

Of exports to China

Post PM's trip to China, China has agreed to increase its imports from Pakistan this year. While reports differ whether exports are to double (FY18 exports were \$1.7 billion as per SBP) or to increase by \$1 billion in FY19, it seems clear that China has pledged to extend concessions similar to those extended to Asean countries.

Since the Asean countries are main competitors of Pakistan's exports, the rhetoric regarding the Pak-China FTA talks has revolved around negotiating for tariffs similar to theirs ever since the China-Asean FTA came into operation in 2010. These concessions are nearly a decade in the making given that the talks for the second phase of the FTA started in 2011.

If Pakistan's top exports to China indeed become zero-rated, it will be one of the biggest victories of PTI's tenure. The odds of that happening are slim next to none. There are only two exports that cross the \$100 million mark: rice and cotton yarn. Let's look at rice first.

China's rice imports are roughly \$1.5 billion, mostly sourced from Vietnam and Thailand. Under China's trade agreement with Asean, rice imports face 35 percent tariffs whereas Pakistan faces 65 percent tariff. If Pakistan could get zero-rated access, export figures would rise from the current paltry \$129 million and sweep the market.

After years of negotiations while CPEC carried on in the background, Pakistan has not been successful in decreasing tariffs at par with Asean. Earlier this year negotiations stalled after China refused unilateral concessions so to the prospect of rice tariffs becoming zero-rated is bleak, to put it mildly.

Cotton yarns make up 44 percent of Pakistan's exports to China, a country that accounts for nearly half the world's cotton yarn imports. At tariff level of 0.4 percent, Vietnam is China's supplier with about \$2 billion exports. India and Pakistan take the second and third position respectively at identical tariff level of 3.7 percent. India's share however is larger than what simple trade figures report as Vietnam has no raw material base and largely imports from cotton growing countries like China, India, and USA.

If cotton yarn and rice are not on the list of zero-rated goods, the question is what is? At imports standing at \$1.8 trillion, China imports nearly everything conceivable but Pakistan's exports and potential to increase production is limited. Effects of trade diversion versus trade creation need to be considered. If Pakistan does not have the capacity to increase production in the short to medium term, then exports to other countries will simply be diverted to China with little net benefit. As pleasing as it sounds that China has pledged to import at least \$1 billion more from Pakistan, whether this in the realms of practicality remains to be seen. There are prospects for increase in exports to China that could alleviate the CAD but more on that later.