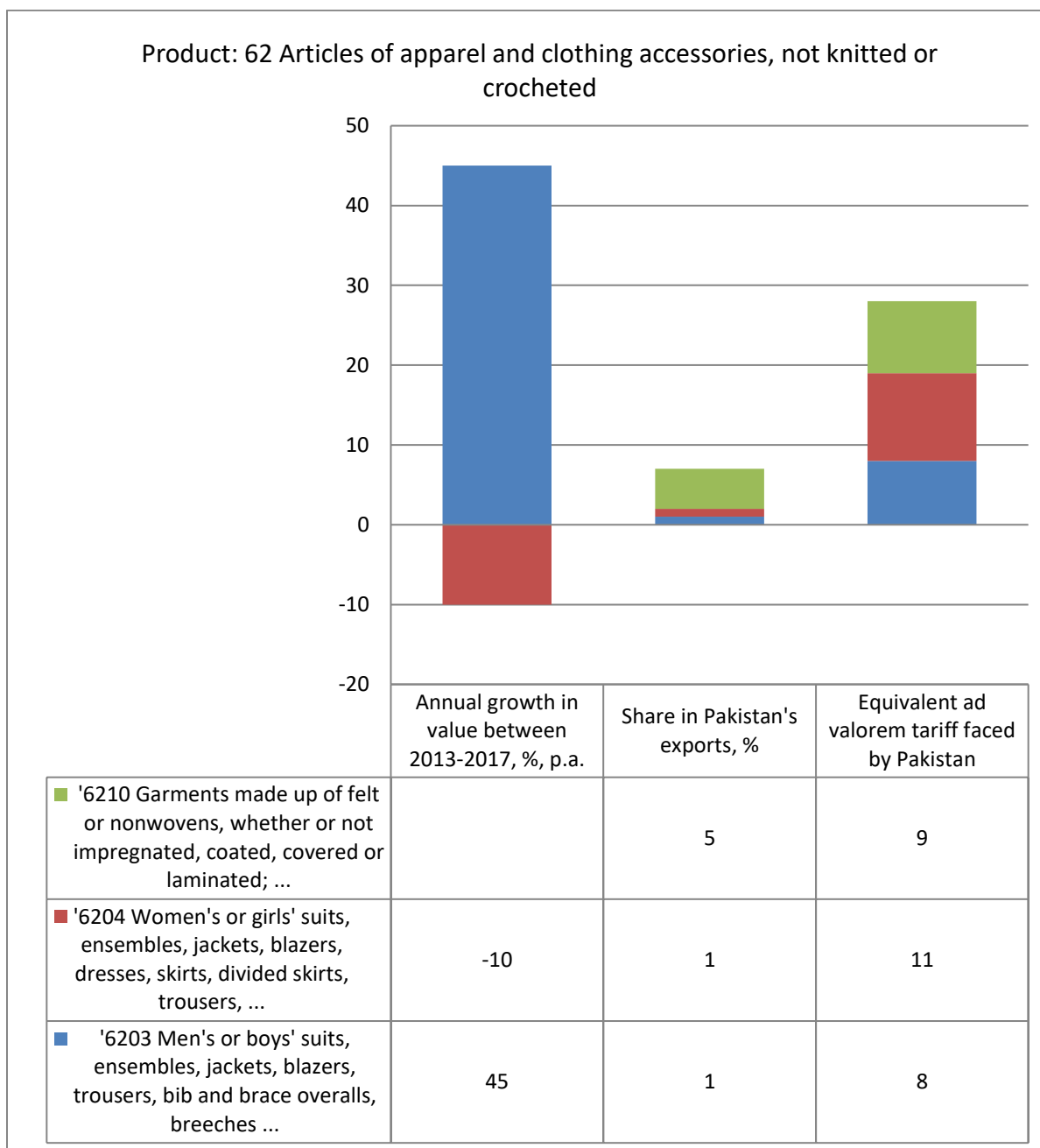**Figure 8: 52051200 Single Cotton Yarn**
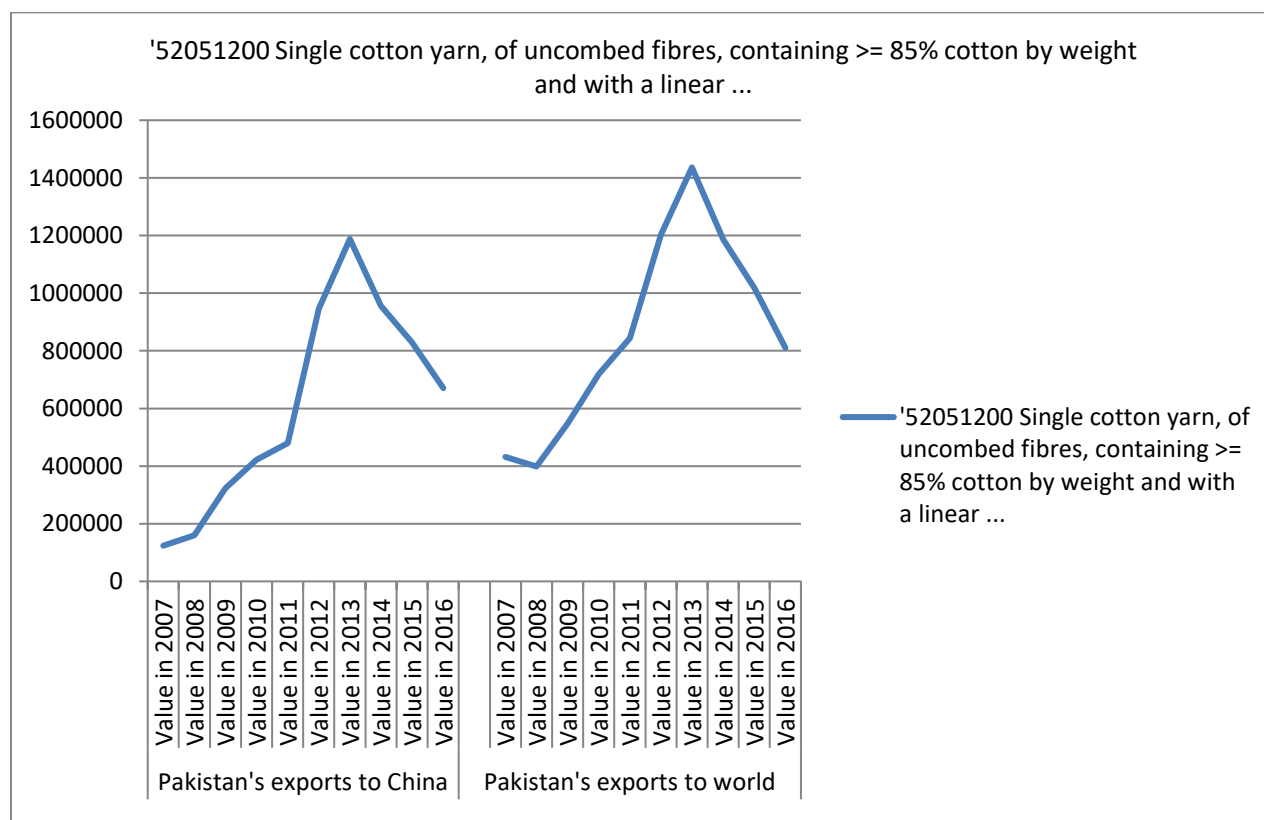
The diagram above shows the trend of one of the major exports of Pakistan to China, Product Code, 52051200 Single Cotton yarn. The value has increased since 2007 up until 2013 and then significantly decreased after 2013.

Similarly the exports of Pakistan to the rest of the world have also decreased since 2013 due to the fall in overall production of cotton yarn in the country. The impulsiveness in the supply
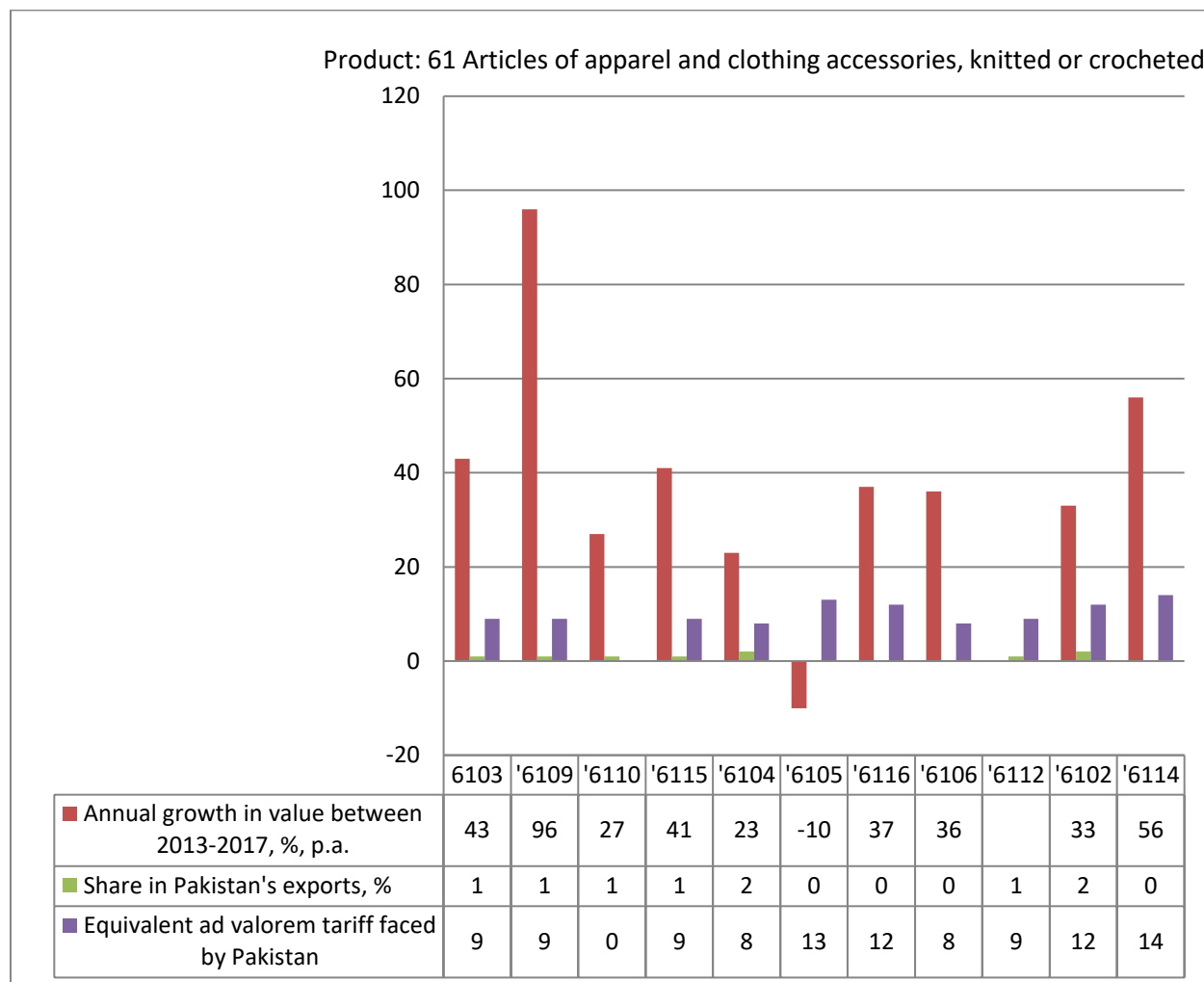
of cotton yarn from Pakistan has been crammed by India and Vietnam resulting in the decline in imports from Pakistan that China makes.

Figure 9: HS-62 Articles of apparel and Clothing Accessories not knitted/crotched

Product: 62 Articles of apparel and clothing accessories, not knitted or crocheted

	Annual growth in value between 2013-2017, %, p.a.	Share in Pakistan's exports, %	Equivalent ad valorem tariff faced by Pakistan
'6210 Garments made up of felt or nonwovens, whether or not impregnated, coated, covered or laminated; ...		5	9
'6204 Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, ...	-10	1	11
'6203 Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches ...	45	1	8

The diagram shows details of the top three textile exporting categories to China. Products relating to the HS code 6203 experienced high annual growth in value (23%) between 2013-17. However, these top three categories have been imposed high equivalent ad valorem tariffs by China making Pakistan's exports less competitive in terms of prices. Products with product code 6201, 6204 and 6203 face 9, 11 and 8 equivalent ad valorem tariffs respectively.

Figure 10: HS-61 Articles of apparel and clothing accessories, knitted/crotched

Product: 61 Articles of apparel and clothing accessories, knitted or crocheted

	6103	'6109	'6110	'6115	'6104	'6105	'6116	'6106	'6112	'6102	'6114
■ Annual growth in value between 2013-2017, %, p.a.	43	96	27	41	23	-10	37	36		33	56
■ Share in Pakistan's exports, %	1	1	1	1	2	0	0	0	1	2	0
■ Equivalent ad valorem tariff faced by Pakistan	9	9	0	9	8	13	12	8	9	12	14

The table and the graphs show that the annual growth in value between 2013-2017 for article of apparel and clothing accessories knitted or crotched (HS-61) have remained significantly high which is good for the overall trade flows for Pakistan. However, the tariffs faced are equally high resulting in the loss of export competitiveness and lower exports bills.

The Emerging Area of Technical Textiles:

According to the Textiles Policy 2014-19, the area of technical textiles is the new emerging market and a potential waiting to be tapped upon. Technical textiles include textiles related to fields such as geo-tech, sport-tech and medi-tech. Pakistan's exports for Special garments for professional, sporting or other purposes, n.e.s., knitted or crocheted HS-6114 grew by 56% from 2013-17 but faced enormous equivalent ad valorem tariff of 14. Pakistan needs to negotiate with China to reduce or eliminate the tariff on this product line in order to achieve the export potential in this yet untapped area.

China's Trade with Pakistan and ASEAN Countries:

China has signed multiple Free Trade Agreements with many other countries specially ASEAN nations. The tariff cuts that China offers to ASEAN members are way more than those given to Pakistan. Hence, as a result a major chunk of Pakistan's previous markets have now been captured by the ASEAN nations. For example, under FTA 3.5% duty is charged by China from Pakistan on the import of cotton yarn. However, India is also charged the same even when there is no preferential treaty between India and China (Ali, 2018).

Summary of Findings:

This research examines the trade flows of Pakistan with its most important Strategic partner China, after they both signed a bilateral Free Trade Agreement in 2006 which came into effect in 2007. Pakistan has close and strong allies with China not only strategically but economically and financially as well. China being the 2nd largest economy and with a population of 1.3 billion is the global exporting and manufacturing giant. Growth in exports has played a vital role in developing China and transforming it into a gigantic economy.

Pakistan's present trade imbalance with China stand at $12 billion dollars and it is likely to increase even further because of the heavy amount of machinery that is being imported by Pakistan for the China-Pakistan Economic Corridor (CPEC). Pakistan's main exports to china are low-value added goods and are concentrated on few products and categories. According to Ministry of Commerce, the exports made to China are subjugated to primary goods as well as intermediate goods rather than finished and high value-added goods. 74% of food items and 40% products from the textile group constitute of primary commodities that are exported to China.

The main aim of this report is to analyze the impact that CPFTA had on the industry of Pakistan, particularly the Textile sector and Ready-Made Garments. The researchers developed two models for econometric analysis. The first model intends to analyze the impact of Exports to China on the growth in trade flows of Pakistan. The second model proposes to assess the impact of the exports of Textile Sector as well as the exports of Ready-Made Garments to China on the growth in trade flows of Pakistan. The tests used in order to test the hypothesis were Unit Root ADF Test, to test the stationarity of data, Correlation Analysis, Pearson Correlation, Multi-Linear Regression Model, and Co-Integration Test. The study finds that the exports of Pakistan to China, do not have a significant impact on the growth in trade flows of Pakistan. However, the exports of Textile Sector have a significant impact on the trade flows while the exports of Ready-made Garments do not have much to contribute to the trade flows of Pakistan, hence remains an insignificant variable.

The findings of the report can be justified by a number of statistics. First, China's share in Pakistan's exports is 7%, however the annual growth in the value of exports from 2013-2017 remained -14%. There was a decrease of 18% recorded in the export of cotton (HS-52) only. However, articles of apparels, knitted/crotched as well as not knitted or crotched contributes only 1% to Pakistan's exports to China. The contribution of Readymade garments in the exports is also very low.

Research Implications:

The China Pakistan Free Trade Agreement was signed for the purpose of gaining maximum advantage from free trade but the results have not been fruitful. This research will help the policy makers, exports, importers, manufacturers, the business community specially The Federation of Pakistan Chamber of Commerce and Industry, the need and requirements of new and innovative production methods. Albeit, Pakistan is blessed with numerous resources, but according to the findings of this report export competitiveness can only be achieved once value added objective is achieved. The second phase of CPFTA is yet to be signed. Before signing that the Government of Pakistan must look into the prospective sectors identified in this report and work on them.

Recommendations:

Development of Textile sector cannot be achieved without eliminating the power outages. The main reason behind not achieving the full potential of the textile sector is the power crises. Moreover, poor infrastructure, lack of vocational training, obsolete technology and stagnation of major economies since last few years especially China and EU have adversely affected the output of and demand for Pakistan's products.

In order to make the second phase of negotiation between Pak-China FTA successful and end it in the favor of Pakistan, it is important to recognize that Pakistan has high rates of tariffs being charged by its most important strategic and export partner China. Pakistan should negotiate that China charges the same tariff rates that it does from its ASEAN, Association of South-East Asian Nations, especially from Pakistan's top competitors India, Bangladesh and Vietnam in order to protect the Margin of Preference.

However, in order to reduce the trade deficit with China Pakistan should not only look at the reduction of Tariff rates as the ultimate solution. Pakistan itself should recognize and establish potentials by improving and working on multiple factors such as providing power supply to the textile sector, product innovation, higher value-added goods, training and development of the work force, proper infrastructure, taking care of consumer preferences, working on marketing channels and also taking care of the costs of transportation.

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