



Ministry of Commerce

Pak – China

Free Trade Agreement (PCFTA)



TDAP
Trade Development
Authority of Pakistan
Formerly **epb**



The Chinese Market A Snapshot

4th Largest Economy
of the World
1314.1 million people
\$ 2644.6 bn GDP
2,013 US\$ GDP per capita
11.1% Real GDP growth
\$161.13 billion
import market



Pakistani companies will now have much better access to the world's fourth biggest economy.

Pakistan and China signed a bilateral Free Trade Agreement on 24/11/2006, in Islamabad, which became effective from July 1, 2007. The architecture of the FTA includes trade in goods and investments which has enlarged the sphere of the FTA. The Tariff Reduction Modality under the FTA has been developed to achieve the twin objectives of gradual regularization of trade with China while providing adequate tariff protection to the existing industry as well as future investments. Elimination/reduction of customs duty on raw materials and intermediate goods will make Pakistan's exports competitive not only in China but also in the global market. The FTA would also help Pakistan to improve its trade balance with China.

The Early Harvest Programme between the two countries, which was operational since January 1, 2006, has been merged into full-fledged bilateral FTA between two friendly states. In the overall package Pakistan will get zero-rated market access on industrial alcohol, cotton fabrics, bed linen and other home textiles, marble and other tiles, leather articles, sports goods, mangoes, citrus fruit and other fruits and vegetables, iron and steel products, engineering goods etc. Under the agreement China is bound to reduce its tariff by 50% on fish, dairy sector, frozen orange juice, plastic products, rubber products, leather products, knitwear, woven garments, etc.

Market access in textiles available to Pakistan under the Pak-China FTA, would enable the country to tap the opportunities available in the 4th biggest economy and third largest market of the World. Pakistan has offered market access under the FTA to China mainly on machinery, organic, and inorganic chemicals, fruits & vegetables, medicaments and other raw materials for various industries, including the engineering sector, intermediate goods for the engineering sector, etc.

OVER VIEW OF PAKISTAN CHINA TRADE

Year	Pakistan's export to China	Growth	Pakistan's import China	Growth %	Balance of Trade	Pakistan's export to world	% Share in Total Pak Exports	Pakistan's imports from world	% Share in Total Pak Import
2006	1,007,214	20.89	4,239,365	23.68	-3,232,151	16,932,872	5.95	29,825,754	14.21
2005	833,169	40.09	3,427,662	39.01	-2,594,493	16,050,201	5.19	25,096,576	13.66
2004	594,749	3.45	2,465,792	32.93	-1,871,043	13,379,015	4.45	17,948,584	13.74
2003	574,936	-	1,854,991	-	-1,280,055	11,930,076	4.82	13,048,609	14.22

The import of machinery, chemicals and raw materials from China under the FTA on reduced or zero percent duty would help Pakistan's industries to reduce the much needed cost of production and setting up of the new industrial units in the country, making local industrial sector more competitive. Ministry of commerce and TDAP are of the opinion that the FTA will instigate a new era of bilateral trade, economic and commercial relations with China and open up a vast and growing market for Pakistan.

Elimination of tariff on the products covered in the Pak-China Early Harvest Programme (EHP) shall continue in accordance with the earlier agreed modality of tariff elimination for EHP. Both parties are committed to eliminate the tariffs of no less than 90% of products, both in terms of tariff lines and trade volume within a reasonable period of time on the basis of friendly consultation and accommodation of the concerns of both parties.

Elimination of tariffs

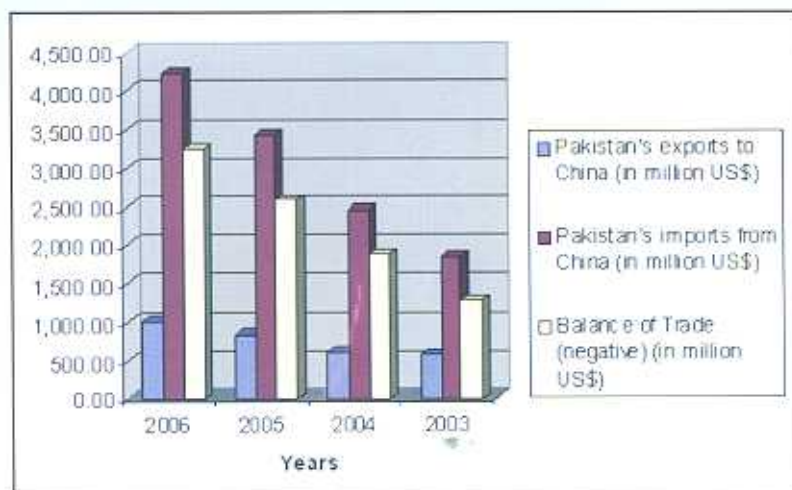
75560 item have been negotiated under FTA by China,

Fast Track: 2681 items, constituting 35.5% will be zero-rated within three years.

Normal Track: It comprises 2604 items, accounting for 34.5% on which tariff rate would be lowered to 5% to 0% within five years.

Sensitive Track: this list comprises 1133 items out of which 604, equivalent to 15% of the total items have been declared highly sensitive by China while 529 item fall under sensitive track two. These items have been given reduction on the basis of margin of preferences by 50% and 20% respectively. The rest of 15% items have been fully protected as they have not been given any concession.

Product/ Product Categories	No. of Products	China's imports from Pakistan	Pakistan export to world	China's imports from world
		in 2006, Value in USD thousand	in 2006, Value in USD thousand	in 2006, Value in USD thousand
All products		1,007,214	16,932,870	791,460,900
Core and Other Core Products	35 (among top 51 items)	762,778	2,701,961	10,912,694
% Share in total (All Products)		75.73	15.96	1.38
Core and Other Core Products	16 (among top 51 items)	216,855	228,181	15,326,177
% Share in total		21.53	1.35	1.94



Important Sectors to be benefited from FTA

Pakistan will get zero-rated market access within three years on various industrial sectors including industrial alcohol, cotton fabrics, bed linen and other home textiles, marble and other tiles, leather articles, sports goods, mangoes, citrus fruit and other fruits and vegetables, iron and steel products and engineering goods. Other products which will be benefited from FTA comprise chemicals (FTA) fish, dairy sector, frozen orange juice, plastic products, rubber products, leather products, knitwear, woven garments, etc

PERCEIVED GAINS FROM PAK-CHINA FTA

CORE & OTHER CORE CATEGORY

Under Core and other Core category there were 35 items which were exported to China from Pakistan. The value of export was estimated at \$ 762.7 million in the year 2006, constituting 75.7% share in Pakistan's total exports to China in 2006. The International Trade Centre has calculated indicative potential of this entire category of worth 1.5 billion.

DEVELOPMENTAL CATEGORY

Among top 51 export items of Pakistan to China, 16 products, belonging to Development Category were exported to China to the tune \$ 216.85 million in the year 2006. The share of these products accounted for 21.5% of Pakistan's total exports to China, however the indicative potential calculated by ITC for this entire category was estimated over 1 billion.

Indicative Potential of Pakistan exports Products

Pakistan exported goods to China of worth \$ 1 billion in the year 2006. However, ITC had calculated potential of worth \$5.0 billion for all Pakistan's export products to China, which after zero-rated access of Pakistani products in the Chinese market, would witness an encouraging growth within three to five years. However, tapping up the indicative potential requires Pakistani firms to improve the base of production, quality and competitiveness of their products through enhanced productivity.