Proposal for China-Pakistan Industrial Cooperation with the Analysis of Pakistan’s Industrial Structure

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Pakistan’s Macroeconomic Situation

According to the World Bank, Pakistan’s economic growth peaked in 2005 over the past more than 10 years, with GDP growth at 7.67%. Then it declined gradually, and reached to the lowest point in 2010, with GDP growth of only 1.6%. After 2011, the economic development of Pakistan has tended to stabilize. Since 2015, the growth of Pakistan’s GDP has been increasing with the development of 4~5%. Pakistan’s Ministry of Finance released a report of “Economic Survey 2016-17” in late May 2017, which shows Pakistan’s GDP amounted to 31.86 trillion rupees (about 304.4 billion US dollars) in the 2016-17 fiscal year and the real growth rate was 5.28%, which hit the new high of nearly 10 years.

Challenges to sustained and healthy development of Pakistan’s Economy

However, structural defects still constrain Pakistan’s economic development which leads to some severe problems: 1) double deficits: Fiscal deficit rises sharply and public debt is continuing to climb; meanwhile Trade deficit hits new highs, and current account deficit surges. 2) Remittances have been on the decline and the pressure to maintain balance of payments has increased. All of these have brought great challenges to the sustained and healthy development of Pakistani economy.

Actually, many problems impeding Pakistan to realize fast economic growth arise from irrational industrial structure or more specifically “premature deindustrialization” from the following analysis of the development of three major industries in Pakistan:

First, while the agricultural sector continues to fall, it is still the largest industry and absorbs about 66.5% of Labor resources. The process of agricultural modernization is developing slowly and heavily affected by natural conditions. For example, the main crop yields fell down about 6.3% in fiscal year 2015-16. Furthermore, the quantity and quality of agricultural products cannot meet the demand of industrialization of the country.

Second, due to the bottlenecks of energy, infrastructure and communications, there are signs of recession for industrial development even it has not yet been fully developed. Pakistan’s manufacturing industry still largely relies on agriculture. The largest industrial sector is the
cotton textile industry, meanwhile light textiles accounted for a large proportion of the manufacturing industry; and machinery, electronics manufacturing industry are obviously inadequate, especially the high-tech industries. The proportion of industrial value added to GDP showed a downward trend, falling from 27% in 2005 to 18.9% in 2015. Major manufacturing growth has been slow, driven mainly by light industries such as textiles, food, fertilizers, leather and rubber, while heavy industries, such as steel, electronic equipment, and construction machinery have declined in varying degrees. In recent years, along with the construction of “China-Pakistan Economic Corridor” led by large-scale energy and transport infrastructure projects, the growth of large manufacturing industry in Pakistan has increased rapidly.

Third, although the proportion of service industry has reached to above 50% of GDP and grows rapidly, but it mainly includes traditional service sectors such as wholesale and retail industry, and the capacity to provide employment opportunities still limited. The service industry of Pakistan is obviously insufficient compared with the increase of its output.

### High Complementarity for China-Pakistan Industrial Transfer

Industrial transfer from China to Pakistan is complementary and will be carried out smoothly. China has become the world’s second largest economy, with the establishment of a huge industrial industry. Pakistan is still in the early stage of industrialization, and industrial foundation is relatively weak and lack of basic industry such as steel, metallurgy, heavy machinery, petrochemical. China is upgrading its industrial structure, proposing the “new normal” mode of economic development, continuously optimizing its economic structure and speeding up the industrial transformation and upgrading. The shift of Chinese industry to intensive and modernized production mode coincides with the urgent need for the development of the Industrial society in Pakistan, which is the fundamental impetus for the two countries to optimize their industrial structure.

Furthermore, the transfer of industrial structure will also improve the structure of trade commodities and achieve bilateral trade growth while solving the trade deficit between the two countries. The large proportion of labor-intensive products exported from Pakistan to China, which restricting bilateral trade development. Through industrial transfer between the two countries, the structure and proportions of export-import products will be more optimized and balanced. The trade cooperation between China and Pakistan has great potential since compared with China’s foreign trade volume, the share of Sino-Pakistan trade volume is only about 0.4%.
Moreover, the construction of Industrial park and Special Economic zone will help to upgrade Pakistan’s manufacturing level, gradually reduce its dependence on foreign manufacturing products, as well as expand export to neighboring countries and regions. The industrial transfer will also promote China’s investment in Pakistan from home appliances manufacturing, electronic communications and the financial industry into transport infrastructure cooperation, energy cooperation, industrial park construction, including more wide and deep industrial areas.

Alignment of China-proposed Belt and Road Initiative and Pakistan-National Development Strategy

China hopes to promote regional and sub-regional economic integration and interconnection in the framework of the Belt and Road Initiative. The Belt and Road Initiate for China and the neighboring countries to create a broader arena for common development will be a strong realization of Asian countries interconnection and cooperation and mutual win. The “China-Pakistan Economic Corridor” is the flagship project of the Belt and Road Initiative, becoming an important platform for economic cooperation between the two countries and for promoting regional economic integration and interconnection. China will strengthen its cooperation with Pakistan in such areas as energy, infrastructure construction and industrial cooperation with its financial and technological advantages. Under the project of China-Pakistan Economic Corridor, China is transferring its high-quality industrial capacity to Pakistan with the latest example being the inauguration of the first unit of Port Qasim coal-fired power plant using the world most advanced super critical thermal technology.

Pakistan’s national development goals and priority areas in its “Vision 2050” matches well with China’s regional development plan. In 2014, Pakistan launched the Vision 2025 for economic development planning Seven Pillars to promote peace and stability and realize the dream of “Tiger of Asia”. According to the blueprint, Vision 2025 will provide a conceptual platform for the revival of sustainable and inclusive growth, benefiting all citizens of Pakistan, strengthen development foundation and enable the country to achieve international development goals within their respective time frames. The seven pillars include energy, water and food security; developing a competitive knowledge economy through value addition; modernizing transportation infrastructure and greater regional connectivity, etc. Among them, energy and interconnection
construction will provide the economic foundation for industrial enhancement, and exert Pakistan’s location advantage to integrate the global economy development. Obviously, Pakistan’s Vision 2025 and China’s Belt and Road have a broad consensus in the priorities of interconnection, infrastructure construction, energy development and other fields, which become the foundation and motivation of shared destinies of the two countries.

On December 18th, 2017, the two countries jointly launched the “Long Term Plan for China-Pakistan Economic Corridor (2017-2030)” which will effectively match relevant national plans and local plans of China as well as Pakistan’s Vision 2025. Trade and industrial Parks are key cooperation areas under the planning and along with entering into early harvest stage, more efforts will be focused on the industrial cooperation like promoting Special Economic Zones and the development of industrial concentration.

Proposal for Bilateral Industrial Cooperation

Firstly, make top level design and implement progressively: China and Pakistan have broad consensus on industrial cooperation, but the first thing is to make scientific planning and design. Industrial park construction is an important way of industrial cooperation. To make an Industrial park play its role of impetus of economic development, a lot of necessary conditions should be prepared, including energy and transportation facilities, the enterprise and product market research. At the same time, all the projects should be promoted gradually.

Secondly, identify key direction of industrial cooperation: On the basis of Pakistan’s development demands, China and Pakistan have fully consulted to determine the main direction, ways and fields of industrial cooperation, like clean energy, smarter cities and innovative technologies in particular.

Thirdly, develop local advantages: Each province of Pakistan has its own advantages and characteristics, some regions are more developed, and some regions are rich in natural endowments. During the industrial transfer and cooperation, we should pay attention to the different needs and characteristics of each region and give full play to its own advantages.

Fourthly, combine Pakistan’s industrial structure reforms with bilateral industrial cooperation: Pakistan is undertaking industrial restructuring and reform, and industrial cooperation between China and Pakistan should follow Pakistan’s industrial reforms to promote and complement each other.

Last but not least, apply of comprehensive measures as to improve People’s living standard: In the process of industrial cooperation, we should pay attention to the construction of supporting facilities of the people’s livelihood, so as to promote the development of national economy; in the meanwhile people can enjoy the dividends of development as soon as possible.

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