FREE TRADE AGREEMENT

A Report Prepared by

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Introduction

Globalization has made the world more connected than ever before and with this neoliberalism, free trade and open markets have become really popular. The term of 'World trade' is now being shaped by the powerful nations and corporate interests. In such growing environment, free trade leads to more socioeconomic adventures.

Free trade agreement (FTA)

Free Trade agreements between individual countries have been all the rage in recent times. They are the second best option to a multilateral agreement that covers all international trade because part of the expansion of trade may come from diverting it from other countries.

Michael Porter, a contemporary trade theorist, explains that the principal economic goal of a nation is to produce a high and rising standard of living for its citizens. Porter contends that the ability to do so depends on the productivity with which a nation's resources are employed. Productivity is defined as the value of the output produced by a unit of labor or capital. It depends on both quality and features of products and the efficiency with which they are produced. As such, the ability to export many goods produced with high productivity allows a nation to import many goods involving lower productivity. This is desirable because it translates into higher national productivity.

In pursuit of both increased productivity and international competitiveness, governments must promote trade without barriers — or free trade — without which the economic growth of a nation will be stunted.

Names of the countries in FTA'S		
Afghanistan (2 FTAs)	Kazakhstan (14 FTAs)	Papua New Guinea (6 FTAs)
Armenia (10 FTAs)	Kiribati (4 FTAs)	Philippines (11 FTAs)
Australia (19 FTAs)	Korea, Republic	Samoa (4 FTAs)
Azerbaijan (10 FTAs)	of (25 FTAs)	Singapore (33 FTAs)
Bangladesh (6 FTAs)	Kyrgyz Republic (10 FTAs)	Solomon Islands (5 FTAs)
Bhutan (3 FTAs)	Lao PDR (10 FTAs)	Sri Lanka (8 FTAs)
Brunei	Malaysia (22 FTAs)	Taipei,China (9 FTAs)
Darussalam (11 FTAs)	Maldives (2 FTAs)	Tajikistan (8 FTAs)
Cambodia (8 FTAs)	Marshall Islands (5 FTAs)	Thailand (22 FTAs)
China, People's	Micronesia,	Timor-Leste (0 FTAs)
Republic of (23 FTAs)	Federated States of (5 FTAs)	Tonga (4 FTAs)
Cook Islands (4 FTAs)	Mongolia (1 FTA)	Turkmenistan (6 FTAs)
Fiji (5 FTAs)	Myanmar (10 FTAs)	Tuvalu (4 FTAs)
Georgia (13 FTAs)	Nauru (4 FTAs)	Uzbekistan (10 FTAs)
Hong Kong,	Nepal (3 FTAs)	Vanuatu (5 FTAs)
China (6 FTAs)	New Zealand (18 FTAs)	Viet Nam (16 FTAs)
India (28 FTAs)	Indonesia (17 FTAs)	Japan (24 FTAs)
Pakistan (18 FTAs)	Palau (4 FTAs)	

The unconstraint flow of goods, services between trading partners in a particular arrangement, regardless of national borders of the member country. Countries engage in free trade relations when companies and individuals can import and export goods free from government intervention. Government intervention can include tariffs, import limits and/or bans on specific goods whereas countries that do not engage in free trade with other countries often impose tariffs and other penalties on products and raw materials entering the country. Although this is meant to protect domestic production, it results in a burden to businesses, especially small businesses, and makes them less competitive than their international counterparts

The agreement involves cooperation between minimum two countries to reduced trade barriers, import quotas and tariffs. It helps to increase trade of goods and services with both nations and open a corridor for import and export investments even for local entrepreneur.

FTAs do not address labor mobility across borders, common currencies, uniform standards and other common policies such as taxes. Member countries apply their own individual tariff rates to countries outside the free trade area. An industrialized product-exporting/commodity-importing country is wealthy and an undeveloped product-importing/commodity-exporting country is poor

There is criticism that some of these free trade agreements are between partners of unequal levels of development which then gives advantage to the more developed partners, as their businesses are then freer to expand and grow, at the expense of more fledgling nations and their industries

Free trade in Pakistan

As free trade agreements become more common around the globe, the positive impact on developing countries like Pakistan has been touted as one of their greatest successes. There are several advantages to developing countries that participate in free trade.

- **Higher Employment Rates**
  Developed countries can easily operate in Pakistan which will create new job opportunity for local workers and cooperation's. This will lead to higher standard of living and more pay for consumer. Eventually giving uplifts to Pakistan's economy and is likely to help local not only on trading zones but also within the country.
- **Child Labor Reduction**
  With the increase in inflation and lack of technology in Pakistan, child labor is the 'hot' issue of the society. Instead of manufacturing equipment, children are used as they are a cheap and effective alternate. Free trade allows companies to invest in equipment and pay higher wages to adult workers through foreign investment. With higher family incomes, children are able to attend school rather than work.
- **New Market Accessibility**
  Not only does free trade allow foreign-owned companies to establish themselves in Pakistan, it also allows native companies to sell to foreign markets. This expands their customer base and leads to new products and services and the viability of investing in innovation. This is particularly true for small businesses in Pakistan. These companies no

longer have to worry about absorbing the costs of tariffs and other barriers to market entry and can sell their products freely.

- **Investment Capital Increment**
  Most free trade agreements also reduce restrictions on foreign investment. With new capital entering a developing country, it begins an upward productivity cycle that stimulates the entire economy. An inflow of foreign capital can also stimulate the banking system, leading to more investment and consumer lending.
- **Market Extension**
  Free Trade Agreement (FTA) allows Pakistan to sell to foreign customers. It allows producing domestically and exporting to customers in other countries at the same cost without trade restrictions like the requirement of physical establishment presence in the country they sell in. The market extension also allows companies to expand their product lines and develop new technologies to meet increased demand.
- **Lower Costs of Production**
  As the speed of production increases, the cost of production is also reduced. The GST removal will lead cost reduction as international manufacturing goods will be available for all.
- **Wider Pool of Talent**
  Free trade agreements often allow for employees to seek employment across borders. This gives small companies opportunities to hire talent from an expanded group of job applicants without having to deal with work visas and other headaches associated with hiring Pakistani nationals.

More dynamic business climate. Often, businesses are protected before the agreement. These local industries risk becoming stagnant and non-competitive on the global market. With the protection removed, they have the motivation to become true global competitors.

Foreign direct investment. Investors will flock to Pakistan. This adds capital to expand local industries and boost domestic businesses.

Expertise. Global companies have more expertise than domestic companies to develop local resources. That's especially true in mining, oil drilling and manufacturing. Free trade agreements allow the global firms access to these business opportunities. When the multi-nationals partner with local firms to develop the resources, they train them on the best practices. That gives local firms access to these new methods.

Technology transfer. Local companies also receive access to the latest technologies from their multinational partners. As local economies grow, so do job opportunities. Multi-national companies provide job training to local employees.

List of countries FTA with Pakistan

Pakistan has signed many agreements with other countries to uplift tariffs and taxes. Following is the list of countries free trade agreements with Pakistan,

1. Pak-Afghanistan Transit Trade Agreement
2. Agreement on South Asian Free Trade Area
3. Pak-Malaysia Trade Agreements
4. Pak-China Trade Agreements
5. Pak-Sri Lanka Free Trade Agreement
6. Pak-Iran Preferential Trade Agreement
7. Pak-Mauritius Preferential Trade Agreement
8. Pak-Indonesia Preferential Trade Agreement

Pakistan FTA’s

Pakistan with total 18 FTA’s signed and in effect, is still developing its way to open its economic corridors to the world.
This chart shows the overview of Pakistan’s Free Trade Agreements after its being in effect.

Pakistan-Bangladesh Free Trade Agreement	**Pakistan-Indonesia Free Trade Agreement**
Pakistan-Gulf Cooperation Council Free Trade Agreement	**Pakistan-Iran Preferential Trade Agreement**
Pakistan-Morocco Preferential Trade Agreement	**Pakistan-Mauritius Preferential Trade Agreement**
Pakistan-Singapore Free Trade Agreement	**Pakistan-MERCOSUR Preferential Trade Agreement**
Pakistan-Thailand Free Trade Agreement	**Pakistan-Sri Lanka Free Trade Agreement**
Pakistan-Turkey Preferential Trade Agreement	**Pakistan-US Trade and Investment Framework Agreement**
Trade Preferential System of the Organization of the Islamic Conference	**People's Republic of China-Pakistan Free Trade Agreement**
Economic Cooperation Organization Trade Agreement	**Preferential Tariff Arrangement-Group of Eight Developing Countries**
Malaysia-Pakistan Closer Economic Partnership Agreement	**South Asian Free Trade Area**

Overview of Pakistan's Free Trade Agreements

Country	Year Implemented	Pakistan's Exports in year of implementation	Pakistan's Trade Balance in year of implementation	Pakistan's Exports in 2015	Pakistan's Trade Balance in 2015
Sri Lanka	2005	$0.154B	$0.094B	$0.260B	$0.187B
China	2006	$0.507B	$(2.408)B	$1.934B	($9.085)B
Malaysia	2008	$0.138B	$(1.556)B	$0.186B	$(0.724)B
Indonesia	2013	$0.144B	$(1.064)B	$0.140B	$(1.901)B
Mauritius	2007	$0.036B	$0.035B	$0.022B	$(0.038)B
Iran	2004	$0.102B	$(0.168)B	$0.032B	$(0.228)B

Pakistan and China FTA

From the above chart, statistics show that Pak-China friendship is as high as Himalayas. Pakistan and China are both members of World Trade Organization (WTO) and both countries are utilizing it accordingly.

China's exports to Pakistan are more diversified and bigger in volume. Pakistan's export of product mix is very limited; around 70% of its exports consist of cotton yarns.

Since 2006, Pak-china FTA's have opened import and exports from both sides. Pakistan got market access at zero duty on industrial alcohol, cotton fabrics, bed-linen and other home textiles, marble and other tiles, leather articles, sports goods, mangoes, citrus fruit and other fruits and vegetables; iron and steel products and engineering goods. China also reduced its tariff by 50% on fish, dairy sectors; frozen orange juice; plastic products; rubber products; leather products; knitwear; woven garments etc. from China.

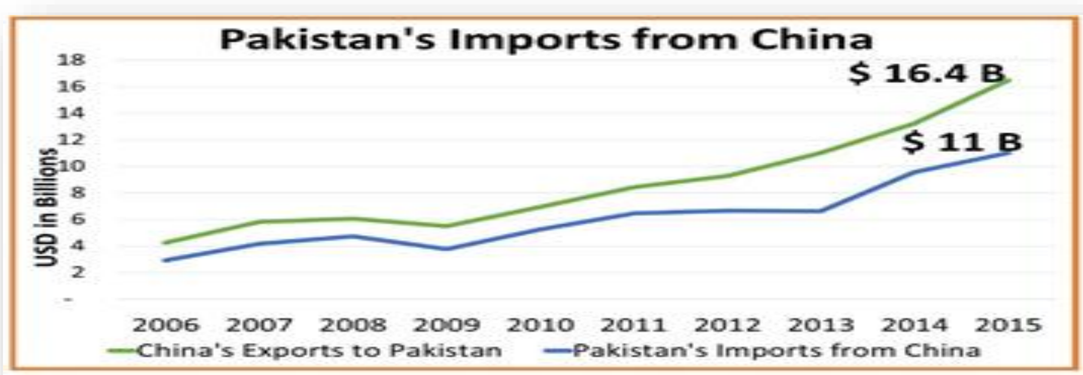
On the other hand, Pakistan has given market access to China mainly on machinery; organic; and inorganic chemicals, fruits & vegetables, medicaments and other raw materials for various industries including engineering sector, intermediary goods for engineering sectors, etc.

After the first phase success, both countries have negotiated the second phase of CPFTA with Pakistan asking China for exclusion of 20 per cent of total products from the concessions because of concerns of Pakistan's local industry. But China has shown willingness only on 10 per cent exclusion of total products in the second phase under the WTO rules.

China's FTA with Pakistan was one of the earliest agreements it signed. Ever since this agreement, China has entered into FTA with other countries where it has exchanged concessions, which have undermined the Margin of Preference (MOP) for Pakistani products; more over the coverage and the depth of China's other FTAs is greater than CPFTA. This has effectively diluted that MOP of Pakistani exports to China. On the other hand, Pakistan has signed FTAs with Malaysia, Sri Lanka & SAFTA. Most importantly the concessions granted partner countries in these FTAs don't undermine the MOP for Chinese exports to Pakistan. Chinese goods with the CPFTA enjoy a kind of monopolistic position in Pakistani market.

In addition, China will also cut its tariffs by 27 percent on 1,671 kinds of products from Pakistan, and Pakistan will cut tariff by an average range of 22 percent on 575 kinds of products from China.

Pakistan's exports have increased, then its imports from China have also increased in 2010. Pakistani products are facing tough competition in the Chinese market. As the cost of doing business in Pakistan is comparatively high due to energy shortages and deterioration of security, the products of ASEAN countries are getting more places due to their lower cost.



Opportunities

FTA's has created many opportunities for Pakistan. The China Pakistan Economic Corridor (CPEC) contains many development deals, which are equivalent to approximately 20 per cent of Pakistan's annual GDP some of these are as follows:

- the economic corridor project to contribute some 17,000 megawatts of electricity production at a cost of approximately $34 billion
- advancement of transport, infrastructure, together with upgrading the railway line linking the port megacity of Karachi and the northwest city of Peshawar
- improvisation of the operational control of a strategic deep water seaport of Pakistan
- boost Pakistan and China relations

Conclusion

In today's age, approximately all advance nations are focusing on trade in manufacturing goods and have specified its strategic importance. Governments have been censoriously analyzing and performing investigations for designing valuable policies for each sector. Unlike developed nations, developing nations have been in shape of ignorance and have not specified due value. Pakistan is no different from other developing countries. Scanty attention and assistance is given to the fabricators of manufacturing goods. This demonstrates government's lack of support in terms of regulations, legislation, institutional prop up and accession to loans or funding, etc. underneath these circumstances, policy and strategy framework and also guidelines be able to help in assisting and supporting the manufacturing merchandise commodities trade industries for their growth and developments. Ironically, Pakistan's trade and industrial policies are conspicuously silent regarding manufacturing goods producing industries and their exports.

But after FTA's things are getting better, the trade patterns have improved generally (Pakistan exports as well as imports from China have increased) but the trade deficit of Pakistan has also increased; the RCA analysis shows that there is a difference in goods traded by both countries in world markets and bilaterally except the top ranked products. The positive and statistically significant China's GDP could have positive influence on Pakistan's exports to China because the bigger China's GDP, the greater China's imports from Pakistan and the bigger its capacity to absorb imports. On the other hand, Pakistan's GDP does not have much influence on its exports to China. Therefore in present conditions it is Pakistan which benefits more from the bilateral trade because Pakistan's exports to China are positively correlated with China's GDP, which is growing faster than Pakistan's GDP.

PAK CHINA FTA SUCCESS FACTORS:

The Ministry of Commerce through its public consultation campaign needs to:

Actively seek out exporters who may be encountering problems with foreign trade barriers, and actively respond to reported problems.

- Vigorously address market access complaints or trade agreement non-compliance by leveraging the full resources of the Commerce Department and other trade associations, as appropriate;
- Provide timely and useful information and guidance to help businesses develop strategies to overcome Chinese government barriers to trade or investment in China; and
- Strive to help Pakistani companies gain access to China market without resorting to formal FTA dispute settlement proceedings, save time and resources wherever possible.
- Seek practical solutions that will achieve timely and meaningful results for Pakistani companies and workers.

Public Information:

For the effective implementation of the FTA dissemination of information is crucial. For instance, the main reason for low utilization of preferential tariff rates is mostly due to the lack of public knowledge on the FTA tariff scheme. Information dissemination is traditionally conducted through brochures, newspapers and other publications, seminars, road shows, and trade discussions. However, there are modern approaches to introducing FTA to the public, including disseminating information through FTA websites. These sites are useful not only in providing one-stop online resource sites on the FTAs entered into by the country but also in soliciting feedback or conducting public consultation on proposed FTAs. FTA sites may also provide additional assistance by publishing the names of those who can render expert advice to exporters (e.g., in Pakistan and China). An FTA export advisory panel should be established to promote the benefits of FTAs, by offering advice on implementation and market access issues, and by identifying specific trade and investment opportunities created by such agreements. The panel should be made up of senior representatives from a range of industry groups and includes input from a cross-section of specialists, business organizations, and community groups.

Evaluating an FTA

The review clauses of FTAs provide an opportunity to identify areas where the agreements can be further improved. This stage, however, requires proper mechanisms for monitoring and evaluation to assess whether the objectives of the FTA have been met in the first place and whether the scope of the agreement can be expanded and its terms improved.

Monitoring and Enforcement

Compliance monitoring requires resources and intensive effort not only from the Ministry of Commerce but especially from the implementers and regulators.

Coordination among agencies is essential especially between those agencies that will put into operation the provisions of the agreements and those that will eventually review the agreements and provide for the necessary amendments.

For example, although valuable, data on the actual utilization of the FTA are not always readily available. The directive to be issued by the customs or tariff agency could require traders that avail themselves of preferential rates under the FTA to report such use on the specified form directly to a specific unit or agency, to facilitate recording and monitoring. Such information will be handy in evaluating the impact of FTAs on traders.

Other possible mechanisms for monitoring and compliance are regular consultations with the private sector and full use of the technology (such as the internet and available mobile services) to gather comments from other sectors including consumers.

Conclusion:

The success of the Pak China FTA depends on how well it has been negotiated and how effectively it is implemented. For this FTA to work, it is critical that Pakistan first gains the same level of tariff concessions from China as received by the ASEAN countries. Only with equal access will Pakistani manufacturers get a chance to move out of the cycle of producing low productivity goods and exporting low value-added goods to China and enter into a cycle of producing high productivity products and exporting higher value-added goods to China.

It is also important to recognize that within the CPEC, there is a very central industrial cooperation component, through which Chinese industrial initiatives yield the maximum economic benefits for local stakeholders in Pakistan. Some ways of achieving this can be first, ensuring that CPEC-related industrial activities must have well-defined local stakeholders who help maximize the local benefits for firms. This can be achieved by promoting joint ventures between the Pakistanis and the Chinese, which contain a minimum requirement for local partner involvement in each project as well as guarantee that each is allocated a minimum financial share of each project.

The Pakistani government needs to take pragmatic decisions such as, which sectors to focus on. The decision should take into account which sectors can most benefit from greater productivity, which sector can lead to the greatest increase in value added and which sectors have the greatest potential to increase exports.

In order to increase productivity, employment, value added and exports, there has to be a conscious decision by the policy makers that CPEC-related industrial projects should lead to a move up the technology ladder by firms. This can be achieved by: first, creating firm level incentives for investment in advanced machinery based on the technological sophistication of output. Second, placing a minimum local content requirement (i.e. minimum percentage of locally sourced inputs) for all goods created in CPEC industrial zones. Thirdly, by ensuring that Pakistan’s technology is upgraded through technology transfers from China by ensuring that a minimum level of technology transfer takes place over the life of all CPEC initiatives.

Finally, the only way to ensure higher level of firm productivity, higher wages and a move towards higher value added output is to develop a CPEC-related labor policy that enables the manufacturing sector to switch from low-skilled to high-skilled labor.