



The Epoch of Free Trade Agreements in Pakistan and Predominance of China

Lubna Uzair^{a*} and Ahmad Nawaz^b

^aHailey College of Commerce, University of the Punjab, Lahore, Pakistan; ^bDepartment of Economics, COMSATS University Islamabad, Lahore Campus, Pakistan

ABSTRACT

The study empirically analyses the free trade agreements of Pakistan implicitly and China-Pakistan agreement explicitly by utilizing data of major trade partners of Pakistan from 1996 to 2018. For modeling the impact of trade agreements, gravity equation augmented with different variables, to accommodate zones of trade liberalization of Pakistan. To estimate the equation, feasible generalized least square used in a setting of panel data by controlling for country pair-specific and time-specific effects. Estimates of an extended gravity-based specification reflect that trade liberalization with Malaysia, and Sri Lanka is not as effective as with China and the trade agreement with China is only welfare-led. However, the imports from China are more responsive to free trade agreements as compare to export to China. The findings suggest the next round of negotiations for another phase of the agreement with consideration of the provision of market access to Pakistani exporters.

KEYWORDS

China; economic integration; free trade agreement; Pakistan

JEL CODES

F10; F13; F14; F15

1. Introduction

The industrial revolution and subsequent emergence of the world trading system under the World Trade Organization (WTO) have led to immense technological advances in transportation and communications, which has resulted in a drastic reduction in transportation costs of trading goods and services across countries. The emergence of China as a new economic power, dramatic changes in growth and population, greater international specialization, and intra-industry trade had only been possible because of technological innovation, and ultimately, it has facilitated international trade. Notably, the last three decades have seen an overwhelming rise in merchandise and service trade, during which China's share in world trade has increased significantly. On average, the value of world merchandise trade increased by about 11 percent in 2017, whereas Asia was the region with the highest growth in goods trade with 8.1% growth, out of which 70% consists of manufacturing exports. During that period China's trade with ASEAN countries flourish significantly, and according to Soong (2018) China enters an era which is called "Diamond decade" in terms of connectivity and trade. Historically, the developed countries were used to be significant international traders. However, in year 2017, the developing countries had 44% share in global commodity trade. Further their share of export rose to 43% of the total world exports from 41% in 2014. Interestingly, more than 50% trade of the world in 2017 were within the developing countries, and China, Korea, and Hong Kong had emerged as being the major traders from Asia.

CONTACT Lubna Uzair  Lubna.hcc@pu.edu.pk, luzair@uqconnect.edu.au  Hailey College of Commerce, University of the Punjab, Lahore, Pakistan.

*Present address: School of Economics, The University of Queensland, Australia.