

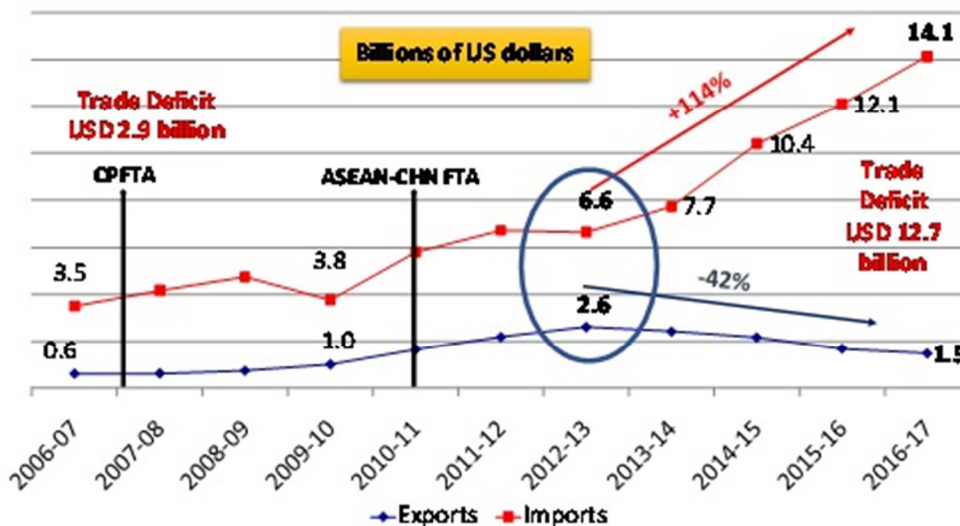
Opening up trade

Pakistan needs to do regional trade agreements and FTAs with the western world and other global markets. That is one step forward towards becoming part of global value and production chains. Having FTAs and other trade agreements with world markets can let the sunrise industries in regional and other growing economies shift to Pakistan owing to low cost of labour and land. An example of Vietnam was presented in this section earlier. (read "[Wanted: trade liberalization](#)")

Yes, we cannot replicate Vietnam in Pakistan. Every country has its own unique set of rules and conditions. Discovering hidden comparative advantage is required – like the case of Vietnam where it becomes the low cost manufacturer of the region. A non cotton producing country Bangladesh found its success in garments and the list goes on. It is a process of ‘self discovery’, and for that experimentation is required to explore the hidden jewel.

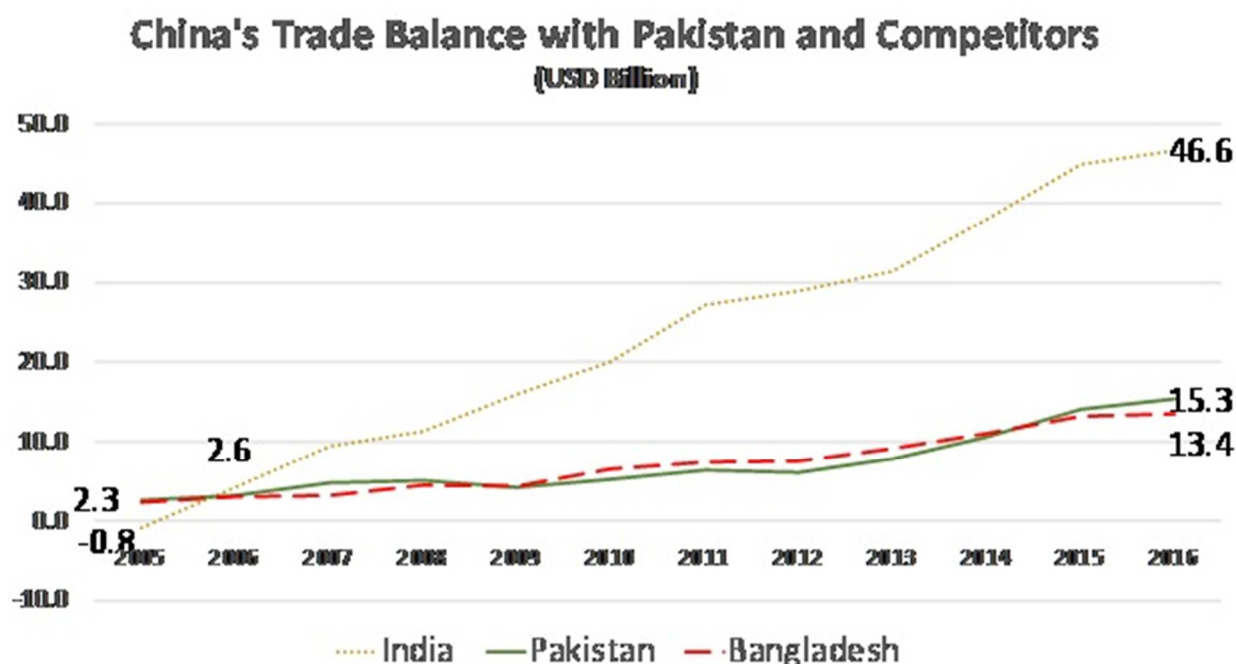
Having said that, Vietnam is a better alternative as in case of Bangladesh, more than 90 percent of exports are restricted in textile garment sector only and almost 50 percent to EU single market. The vulnerability, both in terms of export and market diversification is immense. Contrary to that, Vietnam has adopted a more liberal approach and reaped manifold benefits than other more protectionist developing countries.

Pak China Trade Gap



Pakistan needs to have trade liberalization policies and other countries experiences suggest that import liberalization is a better way for enhancing export competitiveness against the policy framework of import substitution. First step for export diversification is opening up to the world – in the process a few existing industries may suffer and some new may find their way. It would be an iteration process where government can guide and have dynamic incentive structure to catalyze the self discovery mechanism.

However, the problem is that before doing any new trade agreement, the FTA with China is given as an example to not take the route. Pakistan's trade deficit with China increased from \$2.9 billion at the time of China Pakistan FTA (FY07) to \$14.1 billion and the first blame, without getting into the details, is passed on to poor negotiations with China.



Yes, negotiations with China were not optimal, but one cannot blame the concept of FTA or any other trade agreements. Pakistan is not a unique case where the trade deficit ballooned against modern world giant. India and Bangladesh do not have any FTAs with China but their respective trade deficit increased from similar levels a decade back to \$46.6 billion and \$13.4 billion respectively, today. The issue US has today from China is too much imports from the Asian giant, and many other economies are facing similar problem of domestic economic production replaced by China.

To give CPFTA a perspective, at the time of negotiating the FTA, there was a lot of optimism around for successful conclusion of Doha leading to significant reduction of import tariffs worldwide. Hence, one thing playing in the minds of negotiators could have been to secure enhanced market access for their products and cheap access to intermediary goods for the industry before the onset of general lowering and withdrawal of tariffs around. Unfortunately, no consensus could be reached in Doha round.

The FTA did deliver on many fronts. Exports from Pakistan to China grew at a more rapid pace than before. It provided cheaper raw material for value added products manufacturing industry. Secretary Commerce Younus Dagha rightly pointed out that preference erosion for Pakistani products occurred in Chinese market because of more liberal FTAs signed by China especially with ASEAN subsequently. For instance, Pakistan exports to China grew from \$0.6 billion in FY07 to \$2.6 billion in FY13 before dipping to \$1.5 billion.

The negotiations of the second round of FTA become imperative to dilute the negative impact on Pakistan exports to China which are replaced by Vietnam and other ASEAN countries. The government should actively launch diplomatic efforts for creating conducive conditions to operationalize SAFTA and initiate talks for preferential or free trade agreements with Afghanistan and central Asian states to capitalize on CAREC economic corridor. It is time that our foreign policy is dictated by our trade and economic interests and not the other way around.