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Trade cooperation between China and Pakistan: Geo-Strategic and Geo-Political Perspective

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Abstract

The economic ties between China and Pakistan have deep historical roots, dating back to the 1950s. This relationship holds immense significance for both countries, as well as for broader geoeconomic and geopolitical landscape of the region. Over the decades, it has evolved from primarily political and strategic alignment to encompass robust economic cooperation as well. China has emerged as the largest trading partner of Pakistan, with bilateral trade reaching over \$60 to 65 billion in 2024. Despite the changes in geostrategic and geopolitical environment of South Asia, relations between China and Pakistan have remained strong and stable. This research paper aims to analyze role and impact of geopolitical and geoeconomic position of South Asian region in determining the trade relations between Pakistan and China. Inferences are made by using qualitative approach and secondary data. This research has also provided a comprehensive analysis of the historical context, theoretical underpinnings, and the key trade and investment agreements that have shaped the China-Pakistan economic relationship in South Asian region. This research concludes that this unique relation and partnership is going to boost Pakistan's exports, reduce costs of doing business, and will integrate it into regional and global supply chains. The trade and economic cooperation between the two countries has evolved into a crucial component of their broader strategic partnership, with significant implications for the regional political, strategic and economic landscape.

Key Words: Geopolitical, Geoeconomic, Trade and Investment, CPEC, South Asia.

Introduction

Pakistan and China established diplomatic relation in 1950s soon after Pakistan got independence. The China-Pakistan economic relationship holds immense significance for both countries, as well as for the broader geopolitical and economic landscape of the region. Over the decades, the relationship has evolved from primarily political and strategic alignment to encompass robust economic cooperation with bilateral trade reaching over \$ 2.22 billion in 2025 which is

counted as a 30 percent increase from 2024 making China as Pakistan's largest trading partner. This trade balance has generally been in China's favor, with Pakistan running a sizable trade deficit. Key exports from Pakistan to China include agricultural products, textiles, and minerals, while Pakistan imports a wide range of Chinese machinery, electronics, and manufactured goods (Zahid Ali, 2022). Key sectors like infrastructure, energy, and manufacturing have received substantial Chinese capital and technological support.

Although South Asia's geostrategic landscape has changed significantly, China-Pakistan relations have endured for decades in spite of these shifts. The stability and strategic direction of the relations between Beijing and Islamabad have been maintained by their mutual trust and convergence of interests. With the help of China-Pakistan Economic Corridor, a flagship project of Belt and Road Initiative, both the states have developed a close strategic relation and has often seen collaborating together in international forums supporting each other on different regional security issues. Moreover, the CPEC project has been central subject for academic research and decent in past few years. It is a crucial pillar of the longstanding strategic partnership between China and Pakistan. CPEC with an image to transform Pakistan's connectivity to other central Asian states through roads, railways, power plant and significantly through Gwadar port is expected to boost Pakistan's exports, reduce costs of doing business, and integrate it into regional and global supply chains (Wolf, 2016). Beyond just political and security alignments, the deepening economic ties bind the two countries together and enhance their interdependence. This strengthens their overall bilateral relationship and allows them to coordinate more effectively on regional and global affairs.

China has also become a major investor in Pakistan. Till 2023, China's cumulative investment in Pakistan is estimated at over \$27 billion. Pakistan is seen as an important partner for China in South Asia, balancing influence of India in the region (Javaid, 2016). China, in turn, is a crucial diplomatic and economic ally for Pakistan, providing political support and economic assistance. The access to the massive Chinese market and influx of Chinese investments are vital for Pakistan's economic growth and development. Key sectors like infrastructure, energy, and manufacturing have received substantial Chinese capital and technological support. With significant impacts for the regional and international economic landscape, China and Pakistan's trade and investment cooperation has developed into a critical component of their larger strategic partnership.

This research provides a comprehensive analysis of historical development, theoretical framework and important trade and investment agreements like China-Pakistan Free Trade Agreement (CPFTA) and China-Pakistan Economic Corridor (CPEC) between Pakistan and China as an instrumental tool for deepening the economic relationship between both states over the years. These agreements have not only help reduce the tariff and liberalize the trade of good and services, but has also opened a way to large scale investments in sectors like energy, industrial and infrastructural projects. This pattern of trade and investment between Pakistan and China has highlighted the importance of bilateral relationships among states that has helped raise the amount of trade and investments between these two countries. Moreover, this research has identified significant opportunities for further deepening the economic cooperation, particularly in areas such as manufacturing, agriculture, and the digital economy.

As China continues to demonstrate its economic strength in the global economy and Pakistan seeks to enhance its own economic development and regional influence, the China-Pakistan economic relationship is likely to assume even greater significance in the years to come. The potential benefits of this cooperation, in terms of job creation, infrastructure development, and overall economic growth, are substantial and might have significant effects on the region and beyond. However, the research has also highlighted the potential challenges and risks associated with the China-Pakistan economic relationship, including the need to address concerns linked to the sustainability of debt, the impact on the environment, and the fair allocation of the benefits of this partnership. For the continuity and stability of the China-Pakistan economic relation over the long run, these issues must be resolved. This research has provided an elaborated and in-depth understanding of the trade and investment cooperation among Pakistan and China by identifying the key policy changes and recommendations for the policymakers and practitioners.

Theoretical Framework

Neorealism and its variations position the state at the center of both war and peace among all the paradigms that have been produced to explain international and state-to-state relations. The tenets of structural realism, or neorealism, hold that states function in anarchic international relations. Therefore, on the basis of shared and similar threats, cooperation is sought from other governments. Other states typically balance against a major power when responding to it, which is crucial for preserving regional stability. For many years, the Pakistan-China relationship has been characterized by Pakistan's choice to forge defense-oriented ties with China. The foundation of Sino-Pak ties is, to put it simply, the desire of survival and security. As per Realist scholar, *John Mearsheimer* (Mearsheimer, 1995), five assumptions form the core of Realist framework:

- a) International system is inherently anarchic.
- b) States are able to launch military assaults on one another.
- c) It is unclear what other states have in mind.
- d) The motivation underpinning state behavior is survival.
- e) States are still searching for strategies to secure their own existence.

From a neorealist perspective, the trade cooperation between China and Pakistan can be understood as a strategic move by both countries to enhance their respective positions within the anarchic international system. Kenneth Waltz in accordance with neorealism, emphasized the importance of distribution of power and the pursuits of security and survival as primary motivations for state behavior (Waltz, 1978). In this view, states are rational actors operating in an environment of constant competition, where the accumulation of power and the achievement of relative gains are crucial for ensuring national security.

In the case of China-Pakistan trade cooperation, a neorealist analysis would suggest that both countries are primarily driven by the desire to bolster their own strategic positions. From China's perspective, the trade relationship with Pakistan serves several key strategic objectives. First, it helps to strengthen its presence and influence in the South Asian Region, which is believed to be significant for its broader geopolitical ambitions. By deepening its economic ties with Pakistan, China

is able to cultivate a reliable regional ally and counterbalance the influence of other regional powers, such as India. Second, the trade cooperation provides China a path to resources and markets, which can enhance its economic and technological capabilities. This, in turn, can contribute to its overall power and influence within the international system.

For Pakistan, the trade relationship with China offers a means of bolstering its own security and economic development, which are crucial for its survival as a state. By aligning itself with China, Pakistan is able to counterbalance the influence of India, its historic rival, and gain access to Chinese investment, technology, and markets. Moreover, from a neorealist perspective, the trade relation between China and Pakistan can be seen as a form of deliberated hedging, where both countries are seeking to diversify their economic and political relationships in order to reduce their vulnerability to external shocks and pressures. However, the neorealist lens also highlights the potential tensions and challenges that may arise within the China-Pakistan trade relationship. As states are primarily concerned with the pursuit of relative gains, there may be a constant struggle over the distribution of benefits and the ability to leverage the relationship to their own advantage. Additionally, the neorealist view suggests that the trade cooperation is ultimately subordinate to the broader geopolitical and security interests of both countries. As such, the relationship between China and Pakistan may be subject to fluctuations and shifts keeping in view the changes in the regional or global balance of power.

Trade Relation between China and Pakistan: A Historical Context

The economic ties between China and Pakistan are critically important for both nations as well as for the region's overall geopolitical and economic relations. Despite their close political and strategic ties, the two nations' economic ties were initially confined. Although commercial ties had existed between China and Pakistan since the early 1950s, a formal trade agreement had been signed in January 1963. The Pakistan-China Joint Committee on Economy, Trade, and Technology was later formed in October 1982. Trade between China and Pakistan generally took place in accordance with the 1963 agreement, which stated that both nations had granted each other MFN status. During that time, Pakistan traded with China in both cash and barter.

During that period, the trade balance was continuously in favor of China, with the very brief interruption of the Korean War. At that time, Pakistan was looking for consumers for its raw cotton and jute as well as coal sources. China's exports to Pakistan in 1952 were barely US\$2.2 million, while Pakistan's exports to China was US \$84 million. The ceasefire in the Korean War caused a sharp decline in bilateral trade. With Chinese assistance, Pakistan completed several significant projects like the development of Makran Coastal Highway, the Saindak Metal (Copper/Gold) Project, the Thar Coal development, the Gwadar Deep Seaport, the Chasma Nuclear Power Plant, the Karakoram Highway, the Indus Sino-Pakistani relation and power generation projects, both nuclear and non-nuclear. China has also contributed to Pakistan's railway upgrade efforts by giving the country passenger coaches, locomotives, and technical support.

The relationship between Pakistan and China became more focused on the economic side when President Musharraf took office in October 1999. Following Musharraf's January 2000 visit to China, when he placed a strong focus on economic

cooperation, trade and investment between the two countries gradually improved. Following 9/11, China-Pakistan commercial and trade connections began to take shape, and the two countries developed strong bonds throughout South Asia. Because of the two countries' trade agreement, there are always chances to increase commerce by lowering tariffs, changing the quota for import/export by removing the internal and external obstacles. These specific agreements between the states have the potential to strengthen national economies and support interests at various levels in order to collaborate closely on the common goals and interests. Rafeeq & et. Al (2021).

Pakistan runs a consistent trade deficit with China, but the access to the massive Chinese market and influx of Chinese investments are vital for Pakistan's economic growth and development. Key sectors like infrastructure, energy, and manufacturing have received substantial Chinese capital and technological support. From Gwadar, the Karakorum Highway through Pakistan is the fastest way to reach China's Western provinces, which are going through a significant economic transition. This is a quick and secure substitute for the sea route that goes via the Straits of Malacca. It may also strengthen their business partnership. Through this channel, both countries have been concentrating on their trade contact. Given Pakistan's limited base of exportable goods, the country might increase trade volume and address its trade deficit with China by diversifying its exportable commodity portfolio and implementing a proactive export policy (Akhtar, 2014).

The flagship project of BRI, CPEC, has been transforming Pakistan's connectivity and productivity through major investments in roads, ports, power plants and railways. This is expected to boost Pakistan's exports, reduce costs of doing business, and integrate it into regional and global supply chains. Moreover, the economic ties also have geopolitical ramifications. India's hegemony in the region is perceived as being offset by China's growing influence in Pakistan. It also allows China to expand its strategic footprint in South Asia, which is crucial for its broader foreign policy objectives. For Pakistan, the relationship with China provides economic benefits as well as a crucial diplomatic hedge against India and the West. However, the relationship is not without its challenges. There are concerns over Pakistan's ability to service its debts to China, as well as the transparency and sustainability of CPEC projects. Nonetheless, both countries remain committed to further strengthening their economic cooperation in the years to come.

Rakisits studied the geostrategic objectives of the CPEC in order to analyse China's approach to Pakistan. He claims that China now has operational authority over the Gwadar port, a vital strategic site, thanks to the CPEC. Pakistan will be a key player in China's broader geopolitical plan to obtain access to the Indian Ocean by building a network of ports via the Silk Road Economic Belt and the Maritime Silk Road. China will have direct access to the Middle East and other regions thanks to Gwadar (Rakisits, 2015).

Pakistan-China Trade: In United Pakistan

With Pakistan's independence on August 14, 1947, the significance of trade relations and a robust foreign policy increased. In 1950, Pakistan became the first nation in South Asia and the third globally to acknowledge China's independence. This support provided evidence of advantages for both surrounding nations. The two

sovereign governments prioritized initiating mutual agreements of economic and strategic cooperation. Between the two states, diplomatic relations were established in 1951. The enduring friendship fostered by fruitful connections in trade and business dealings. Soon after, nations signed numerous agreements at the regional level and began engaging in strategic cooperation. In 1959, both nations agreed on parcel service and signed various agreements, such as Most Favored Nation (MFN). Several delegations associated to trade were swapped (Zeb, 2014).

Bilateral trade increased as a result of accords reached in the 1960s pertaining to civil aviation, culture, the sea, and trade. In order to investigate the possibilities of trade and economic cooperation, many delegations were swapped. Pakistan's trend continued to vary, sometimes in the form of imports from China and other times in the form of exports. Between US\$ 77 million in 1966 and US\$ 56.7 million in 1969, there was little fluctuation in the amount. The conflict between Pakistan and India and the sluggish economic expansion were the causes of this catastrophe. Pakistan was able to outperform China, which had continued to have a slight trade surplus. Agreements on civil aviation and trade in 1963 expedited trade between China and Pakistan. Additionally, the interchange of trade delegations boosted trade cooperation, which led to the signing of marine and cultural treaties during this decade. Nevertheless, overall conditions continued to be uneven, with China and Pakistan occasionally exporting at similar rates. The value of bilateral commerce rose to US\$ 77 million in 1966 but fell to US\$ 56.7 million in 1969. Another significant fact is that during this decade, China's trade surplus increased while Pakistan's began to decline (Malik, 2017).

Pakistan-China Trade: Post 1971

The trade between Pakistan and China rose significantly between 1970 and the end of the decade, from US\$ 73.4 million to US\$ 192.8 million. The exports of China to Pakistan peaked at US\$ 167.8 million, with very little fluctuation. All of these were brought about by China's advantageous export policies and the Middle East's oil boom, which raised consumer spending (Malik, 2017). Pakistan and China first signed the Early Harvest Program (EHP) agreement in 2005 which started in January 2006 which aimed to remove the trade barriers among both states and that would facilitate trade growth and ultimately foster an atmosphere conducive to the signatories of Free Trade Agreements (FTAs) and Preferential Trade Agreements (PTAs). Another round of free trade agreement was seen in the 2006 between the two states to enhance their economies. This three-part agreement addresses investment, commerce in goods and services. The first segment was signed on November 24, 2006, and it became operative on July 7, 2007. The second portion was signed on February 21, 2009, and it became operational on October 10, 2009. The Ministry of Commerce, Government of Pakistan (2018) states that the agreement was a comprehensive free trade agreement that covered investments, commerce in products, and services.

Pakistan has historically experienced a persistent trade deficit with China. Firstly, China is a rival in practically every significant industry within Pakistan's extremely small pool of prospective export markets. Second, the business community in Pakistan is still happy to export to the United States and Western Europe, where it is already well-established. To expand exports, there is little to no significant effort made to diversify the export base or explore new locations and areas. Third, even

though they live next door, they haven't been able to communicate well with one another. The 1978 opening of the Karakoram Highway did not result in a significant rise in commerce volume. Fourth, Pakistan's weak maritime sector hampers the expansion of trade volumes and further restricts trade routes. Furthermore, Pakistan's exports are mostly supported by its cotton-based economy. Because China is an important producer of textiles, the volume of commerce has not increased. China made an effort to make up for Pakistan's low trade volume and trade deficit by giving the country considerable aid for infrastructure development and self-sufficiency. Most of this assistance was provided in the form of grants or loans with no interest.

The relationship between Pakistan and China became more focused on the economic side when President Musharraf took office in October 1999. Following Musharraf's January 2000 visit to China, when he placed a strong focus on economic cooperation, trade and investment between the two countries gradually improved. In an attempt to draw China's private industries to Pakistan, former Chinese Premier Zhu Rongji visited the nation from May 11 to May 15, 2001, and gave U.S. \$500 million in preferential buyer credit to non-State Chinese businesses so they could invest and start joint ventures. In November 2003, China agreed to finance the US \$740 million Chashma II project, which contains a nuclear power plant with a capacity of 300 megawatts. More importantly, Chinese investment in Pakistan has increased by 30 percent from 2003 to US \$4 billion. More than 3,000 Chinese workers are employed by 60 of the 500 foreign businesses that operate in Pakistan. Most Chinese companies work on energy and infrastructure projects, such as building nuclear and hydroelectric power, searching for oil and natural gas, mining coal, building rail and road networks, telecommunications, building water dams, and building a deep-sea port in Gwadar, Baluchistan. The Gwadar port alone would generate over a million jobs and a billion-dollar transit economy per year (DAWN, 2004).

President Asif Ali Zardari made a commitment to push their friendship to new heights during his first official visit to China, which took place from October 14–17, 2008. The two countries are currently looking into new areas for their economic partnership. Eleven memorandums of understanding, protocols, and agreements were inked by China during President Zardari's visit to deepen bilateral cooperation in the areas of Infrastructure, industry, mining, telecommunication, disaster relief, energy, commerce, and space technology. This demonstrated China's commitment to advancing its strategic partnership with Pakistan. The two nations now recognize the importance of their economic ties, which are probably going to outweigh geostrategic concerns. As a result, they have made special efforts to strengthen business and economic relations. They have created free economic zones, signed numerous agreements, granted each other MFN status, and surmounted numerous bureaucratic obstacles. While two-way trade has not yet experienced the expected surge, it has demonstrated an increasing trend when compared to previous periods. In actuality, the degree of economic cooperation would have a significant impact on how long Sino-Pakistani ties last.

Pakistan-China Trade: 2020

China has imported five or six times as much into Pakistan as Pakistan has exported to it on average. However, in December 2020, Pakistan's monthly exports exceeded US\$ 312.33 million. China exported \$15.36 billion worth of goods to Pakistan and imported \$2.12 billion worth of goods from Pakistan between January and December 2020. Thus, China ranked as Pakistan's second-largest export destination, behind the US. The dilemma is how to keep Pakistani exports growing and its market share expanding. Many contend that the only reason the balance of payments was positive was because ships were stranded because of COVID-19 regulations. Results: Way out, Future Course of Action, and BOT in favor of China. Due to the fact that, among other things, raw materials and agricultural products, dairy products, frozen meat and animal organs, human hair, turmeric, starches, and sausages, China's trade balance with these two partners is favorable. China, on the other hand, is a leading exporter of high-tech machinery-related commodities, including boilers, consumer goods, plastics, artificial filaments, steel, and agricultural and industrial materials (Nakhoda, 2020). Pakistan's products are more raw than value-added. A shortage of skilled labor is impeding trade balance.

Major Trade and Investment Agreements between China and Pakistan

China-Pakistan Free Trade Agreement

One of the significant components of China and Pakistan economic partnership is the China-Pakistan free trade agreement signed between both the states in 2006. The agreement, first signed in 2006 and later amended in 2019, aims to liberalize trade, enhance market access, and promote bilateral investment between the two countries. Under the CPFTA, both countries have agreed to progressively eliminate tariffs on a wide range of goods, with China offering preferential market access to Pakistani products. The agreement also covers areas such as trade in economic cooperation, services and investment, providing a comprehensive framework for deepening the economic ties between the two nations.

The implementation of the CPFTA has led to an increase in trade volumes between China and Pakistan, with exports from Pakistan to China growing steadily over the years. However, challenges remain, such as addressing the trade deficit, diversifying the trade composition, and improving market access for Pakistani products in the Chinese market. To fully capitalize on the benefits of the CPFTA, both countries are exploring ways to further streamline trade procedures, harmonize customs regulations, and enhance cooperation in areas like e-commerce, logistics, and financial services. Ongoing efforts to review and update the agreement are also aimed at ensuring its continued relevance and effectiveness in the evolving economic landscape. The CPFTA has also been a crucial element of the China-Pakistan Economic Corridor (CPEC), a flagship project of China's Belt and Road Initiative (BRI). The goal of the China-Pakistan Economic Corridor (CPEC) is to improve regional connectivity, infrastructure development, and economic integration; within this larger framework, the CPFTA is essential to facilitating trade and investment flows. (Irshad, 2015)

The success of the CPFTA and its integration with CPEC have attracted international attention, with other countries in the region expressing interest in similar agreements or joining the CPEC initiative. This has led to discussions about

the potential for the CPFTA to serve as a model for regional economic cooperation and integration, particularly in the context of the growing economic influence of China in South Asia and beyond.

Background and Objectives of the CPFTA:

After being initially signed in 2006, the China-Pakistan Free Trade Agreement (CPFTA) became operative in 2007. It was China's first free trade deal of its sort with a South Asian nation. The CPFTA sought to promote trade and economic cooperation between China and Pakistan by reducing tariffs, removing non-tariff obstacles, and increasing market access for goods and services from both countries. The establishment of a more advantageous atmosphere for bilateral investment and economic integration is also crucial in this context.

Provisions of the CPFTA:

1. Tariff Reductions

- i. The CPFTA provided a framework for a phased reduction of tariffs on a wide range of products traded between the two countries.
- ii. In exchange, Pakistan made a commitment to remove duties on 5,301 tariff lines which are almost around 90 percent of its total tariff lines for China and 6,418 tariff lines that are approximately 71 percent of its total tariff lines for Pakistan.

2. Rules of Origin

- i. The agreement was composed of detailed rules of origin provisions to determine and know about the the eligibility of goods and products for preferential tariff treatment under the CPFTA.
- ii. These rules highlight the minimum domestic content and processing requirements for products to be qualified as originating from China or Pakistan.

3. Trade in Services

- i. The CPFTA also included a detail on trade in services, which aimed to systematically liberalize trade in key sectors such as finance, tourism, telecommunications, and transportation.
- ii. It also provided a framework for mutual recognition of professional qualifications and encouraged collaboration in areas like science, education and technology.

In 2019, the CPFTA was further enhanced to strengthen China-Pakistan trade and investment relations. In addition to addressing new topics including intellectual property rights, e-commerce, and competition policy, the renewed pact has broadened the arena of trade liberalization.

China-Pakistan Economic Corridor (CPEC)

One of the main projects of China's ambitious Belt and Road Initiative (BRI), which aims to improve infrastructure development, economic integration, and regional connectivity throughout Eurasia, is the China-Pakistan Economic Corridor (CPEC). A wide range of projects, including transport networks, energy infrastructure, industrial zones, and socioeconomic development efforts, are included in the

Comprehensive Plan for Economic Cooperation and Development (CPEC), which was announced in 2013. At the heart of CPEC is the development of a network of railways, roads and pipelines that will connect China's western province of Xinjiang to the Pakistani port of Gwadar. It is anticipated that this transport corridor will improve regional economic and trade integration by drastically cutting down on the time and expense of shipping goods between China and the Middle East, Europe, and Africa. With the construction of power plants, transmission lines, and renewable energy projects, CPEC also entails large expenditures in the energy sector in addition to the transportation infrastructure. These energy projects are crucial to addressing Pakistan's persistent power outages and advancing the country's economic growth.

The CPEC project has already been an economically beneficial project for Pakistan. The project has created thousands of jobs, both during the construction phase and through the operation of the completed infrastructure. It has also contributed to the growth of various industries, such as manufacturing, agriculture, and tourism, by improving connectivity and access to markets. (Hussain, 2017). Furthermore, Pakistan's geopolitical and economic environment could be altered by CPEC. It has the potential to increase Pakistan's strategic significance and capacity to draw in foreign investment by establishing the nation as a vital center in regional and international economic networks. Additionally, the project's emphasis on socioeconomic development, including investments in education, healthcare, and poverty alleviation, can contribute in improving the living standards of the Pakistani people (Suprabha Baniya, 2019). However, the implementation of CPEC has not been without challenges. Concerns have been raised about the transparency of the project's financing, the potential for debt traps, and the environmental and social impact of some of the proposed projects. Additionally, regional geopolitical tensions and domestic political dynamics in Pakistan have occasionally affected the progress of CPEC (Massarrat Abid, 2015).

Despite these challenges, both the states remain committed to the successful implementation of CPEC. The two countries continue to engage in extensive dialogue and cooperation to address the concerns and ensure the long-term sustainability of the project. As CPEC grows, it is anticipated to have significant effects on the regional and international economy as well as the bilateral relationship between China and Pakistan.

Genesis and Objectives of CPEC:

The China-Pakistan Economic Corridor (CPEC) is a flagship initiative of China's larger Belt and Road infrastructure development program. CPEC was launched in 2013 as a strategic partnership between China and Pakistan to improve connectivity, promote economic cooperation, and support Pakistan's economic development.

The key objectives of CPEC include:

1. To develop regional connectivity through highways, railways, and port infrastructure.
2. To address Pakistan's chronic energy shortages by investing in power generation and transmission projects.
3. To establish special economic zones to boost industrialization and job creation which are already in progress and creating jobs.

4. To strengthen cultural and people-to-people ties between China and Pakistan to create an environment of mutual trust at grassroots level.
5. To integrate Pakistan into China's regional and global supply chains which will ultimately benefit both the countries keeping in mind the rapid changing global power dynamics.

Key CPEC Projects:

1. Infrastructure Projects:

- a) They include roads and highways: E.g. Karakoram Highway, Sukkur-Multan Motorway
- b) Moreover, transportation also includes railways in which ML-1 railway upgrade and Karachi Circular Railway is under process.
- c) Moreover, there is a huge development going on in the area of ports that include the Gwadar Port development and there is also a project going on to upgrade the Gwadar International Airport.

2. Energy Projects:

- a) Power Plants are the basic necessity in the energy projects and coal, solar, wind, and hydropower projects are being built under it. Example of it is in the Sahiwal district of Punjab Province, where a coal power project was built to fulfil the energy requirements.
- b) Another project under this is relevant to the transmission Lines like the Matiari-Lahore transmission line which is going through the upgradation phase.

3. Industrial Cooperation:

- a) Special Economic Zones are another hallmark of CPEC under which SEZs are made functional in Rashakai, Gwadar, Dhabaji. Moreover, Industrial Parks and Clusters are also being built to create maximum jobs.

Trends and Patterns in China-Pakistan Trade

Composition of Trade (Goods and Services):

China-Pakistan trade has been dominated by trade in goods, with a smaller but growing component of trade in services.

Goods Trade:

- a) China exports majorly the machinery, electrical equipment, textiles, and automotive parts to Pakistan.
- b) Whereas, Pakistan's exports to China are composed of textiles products, garments, agricultural products, and minerals.

Services Trade:

- a) Transportation, telecommunications, and financial services are the major service trade sectors in this trade relationship between China and Pakistan.
- b) It is to be noted that Pakistan has a services trade deficit with China, as it imports more services from China than it exports.

Trade Balance and its Evolution:

- a) According to the trade history and current trade projections, China has maintained a large trade surplus with Pakistan over the years.
- b) Pakistan's trade deficit with China has steadily widened, from around \$3 billion in the early 2000s to over \$15 billion in recent years (Junaid Kamal, 2017).
- c) One of the major concerns for Pakistan is the trade imbalance and has become a main focus area under the CPEC initiative which is still undergoing debate.

Major Trade Partners, Products, and Sectors:

Top Trade Partners:

- a) China is Pakistan's largest import source and second-largest export destination after the United States.
- b) In South Asia, Pakistan is China's largest trade partner.

Major Export Products from Pakistan to China:

- a) Textiles and garments which include cotton, fabrics, apparel and yarn.
- b) Export products from Pakistan to China also include agricultural products like rice, fruits and vegetables.
- c) Another important export product is composed of minerals like copper and chromites.

Major Import Products from China to Pakistan:

- a) Import products include machinery and relevant equipment like power generation, telecom and construction.
- b) Automotive parts and vehicles are also a part of it in which the MG Motor brand has made rapid progression.
- c) Another important aspect is related to electrical equipment and consumer electronics.

Key Sectors:

Key sectors include textiles, apparel, agriculture, food processing, infrastructure, construction, automotive, transportation, minerals and mining.

The China-Pakistan trade relationship has evolved significantly over the past two decades, driven by the CPFTA and the CPEC initiative. However, addressing the persistent trade deficit remains an important priority for Pakistan in managing this economic partnership.

Potential and Prospects of China Pakistan Trade Relations

Opportunities for Further Deepening China-Pakistan Trade and Investment Ties

Despite the substantial progress made through initiatives like the CPFTA and CPEC, there are still significant opportunities to further deepen the trade and investment relationship between China and Pakistan:

Expanding Market Access

- a) To take steps for the liberalization of tariffs and removal of non-tariff barriers under the upgraded CPFTA.
- b) To improve market access for Pakistan's exports in high-potential sectors like agriculture, food processing, and services.

Diversifying Trade Composition:

- a) To reduce the heavy reliance on textiles and garments in Pakistan's exports to China.
- b) To explore new export avenues in sectors like engineering goods, chemicals, and value-added agricultural products.
- c) To boost Pakistan's services exports to China in areas like IT, tourism, and professional services.

Enhancing Industrial Cooperation:

- a) To accelerate the development of Special Economic Zones (SEZs) under CPEC to attract Chinese investment and facilitate technology transfer (Rafeeq, Imran, & Akram, 2021).
- b) To promote joint ventures and co-production arrangements between Chinese and Pakistani firms.
- c) To develop regional value chains and integrating Pakistani industries into China's supply networks.

Strengthening Connectivity and Logistics:

- a) To complete the key transportation and infrastructure projects under CPEC to improve cross-border connectivity.
- b) To enhance the efficiency of logistics and customs procedures to facilitate smoother trade flows.
- c) To explore opportunities for joint development of maritime and air transport hubs.

Catalyzing Investment Flows:

- a) To promote investment in high-tech, innovation-driven sectors like renewable energy, healthcare, and information technology.
- b) To leverage Chinese capital and expertise to support Pakistan's industrialization and modernization efforts.

Deepening Financial Cooperation:

- a) To expand the use of local currencies in bilateral trade and investment transactions.
- b) To explore opportunities for joint ventures and collaboration between financial institutions.
- c) To improve the access to trade finance and investment insurance mechanisms.

Both China and Pakistan must make consistent efforts to resolve the outstanding issues, improve policy coordination, and establish a supportive atmosphere for

further economic integration if these opportunities are to be realized. In this context, the enhanced CPFTA and CPEC efforts must be implemented effectively.

Future Outlook for the China-Pakistan Economic Relationship

Deepening CPEC and Infrastructure Development:

Economic ties and integration between both countries will be further strengthened by the continuous execution of CPEC projects, which include the creation of special economic zones, energy infrastructure, and transportation networks and with that, improved cross-border connectivity and logistics will facilitate greater trade, investment, and industrial cooperation.

Expanding Trade and Investment Ties:

The upgraded China-Pakistan Free Trade Agreement (CPFTA-II) is expected to further liberalize trade, improve market access, and diversify the trade composition. Furthermore, increased Chinese investment in Pakistan, particularly in high-potential sectors like technology, renewable energy, and manufacturing, will deepen the investment partnership (Ahmed V. , 2017).

Strengthening Financial Cooperation:

Initiatives to promote the use of local currencies, enhance trade financing, and develop joint financial institutions will contribute to the stabilization of the economic relationship. Moreover, collaboration in areas like banking, capital markets, and technology can further expand the scope of financial cooperation.

Advancing Industrial and Technological Collaboration:

The development of special economic zones and industrial parks under CPEC will foster joint ventures, technology transfer, and integration of Pakistani industries into Chinese supply chains. Similarly, cooperation in emerging sectors like green technologies, artificial intelligence, and digital infrastructure will drive innovation and technological upgradation (Ahmed, 2021).

Regional Connectivity and Integration:

CPEC's role as a gateway for the access of China to the Indian Ocean and Middle East markets will strengthen Pakistan's position as a regional trade and logistics hub. Plus, the expansion of the China-Pakistan economic partnership can contribute to the broader integration of South Asia and Central Asia.

Strengthening Geopolitical and Strategic Ties:

The deep-rooted security and political cooperation between China and Pakistan will continue to provide a strong foundation for their economic relationship. Moreover, navigating geopolitical challenges and maintaining a stable regional environment will be crucial for the long-term sustainability of the China-Pakistan economic partnership. However, the future trajectory of the relationship will also depend on Pakistan's ability to address its structural economic challenges, enhance policy predictability, and ensure the equitable and sustainable development of CPEC projects. Continued efforts to manage debt risks, strengthen local capacity, and promote inclusive growth will be critical for the China-Pakistan economic relationship to reach its full potential in the years ahead.

Conclusion

The trade cooperation between China and Pakistan is based on a multifaceted relationship that has developed over the course of several decades. China and Pakistan are strategic allies and neighbors, and as such, their economic relations have grown significantly in influencing regional and global dynamics. China has breathed fresh life into Pakistan's flagging economy historically and especially over the past 20 years, causing the country's economy to shift. China would undoubtedly take the lead in the new global political-economic system as the leading trends predict. The CPEC has a lot of potential as a new commerce route through Pakistan. Pakistan's economy would continue to be supported by China's sustained economic expansion as a close trading partner. Pakistan can profit from the tight trade links between the two states, as their relationship is developing in a promising manner. The cheap commodities that arrive slowly in Pakistan, in contrast to China's quick imports, have caused the trade deficit to increase in China's favor (Nakhoda, 2020).

The trade cooperation provides China with access to important resources and markets, which can enhance its economic and technological capabilities. This, in turn, can contribute to its overall power and influence within the international system. As China continues to assert its status as a global economic and technological powerhouse, the ability to secure reliable sources of raw materials, energy, and consumer markets becomes increasingly crucial for its long-term development and strategic positioning. For Pakistan, the trade relationship with China offers a means of bolstering its own security and economic development, which are crucial for its survival as a state. By aligning itself with China, Pakistan is able to counterbalance the influence of India, its historic rival, and gain access to Chinese investment, technology, and markets. This is particularly important for Pakistan, which has faced significant economic challenges and security threats over the years, and has sought to diversify its international relationships to reduce its vulnerability and enhance its strategic autonomy.

However, China should also assist Pakistan in growing private investment instead of putting a lot of emphasis on State-owned businesses. The Chinese government must entice its individual citizens to make investments in Pakistan. Large cities and provinces need to create plans and strategies to entice Chinese FDI. This will significantly alter the current state of Chinese investment in the nation. The long-standing bilateral political agreements, growing trade ties, and new Chinese investments in Pakistan would all be valued by the incoming Chinese leadership. Taking center stage would be Gwadar Port. Chinese commercial activity in Gwadar would open up new doors. Increased Chinese FDI can boost Balochistan's economy, and other provinces could follow suit. By all accounts, under the new Silk Route strategy, Gwadar Port would assist China in promoting its business from Xinjiang and Tibet to Gwadar. This will undoubtedly characterize the renewed trade cooperation between China and Pakistan in the years to come. It would be a significant shift in Asia-Pacific trade and strategic considerations.

Policy Implications and Recommendations

Based on the analysis of the China-Pakistan economic relationship, several key policy implications and recommendations emerge:

- Establish robust inter-governmental coordination mechanisms to ensure effective communication, data sharing, and joint decision-making between China and Pakistan and improve transparency in project planning, implementation, and evaluation to build trust and address stakeholder concerns.

- Develop a comprehensive debt management strategy to ensure the long-term sustainability of CPEC-related financing.
- Diversify financing sources, including exploring public-private partnerships and multilateral funding, to reduce reliance on bilateral debt.
- Promote fiscal reforms and revenue mobilization in Pakistan to enhance its capacity to service debt and invest in productive sectors.
- Conduct rigorous environmental and social impact assessments for all CPEC projects and implement comprehensive mitigation measures.
- Ensure meaningful stakeholder consultation and inclusive development approaches to address local community concerns.
- Promote green and sustainable infrastructure development, including renewable energy and eco-friendly technologies.
- Foster Industrial Upgrading and Technological Collaboration:
 - Develop joint industrial parks and special economic zones to facilitate technology transfer, skills development, and integration of Pakistani industries into regional and global value chains.
 - Encourage collaboration in emerging sectors like artificial intelligence, digital infrastructure, and renewable energy to drive innovation and economic modernization.
- Expand the scope of the China-Pakistan Free Trade Agreement to reduce tariff and non-tariff barriers and open up new trade opportunities.
- Promote Pakistani exports in high-potential sectors beyond textiles, such as engineering goods, chemicals, and value-added agriculture.
- Leverage CPEC's potential as a regional connectivity hub to enhance role of Pakistan in facilitating investment, trade, and economic integration in South Asia and Central Asia.

Implementing these policy recommendations will require sustained political will, institutional capacity-building, and the alignment of Chinese and Pakistani economic interests. For the China-Pakistan economic partnership to be successful and sustainable over the long run, inclusive development methods and efficient risk mitigation techniques in the policy making of both nations will play a crucial role.

Conflict of Interest

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