

Bi-lateral Trade between Sichuan and Pakistan: Current Status, Challenges and Suggestions

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Abstract: This paper analyzes the complementarities of the industrial structures of China's Sichuan province and Pakistan and clarifies the foundations and current status of the economic and trade exchanges between the two regions. The Pakistan market is important for Sichuan in terms of location, market capacity, and product preferences. This paper presents detailed suggestions for maintaining and promoting trade between Sichuan and Pakistan and highlights the practical significance and potential value that Pakistan market has for Sichuan.

Keywords: CPEC, Sichuan, Pakistan, economic cooperation

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With the rapid development of China's economy since reform and opening up, unbalanced regional development has brought about challenging issues regarding the fundamental, coordinated development of Sichuan and the smooth realization of building a moderately prosperous society in all respects. Under the background of the Belt and Road Initiative and the second round of the large-scale development of western China, "some marginal areas in the west will become centers with great development potential as soon as they are interconnected with neighboring countries" (Xi, 2017, p. 258).

The development gap in western China is manifested by the fact that the economic and trade elements are of low-level competition within the region and

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Sichuan, one of the biggest provinces in the region, can benefit greatly by expanding its exporting markets. Through research on the economic and trade exchanges between Sichuan and Pakistan, we can increase the competitiveness of Sichuan's foreign trade and improve the development of Sichuan's economy, and also provide a positive example for the expansion of other regions into the international marketplace.

Strengthening trade and economic relations with Pakistan and deepening investment, economic and technological cooperation with Pakistan are what Sichuan needs to continue its expansion to the international markets. Sichuan's import, export, economic and technological cooperation have achieved remarkable development. The scale of exports has grown steadily, product structure has been gradually optimized and trade patterns have been gradually transformed and become diverse. In 2006, Sichuan's annual import and export volume totaled US\$11.02 billion, and was the first among provinces in western China to exceed US\$10 billion. By 2016, Sichuan's total import and export volume had reached US\$49.33 billion. In 2019, Sichuan's total import and export volume was US\$98.05 billion (*Sichuan Daily*, 2020, March 25), almost twice the volume as that of 2016.

The Basis of Trade Cooperation Between Sichuan and Pakistan

The high degree of mutual political trust between China and Pakistan is a political guarantee for Sichuan enterprises to conduct economic and trade exchanges with Pakistan. The China-Pakistan FTA and the China-Pakistan Currency Swap Agreement are the economic and trade guarantees between Sichuan and Pakistan. In addition, a number of factors provide support for Sichuan's economic and trade cooperation with Pakistan, including the complementarities of Sichuan-Pakistan economic structures, the stability of trade exchanges, the diversity of social culture, and the differences in resource endowments.

Close Communication

The history of communications between Sichuan and Pakistan dates back to antiquity, many of which are recorded in the *Records of the Grand Historian* (Li, 2017, p. 21). This is also the historical basis for the current exchanges between Sichuan and Pakistan. Pakistan's newspaper published an article "Sichuan turns into hub of Sino-Pak cooperation in civil and military sectors," which interviewed the former Pakistan Consul General of Chengdu, Amna Baloch, citing the large number of Sichuan companies already investing in Pakistan, and while these companies promote trade between Sichuan and Pakistan, the socio-economic links between Sichuan and Pakistan should be further enhanced to promote cultural exchanges as well.^① In 2020, when the COVID-19 pandemic stroke, Sichuan actively donated money and materials to Pakistan, conveying Sichuan's determination to help Pakistan and overcome difficulties together. The Acting Consul General of Pakistan in

① *Sichuan turns into hub of Sino-Pak cooperation in civil and military sectors*, *The Nation*, September 24, 2016, <https://nation.com.pk/24-Sep-2016/sichuan-turns-into-hub-of-sino-pak-cooperation-in-civil-and-military-sectors>.

Chengdu Mahmood Akhtar Mahmood said that China and Pakistan always stand together in difficult times and that he thanked Sichuan province for supporting Pakistan in fighting the pandemic.

Sichuan and Pakistan have maintained long-term friendly cooperation, and close contacts. Pakistan President Musharraf visited Sichuan on the occasion of the 55th anniversary of the establishment of diplomatic ties between China and Pakistan and attended the signing ceremony of the Memorandum of Understanding on the Establishment of Friendly Provincial Relations between Sichuan province and Pakistan Punjab. At the time, former Pakistan Prime Minister Shaukat Aziz also paid a visit to Sichuan to promote trade between Sichuan and Pakistan. The two sides also signed an agreement on the establishment of a friendly relationship between Sichuan University and Punjab University, and the establishment of the Pakistan Study Center of Sichuan University. Trade and economic communications have continued. In June 2013, Gan Lin, Vice Governor of Sichuan province, led a trade delegation to Pakistan. In April 2015, Tang Liangzhi, mayor of Chengdu Municipal People's Government, led a delegation to Pakistan and Chengdu and Lahore became international friendship cities. Moreover, Sichuan will not forget that Pakistan donated all its reserve tents to China to support the reconstruction of the earthquake-stricken area after the earthquake of Wenchuan in Sichuan province in 2008.

In the fields of scientific research and educational exchanges, Sichuan maintains close contacts with Pakistan. The Institute of South Asian Studies of Sichuan University and the Pakistan Study Center of Sichuan University are institutions specializing in research in South Asia and Pakistan; the two sides established a normalized cooperation mechanism in areas such as mutual visits and scientific research. In 2014, the Chengdu Institute of Mountain Hazards and Environment of the Chinese Academy of Sciences and Punjab University also signed a cooperation agreement.

In the aspect of talent development, in May 2013, Sichuan Normal University and Karachi University signed an implementation agreement for the establishment of the Confucius Institute. On November 27, 2015, Pakistan high school teachers visited Sichuan Normal University to learn about Chinese universities' policy of accepting international students.

As to cooperation in higher education, in September 2017, a delegation headed by President Obede Rahman of Pakistan's Ikla National University visited Sichuan University of Science & Engineering, the two sides discussed the establishment of a Chinese language training center at the National University of Ikra, and the Sichuan University of Science & Engineering construction of a campus in Pakistan. According to statistics from the Pakistan Consulate General in Chengdu, as of October 2017, over 600 Pakistan students are studying in Chengdu,^① making Chengdu one of the leading Chinese cities where Pakistani students come to study.

In terms of economic and trade exchanges, there have been many important developments. In February 2011, the South Asian Association for Regional Cooperation Chamber of Commerce and Industry (SAARC-CCI) decided to hold the Chengdu-South Asia Business Summit regularly to

① China Council for the Promotion of International Trade Sichuan Council, (CCPIT Sichuan Council) *Make every effort to open direct flights from Chengdu to Lahore*, Sichuan Economic and Trade Developments(Oc. 2017), Nov 1, 2017.

strengthen economic cooperation with China. In July 2016, governor of State Bank of Pakistan, Ashraf Wathra visited Chengdu. On December 29, 2017, the Pakistan Federation of Industry and Commerce reported that most of the Fortune 500 companies have already settled down in Chengdu and the Pakistan Consul General in Chengdu has proposed to open a direct flight between Chengdu and Lahore, which will reduce the travel time between the cities to four hours.^① On September 25, 2020, the Sichuan Chamber of Commerce in Pakistan was established in Chengdu, China as well as Islamabad, Pakistan to accelerate the development of business and trade relations between Sichuan and Pakistan.^②

Gradient Complementary Industries

The theory of economic gradient development gives rise to different levels of economic development in different countries and regions. Areas with higher levels of economic development have rich production experience, high production efficiency, and low product costs. However, due to the gradual saturation of the market, sales are difficult. In this situation, the trend of “infiltration of industrial areas into the lower levels” is unavoidable. It is also inevitable that industries and products in areas with higher levels of economic development will shift to gradients in relatively less-developed regions. The development of the world’s economy shows that the transition of economic development between countries and regions is beneficial to all regions. If a country can fully exert its comparative advantage, it will be at a relatively high level of development in a historical period and it will be possible to implement a new market strategy. Therefore, without considering the marginal effect of cost and the marginal effect of transportation, if the industrial structure of Pakistan and Sichuan is very similar, or if the industrial foundation of Pakistan is relatively comprehensive, then the possibility of Sichuan exploring the Pakistan market is very small. On the contrary, if there is a big difference in the industrial structure of the two sides, the possibility of bilateral trade and investment will be greater.

Both Sichuan and Pakistan have industries with comparative advantages, and their respective industries are at different stages of development. In trade, “Sichuan has considerable geographic advantages and industrial advantages, like the proximity to Pakistan, the expansion of trade and commerce, and strong industries. Complementarities provide a vast space for foreign trade” (Wang & Yang, 2008, p. 5).

Sichuan and Pakistan’s industry status.

Since reform and opening up, the introduction of a large amount of foreign capital and advanced management experience has significantly enhanced the vitality and competitiveness of Sichuan’s economy, and has caused tremendous changes in Sichuan’s economic structure. In 1952, Sichuan was a typical agricultural province. The proportion of primary, secondary, and tertiary industries in GDP was 59.2 percent, 14.9 percent and 25.9 percent respectively. In 2019, the proportion of the three major

① Pak China Joint Chamber of Commerce and Industry Press Clippings Report, *Meeting with Consul General of Pakistan in Chengdu*, PDF, 29th December 2017. file:///C:/Users/Lenovo/Pictures/PCJCCI.pdf.

② *The Nation*, Pak-Sichuan Chamber of Commerce established in Chengdu, *China*, September 26, 2020, <https://nation.com.pk/26-Sep-2020/pak-sichuan-chamber-of-commerce-established-in-chengdu-china>.

industries were 10.3 percent, 37.3 percent and 52.4 percent respectively and the industrial structure was adjusted from “secondary industry, tertiary industry, primary industry” to “tertiary industry, secondary industry, primary industry” (Sichuan Provincial Bureau of Statistics, 2020). This indicates that Sichuan’s industrial growth was rapid, and its industrial structure was continuously being upgraded and transformed. This development momentum is promising.

As a developing country, Pakistan’s industrial structure has its own characteristics. In the fiscal year 1949-1950, Pakistan’s primary, secondary and tertiary industries accounted for 53 percent, 39 percent and 8 percent of GDP, respectively. By fiscal year 1964-1965, Pakistan’s service sector for the first time had exceeded its agriculture sector in GDP, indicating an economy in steady growth (Li, 2016, p. 55). Since the implementation of the China-Pakistan Economic Corridor (CPEC) in 2013, Pakistan’s economy has developed steadily. In the 2017-2018 fiscal year, Pakistan’s economic growth rate reached 5.79 percent, the highest point in 13 years. The three major industries accounted for 19 percent, 21 percent and 60 percent of GDP, respectively (Pakistan Economic Survey 2017-2018, 2018, p. 5). Agriculture is a traditional Pakistani industry. Rice, cotton, wheat, corn, and sugar are the main agricultural products grown in Pakistan with rice and cotton being the main export commodities. In the secondary industry, Pakistan’s industrial base is relatively weak, the industrial system is also relatively incomplete, and industry’s contribution to the economy is limited. Textiles are the traditional industry of Pakistan and leather, metal processing, machine manufacturing and wood contribute to Pakistan’s comparative advantages in international trade.

Regarding the economics of agriculture, both Sichuan and Pakistan have a long history. Both sides have featured agricultural resources and advantageous products. There are multiple opportunities for cooperation between the two sides in such areas as agricultural trade, agricultural industrialization, new agricultural technologies, and the processing of agricultural products. In the industrial sector, Sichuan has a strong base. Equipment manufacturing, oil and gas chemicals, software development, medicine, and industrial materials all have obvious comparative advantages making the secondary sector an obvious driving force for economic growth (Sheng, Li, & Wang, 2017, p. 17). The related industries in Pakistan are weaker, but the export of mineral resources and light textile products have comparative advantages over Sichuan. Therefore, from the perspective of industrial structures, Sichuan and Pakistan have strong complementarities, which also provides the foundation for Sichuan to cooperate with Pakistan.

Case: automobiles and accessories.

Sichuan is a strategic frontier for well-known automobile industry in China and Chengdu is the most important location for domestic manufacturers. The industry’s development covers the entire industrial chain of R&D, manufacturing, sales, and maintenance of complete vehicles and key components. In 2016, Sichuan province produced 1.311 million vehicles, with a value of RMB276.5 billion (Sichuan Provincial Economic and Information Commission, 2017). This automobile development cluster, centered on Chengdu, also supports auto parts industry located along a belt extending from Ziyang, Mianyang and Deyang, to Chongqing (Figure 1). As it develops, the Sichuan automobile industry is facing the problems of homogenization of products, unbalanced development



Figure 1. The industrial Belt of automobile and accessories located in Sichuan

in industrial regions, and pressures from competition. Expansion into overseas markets has become an important direction for Sichuan's auto industry. In November 2017, eight business delegations from Sichuan and Hebei visited Pakistan and held talks with Chairman of the Pakistan-China Business Council, S. M. Naveed. The two sides discussed cooperation in automotive energy-saving technologies and auto parts.^①

Pakistan produced its first car in Karachi in 1953. After 1990, the Pakistan auto industry gradually released control, and a large number of Japanese automakers and parts manufacturers entered the Pakistan market.^② During the first eight months of 2017-2018, Pakistan's auto industry grew by 19.58 percent year-on-year. The huge market attracted new auto giants such as Hyundai, Renault, and Nissan.^③ In fiscal year 2015-2016, 180,079 motor vehicles were sold in Pakistan, an increase of 19.15

① Chinese Delegation Interested to Invest in Pakistan Auto-Sector, Morenews, November 6, 2017. Retrieved from 2017. <https://www.morenews.pk/chinese-delegation-invest-Pakistan-auto-sector/>

② Ministry of Industries, Government of Pakistan, *Perspective of Pakistan Auto Industry*, Auto Industry Development Program (AIDP), 2008, p. 5.

③ Government of Pakistan, *Manufacturing and Mining*, Pakistan Economic Survey (2017-2018), May 2018, p. 35.

percent year-on-year. Pakistan is also optimistic about its domestic auto industry. Toplevel Securities estimates that between 2016 and 2020, the compound annual growth rate of Pakistan's auto industry was 12 percent (Aamir, 2016, July 17).

Pakistan also actively encourages related companies in the automotive industry to enter the Pakistan market. In March 2016, Pakistan's Economic Coordinating Committee (ECC) passed the Automotive Industry Development Policy (2016-21), which provides new entrants with tax incentives to help them establish production, assembly, and after-sales departments. In order to increase the industrialization level of Pakistan's auto industry, the policy also extended the age of imported second-hand automobiles from three years to five years (Automotive Development Policy 2016-21, 2016, Mar 30). The number of motor vehicles in Chengdu ranks second in China. As of December 2020, the number of motor vehicles in Chengdu had reached 5.98 million. This also means that with the above policies, Sichuan can increase the export of second-hand automobiles to Pakistan (West China News, 2020, December 3).

Product's Comparative Advantage

Eli Filip Heckscher and Bertil Ohlin argue that the difference in the endowment of production factors is an important reason for the comparative advantages and international trade of various countries. The difference in the relative prices of the same commodities in different countries is the basis of international trade. Therefore, different countries and regions with different endowments can work together to increase the welfare of all parties. David Ricardo believes that various countries or regions have different production factors and different types of production factors, and therefore a country can determine its relative advantages regardless of its strengths or weaknesses and trade can be enhanced to improve the welfare of participating countries. Classical trade theory and neo-classical trade theory emphasize that comparative benefits are built on the comparative advantages of products. However, judging from the actual trade situations, developed countries often import labor-intensive and resource-intensive products from developing countries and export capital-intensive and technology-intensive products to themselves.

Sichuan and Pakistan have great potential for economic and trade cooperation. Sichuan has strong comparative advantages in areas such as electromechanical products, automobiles, and auto accessories. Pakistan also has advantages in agricultural products, especially Basmati rice, seafood, and fruit. In addition, the two sides also have greater room for cooperation in the fields of tea, textiles, and home appliances. Based on a comparative analysis of the input costs of textile production in UNCTAD Bangladesh, Colombia, Pakistan, India, and China, Pakistan ranks third in terms of labor costs, labor time, electricity costs, and shipping costs, and ranks second in land transport costs and fifth in construction costs.^①

Most importantly, the Pakistan market is large. Pakistan has a land area of 796,000 square kilometers (Chen, 2014, p. 150), a population of nearly 208 million,^② and with the continuous progress of the CPEC

① United Nations, *Potential Supply Chains in the Textiles and Clothing Sector in South Asia*, Table 3.7: Production Input Cost Ranking of Selected Asian Countries, 2017, p. 34.

② Government of Pakistan, *Population, Labor Force and Employment*, Pakistan Economic Survey (2017-2018), May 2018, p. 179.

project, the Pakistani economy has stabilized and improved. This provides an opportunity for Sichuan enterprises to explore the Pakistani markets and expand export diversification. Sichuan should pay attention to Pakistan's "rapid economic growth and its development potential in recent years will bring more cooperation opportunities and a huge market for foreign economic and trade companies" (Yang, 2008, p. 210).

Sichuan and Pakistan import and export commodity categories.

In 2017, Sichuan's main exports were microcomputers, 36.1 percent, integrated circuits and microelectronics components, 18 percent, cable carrier and limited digital communication equipment, 4.2 percent, textiles, 1.9 percent, footwear, 1.7 percent, steel, 1.3 percent, titanium dioxide, 1.3 percent, clothing, 1.3 percent, and televisions and related parts, 1.2 percent. The main commodities imported by Sichuan province are integrated circuits and microelectronic components, 54.7 percent, automobiles and other motor vehicles and related parts, 3.3 percent, automatic measurement and analysis equipment, 2.8 percent, mineral products, 2.7 percent, cable carrier and cable digital communication equipment, 1.9 percent, hard disk drives, 1.9 percent, aviation equipment and parts, 1.7 percent, paper, 1.3 percent, pulp and paper products, 1.2 percent, printed circuits and liquid crystal display panels 1.2 percent (Sichuan Provincial Department of Commerce, 2017).

According to statistics for fiscal year 2016-2017, there are three main categories of Pakistani exports: cotton and its products, 59.6 percent, leather and its products, 4.5 percent, and rice, 7.7 percent. Pakistan's imports mainly include sugar, 10.26 percent, machinery products, 16.8 percent, crude oil, 4.8 percent, petroleum products, 12.58 percent, motor vehicles, 4.7 percent, raw materials, 14.58 percent, and telecommunications products, 2.67 percent (Pakistan Economic Survey 2017-2018, 2018, May, p. 134, pp. 136-137).

Case: machinery and electronic products.

Pakistan's Machinery and Electronic products have developed rapidly, but its international competitiveness is not strong. In the first eight months of 2017-2018, Pakistan's imports of mechanical equipment totaled US\$7.55922 billion, accounting for 19.33 percent of Pakistan's total imports during this period. Pakistan's imports of electronic products also increased by 13.8 percent year-on-year (Pakistan Economic Survey 2017-2018, 2018, May, p. 121).

With the vigorous introduction of the electronic information industry in Sichuan, the high-end trend of Sichuan's industrial structure has become increasingly evident, and the trade competitiveness of mechanical and electrical products and high-tech products are all ahead of the national average (Yang & Ran, 2017, p. 251). From January to March in 2018, the import and export of mechanical and electrical products in Sichuan province was RMB100.167 billion yuan, accounting for 84.7 percent of the province's total, an increase of 84.1 percent compared with the same period the previous year.^① Sichuan also has a good foundation for the development of new energy sources. The leading enterprises in wind power in the

① Sichuan Provincial Department of Commerce, *Sichuan Foreign Trade Statistics*, May 4, 2018. Retrieved from http://www.sccom.gov.cn/web/guest/tjsj_dqmy/-/articles/v/3601514.shtml.

province have significant advantages in equipment manufacturing in China. Sichuan also has a complete solar energy industry chain and is known as the top player in western China.

Sichuan's mechanical and electrical products, such as hardware tools, electrical appliances, and complete sets of equipment, have better comparative advantages in terms of quality and price. Since 2013, under the initiative of CPEC, Sichuan's mechanical products have occupied an important position in Pakistan, and Pakistan has become an important export destination for reloading enterprises in Sichuan province, especially for power equipment manufacturers.

Case: tea.

Pakistan is one of the world's largest importers of tea. Their main sources of tea imports are Kenya, India, Rwanda and Tanzania. Due to the increase in tea prices in the international market, from July 2017 to February 2018, Pakistan imported tea with a total value of US\$398.06 million, a year-on-year increase of 10.18 percent (Pakistan Economic Survey 2017-2018, 2018, May, p. 121).

Located in western China, Sichuan has a warm and humid climate. It is an important tea growing region and tea production base in China. In 2017, the area of tea gardens in Sichuan exceeded five million *mu* (0.066 hectare) and the total output value reached RMB63 billion. The area and output ranks fourth in the country, and the output value and comprehensive strength ranks second.^① However, the export volume of Sichuan tea is relatively small. In 2015, the total amount of tea exported from Sichuan province was 5,525 tons, and the export value reached a total value of US\$17.43 million. The scale and value of exports were lower than those of Zhejiang and Fujian (Zhou, 2016).

In fact, the quality, brand, and cost controls for Sichuan tea are in line with the needs of the Pakistani market. The main reason for the failure for Sichuan to explore this market lies in a number of factors including the lack of foreign trade talents in Sichuan tea production companies, lack of information, and a disconnection between production and sales. Hence, there is great room for cooperation between the two sides in the future.

The Status of Trade Cooperation between Sichuan and Pakistan

The import and export conditions of Sichuan and Pakistan are similar to those of China and Pakistan, and there are also differences. Similarities are manifested in a large deficit in the imports and exports of Pakistan, a low proportion of Pakistan's trade in total trade, and not many types of imported goods from Pakistan. The differences are manifested by the large exports of electromechanical equipment and the relatively few exports of daily necessities that are limited by transportation.

Sichuan's Exports to Pakistan Have Steadily Increased

Sichuan has actively developed trade with Pakistan and the trade cooperation between the two

① Science & Technology Department of Sichuan province. Mar. 13, 2018. Retrieved from <http://www.scst.gov.cn/skjt/common/detail/6488.html>.

sides has also been expanded. From 2008 to 2010, Sichuan's exports to Pakistan achieved a triple jump, with exports amounting to US\$140.66 million, US\$234.77 million, and US\$337.21 million, of which exports in 2009 increased by 65.7 percent compared to the same period the previous year, the largest increase in nearly a decade.

In 2014, driven by the CPEC project, Pakistan imported a large amount of construction machinery, and therefore, Sichuan's exports to Pakistan reached a 10-year high in 2014, which was US\$37.851 billion. This figure is much higher than the 20.2 percent growth rate of China's exports to Pakistan over the same period, but far below the rate of 117.3 percent growth that Xinjiang exported to Pakistan during the same period (Li, 2017). This increase in Pakistan's imports in a short period of time will not have a serious negative impact on Pakistan's economic development. Instead, it will increase Pakistan's industrial capacity, Pakistan's manufacturing level, employment, and thus facilitate Pakistan's exports. In 2017, Sichuan's exports to Pakistan were US\$2.7143 billion,^① ranking 14th in Sichuan's foreign export market (Figure 2).

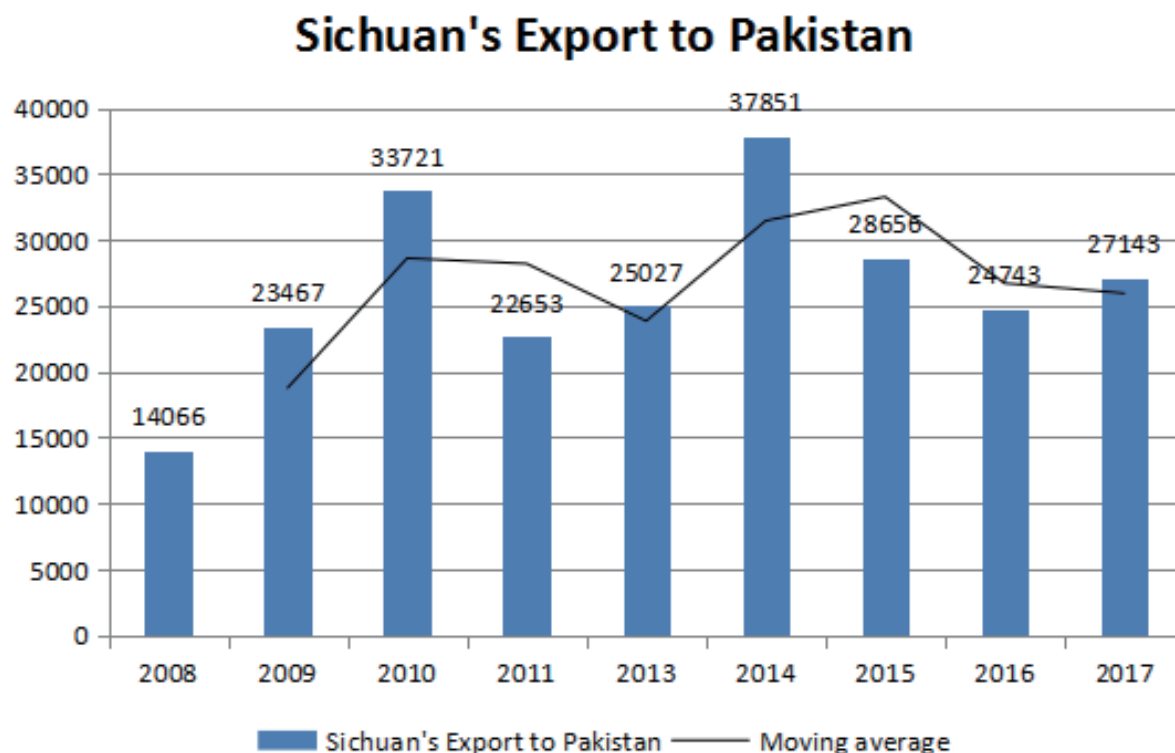


Figure 2. Sichuan Provincial Department of Commerce: *Sichuan Foreign Trade Statistics*. In the series of statistics, there is no export data for 2012. For details, see: http://www.sccom.gov.cn/zfxgkml_tjsj. Last logged in May 13, 2018.

① According to Sichuan Provincial Department of Commerce statistics, For the whole year of 2017, Sichuan's exports to Pakistan amounted to RMB1.791 billion, an increase of 9.7% year-on-year. To maintain consistency of data units, this data is based on the basis of 2016. Sichuan Provincial Department of Commerce, *Sichuan Foreign Trade Statistics*(Jan. to Dec. 2017), Jan. 23, 2018, http://www.sccom.gov.cn/web/guest/tjsj_dqmy/-/articles/v/3477697.shtml.

Sichuan's Exports to Pakistan Accounted for a Lower Proportion of Sichuan's Total Exports, and a Downward Trend.

The percentage of Sichuan's exports to Pakistan as part of Sichuan's total exports has been relatively low, reaching a peak of 2.1 percent in 2006. Since then it has remained below 2 percent. From 2011 to 2017 (without statistics from 2012), Sichuan's exports to Pakistan have fallen below 1 percent of Sichuan's total exports.^① This decline in trade status is partly due to the rapid growth of China's foreign trade (Wen, 2007).

Chengdu Should Lead Sichuan in Increasing Exports to Pakistan.

In 2007, Chengdu's exports to Pakistan amounted to US\$135.20 million, accounting for 80.2 percent of Sichuan's exports to Pakistan. In 2008, affected by the financial crisis, the exports of Sichuan province and Chengdu city to Pakistan all declined, but the export value of Chengdu to Pakistan declined by a big margin, falling by 33.2 percent year-on-year. Chengdu's share of Sichuan's exports to Pakistan is reduced to 64.15 percent, which also shows that during this period, Pakistan's imports from other regions of Sichuan province are mostly rigid demand. In 2009, Chengdu's exports to Pakistan accounted for a slight increase in the proportion of Sichuan's exports to Pakistan, reaching 80.53 percent. It began to drop sharply in 2010, accounting for 72.18 percent in 2010, 54.83 percent in 2011, 50.69 percent in 2013, 34.05 percent in 2014, and 35.21 percent in 2015. This also shows that although Chengdu is still the main producing area for Sichuan's exports to Pakistan, other cities in Sichuan province are also actively exploring the Pakistan market. Such a relatively balanced situation will help form a fully open pattern for Sichuan and increase the competitiveness and sustainable development capabilities of Sichuan in its economic and trade relations with Pakistan (Figure 3).

Sichuan Has a Big Trade Surplus with Pakistan

Pakistan's foreign trade deficit is a long-standing phenomenon. Pakistan's political economist S. Akbar Zaidi's (2015, p. 203) statistics on Pakistan's import and export data from 1950 to 2012 in his book *Issues In Pakistan's Economy—A Political Economy Perspective*, calculated at the current year's prices, Pakistan has a trade surplus of only five fiscal years, i.e. 1950-1951 fiscal year, 1972-1973 fiscal year, 1980-1981 fiscal year, 1981-1982 fiscal year, and 1984-1985 fiscal year. According to Pakistan Statistics Bureau (PBS), in the fiscal year 2016-2017, Pakistan's import and export amounted to PKR7,677.906 billion, the trade deficit was PKR3,393.1706 billion, and the trade deficit accounted for 44.2 percent of total imports and exports.^① According to the calculation of the rupee value of the Pakistan Statistical Yearbook for the Fiscal Year 2017-2018, the ratio is 45.17 percent.^②

Since Pakistan is not a major importer of Sichuan, Sichuan's imports from Pakistan are small

① Sichuan Provincial Department of Commerce, *Sichuan Foreign Trade Statistics*, http://www.sccom.gov.cn/zfxgkml_tjsj.

② Pakistan Bureau of Statistics. *Pakistan Statistical Year Book 2018*. Retrieved from <http://www.pbs.gov.pk/content/pakistan-statistical-year-book-2018-provisional>

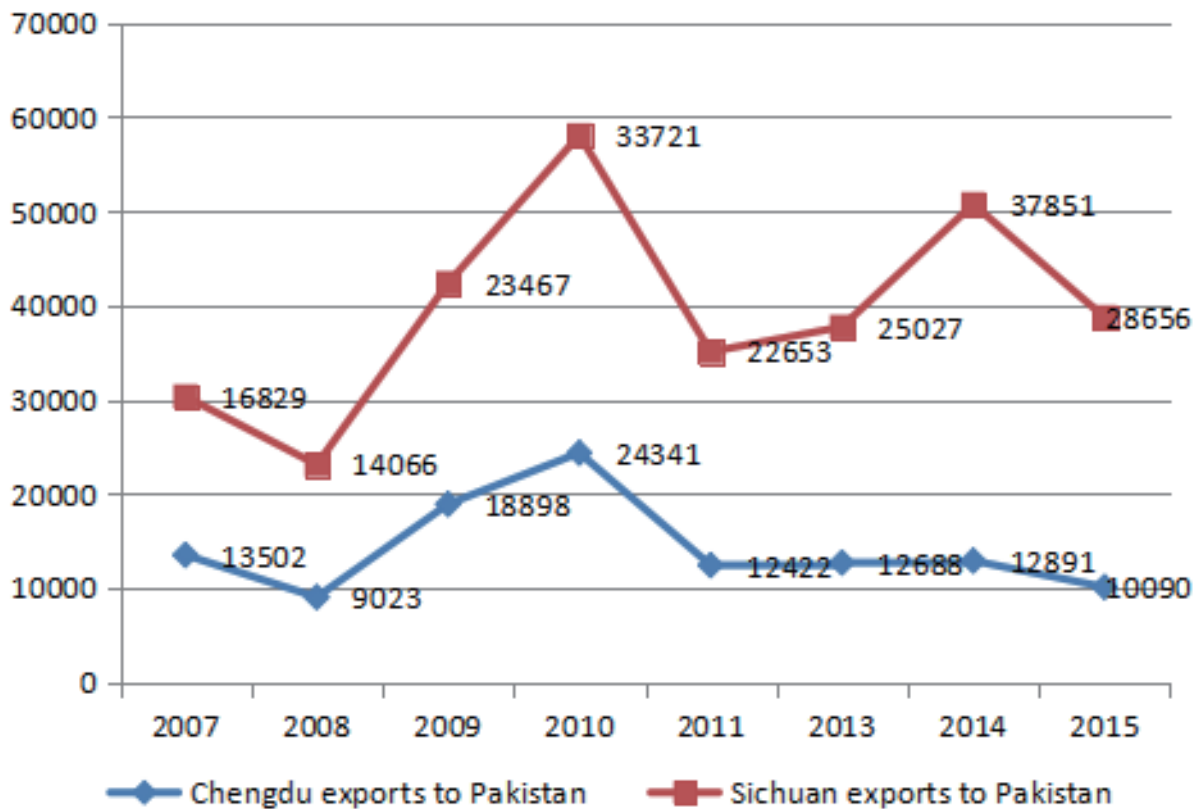


Figure 3. Sichuan and Chengdu Exports to Pakistan (Unit: 10,000 U.S. dollars)

and there is a large surplus. Taking Chengdu as an example, the trade surplus between Chengdu and Pakistan accounted for total trade in the year 2007 was 99.17 percent, and then decreased year by year to 96.81 percent in 2008, 95.28 percent in 2009, 90.69 percent in 2010, and 74.5 percent in 2011. Judging from the surplus amount, from 2011 to 2015, the trade surplus between Chengdu and Pakistan has basically remained at around US\$105 million each year, and the trend line has become more and more gradual (Table 1).

Table 1 Trade Surplus Between Chengdu and Pakistan and Share of Trade Volume
(Unit: 100 million U.S. dollars)

Year	Total import and export	surplus	Surplus as a share of total trade
2007	1.3558	1.3446	99.1739%
2008	0.9169	0.8877	96.8154%
2009	1.9354	1.8442	95.2878%

① Pakistan Bureau of Statistics, *Value of Foreign Trade*, <http://www.pbs.gov.pk/>

② Government of Pakistan, *Table 8.3 Exports, Imports and Trade Balance*, Pakistan Economic Survey (2017-2018), May 2018, p. 97.

2010	2.5529	2.3153	90.6929%
2011	1.4237	1.0607	74.5031%
2012	1.3463	1.0655	79.1428%
2013	1.5189	1.1176	73.5796%
2014	1.42	1.0593	74.5986%
2015	1.0731	0.9449	88.0533%

Pakistan's large trade deficit in international trade is not conducive to Pakistan's economic stability; instead, it causes anxiety to the Pakistan public. Pakistan's former finance minister Hafiz Pasha put forward that Pakistan should reduce imports and expand exports so that Pakistan's current account deficit is on a manageable level (Pasha & Kardar 2017, September 26).

In order to increase imports from Pakistan and promote the development of China-Pakistan economic and trade relations, China and Pakistan have signed a series of agreements, such as the China-Pakistan Preferential Trade Arrangement, the China-Pakistan Agreement on Early Free Trade Agreements, and China and Pakistan Free Trade Agreement, etc. The purpose is to facilitate trade between the two sides through the reduction of tariff and non-tariff barriers, which has also brought bilateral taxation rates between China and Pakistan to a relatively low level. However, these agreements did not effectively expand Pakistan's exports to China. It can also be seen that the impact of the current tariff rate on bilateral trade volume is relatively low, and the root cause of Pakistan's trade deficit lies in the fact that Pakistan's economic, technological, and industrialization levels all need to be improved.

Challenges and Suggestions for Trade Cooperation between Sichuan and Pakistan

Sichuan is China's largest regional economy which is the closest to Pakistan. It also has the foundation and conditions to become an important base for promoting exchanges and cooperation between China and Pakistan.^① Specifically, the first, second, and tertiary industries all have comparative advantages between Sichuan and Pakistan, and these products are an important breakthrough for Sichuan to trade with Pakistan.

The improvement of Pakistan's economy is a guarantee of trade exchanges between Sichuan and Pakistan. Driven by the CPEC project, Pakistan's macroeconomic situation has shown signs of stability and momentum. Specifically, the energy shortage problem in Pakistan has resolved to a certain extent, the output of crops has increased, the large-scale manufacturing industry has performed outstandingly, and the inflation rate is generally controllable.

From the trade data between Sichuan and Pakistan, Pakistan's share in Sichuan's foreign trade is

^① The People's Government of Sichuan Province, *China-Pakistan investment matchmaking conference held in Chengdu, more than 20 Sichuan enterprises invest in Pakistan*, Sep. 12, 2015. Retrieved from <http://www.sc.gov.cn/10462/10464/10797/2015/9/12/10352222.shtml>

still relatively low, which is inconsistent with the close political relationship and economic mass of the two sides, but it also indicates to some extent that the two sides have great trade potential.

Challenges relating to Sichuan and Pakistan Trade

As part of the trade between China and Pakistan, the economic and trade exchanges between Sichuan and Pakistan have been greatly affected by the economic and trade environment of China and Pakistan. The risks in China-Pakistan economic and trade fields have also often become challenges that Sichuan and Pakistan need to deal with to carry out trade.

Trade conflicts occur from time to time.

Pakistan has a large population and large market potential. However, the level of consumption is relatively low. Chinese enterprises have broad prospects for investing in Pakistan. However, China's Sichuan and Pakistan are competitive in certain economic fields, and this is one of the competitive external manifestations.

For products with comparative advantages between China and Pakistan, trade between the two countries should be encouraged to improve the efficiency of resource use by both countries and common economic welfare. For products with similar comparative advantages, the products should be coordinated to reduce the vicious competition, so as to prevent damage to the interests of the two countries. For example, textiles belong to the top ten export products of both countries. In order to promote the development of the domestic textile industry, China and Pakistan have introduced relevant incentive measures. However, improper use of taxation competition can easily lead to trade frictions. For example, Pakistan has launched a large number of anti-dumping investigations on Polyester Staple Fibre (SITC6833) in textiles from China in the past ten years.

As an important tile production base in China, Jiajiang County in Sichuan province is striving to expand the Pakistan market. However, on October 11, 2017, the Pakistan investigation authority made a final decision adjudicating a five-year anti-dumping tariff on ceramic tiles imported from China. This move protected Pakistan's ceramic tile companies in a short period of time. For example, SHABBIR TILES & CERAMICS LIMITED made a profit of 11.11 million rupees in the second half of 2017, compared with a loss of 104.11 million rupees in the same period of 2016. Some Chinese export companies could not afford it and they had to withdraw from the Pakistan market.

However, in the long run, anti-dumping investigations are also detrimental to the economic development of the sponsoring countries. Pakistan economist John Adams (1983, pp. 109-114) analyzed economic data after adopting import substitution and trade protection policies in Pakistan in the 1960s and 1970s. The discovery of these policies did not enable Pakistan to achieve export growth.

Pakistan's exchange rate instability.

The imbalance in international payments and the increase in fiscal deficits have caused the International Monetary Fund and Pakistan's domestic governments to devalue the rupee so as to ease the imbalance in fiscal revenue and expenditure. Considering the rupee's valuation is higher than the actual value of 10-20%, the main reason for Pakistan's exports has being blocked. At present, the

attitude of the Pakistan government in maintaining the stability of the rupee exchange rate is firm, and this is also the current policy adopted by the Pakistan government. However, from the data of the last seven financial years (2009-10—2015-16 fiscal year), the Pakistan Rupee has a clear downward trend against the U.S. dollar, with exchange rates of 83.8017, 85.5017, 89.2359, 96.7272, 102.8591, 101.2947, 104.2351 respectively. According to “Dawn” report, the buying and selling prices of the rupee against the U.S. dollar on May 12, 2018 fell to 117.6 and 118.1 respectively (Exchange Rates for Currency Notes, 2018, May 12). By December 17, 2020, the Pakistan rupee has fallen to 160.3 against the US dollar.^① In order to maintain the stability of the rupee, the Pakistan government had to invest large amounts of dollars in the foreign exchange market. As of December 29, 2017, Pakistan’s foreign exchange reserves fell to US\$14.107 billion.^②

From the point of view of the possible impact of exchange rate fluctuations on entry and exit, Chinese exporters should pay more attention to the types of goods that Pakistan restricts imports and the possible impact of restrictions. It should also be noted that the shortage of foreign exchange may lead to the risk that the difficulty of returning goods to Pakistan will increase. Taking into account Pakistan’s fragile balance of payments and unencumbered foreign exchange reserves, Pakistan may not have sufficient foreign exchange to meet this demand once it encounters a situation in which companies concentrate the export of business income out of Pakistan.

Suggestions of Trade Cooperation between Sichuan and Pakistan

Pakistan is an important regional market for Sichuan’s foreign exports, and it is also one of the countries where Sichuan started its economic and trade cooperation earlier. It has huge trade potential and the bilateral trade volume has steadily increased. However, it should be noted that Sichuan, Guangzhou, Zhejiang, and other coastal provinces and cities are the disparity in Pakistan’s trade, and in recent years the share of Sichuan’s exports to Pakistan in Sichuan’s total exports has declined, which should attract the attention of relevant government departments and enterprises in Sichuan.

First, change trade into investment and encourage Sichuan enterprises to participate in the CPEC project and the construction of China-Pakistan Industrial Park. In terms of foreign project contracting, Sichuan has strong capability. In 2017, Sichuan signed a new contract value of US\$7.92 billion, a year-on-year increase of 13.1 percent. There were 95 new overseas investment companies and 961 overseas investment companies (Sichuan Provincial Bureau of Statistics, 2018), foreign project contracting pattern initially formed, including transportation infrastructure construction, energy construction and petrochemical projects. In September 2015, the Sichuan Provincial Department of Commerce and the China Development Bank Sichuan Branch jointly organized a high-level seminar on financial cooperation between the CPEC. Participating companies proposed that Sichuan’s equipment and

① State Bank of Pakistan Domestic Markets & Monetary Management Department, Weighted Average Customer Exchange Rates, 17 Dec. 2020.

② Geo Television Network, *Pakistan’s foreign reserves drop \$26mn to \$14,107m*, Thursday Jan 04 2018. Retrieved from <https://www.geo.tv/latest/175338-foreign-reserves-decrease-26mn-to-14107mn-week-ending-dec-29>

engineering construction companies should make investments in Pakistan. Pakistan's investment in China is also very positive and welcome.

Second, Sichuan should attach importance to a series of measures that are compatible with foreign trade export processes. From the point of view of the availability of foreign trade talents, currently there is a general shortage of foreign trade talents in Pakistan, especially those who are familiar with foreign trade procedures and foreign trade business, and are familiar with Pakistan's specific trade rules and social and cultural customs. For Sichuan's further expansion of Pakistan trade, the government should increase its investment in personnel training in foreign trade, set up special funds, and fund related researchers and practitioners to study abroad. At the same time, the government should also increase the introduction of high-end foreign talents.

Third, the economic and trade exchanges between Sichuan and Pakistan are becoming increasingly close and Pakistan should adopt a development strategy that combines "introduction" and "going out." Sichuan should attach great importance to the expansion of the Pakistan market, encourage local entrepreneurial groups to visit Pakistan, and encourage entrepreneurs to cooperate with Pakistan counterpart agencies to create favorable conditions for Sichuan enterprises to better explore the Pakistan market. On the other hand, the Sichuan government can consciously guide Pakistan business groups to Sichuan for negotiations by carrying out targeted trade exchanges and fairs and other activities, and fully transform Sichuan's regional advantages into actual productivity.

Fourth, from the perspective of logistics, Sichuan should strengthen the land connection with the Karakoram Highway of China and Pakistan. It must also strengthen the construction of the regional logistics system, strengthen the regulation of the internal logistics market in the region, and encourage large-scale logistics companies in the region. In addition, air transport has the advantages of being free from terrain restrictions, high speed, and short distance in the air. It is planned to open a flight route from Chengdu to Lahore directly.

Fifth, enterprises and individuals with economic and trade contacts between Sichuan and Pakistan should enhance their risk awareness, select reliable partners, and follow the business rules. Moreover, Pakistan's judicial process is complex, and even if the judgment is difficult to enforce, companies must pay attention to the consolidation and archiving of relevant data in Pakistan and encounter problems to conduct multi-channel complaints and seek the help of the Chamber of Commerce.

Finally, from the aspects of location, market capacity, product preferences, etc., the Pakistan market has important practical and potential value for Sichuan.

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