

Two Decades of China-Pakistan Trade Relations

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Abstract: *Over the past two decades (2005 to 2025), China and Pakistan have strengthened their economic partnership through a series of trade and investment agreements, most notably the China–Pakistan Free Trade Agreement (CPFTA) signed in 2006 and the China–Pakistan Economic Corridor (CPEC) launched in 2015. China's Belt and Road Initiative aimed to improve trade between two countries, encourage cooperation between industries, and make it easier for people to get around in the region. Even after all of this work, Pakistan's trade balance with China has not improved much. Exports have not kept up with the fast expansion of imports. From 2012 to 2016, Pakistan's yearly exports to China fell by about 12%. This showed that its export base and policy implementation were not strong enough. This report analyses China–Pakistan trade relations from 2005 to 2025, emphasising trade trends, tariff frameworks, and the efficacy of policy initiatives implemented under the CPFTA. It evaluates the degree to which these policies have facilitated economic growth, diversification, and sustainable trading practices. Furthermore, the research provides policy recommendations for strengthening Pakistan's export competitiveness and ensuring more balanced, mutually beneficial trade outcomes in future negotiations. The results are meant to help policymakers get Pakistan more involved in regional trade agreements and make long-term economic cooperation with China better.*

Keywords: China–Pakistan trade relations, CPFTA, CPEC, Belt and Road Initiative, bilateral trade

1. Introduction

International trade is an important part of building economic ties between nations. It also directly helps with growth and long-term development, which is especially important now that globalization is speeding up changes in the world economy. Free trade agreements (FTAs) are a good way to get countries to work together better because they remove or lower tariffs and other barriers to trade between signatory countries. This makes it easier for goods and services to move between countries and increases trade output. (Srinivas MK and Nemati, 2025b). The China-Pakistan Free Trade Agreement (CPFTA) is very important in this situation. The CPFTA was signed in 2006 and went into effect in 2007. It is part of attempts to make the economic relationship between the two countries stronger. The goal of this deal is to increase opportunities for exports, boost cooperation on investments, and improve trade between the two countries by lowering tariffs and making trade easier. The deal was made in two stages, and during each stage, more goods were covered by lower tariffs. However, the agreement didn't make things fair. China benefited more from it, while Pakistan had problems with a trade imbalance, not diversifying its exports, and not making good use of the concessions that were available. According to statistics, trade between China and Pakistan has grown a lot since the deal was made. It went from \$722 million in 2005 to more than \$14 billion by 2020. Even with this growth, the trade imbalance in China's favor has gotten a lot worse. In 2020, Pakistan bought \$12.5 billion worth of goods from China but only sent \$1.8 billion worth of goods to China. Hashimy (2023a) This left Pakistan with a trade gap of more than \$10.6 billion just that year. These numbers make it clear that there is a trade imbalance and that Pakistan still relies heavily on Chinese goods, even though its exports aren't doing well because it only has a few products to sell.

2. An Overview on China-Pakistan Trade Relation

Free Trade Agreements (FTA):

Additionally close strategically and economically are China and Pakistan. In 2005, they began talking about creating a free trade area, which was completed in 2007.

The first two stages of the China-Pakistan FTA were finished successfully, and talks were still going on in 2013.

After signing the FTA in 2006, Pakistan's exports grew, and the China-Pakistan Economic Corridor, which was announced in 2015, is a key part of China's One Belt One Road plan. Future bilateral commerce between China and Pakistan is anticipated to keep rising. Though trade disparity is rising, China-Pakistan trade volume has surged. China gains from CPFTA since she exports a lot. Export success for Pakistan to China has not been outstanding.

Pakistan should take into account elements for next FTA discussions to prevent blunders in CPFTA. (Mukhtar, 2019)

Free Trade Agreement's Objectives: (Rifat Rafeeq, 2021)

- 1) To collaborate for common benefit Chinese and Pakistani economies.
- 2) To set investment policies in the services sector especially in IT and associated services, infrastructure, education, tourism, Research and Development, etc.
- 3) Creation of new employment, joint ventures to develop a capacity of domestic service providers, helps to prepare the surroundings for technological transfer.

China and Pakistan’s Bilateral Trade:

Year	Import	Export	Total	Trade deficit
2005	484.9	237.2	722.1	247.4
2010	7,629	1,573	9,202	6056
2015	11,019	1,935	12,954	9084
2020	12,486	1,867	14,472	23,451
2025	14.89	4.861	18.27	12.51

China Pakistan After the FTA became in place, trade between the two countries rose by 325% from 2008 to 2016. Exports dominate the most of China's commerce with Pakistan. (Mukhtar, 2019)

The table, with 2005, 2010, 2015, and 2020 figures, illustrates how Pakistani and Chinese trade have evolved over the last 20 years.

From a modest \$722.1 million in 2005 to more than \$92 billion in 2010, the trade imbalance increased exponentially in favor of China after implementation of FTA. China has utilized, reflecting Pakistan's heavy dependence on Chinese imports. Although the trade increased to \$11 billion USD between 2010 and 2015, Pakistan's increasing infrastructure needs pushed the deficit to more than \$9 billion.

The value of the trade between 2015 and 2020 was more than \$14 billion USD, while Pakistan's exports fell to \$1.867 billion. Despite the efforts made in the Second Phase of the China-Pakistan Free Trade Agreement, the trade deficit continues and could have increased.

Six-digit H.S. Code principal exports from Pakistan to China

- Principal exports are rice, cotton, and textiles. (ALI HASSAN, 2023)

- Total exports rose noticeably between 2007 and 2016.
- Out of Pakistan's exports to China, sixty-one percent are cotton.
- Rice makes around 14% of exports; ore, slag, and ash follow in order.
- Chinese exports comprise 75% cotton and rice.
- Rice exports climbed from 1.3% in 2011 to 24.4% in 2012.
- From 2012 to 2016, Pakistan's yearly export value to China dropped by 12%.

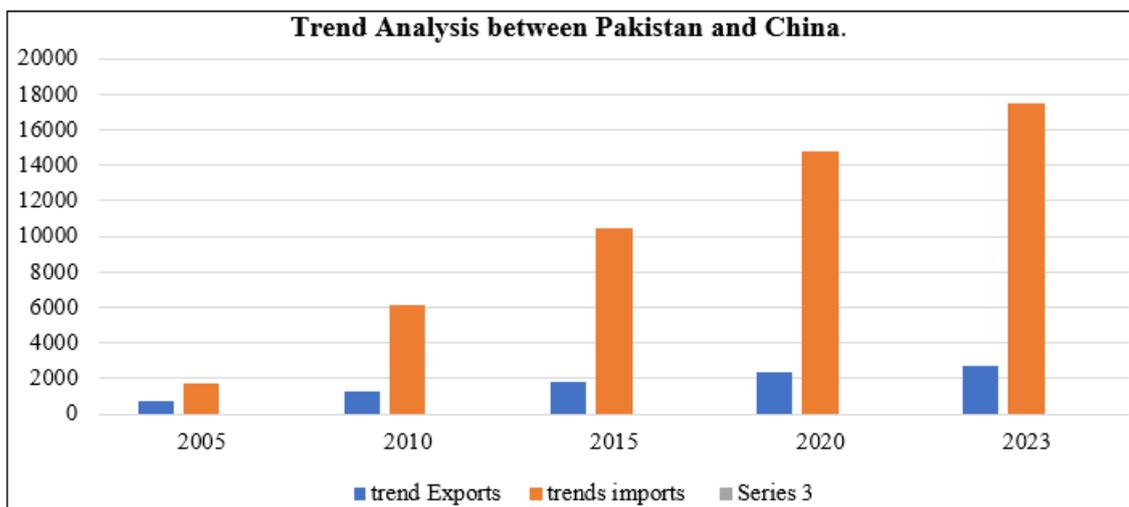
The main China import goods to Pakistan:

For Pakistani goods including woven silk, plastics, rubber goods, paperboard, inorganic chemicals, unbleached cotton fabrics, polyester fibers, pulp canvas nylon fabric, tissue fabric, net fabric, fabric floor coverings, shoes, clothing, boilers, nuclear reactors, steel-iron, and cranes, an 8-digit H.S. code is required.

- The local trading community is on the brink as Pakistan's manufacturers have great production capacity for these goods.
- China imports mostly; the World Bank Group estimates that 29% of commodities come from China.

Trend Analysis between Pakistan and China:

Year	Import Trend	Export Trend
2005	1,770.08	697.01
2010	6,107.43	1,249.41
2020	14,782.13	2,354.21
2023	17,474.54	2,685.65
2025	14,890	2,380



The trend between Pakistan and China from 2005 to 2025 shows a clear and sustained rise in imports, contrasted with a much slower and more modest increase in exports. Between 2005 and 2020, imports expanded sharply from about US\$1.77 billion to nearly US\$14.78 billion, reflecting deepening dependence on Chinese manufactured goods and the growing integration of China into Pakistan's import structure. Although imports peaked in 2023 at approximately US\$17.47 billion, the estimated 2025 figure of around US\$14.89 billion indicates a moderation or slight decline,

likely linked to Pakistan’s macroeconomic constraints such as foreign exchange shortages, tighter import controls, and broader economic pressures.

In contrast, export growth has been steady but limited: rising from US\$697 million in 2005 to about US\$2.35 billion in 2020, and reaching nearly US\$2.69 billion in 2023. However, the 2025 estimate of roughly US\$2.38 billion suggests that exports have plateaued or come under pressure, reinforcing the structural imbalance in the bilateral trade

relationship. This widening gap, where imports remain around US\$15 billion while exports stay below US\$3 billion, highlights a persistent trade deficit and growing reliance on Chinese goods. The trend underscores the need for Pakistan to diversify and upgrade its export base—particularly by moving into higher value-added sectors—and to more carefully manage its import bill to ease pressure on foreign exchange reserves. These interpretations should be considered with caution, as the 2025 data is based on fiscal-year reporting and may not perfectly align with calendar-year figures, and different sources often provide slightly varying estimates. (M. A. Nadeem, 2025)

3. The China-Pakistan Free Trade Agreement (CPFTA)

The CPFTA was established to enhance collaboration among the three countries, diminish trade barriers, and fortify existing commercial agreements. This aimed to facilitate economic growth in all three nations.

The CPFTA aimed to treble trade volume between Pakistan and China within a five-year period.(Hassan Daud, 2022)

The China-Pakistan Free Trade Agreement (CPFTA) was established in 2006, but Pakistan remains a marginal player in China's trade. Despite China's global imports exceeding \$1 trillion, Pakistan's share remains insignificant, with bilateral trade limited. The agreement was segmented into two stages; however, discussions were suspended due to Pakistan's demands for enhanced market access and amended terms. The trade deficit surged significantly, attaining \$12 billion in 2016. The agreement was segmented into two stages; however, discussions were suspended due to Pakistan's demands for enhanced market access and modified terms. The trade deficit surged significantly, attaining \$12 billion in 2016. Pakistan has only used 5% of the concessions available under the CPFTA, whilst China has used 55%.

Critics have highlighted the agreement's unequal benefits and the transfer of unproductive domestic companies..

The special treatment granted to CPFTA members may harm non-member countries, raising concerns about trade diversion. (MUHAMMAD SALMAN SHAFIQ, 2023). Prior to the 2005 trade agreement, Pakistan exported USD833.2 million in commodities to China.

In the first phase of the CPFTA, Pakistan got benefits on the 6,418-kilometer border line.

Pakistan exported USD1.1 billion worth of goods to China in 2007.

2012: two-way trade worth USD12.4b; Pakistan sends USD3.14b worth of goods to China.

The protocol for phase II of the CPFTA was signed. During phase II, China will remove 75% of tariffs on trade between the two countries. In 2019, Pakistan will send USD1.48 billion worth of goods to China. (Hassan Daud, 2022)

Key Imports consist primarily of: (Fatima Sahibzada, 2021)

- Electric instruments.
- Machinery.
- Nuclear reactors.
- Principal Export Items

These are classified based on HS-8 level codes into three levels of priorities:

1) Priority 1 Products

Contains 401 tariff lines, Represent high-value goods China imports from Pakistan.

93% of these goods ought to enjoy duty-free entry into the Chinese market.

44% of product categories in CPFTA2 have a lower tax rate compared to Phase 1.

This sector holds the greatest potential to increase Pakistan's export to China.

2) Priority 2 Products:

Contains 1,436 tariff lines.

70% of products from the category can enter duty-free, there is an increase in tariff lines, i.e., 575 new products, under CPFTA2 over CPFTA1 by 47%.

Has major products on the HS-2 level, including: Equipment, Mechanical appliance, Nuclear reactors.

3) Priority 3 Products:

Has 5,872 tariff lines at the HS-8 level.

80% of the goods (i.e., approximately 4,701 tariff lines) have tariff-free access to China.

Duty-free access in this phase is up 34% compared to the last phase.

In the same way, China let 7550 items from Pakistan into their market, divided into five groups: - No tariffs for three years - Tariffs dropped to 0% to 5% for five years - Tariffs cut in half for five years - Tariffs cut in half again for five years - No concessions for five years.

	Pakistan's Exports to China (2017) Value (USD Mn)	Exports to China (2016) Value (USD Mn)	Pakistan's Exports to China (2015) Value (USD Mn)
Category1-Zero Tariff (2,681 tariff lines-35.5%)	438-----29%	346-----22%	510-----26%
Category 2-0.5% (2,604 tariff lines-34.5%)	825-----55%	869-----55%	1,087-----56%
Category3-50% Reduction (604 tariff lines-8%)	17-----1%	16-----1%	13-----1%
Category4-20% Reduction (529 tariff lines-7%)	24-----2%	23-----1%	18-----1%
Category5-No Concession (1,132tariff lines-15%)	199-----13%	326-----20%	277-----14%
Total Exports to China	1,508	1,591	1,935

Pakistan's exports to China increased by 21.6% in 2017, indicating greater utilization of tax exemptions under the trade agreement. No-tax exports increased by 26.6%, and 0.5% tax exports accounted for 55% of Pakistan's total

exports. Partial tax reductions, accounting for 15% of tariff lines but contributing only 1% of export values, have little effect on export growth compared to no taxes or small taxes. In 2017, Category 5 - No Concession (15% of tariff lines) contributed USD 199 million in exports, but its export competitiveness declined from USD 326 million in 2016, indicating a decline in exports.

Pakistan's tariff preference under the Comprehensive Free Trade Agreement (CPFTA) was initially generous, but China has provided more concessions to ASEAN countries, such as reducing 100% concessions to 10% for products accounted for by 35% of the overall goods granted under CPFTA. Pakistan claims its margin of popularity has waned due to China's free trade arrangements with ASEAN member states. (Mukhtar, Undergoing Re-negotiations between Pakistan and China for Free Trade Agreement, 2018)

4. Recommendations

- Tariff Negotiations in Pakistan – A Strategic Approach
- Turn attention to tariff talks, featuring competitive sectors such as textiles, agricultural products and light manufacturing.
- strengthen the utilization of CPFTA preferences through establishing trade facilitation schemes, awareness campaigns as well as simplification of customs processes.
- Protect key industries with flexible tools, like temporary import restrictions.
- Develop a broad national export diversification strategy which focuses on investing in research and innovation, growing value added industries and building export capacity in sectors.

5. Conclusion

Trade, business cooperation, and the long-term economic links between China-Pakistan Free Trade Agreement (CPFTA) have grown much more powerful. Pakistan cannot completely profit, though, since it does not diversify its exports sufficiently and has a trade deficit.

To improve the CPFTA's results and inform future free trade agreements, Pakistan must adopt an informed stance in negotiations, increase its domestic industry's competitive edge, invest in research, and formulate trade facilitation policies. These lessons are crucial for improving the CPFTA's outcomes.

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