

# China-Pakistan FTA (CPFTA) Phase-II FAQs

## 1. China's Offer to Pakistan

### **Level of liberalization by China under Phase-I of CPFTA in terms of tariff lines and trade value**

In terms of **tariff lines** under Phase-I, China extended zero rates on 35.5% of tariff lines. China proffered moderate liberalization on 42.5% of tariff lines with 5% tariff rate and 50% margin of preference on few tariff lines. China maintained a protected list of 22.0% tariff lines, with either 20% margin of preference or no concession.

In terms of value of **Pakistan's exports to China** under Phase-I, 28.9% of Pakistan's exports faced zero rate, 57.9% of Pakistan's exports to China faced moderate concessions i.e. less than 5% liberalization level and 13.2% of exports were under the Chinese protected list. Pakistan's exports at the moderate track were adversely hit due to China's further FTAs with ASEAN and other competitors.

In terms of **Pakistan's global exports** 41.4% of Pakistan's global exports were facing zero tariffs in China, whereas the remaining 59.6% of global exports were subject to tariffs.

Tariff Reduction Tracks	No. of TLs	% of TLs	% of Pakistan's exports to China	% of Pakistan's global exports
Zero rate	2681	35.5	28.9	41.1
Moderate (0-5% and 50% MOP on few lines)	3208	42.5	57.9	28.2
Protected List (No Concession and 20% MOP)	1661	22.0	13.2	30.7
Total	7550	100.0	100.0	100.0

## **New level of liberalization by China under Phase-II of CPFTA in terms of tariff lines and trade value**

- In terms of tariff lines, China has immediately liberalized 1471 new tariff lines for Pakistan, out of the total 3767 tariff lines
- The newly liberalized lines cover 91.3% of Pakistan's exports to China.
- These lines include the most high priority 313 tariff lines for Pakistan.
- 84% of Pakistan's global exports will be covered under the Chinese offer
- China has also offered faster tariff elimination for Pakistan in tracks two and three i.e. A-5 (in 5 years) and A-10 (in 10 years).
- Under A-5 and A-10 China will be liberalizing 1235 and 1236 tariff lines respectively.

<b>Tariff Reduction Tracks</b>	<b>No. of TLs</b>	<b>% of TLs</b>	<b>% of Pakistan's exports to China</b>	<b>% of Pakistan's global exports</b>
Immediate Zero rate (A-0) (Includes 313 high priority items for Pakistan)	3767	45	91.3	80
Zero rate in 5 years (A-5)	1235	15	0	2.6
Zero rate in 10 years (A-10)	1236	15	0	1
Protected List (No Concession + 20% MOP)	2060	25	8.7	16.4
<b>Total</b>	<b>8238</b>	<b>100</b>	<b>100</b>	

## Sectors included in 313 tariff lines and their significance

With the implementation of this FTA, China will be eliminating tariffs on 313 priority tariff lines which cover over \$8.7 billion worth of our global exports and over \$64 billion worth of Chinese global imports. These 313 tariff lines are part of track 1 i.e. A-0 under the Chinese offer to Pakistan.

Under the 313 tariff lines currently our exports to China are less than 2% of their total imports, and with these concessions we should expect to gain our market share by almost \$4 billion per annum. These 313 items include inter alia textiles and garments, seafood, meat and other animal products, prepared foods, leather, chemicals, plastics, oil seeds, footwear as well as engineering goods including tractors, auto parts, home appliances, machineries. The details are as follows:

Sectors	# TLs	Pak's Global Exports-Avg. 2012-16	China's Global Imports 2012-16
Articles of apparel (Garments & Made-ups)	105	4,273.7	3,827.0
Animal Products (Sea food, Meat, Poultry, Milk & Cream, Honey)	28	276.6	7,013.5
Textiles (Yarn & Carpets)	24	2,004.7	5,510.6
Prepared Food Stuff	19	183.0	2,995.5
Leather	18	383.4	3,278.2
Machinery (Fans, Refrigerators, ACs, Hydraulic Pumps, Heat Exchange Units)	17	30.4	1,065.5
Plastics, Articles of plastic	14	238.0	7,655.4
Vehicles (Tractors, auto and motorcycle parts)	13	12.7	8,428.8
Chemicals (Soaps & Organic surface active agents, make up preps, gelatin, others)	13	35.1	10,847.8
Cereals & Fruits	10	39.4	1,108.7
Jewellery and Parts etc.	9	431.3	1,069.0
Bedding Articles, Mattresses, Electric Lamps	8	83.9	1,545.6
Oil Seeds, Vegetable Fats and Oils	7	147.9	1,551.1
Footwear	9	96.4	1,151.9
Others (Electric accumulators, sanitary ware, manicure/pedicure sets, Conductors, Cables, Cement, Glassware, Iron and Steel)	19	534.9	2,721.9

## Clarification on misperceptions about 313 tariff lines

Apropos some news articles in the print media, incorrect estimation was made that Pakistan has no exports to world and China in majority of 313 tariff lines. It is therefore, clarified that Pakistan has global exports in all 313 tariff lines, whereas, in 52% or 164 (out of 313) tariff lines Pakistan also has current exports to China. The remaining 149 tariff lines (out of 313) Pakistan was facing high tariff rates ranging from 5% to 30%, and hence was finding it difficult to export to China, despite having exports to other countries.

The list of 313 tariff lines was formulated after exhaustive consultations with both government and private sector stakeholders. During this process, many factors were taken into account which include Pakistan's current global and bilateral exports, Chinese global imports, the level of tariff protection on MFN as well as on preferential basis granted by China, changing economic and industrial landscape of China due to increasing labour costs, environmental concerns and the recent relocation of their industries to other countries including Pakistan. Similarly, Pakistan's current and future industrial projections were also taken into account, based on a rational forward looking approach that builds upon the ongoing initiatives of the Ministry of Commerce and the Federal Government. The assortment of products under 313 lines also reflects the government's resolve to transform Pakistan into a diverse industrial economy.

It is important to note that 313 tariff lines are the Chinese tariff codes, which are widely misperceived to be the same as Pakistan's Custom codes. As a standard practice, at the international level, the HS tariff codes are harmonized at the 6 digit level as all countries classify their products in the same manner. However, for further breakdown of products, countries add 2 or more digits to the customs tariff code as local headings/sub-headings. Hence, in most of the cases, the goods descriptions and codes may vary across different countries. Without considering these important details, analysts are likely to make erroneous estimations. The Ministry of Commerce hopes that such technicalities shall be taken into consideration whilst making future calculations.

## 2. Pakistan's Offer to China

### Level of liberalization by Pakistan under Phase-I of CPFTA in terms of tariff lines & in terms of trade value

In terms of **tariff lines** under Phase-I, Pakistan extended zero rates on 35.6% of tariff lines. Pakistan proffered moderate liberalization on 22% of tariff lines with 5% tariff rate and 50% margin of preference on few tariff lines. Pakistan maintained a protected list of 42.4% tariff lines, with either 20% margin of preference or no concession.

In terms of **trade value** under Phase-I, 60% (45%+15%) of Pakistan's imports from China were liberalized at 0-5% tariff. Remaining 40% of Pakistan's imports were under the protected list (No concession+20% MOP).

Tariff Reduction Tracks	No. of TLs	% of TLs	% of Imports from China
Zero rate	2423	35.6	45
Moderate (0-5% and 50% MOP on few lines)	1495	22	15
Protected List (No Concession and 20% MOP)	2885	42.4	40
Total	6803	100	100

## New level of liberalization by Pakistan under Phase-II of CPFTA in terms of tariff lines & in terms of trade value

- In terms of tariff lines, Pakistan will be liberalizing 75% of its tariff lines i.e. 5237 tariff lines for China. The liberalization will cover 67.8% of Pakistan's imports from China.
- Pakistan immediately has liberalized 45% of tariff lines for China i.e. 3146 tariff lines under track 1 (A-0). Notably, out of these 3146 tariff lines, 2461 tariff lines (equivalent to 2423 tariff lines in HS 2007) were already liberalized under the Phase-I. Therefore, under the new liberalization 685 new tariff lines are being liberalized. Pakistan has substantially liberalized 0.33% of its import from China as per 2016-17 data.
- Under the 2<sup>nd</sup> track (A-7), Pakistan will liberalize 14.92 % i.e. 1044 tariff lines with equal amount tariff liberalization starting from the 2<sup>nd</sup> to the 7<sup>th</sup> year. Pakistan to substantially liberalize 1.6% of its imports from China as per 2016-17 data.
- Under the 3<sup>rd</sup> track (A-15), Pakistan will liberalize 14.96 % i.e. 1047 tariff lines with equal amount tariff liberalization starting from the 4<sup>th</sup> to the 15<sup>th</sup> year. Pakistan to substantially liberalize 5.9% of its imports from China as per 2016-17 data.

Tariff Reduction Tracks	No. of TLs	% of TLs	% of Imports from China
Immediate Zero rate (A-0)	3146	44.96	46.80
Zero rate in 7 years (A-7)	1044	14.92	5.42
Zero rate in 15 years (A-15)	1047	14.96	18.04
Protected List (No Concession + 20% MOP)	1760	25.15	32.28
Total	6997	100	100

## Immediately liberalized Products by Pakistan

Pakistan has immediately liberalized 685 new tariff lines for China, these lines cover \$652 to \$700 million worth of Pakistan's imports from China. These products include:

- **Agriculture** (Leguminous vegetables, seeds & fruits for sowing, potatoes seed, live plants and roots, dried fruits, Oil and rape seeds, broken rice, bird eggs, ethyl alcohol, crustaceans, moluscs, live poultry)
- **Chemicals** (Fertilizers, amino compounds, citric acid, sythetic organic dyes, antibiotics, insecticides, sulphonamides, derivatives of hydrocarbons, halogenated derivatives, acids, medicaments containing insulin, lubricants preps, fatty acids and others)
- **Textiles & Clothing** (Synthetic filament yarn, worn clothing, yarn of silk waste, raw sil, cotton, life jactes, labels, badges, warp knit fabrics, wools, cotton waste, jute, etc.)
- **Machinery** (Paper making machinery, tools, vending machines, liquid elevators, pumps etc.)
- **Electrical equipment** (Reception machines, generating sets, video recording, discs, electric furnaces, motors, vacuum cleaners, cells, cathode ray tv pictures etc)
- **Mineral products** (Petroleum oils, Coke etc.)
- **Other base metals** (Clasps, frames, mechanical knives, lead articles, tin, nickel, zinc plates etc.)
- **Misc manufactured articles** (Buttons, exercise equipments, fishing rods etc.)
- **Glass and glassware** (Lab glassware, voiles etc.)
- **Plastics, Articles of plastic** (Flexible tubes, ethylene, propylene, polymers etc)
- **Footwear and headgear** (Walking sticks, headbands, wigs, ski boots, skins of other parts of birds)
- **Medical or surgical instruments** (oscilloscopes, binocluars, gas, liquid or electricity meters)
- **Wood articles, stone articles, newspapers, raw leather**, and others

## Products liberalized by Pakistan in 7 years, in equal installments starting from year 2

Pakistan will liberalize 1044 new tariff lines for China, these lines cover \$660 million worth of Pakistan's imports from China. These products include:

- **Agriculture** (Tea, vegetable saps, mucilages, gluten, starches, food preps, rice, cereal flours, lactose, milk and cream, sunflower seeds, bakery items, starches fruits, oilcake etc.)
- **Chemicals** (Insecticides, alkylbenzenes, medicaments, additives, hetrocyclic compounds, additives for cements, vaccines, diagnostic or lab reagents, resins, pharama preps, tanning substances, fatty acids)
- **Iron and steel, Articles of iron and steel** (secondary quality steels flat rolled products)
- **Electrical equipment** (Cellular Base stations, recording media, electrical apparatus, sparking plugs, parts of transformers, others)
- **Other base metals** (Handtools, tubigs, clasps, mountings, copper wire others)
- **Paper and paperboard** (Cellulose wadding, felt paper, wallpapers, uncoated paper, bobbins, spools, kraft paper etc.)
- **Misc manufactured articles** (Slide fasteners, buttons, pen nibs etc.)
- **Machinery** (Printing machinery, lathes, ball bearings, machine tools, transmission shafts, part of refrigerators, appliances, grinding machines, lab equipment etc)
- **Mineral products**
- **Wood and articles**
- **Textiles & Clothing** (Knotted netting, wool yarn, twine, cordage, carpets, animal hair fabric etc.)
- **Rubber**
- **Mathematical instruments, meters, frames and mountings, optical fibres, other instruments etc.**
- **Glass, Stone, Headgears, Raw skins of leather, cellulose, polymers, refractory bricks, others**



## Products liberalized by Pakistan in 15 years, equal installments starting from year 4

Pakistan will liberalize 1047 new tariff lines for China, these lines cover \$1.6 billion worth of Pakistan's imports from China. These products include:

- **Textiles & Clothing** (Filament yarn, staple fibre, woven fabric, filament yarn fabrics, cotton yarn etc.)
- **Agriculture** (Ginger, yeasts, food preps, mushrooms, Juices, dry fruits, cane or beet sugar etc.)
- **Electrical equipment** (Telephone parts, circuit breakers, data storage, electric space heating, soil apparatus, static converters and parts etc.)
- **Iron and steel, Articles of iron and steel (Secondary Quality flat rolled products, etc.)**
- **Misc manufactured articles**
- **Chemicals**
- **Paper and paperboard**
- **Other base metals**
- **Machinery**
- **Plastics, Articles of plastic**
- **Rubber**
- **Articles of stone, plaster**
- **Medical or surgical instruments and others**

## Pakistan's protected list of items

As per exhaustive consultations from the stakeholders, Pakistan has protected 1760 sensitive items for the domestic industry. These products include:

SECTORS	# Tls	PAK GLOBAL IMPORTS (\$ Mln) 2016-17	PAK IMPORTS FROM CHN (\$ Mln) 2016-17
Textiles & Clothing	503	1,264.04	989.52
Iron and steel, Articles of iron and steel	177	1,170.16	769.36
Vehicles	173	2,345.84	404.72
Machinery	137	1,488.49	821.37
Electrical equipment	136	1,323.87	981.07
Agriculture	90	405.87	40.52
Plastics, Articles of plastic	85	947.13	247.43
Chemicals	98	801.74	187.92
Other base metals	70	249.90	130.95
Misc manufactured articles	56	182.54	178.20
Rubber	54	169.91	85.07
Paper and paperboard	36	301.12	109.49
Ceramics	35	186.32	144.32
Glass and glassware	27	100.08	81.81
Medical/surgical instruments, projector, lenses	23	21.10	11.48
Footwear and headgear	21	107.00	96.03
Wood and articles	16	71.01	23.82
Leather	15	29.26	26.06
Articles of stone, plaster	13	27.43	13.14
Grand Total	1,760	11,881.6	5,511.8

## Preparation of Offer list by the Ministry of Commerce

Ministry of Commerce prepared the offer for China after exhaustive analysis and consultations with stakeholders. Other parameters include Pakistan's global exports & imports, Pakistan's imports from China, China's global exports and imports and their trends, tariff rates (MFN, preferential and RDs), Customs General Order (CGO) for domestic industry, types of goods (raw materials, intermediates, capital goods, consumer goods), relocation of Chinese industry, and industrial needs for inputs.

Stakeholders from Government include Federal Board of Revenue, Engineering Development Board, Ministry of Textiles, and Ministry of National Food Security and Regulations. Stakeholders from the private sector include the Federation of Pakistan Chambers of Commerce & Industry (FPCCI), Pakistan Business Council (PBC), Overseas Investors Chamber of Commerce & Industry (OICCI), and 53 sectoral associations. Based on these consultations, it emerged that Pakistani industry requires protection on at least 25% of tariff lines which cover 32-33% of Pakistan's imports from China.

### 3. Other Gains for Pakistan Under the Phase-II of CPFTA

The Phase-II of CPFTA not only caters towards protection for our domestic industry through tariffs on domestically produced products but also provides an additional safety valve through inclusion of more robust safeguard measures and the inclusion of the Balance of Payments clause.

- ***The safeguard measures*** for the local businesses and industries had expired under the Phase-I. The Ministry of Commerce has successfully revised the safeguard remedial measures under the Phase-II of CPFTA implying that our industry will have a maximum protection of 23 years against an imports surge that may cause injury or threaten to cause injury to the industry. The measures also allow us to put in place provisional safeguards for 160 days before even proving the injury or the threat to the injury.
- ***Balance of Payments clause*** under the Phase-II has now been introduced, which was a miss in the Phase-I, it would now allow a partner country in a balance of payments difficulty to raise tariffs in a bid to control imports.
- ***Electronic Data Exchange (EDE)*** of the trade data between Pakistan and China would help in curbing reducing misreporting & under-invoicing of imports from China. It will also help in increasing revenues for FBR and provide protection to the domestic industry.

## 4. Summary of Gains for Pakistan

### Comparative Analysis of Phase-I and II

<u>Parameters</u>	<u>Phase- I</u>	<u>Phase-II</u>
No. of Tariff Lines @ Zero tariff	35%	75% (Pakistan to liberalize in 15 years; China in 10 years*)
Pakistan exports to China @ zero tariff	35%	91.3%
Pak. Global Exports @ zero tariff	41%	84%
Chinese Treatment to Pakistan's top priority 313 Tariff Lines	<ul style="list-style-type: none"> <li>• Subject to duty from 6% to 30%</li> <li>• Zero Duty for ASEAN</li> <li>• Pak Exports declining since 2012-13</li> </ul>	<ul style="list-style-type: none"> <li>• Immediate removal of Tariff by China</li> <li>• Covers \$8.7Bn Pak global exports</li> <li>• \$64 Bn Chinese global imports</li> </ul>
China's Global Imports @ zero rate	70%	90%
Pak Imports from China	60% allowed at 0-5% tariff	67% (additional liberalization of 7-8% only which are mostly raw materials & machineries)
EDE Coverage	No Resulting in under-invoicing & mis-declaration	Yes
Safeguard Measures	Expired	Yes Maximum Protection of 23 years Provisional Safeguards for 160 days
Balance of Payments Clause	Not Included	Included
Investment Text	Not Included	Future Work Program agreed and in progress
EDE Coverage	No Resulting in under-invoicing & mis-declaration	Yes

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