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Evaluating the Effect of Tariff and Non-tariff Barriers on Exports in the Pre and Post China-Pak Free Trade Agreement (FTA) Period

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Abstract

Low trading costs, more significant consumer markets, and favourable economic ties between China and Pakistan provide a strong rationale for bilateral trade. Both countries have signed several bilateral trade agreements to boost mutual trade since 1963. The agreement that marked the beginning of a new era of cooperation between two trading partners and paved the way for free trade agreements was the Early Harvest Program (EHP), implemented in 2006. The first China-Pakistan Free Trade Agreement (CPFTA) was signed in November 2006 and became operational in 2007. CPFTA aimed to remove tariff and non-tariff barriers, enhance the comparative value of exports, and increase exportable surplus mainly through technical and financial cooperation. The paper critically evaluates the impact of tariff and non-tariff barriers on Pakistan's key exports in the pre- and post-CPFTA period. Further, the study quantifies the impact of non-tariff barriers using quantitative techniques of restrictiveness index, converge ratio, and frequency index with 4-digit H.S. code industry-level data. The analysis reveals that China imposed a relatively high tariff rate on Pakistan's top five exports compared to China's other FTA partner countries. The results about the effect of non-tariff barriers (NTBs) show that exports related to cereals, edible fruits, and textile sectors are highly covered under Sanitary and Phytosanitary (SPS) and technical barriers to trade (TBT) despite FTA. Our findings have substantial implications for sustained trade ties between China and Pakistan.

JEL Classifications: F13

Keywords: China-Pakistan Free Trade Agreement, Trade Deficit, Tariff and Non-tariff Barriers, Coverage Ratio, Frequency Index

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1. INTRODUCTION

China and Pakistan are neighbours and developing economies with large populations. Lower transportation and logistics costs due to shorter

distances and larger consumer markets justify trade between the two economies. The free flow of goods and services allows the consumers of two countries to consume quality goods at lower prices. To gain from free trade, China and Pakistan have signed several bilateral trade agreements since 1963 (Kamal and Malik, 2017). The agreement that marked the beginning of a new era of cooperation between two trading partners and paved the way for free trade agreements was the Early Harvest Program (EHP), implemented in 2006. The China-Pakistan Free Trade Agreement (CPFTA) was signed in November 2006 and became operational in 2007 to give friendship a chance to strengthen and increase trade volume.

CPFTA potentially removes tariff and non-tariff barriers, enhances the comparative value of exports, and increases exportable surplus mainly through technical and financial cooperation. China provided tremendous market access to Pakistan's products, while the latter reciprocated similarly. As its leading trade partner, Pakistan aimed to increase its export basket to China and reduce its trade deficit, which is constantly widening. Currently, China has 24 FTAs in progress, and 14 out of them have been signed and implemented. Moreover, China signed a trade agreement in services in 2009 with Pakistan. The second round of FTAs was signed in April 2019, providing concession on 313 items.

Among the SAARC countries, China has signed FTA only with Pakistan. However, negotiation of China with Maldives and Sri Lanka is in the process, while the agreement is under consideration with Bangladesh. If the agreement is reached with Bangladesh, then tough competition is likely between Pakistan and Bangladesh as the two countries rely heavily on the textile sector for their exports.

This study mainly conducts pre- and post-FTA trade analysis of Pakistan. The descriptive analysis reveals that even after the FTA, Pakistani products face comparatively higher tariff rates in the Chinese market than ASEAN and other FTA partners of China. Though trade volume has increased after the FTA, a significant part of this trade consisted of imports, leading to further worsening of the trade deficit.

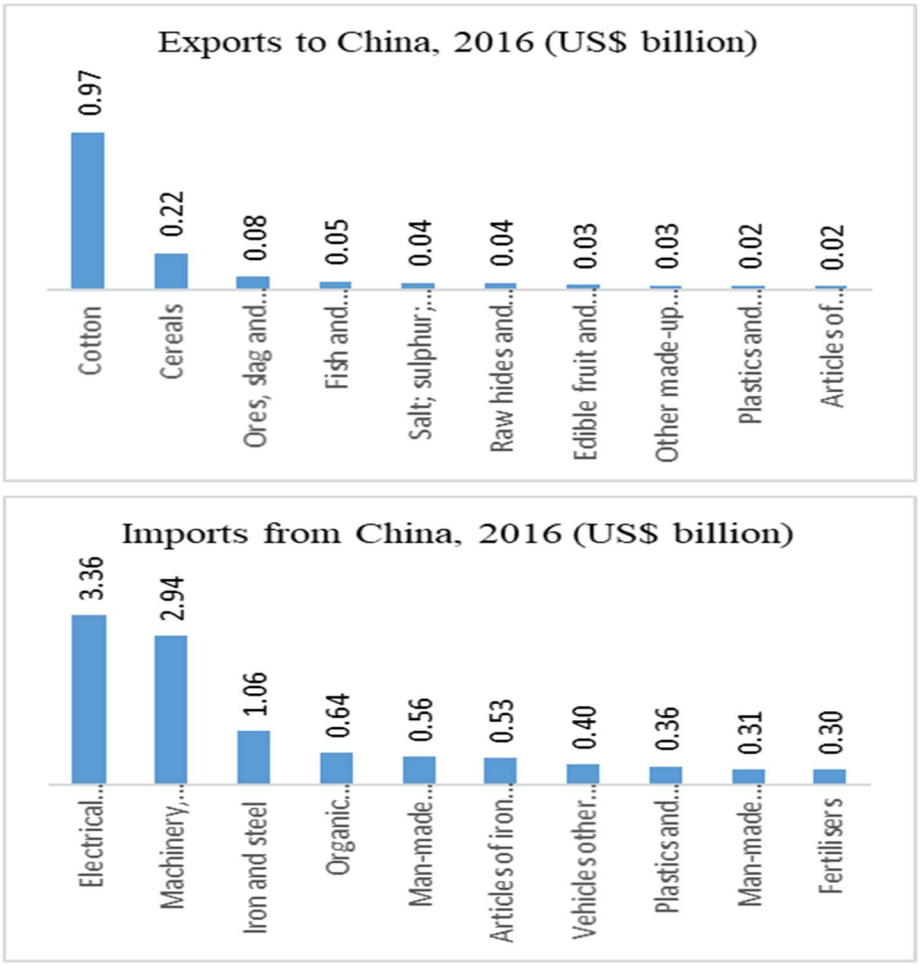
2. PRE AND POST FTA ANALYSIS

The first Phase of FTA ended in 2012. The second phase of FTA is almost in its final stage, where Pakistan has requested market access for about 57 priority items with zero percent tariff. In the second phase of negotiation, China agreed to allow 90 percent liberalization for Pakistan's exports while Pakistan reciprocated with 75 percent liberalization. China will give immediate

market access to products from Pakistan; however, a period of around ten years is specified for China.

Pakistan's prime import from China is electrical machinery, while on the export side, cotton is the major export to China (see Figure 1). The trade balance with China is negative and has widened over the years. The current trade balance is more than the double trade balance in 2012. In 2016, an 18% increase was witnessed in imports of Machinery and related products from China.

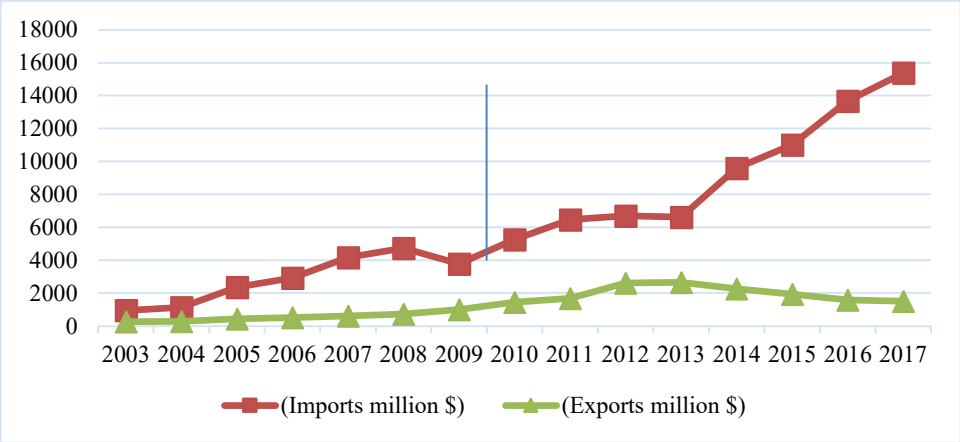
Figure 1. Pakistan's Major Exports and Imports from China



Source: WTO.

The vertical line in Figure 2, dividing the trend into two parts, shows Pakistan's trade with China before and after the signing of the CPFTA.

Figure 2. Pak-China Trade Trend



Source: ITC Trade Map.

After signing the FTA, Pakistan's exports to China increased significantly, registering a 279 percent increase in 2012-13 compared to 2006-07 (Pakistan Economic Survey, 2012). Likewise, China's exports to Pakistan also recorded an increase of 90 percent during the same period. However, from 2012 onwards, our exports started declining, leading to a wider trade deficit. The significant factors behind this widening were ASEAN joining FTA with China in 2010, increased import bills due to higher world oil prices, and a global economic slowdown due to lower international commodity prices. Though Pakistan's trade with China increased, a significant part of trade consists of imports.

Figure 2 shows that the trade between the two countries has increased but in China's Favor. In Pre FTA, the trade deficit was narrow, while in post-FTA FTA, Pakistan's exports were almost stagnant, showing a slight increase from 2010 to 2014 (see figure 2) With few fluctuations, imports are steeply rising, causing the trade deficit to increase further. However, China’s overall trade balance with other FTA partners (under study) is more favourable than Pakistan's, as presented in Table 1.

Unlike Pakistan, ASEAN (Association of Southeast Asian Nations), Chile, and New Zealand capture a larger share of Chinese imports post-FTA (see). However, Pakistan's trade increased after the FTA imports increased substantially more than exports to China.

Table 1. China's Pre- and Post-FTA Trade with FTA Partners (Harvard Atlas)

	Pre-FTA Trade (billion $)					Post-FTA Trade (billion $)			
	ASEAN	Pakistan	New Zealand	Chile		ASEAN	Pakistan	New Zealand	Chile
Chinese Export 2004	30.35	2.47	2.13	2.35	Chinese Export 2016	190.48	17.2	5.54	13.1
Chinese Import 2004	42.75	0.595	1.24	3.46	Chinese Import 2016	146.39	1.71	6.67	17.4
Gap (N.X.)	-12.4	1.88	0.89	-1.11		44.09	15.49	-1.13	-4.3
NX as % of Total Trade	17%	61%	26%	19%		13%	83%	09%	14%

2.1. Comparison of Chinese Tariffs for Pakistan and Other FTA Partners

The second phase started in July 2013 as part of the original FTA, aiming at removing 90 percent tariffs on all products. By the end of 2015, trade between the two countries reached US$ 12,953 million compared to US$ 3421 million in 2006 before the FTA (Third Review of Pak-China FTA PBC, 2016). However, overall tariff concessions offered to Pakistan remained relatively high compared to the tariffs offered to other FTA partners of China.

Table 2 compares tariff rates for GTAP aggregated sectors (Pakistan's five leading export items) under the FTA of China with Pakistan, ASEAN, Chile, and New Zealand (GTAP Data Bases).

Table 2. Comparison of Chinese Tariffs for Pakistan and Other FTA Partners

	Products	ASEAN	Pakistan	New Zealand	Chile
Chinese Tariff Rates for FTA Partners	Textiles	0	2.94	0.1	5.8
	Apparel	0	10.2	2.57	0.135
	Cereals	0	0.2	0	1
	Vegetables, Fruits	0	5.17	10.5	2.74
	Petroleum Products	0	4.51	1.03	0

Source: GTAP 9a Data Set, Base year 2011.

China offered tariff concessions to Pakistan, ASEAN, Chile, and New Zealand against the same commodities. China is offering Pakistan higher tariff rates than other China FTA partners. Due to this, Pakistan lost preference for 79% of exports to China after signing the FTA with other countries, especially with ASEAN countries. China’s imports from ASEAN countries have increased from US$ 10 billion in 2009 to US$ 19.6 billion in 2016 (The Express Tribune, 2017).

2.2. Non-tariff Barriers-Literature Review

International trade theories such as the Gravity Model suggest that countries geographically connected will benefit most from trade. However, the global trade patterns show a different picture. For instance, in 2016, almost 50 percent of Pakistan's exports went outside the Asian region (OEC, 2016). This difference between economic theory and actual trade value is due to similar

consumer tastes, production structures, and trade barriers. Trade barriers, especially non-tariff barriers (NTBs), are of emerging concern in international trade and facilitation. The increasing complexity and extensive use of NTBs over the years have become a significant challenge to traders across the globe. According to a University of Southern California report (2016), businesses frequently complain about non-tariff measures for raising transportation costs and operating expenses, lowering competitiveness. Similarly, Ballingall and Pambudi (2016) show that non-tariff costs $790 billion to Asa-Pacific Economic Cooperation (APEC) and increased transaction costs three times higher than a tariff in 2011. So, NTBs have a significant impact on trade flows and patterns.

The term non-tariff barriers encompass a variety of measures. Hillman (1991) defines NTBs as "all restrictions, other than traditional custom duties, which distort international trade. “These protectionist measures are non-monetary restrictions used to restrict the volume of trade and to protect local industry from foreign competition under the World Trade Organization (WTO) trade regime. WTO defines NTBs as different government policy measures that halt the flow of international trade. United Nations Conference on Trade and Development (UNCTAD) classifies NTBs as Sanitary and Phytosanitary (SPS), technical trade barriers (TBT), pre-shipment inspection and other formalities, contingent trade-protective measures, non-automatic licensing, quotas, prohibitions and quantity-control, price-control measures, and export-related measures. So, NTBs broadly cover the standards of identity, quality, and packaging measures (Thornsbury *et al.,* 1999).

NTBs have been found to be more restrictive than tariff measures and remain more harmful for agricultural trade than in technologically advanced sectors. The use of NTBs prompted after the financial crisis mainly to tackle the issues of climate change and food safety. There has been extensive use of Technical Barriers to Trade (TBT) and Sanitary and phytosanitary (SPS) measures to meet the requirements of international standardization in trade. (World Trade Report, 2012). TBTs are generally used to ensure standardization of procedural requirements, while SPSs protect human, plant, and animal life; they are frequently enforced on food trade to ensure hygienic requirements (APEC Business Advisory Council, 2016). The WTO members frequently use TBT and SPS mainly on the grounds of consumer welfare protection and environmental safety. Both measures can appear in many forms, requiring products to be free from additives, toxins, disease-causing organisms, specific product processing, and how a product is labelled and packaged (Stoler, 2011).

Different measures have different implications for merchandise trade. According to Chen et al. (2006), technical trade barriers result in the firm's diseconomies of scale and affect the firm's decision to enter the export market—further, testing and inspection procedures lower exports by 9 percent and 3 percent, respectively. Besedina (2015) evaluates the impact of TBT on export diversification at the product and market level, where NTBs in the form of complex exporting procedures hurt product and market diversification.

The extent to which non-tariff barriers restrict trade, it is essential to quantify their impact. Quantifying NTBs is generally considered promising and challenging as many technicalities as possible that are not easy to measure are involved. However, literature suggests different methods and techniques to test the relationship between NBTs and trade empirically. The first method is the Price Wedge method, which measures consumer welfare in the presence of NTBs. The second most popular method to quantify the NTBs is the Gravity Model. It studies the impact of the size of the economy, distance (cost of transportation), and other variables such as cultural differences, language, and exchange rate on the flow of trade. In addition, many studies use survey-based approaches to identify NTB regulations that have appeared more restrictive. It includes questionnaires and interviews of trading corporations, industrialists, and government officials to extract information about those NTB regulations that impede trade. Surveys help to narrow down NTBs faced most frequently, but the responses might be biased, leading to spurious estimation results. Secondly, surveys involve a high cost that makes their scope limited. These limitations of the survey-based approach are well addressed by the Inventory-Based approach. Inventory-based Approaches have become popular in qualitative and quantitative studies of trade barriers and other regulations. The inventory approach uses coverage ratio and frequency ratios to measure the frequency of various types of NTB occurrences. It identifies the sectors and countries most affected by NTBs.

In many countries like China, sanitary and phytosanitary (SPS) and technical trade barriers (TBT) measures of NTBs is actively pursued. It regularly submits TBT notifications; China submitted 106 notifications in 2015 compared to 49 in 2014 (Mustafa and Qayyum, 2017). Pakistan, an important trading partner of China, also faces its extensive non-tariff barriers regime. The prevailing NTBs significantly restrict the volume of bilateral trade between the two countries. Though the trade between Pakistan and China reached an all-time high of US$ 13.77 billion in 2015-16, it is still restricted through tariff and non-tariff barriers (Pakistan Economic Survey, 2016). According to WTO,

China imposed 87 cases of TBT on Pakistan's exports in 2016. The products majorly affected were animal fodder, residues and waste from the food industries and organic chemicals[1].

China frequently restricts Pakistan's main exports, including edibles, cotton, electronics, and organic chemicals, through TBTs (Mustafa and Qayyum, 2017). These TBTs help China to improve its export volume as, according to Bao and Qiu (2012), countries with more TBT notifications restrict exports from other countries while increasing their exports. Generally, Pakistan's exports are affected by TBTs and SPSs mainly because of low technical know-how regarding different standards and certifications, outdated infrastructure, and lack of trained staff. Secondly, a significant section of Pakistan's exports consists of Agri-products that can carry insects, which strongly justifies SPS's imposition on the importing country. Considering the significant impact of non-tariff barriers on Pakistan's exports, the present study investigates how NTBs, specifically TBT and SPS, affect the five sample sectors leading export commodities.

3. METHODOLOGY AND RESULTS

The focus of this study is to analyse pre- and post-FTA scenarios of NTBs that cover a short period. Due to the small sample period and low frequency of data, we are not using regression analysis such as the gravity model. Similarly, some techniques, such as price wedge, estimate the welfare effects of the NTBs method, whereas this study focuses on trade diversion and export promotion. These approaches would not be able to provide meaningful results in analysis. So, the methodology of Bao and Qiu (2012) to appraise NTBs' impact on bilateral trade between Pakistan and China is followed. The Bao and Qiu Restrictiveness Index technique is simple and more appropriate. It shows how much trade is restricted with the imposition of NTBs, which the main objective of the present research is.

The study mainly focuses on Technical Barriers to Trade (TBT) and Sanitary and phytosanitary measures of NTBs because Pakistan exports frequently face these barriers in international trade (Mustafa and Qayyum, 2017). In our sample, Pakistan is exporting while China is importing country. Data on TBT and SPS is extracted from WTO, while Pakistan's export data is taken from U.N. Comtrade. TBT and SPS cases have been analysed and initiated against the five sample sectors at the H.S. 04 product level.

[1] https://www.dawn.com/news/1367105.

Table 3. Restrictiveness of Exports by TBT and SPS

HS Product Code	Tariff Rates	TBT Initiated		SPS Initiated		Affected Exports 000 US$ (G)		Total Exports 000 US$ (H)		Restrictiveness TBT=G/H (%)		Restrictiveness SPS=G/H (%)	
		2007	2017	2007	2017	2007	2017	2007	2017	2007	2017	2007	2017
HS08 (Edible fruits and nuts)	5.17	0	3	0	1	288,900	16,357,207	613,758,906	1,508,079,658	0	1.08	0	1.084
HS10 (Cereals)	0.2	1	1	0	1	307,270	95,507,373	613,758,906	1,508,079,658	0.05	6.33	0	6.33
HS13(Vegetable saps and extracts)	5.17	0	2	0	0	5,704,739	13,340,207	613,758,906	1,508,079,658	0	0.88	0	0
HS27 (Petroleum Products)	4.51	0	3	0	0	0	3,505,443	613,758,906	1,508,079,658	0	0.23	0	0
HS61 (Apparel knitted)	10.2	0	0	0	0	324,935	22,077,456	613,758,906	1,508,079,658	0	0	0	0
HS62 (Apparel not knitted)	10.2	0	0	0	0	491,744	20,219,458	613,758,906	1,508,079,658	0	0	0	0
HS63 (Textile Articles)	2.94	1	2	0	0	2,257,322	25,783,578	613,758,906	1,508,079,658	0.37	1.71	0	0

Source: UN COMTRADE and WTO.

Tabel 3 shows the comparative analysis of non-tariff barriers in FTA signed (2007) and post-FTA year (2017). The table also reflects tariff rates on Pakistan's exports to China in similar commodities. Interestingly, the sectors where tariff rates are higher face low non-tariff barriers; however, comparatively, the former is higher than the latter.

The number of TBT and SPS cases that have been initiated against Pakistani exports by China between the 2007 and 2017 period are given in the table. The restrictiveness ratio is calculated by dividing the volume of exports of a particular H.S. 4 category affected by TBT and SPS over the total exports of Pakistan. Pakistan exports faced relatively more cases of TBT and SPS in the post-FTA year compared to 2007. The restrictiveness ratio of TBT in all commodities except apparel is high in the FTA scenario relative to the start of FTA (see Table 3). Cereals (HS10) remained among the most restricted categories in TBT and SPS cases, with a restrictiveness ratio of 0.05 percent and 6.33 percent in 2007 and 2017, respectively. After cereals, edible fruits and textile articles are the most restricted products, with ratios of 1.08 and 1.71 percent, respectively, 2017. However, fruits have zero restrictiveness, indicating zero coverage under TBT and SPS, while textile has a 0.37 TBT restrictiveness ratio with zero SPS restrictiveness. In 2017, more cases of TBT were initiated against the food category and textile sector. According to Moenius (2004), cereals and edible fruits are agricultural products whose trade is negatively affected by TBT. It implies that food category exports are mostly covered under TBT measures restricting their trade. The TBT positively affects the trade of goods with characteristics not fully known to the consumers compared to those with homogenous traits such as Agri-products (Bao and Qiu, 2012). The frequency of TBT and SPS depicts that even after signing an FTA with China, Pakistan's exports face non-tariff barriers that hinder its competitive edge. One of the significant reasons behind deteriorating Pakistan's trade balance with China over the years is the non-monetary protectionist measures despite entering into a free trade agreement.

To further analyse the volume of exports and number of products restricted by NTBs, quantitative analysis is extended to the coverage ratio and frequency index for 2017.

Using the inventory approach, the study constructs the coverage ratio and frequency index analysed by Bora et al. (2002) to capture the extent of Pakistan's exports to China covered by TBT and SPS. Where coverage ratio (C.R.) is defined as "the value of exports of TBT and SPS affected product items as a percentage of total exports of a product category." such as

$$CR_g = \frac{\Sigma_i D_i P_i}{\Sigma_i P_i} \times 100$$

where, i is the export commodity included in product category g (H.S. 4). If TBT and SPS are initiated against commodity i, the dummy variable (D_i) will take 1 and 0 otherwise. Pi denotes the value of commodity i's exports to China by Pakistan. So, a higher coverage ratio means more restricted trade of that product category g.

While frequency index (F.I.) measures the "number of product items subject to TBT and SPS as a percentage of the total number of product items in a product category," such as

$$FI_g = \frac{\Sigma_i D_i Q_i}{\Sigma_i Q_i} \times 100$$

Similarly, i is an export commodity in product category g (H.S. 4). D_i will take 1 if TBT and SPS are applied to good i and 0, otherwise. Q_i is a dummy variable that takes the value 1 in the presence of export of good i and 0 in the absence.

The current study calculates the coverage ratio and frequency index of both TBT and SPS for H.S. categories of H.S. 08, HS10, HS13, HS27, HS61, HS62, and HS63.[2]. The export coverage ratio of TBT (CR-TBT) estimates the proportion of affected exports within a product category (for example, H.S. 4), ranging from 0 (zero coverage) to 100 (covering all items) such as HS08 has 14 product items, HS0801, HS0802, HS0803, HS0804, HS0805, HS0806, HS0807, HS0808, HS0809, HS0810, HS0811, HS0812, HS0813 and HS0814 with total exports of US$ 16.357206 million). TBT covers four product items with total exports of US$ 16.35 million. Except for these four products, exports in other items are zero. So, CR-TBT and CR-SPS of HS08 are equal to 100 % (16.357206/16.357206). The CR-SPS of H.S. 10 is equal to 100 %. Similarly, CR-TBT for H.S. 63 is 0.043%, whereas only 1 product's exports are covered

[2] HS8 represents fruit and nuts, edible; peel of citrus fruit or melons Chapter, HS10 Cereals Chapter.
HS13 Lac; gums, resins, and other vegetables saps and extracts; HS27 Mineral fuels, mineral oils, and products of their distillation; bituminous substances; mineral waxes, HS61 Apparel and clothing accessories; knitted or crocheted, HS62 Apparel and clothing accessories; not knitted or crocheted HS63 Textiles, made up articles; sets; worn clothing and worn textile articles; rags.

by TBT out of 10 products. Though the textile sector faced significant non-tariff barriers during 2017 for parallel group Apparel (HS61 and HS62), no cases of TBT and SPS were initiated (that is, F.I.-TBT, SPS, and CR-TBT, SPS are zero).

F.I. of TBT (F.I.-TBT) measures the number of products affected by TBT within a particular product category, for example, HS4. It varies from 0 (zero coverage) to 100 (covering all products). In F.I., the number of products covered by TBT is divided by the total number of products in that category. FI-TBT of HS08 equals 100 % because TBT is initiated against those four products where exports occur within this category. Similarly, FI-SPS is equal to 100 %. The textile category is also covered under TBT with 12.5 % F.I.-TBT, where 1 product is covered among 10 products. Whereas F.I.-SPS is zero, indicating no Sanitary and Phytosanitary barriers in the way of textile exports in 2017 by China.

Cereals (HS10) and edible fruits (HS08) remained a highly restricted category as their exports are fully covered under TBT and SPS, evident from 100% coverage ratios and frequency indexes of both TBT and SPS. Unlike cereals, vegetable exports experienced free flow with no/zero coverage of TBT and SPS during 2017. The mineral products exports only face technical barriers with FI-TBT and CR-TBT at 100 percent.

Our analysis suggests that Pakistan exports are subject to many TBT and SPS cases despite being in post-FTA years. Technical barriers to trade and sanitary and phytosanitary barriers mainly hinder cereals, edible fruits, and textile sectors. One of the reasons for these NTBs could be the inefficient technologies used in manufacturing and non-conformity to international standards owing to the country's ambiguous system of certification and standardization. Apart from these, many businesses fail to meet TBT and SPS standards mainly because of the higher costs of complying with NTB requirements (Mustafa and Qayyum, 2017). Following these impediments, the Ministry of Commerce is taking initiatives to facilitate trade by removing these NTBs and tariff barriers. Strategic Trade Policy Framework 2015-18 gives investors investment and markup support programs to upgrade technology and facilitate certification and standardization. Based on the findings, the policy measures suggest that the focus should be on negotiating NTBs in the food category and textiles subject to higher cases of TBT and SPS under future trade negotiations.

4. CONCLUSION AND RECOMMENDATIONS

China is the largest trading country in the world, bordering Pakistan on the western side. Pakistan and China signed an FTA in 2006 to increase the trade volume among each other. After signing the FTA, Pakistan's trade has increased, but the central part consists of imports, leading to the widening of the current account deficit. The analysis carried out in the study shows the relatively high tariff rates on Pakistan's top five exports offered by China as compared to its other FTA partners and high coverage of non-tariff barriers. Though Pakistan has a comparative advantage in these commodities, due to high tariffs, they become relatively less competitive. One of the reasons that led to the trade deficit between China and Pakistan concerning other FTA partners can be the tariff imposed on Pakistani exports. The tariff concession differential by China to Pakistan and other FTA partner countries clearly shows the uneven playing level among free trade partners where effective negotiations are seriously required. Conversely, non-tariff barriers also restrict Pakistan's exports to China. Based on the findings of the restrictiveness ratio, converge ratio, and frequency index, cereals, edible fruits, and textile sectors are found to be highly covered under TBT and SPS despite the free trade agreement.

CPEC, in this scenario, can be used as a breakthrough to fill the export-import gap through its various agreements in trade, connectivity, and energy sectors. The linkage of Gwadar port to Xinjiang province (China) will help Pakistan expand its trade interaction with the rest of the world, thereby solving its many supply-side constraints (Kamal and Malik, 2017). Developments under the CPEC project may also be linked in several ways. First, Figure 2 exhibits that after the inauguration of CPEC, the imports of Pakistan from China have exponentially increased, mainly due to the import of machinery and equipment pertinent to CPEC energy and infrastructure projects. The resulting trade deficit is beneficial if it contributes to increasing the productive capacity of local industry and decreasing transaction costs. Second, the initiative of industrial cooperation under CPEC and the development of special economic zones can support the production of high-value-added products, exportable surplus, and diversification of export baskets mainly through backward and forward linkages with the global value chain envisaged in CPEC's long-term plan. Third, being the flagship program of BRI, the tariff and non-tariff barriers can be further negotiated under trade and economic cooperation and may have a favorable effect on net exports. Fourth, the agreements under CPEC may contribute to improving market access and discovering new markets. Fifth, export-oriented Chinese industries can be relocated to the special economic

zones under CPEC. It may provide technology and skill spillovers to local industries.

Recommendation for Second Phase

1) More focus should be on services liberalization (as of the 2009 Services Agreement). In this regard, the potential of information technology (I.T.) and the banking sector should be effectively exploited.
2) Import intermediate commodities or low-value chains from China and export high-value chain/final commodities to China.
3) Products in which Pakistan has a comparative advantage and competitive edge.
   should be exported to China.
4) Identify and export products facing relatively less competition in the Chinese market.
5) In FTA, more efforts should be made to reduce NTBs in sectors highly affected by TBT and SPS, such as cereals, edible fruits, and textiles.
6) Effective negotiations with China on the right of Most Favoured Nation (MFN) status to provide the same concessions as provided to some other FTA partners such as ASEAN.
7) Trade Agreements should be negotiated in the light of strategic relationships. In this regard, the strategic trade policy framework should be implemented in true spirit in collaboration with key stakeholders, including exporters, think tanks, and economic ministries.

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Appendix

Table 4. Frequency of TBT Enforced by China on Pakistan's Export

H.S. Code	Description	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
08	Edible Fruits and Nuts	0	1	0	0	9	1	0	1	0	0	0	4	3
10	Cereals	0	1	1	3	9	1	0	1	0	0	0	4	1
13	Vegetable Saps and Extracts	0	0	0	0	0	0	0	0	0	0	0	0	2
2710	Petroleum Products	0	1	0	0	2	0	0	0	0	0	0	3	3
61	Apparel (knitted)	1	0	0	2	0	0	0	0	0	0	2	0	0
62	Apparel (not knitted)	1	0	0	2	2	0	0	0	0	0	2	0	0
63	Textile Articles;	2	1	1	3	3	0	0	0	0	0	1	0	2

Table 5. Frequency of SPS Enforced by China on Pakistan's Export

H.S. Code	Description	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
08	Edible Fruit and Nuts	0	1	0	1	0	0	1	1	0	0	0	0	1
10	Cereals	0	0	0	1	0	0	3	1	0	0	4	0	1
13	Vegetable Saps and Extracts	0	0	0	0	0	3	0	0	2	0	5	0	0
2710	Petroleum Products	0	0	0	0	0	0	0	0	0	0	0	0	0
61	Apparel (knitted)	0	0	0	0	0	0	0	0	0	0	0	0	0
62	Apparel (not knitted)	0	0	0	0	0	0	0	0	0	0	0	0	0
63	Textile Articles;	0	0	0	0	0	0	0	0	0	0	0	0	0