

China and Pakistan: Pathway to future economic relations¹

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As a student of the Chinese economy for the past three decades I would like to place the future evolution of the Chinese economy in the context of current and forecasted global trends, dwell upon its preparatory status to meet these challenges and finally suggest four areas where China can assist Pakistan in its quest to take off from its present position.

Global economy is going through a tumultuous and uncertain period of reversal of global economic integration that threatens international trade, capital flows, migration and transfer of innovative technologies in Emerging and Developing economies (EDEs). IMF has calculated that international trade restrictions alone could reduce the global GDP by 7 percent over the long term or \$ 7.4 trillion in current dollar term equivalent to the economies of Germany and France combined.

Technological decoupling, Disrupted capital flows and Migration restrictions would further add to the losses. The recent change in the US strategy that was followed by both Trump and Biden Administrations clearly indicate a growing tendency towards isolationism, nationalism, protectionism. Withdrawal from WHO, Lukewarm attitude towards WTO and UNESCO, disbanding of USAID and inward looking industrial policy are areas of deep concern. So are the reshoring, friendshoring, near shoring supply chains in name of national security and geopolitical motives. This fracturing of international economic order cumulate resulting in diminished prosperity, persistent instability and the real prospect of military conflicts. The average growth rate of the world economy has already declined to 3.2 percent in 2025 compared to 3.8 during 2000-2019.

It is highly paradoxical that it was President Xi Jinping who at the World Economic Forum a few years ago made a strong case for open markets, liberal capital flows and economic integration based on China's own positive experience. The protagonists of these policies (Washington Consensus) who never stopped preaching to the developing countries of the benefits of these policies have made a complete turn around as their economies began to be affected by competition from China and other successful countries of Asia.

China has become the top provider of bilateral foreign assistance and the largest trading partner of 130 developing countries. Its total lending to developing countries was \$ 850 billion higher than the combined ODA of 22 Paris Club countries. The myth that Chinese debt to Sub Saharan African countries and others has resulted in Debt trap has been exploded by empirical evidence. Only 12 percent of African Debt is owed to China while 88 percent to the multilateral and other bilateral countries, commercial creditors etc. Like other sovereign creditors, China uses a variety of financial instruments such as grants, concessional loans, commercial loans, insurance guarantees, swaps, trade finance in addition to foreign equity investment. Unlike the World Bank and other bilateral creditors China responds to the country needs and not with its predetermined agenda. A number of critical infrastructure projects such as Railways, ports, roads, power plants, 3G and 4 G networks, digital connectivity which were refused by other donors have been built by the Chinese. A new professional agency—China International Development Agency has been

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established for this purpose PEW polls show that Mexicans, Kenyans, Nigerians, South Africans see China in a more favorable light and welcome Chinese investment in their countries.

Looking forward, the present hue and cry about the slowing of Chinese economy is misplaced. China has made extraordinary progress which is unparalleled in human history by achieving a 10 percent growth rate annually. But having become a mature economy –the largest in terms of PPP dollars and world’s top exporting nation it is unrealistic to expect that the same spectacular momentum would continue unabated. In the US and the Western countries it is a matter of rejoice if they reach 2 to 3 percent growth rate while China’s 5 percent is being dismissed as evidence of its underperformance. Economic history does provide no example of unbridled performance after 4 decades of such an exceptional feat. The theory of convergence kicks in after a certain threshold is reached. At these differential rates between the US and China, the latter would be soon able to equal the US economy at exchange rate determined outcomes. It is true that the property and real estate crisis and local government finances have shaken the economy but this is a transitory not a permanent damage which would be corrected by appropriate policies and interventions by the People’s Bank of China and the regulators. Similarly, the claim of Chinese overcapacity is a fallacy and I have written a detailed analysis in Global Times but suffice to say here the average selling price of Chinese EVs is roughly double that of those sold domestically. This increase both in quantity and price indicates a supply shortage not overcapacity,

I now turn to a few remarks about the future evolution of the Chinese economy against the mega trends of Climate Change, technological disruption, Demographic changes, Geoeconomic confrontation, waning appetite for multilateralism, societal and political polarization, and Misinformation and Disinformation.

China is the world’s largest trading nation with almost 8 trillion dollars of imports and exports, It is the world factory with 30 percent of the manufacturing capacity exceeding that of the US, Germany, France, Japan etc combined. China has already become the world leader in solar panels, batteries, Wind turbine, electric vehicles to mitigate Carbon emissions. According to the Australian Policy Research Institute, China leads in 53 out of 64 critical technologies such as Super computing, Industrial Robotics, AI and Machine learning, biomedicine, next gen medical devices, high speed rail trains, and so the list goes on.

Why is China poised to meet these challenges successfully? There are some strong foundational pillars on which the economy is built with the flexibility and agility of quickly adapting to the changing circumstances. A country with 70 percent of coal powered power stations has become world leader in renewable energy within a few years. People all over the world are highly impressed by the marvel of infrastructure of high and durable quality that has transformed China, connected various parts of the country into a single market economy, made the evacuation of goods competitive. The real story is its silent revolution in building Human Capital. The qualities of Discipline, Entrepreneurship, hard work, and strong work ethic already inherent in the working age population were fortified by investment in Science, Technology, Engineering and Mathematics at formal school and University level while developing a steady stream of technical and vocational skills needed for the economy. This combination of higher end scientists and engineers working with well trained and skilled floor shop technicians brought about this revolution. Just to cite one figure, until 2000 US produced more PhDs in STEM subjects. By 2017 the two countries equaled the

number but by 2025 China produced 70000 PhD s while US only 35,000. It is also not widely known that 600,000 Chinese students have obtained PhDs and post doctoral fellowships from world top universities. I remember the US Universities' Engineering and Science departments having more than half of their graduate students drawn from China and so were the Economics Departments. In all, 6.2 million young men and women were trained abroad mostly in the US, UK, Canada, Australia and 70 percent returned home and were lured by the universities and research institutes at lucrative remuneration . Some of them were funded to set up their own laboratories under a government support scheme. US has 320,000 Chinese students enrolled although the number is receding over time. In the meanwhile, The Chinese Universities such as Tsinghua and Peking are now rated among the world's top universities. The number of STEM graduates produced annually is 5 million out of 12 million . 79 million have graduated from Secondary and higher Vocational schools. The team that came up with Deepseek AI package that has shattered the Silicon valley were all trained in the Chinese Universities .Investment in R&D among the highest in the world is beginning to pay off and will continue to provide the edge to China.

State system is run by technocrats and highly educated bureaucrats all selected on merit and their promotions were based on performance and output on the job. The unique feature of the governance system in China is that Policies are made at the Central level but implementation takes place at the local government level, Decentralization and greater devolution of power, authority and resources has led to efficient allocation and utilization of resources .State guidance at macro level and market mechanisms at micro level explain rapid growth spurts and technological uptake in such a short span of time. Fast decision making, tight cost controls and first rate management characterize the Chinese bureaucracy.

Government creates the framework for the market and promotes entrepreneurship , protect private property rights but ensures the economic actors are contributing towards the planned goals. Intangible goods –Systems, rules, policies—which increase production efficiency , promote competition, facilitate specialization, protect the environment, reduce risks and uncertainty. Private sector accounted for nearly all the growth in employment and two third of overall growth between 1978 and 2012, The share of State owned enterprises has declined from two thirds in 2000 to one third .Local Governments while owning Town and Village enterprises allow them to compete in attracting investment, developing infrastructure while they improve local business environment. Past strong integration with the global economy and opening up to foreign investors has produced a cadre of highly competent professional, managerial and technical professionals who have internalized best global practices in their operations. A high savings rate has made it possible to invest in large infrastructure projects and raise productivity The large and growing size of middle class with aspirations for global goods and services is a positive factor for China even if international trade and capital flows are disrupted.

In my humble view, the above foundational pillars would by and large enable China to meet the fierce global challenges in future with fortitude and the collateral damage may be limited.

I now come to my final remarks; How Pakistan can benefit from its economic relationship with China in the future. Each one of us may have along wish list but I would confine myself to a selective list of three only as a matter of expediency and concomitant with the Chinese willingness. First, China is the world's largest trading nation with imports close to \$ 2.59 trillion. Pakistan's

exports to China were only \$ 2.56 billion about 0.1 percent, This is really a fraction of what we could derive from such a large market as we have Free trade agreements and China 's average tariff rate is only 3 percent. Pakistani businesses have focused excessively on the traditional US and European markets which are growing at half the rate of Chinese economy and have not successfully explored the Chinese market for their goods and services or studied their demand and thus the penetration ratio remains too low. Two third of international trade now takes place within global value chain but Pakistan has not taken advantage like other Asian countries have. This would require reduction in our average tariff rates, timely delivery of shipments and freight , quality assurance, low logistics costs. By carrying out these reforms Pakistan can double or triple its exports to China in a short span of time.

The second area is the relocation of Chinese industries to Pakistan. Although we have been talking about it for a long time but no concrete results have been achieved so far. In the meantime , Viet Nam, India, Malaysia, Cambodia, Indonesia have made the headway by offering the right incentives. China will continue to pursue the relocation because of higher labour costs, diversifying supply chain, moving up the ladder of economic complexity and sophistication by expanding skill and capital intensive, high tech industries and insulating itself from the barriers imposed by the US and Western allies. Pakistan has to step up its efforts to attract these industries as we still provide low cost labour. However, we have to make Special Economic zones fully autonomous and operational with all amenities, utilities and facilities available at the door step without bureaucratic hassles.

Third, in this era of Knowledge economy the main drivers of growth for emerging economies such as Pakistan are Human Capital and Technology absorption, adaptation and application , We can establish linkages between our Universities and research institutions with the Chinese in producing high level scientific manpower , joint and collaborative research projects and embark on transfer of best practices for enhancing productivity particularly in Agriculture, Energy, and Export industries. For example, genetically resilient, drought and heat resistant seeds, water conservation and high efficiency irrigation, use of drones and sensors combined with digital tools , robust supply chain can substitute food and agriculture imports and increase exports with positive impact on our balance of payments situation and reduction in our external debt. We would be in a position to redeem the deposits which China rolls over every year.

Finally, Gwadar has yet to reach its optimum capacity as a regional hub for Pakistan, Afghanistan and the Central Asian states. Use of the port for Fisheries and maritime exports would help the local communities by higher incomes .Expeditious completion of the Western route would link the hinterland with port. Communities living in the Towns and villages along the corridor should have access to education, health care, drinking water, link roads , transport so that they can derive economic benefits from these investments. Digital infrastructure would also reduce the inequities in access to internet .