<u>Economic ties between China and Pakistan</u>

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(Key-note address delivered at the Pakistan Institute of International Affairs Seminar on Pakistan-China held on May 30, 2001)

Three decades ago, China was among the world's poorest countries with 80 per cent of the population having incomes less than US $ 1 per day and only a third of all adults able to read or write. By 2000, China had become one of the fastest growing countries in the world with real per capita growth close to 9 per cent per annum between 1980-2000. Consequently, China's per capita income doubled every ten years, faster than almost any country in the world. This record is un-paralleled in history. It took UK almost a century, USA 50 years and Korea 25 years to double their per capita incomes. But China has surpassed all of them by achieving this goal within a short span of 10 years. The proportion of the population with income less than $1 a day had declined to less than 10 per cent, - lower than the United States where the incidence of poverty was still 16 per cent.

What have been the determinants of such rapid economic growth and dramatic reduction in incidence of poverty in China? I would submit that at least five factors can be identified which contributed to this outcome.

China's reform strategy which has been gradual and incremental has been built around a judicious mixture of planning and market. The State planning apparatus which guided the long term vision and direction of the economy was not completely abandoned as was the case in Russia but, at the same time, economic incentives and market mechanism were utilized to allocate scarce resources. This resulted in the best of both the worlds – a framework in which economic growth and poverty alleviation were set as the long-term goals but the instruments for achieving these goals were market-based and market-failures were tackled through strategic interventions by the State. The resources were thus allocated and utilized efficiently culminating in a rapid accumulation of capital and accelerated growth. The quality and pattern of growth were influenced by State intervention which promoted agriculture, labor intensive industrialization, small and medium enterprises, exports and the State also invested in infrastructure and human resource development.

Second, the sequencing and phasing of reforms in China was carefully thought through and diligently executed. Agriculture reforms were the first to be initiated and the collective farming controlled by the communes was replaced by leasing to individual households. While households were still required to deliver a quota out of their output to the State procurement agencies at a fixed price, they were allowed to sell any

produce above the quota on the market at prices substantially higher than the procurement prices. This incentive structure not only boosted agriculture output in a significant way but also facilitated the subsequent liberalization of the industrial and service sectors. As rural incomes rose the demand for consumer goods increased. The planners allowed the growth of non-state sector in the rural areas and small towns which were allowed to form Town and Village Enterprises (TVEs) for undertaking industrialization. This mode of rapid industrialization in the rural areas was thus able to absorb the surplus labor released by the agriculture sector and also cater to the emerging demand of the rural population.

The dismantling of the commune system, individual household responsibility system and emergence of TVEs directly affected the incomes and living standards of nearly 800 million rural inhabitants. Two transitions took place in the rural areas the same time – a shift within the agriculture sector to higher labor productivity and a shift of excess labor from agriculture to rural industry. These transitions avoided the usual under- employment and unemployment problems apparent in most developing countries and laid the foundations for efficient agriculture and labor intensive industry.

Third, China also chose as early as 1980s to integrate itself gradually into the global economy. Despite the large size of its market it

did not rely on inward looking import substitution strategy – a lesson learnt from the experience of countries such as India. Four Southern Coastal Cities – Shantou, Shenzhen, Exiamen and Zhuhai – were designated in 1980 as Special Economic Zones (SEZs) for manufactured goods which could be exported. These zones were given autonomy to experiment with new institutional forms such as foreign funded enterprises and given discretionary powers over taxation. As the SEZs proved to be a phenomenal success, the privileges they were granted spread quickly to other areas of the country. Both India and China had about the same level of exports in the 1970s. By 2000, China's exports had risen to $ 250 billion from $ 15 billion in 1979 while India's exports are still around $ 40 billion. China's share in world trade has risen to 3.3 per cent while India's is still 0.7 per cent. Foreign direct investment flows have risen from almost zero to $ 45 billion making China the single largest recipient of FDI among the developing countries. This outward orientation and integration into the global economy has led to transfer of technology, managerial improvement and access to markets and international finance.

The fourth factor responsible for higher growth and lowering of poverty was high domestic savings and high investment rates. Unlike Pakistan where we save hardly 11-12 per cent of our national income and

consume almost 90 per cent, China's domestic savings rates have consistently hovered around 40 per cent of GDP. These high savings were translated into higher investment ratios which, in turn, resulted in rapid growth rates. China did not therefore need external borrowing to a large extent as the gap between investment and savings remained low – less than 1 per cent. Consequently, China today has current account surplus of 1.6 per cent of GDP while total debt/GDP ratio is a meager 12.8 per cent of GDP and total debt service/exports ratio is less than 6 per cent. This comfortable external situation has enabled China to build up its foreign reserves to $ 178 billion by 2000 equivalent to 9 months' imports. In fact, unlike many countries the FDI flows to China were mobilized not for balance of payments support but to expand the productive capacity of the country.

Finally, the investment in human development which was a legacy from the old communist days was sustained and supported actively by the State. The human development indicators of China are indeed spectacular for a country with such low per capita income. Poverty incidence has fallen to less than 10 per cent. Life expectancy has risen to 70; infant mortality rate is down to 31; Child malnutrition is limited to 16 per cent of children under five. 95 per cent of the population above 15 is literate and gross female primary enrolment ratio is 123 per cent. 83 per cent of

population has access to potable drinking water. These are impressive achievements upon which China can build its capability to compete in the global market place. But the most important attribute of the labor force in China is not only that it is literate and healthy but it displays strong work ethic and is highly disciplined. Countries with disparate cultural, institutional and historical backgrounds such as Korea, Japan and China, have all demonstrated that work ethic and discipline among the labor force can make a huge difference in assimilating new technology and improving techniques of production, thus inducing higher labor productivity.

What are the lessons we can draw from the Chinese development experience? I would argue that we should at minimum attempt to do three things. First, we should imbibe hard work and discipline in our work environment – whether we are engaged in the private sector or the public sector. Second, we should do away with conspicuous consumption and increase our domestic savings rate so that we can reduce our dependence on foreign borrowing. Paying our due share of taxes to the government would lower our fiscal deficit, provide sufficient room for development spending and do away with the need to borrow. Household savings and corporate savings along with public sector savings should move us in the desired direction. Finally, we need to have China's support in the

international financial institutions. As an emerging economic power China can assert its authority to ensure that Pakistan gets a fair deal at the hands of these institutions.

How can Pakistan-China economic ties be strengthened?

At present exports from Pakistan to China average $ 180 million or a paltry 0.07 per cent of their total exports. If we are able to gradually expand our share in China's market only upto 1 per cent, we should be able to add $ 2.5 billion or almost 25 per cent of our total exports. China is about to join WTO which will reduce tariffs on non-agriculture products from 17 per cent to 9.4 per cent by 2005 and on agriculture products to 17 per cent. It will eliminate quotas and non-tariff restrictions on industrial products and provide full trading and distribution rights to foreign firms. China will significantly expand market access by eliminating restrictions, increasing foreign ownership limits and giving full national treatment to foreign banks. The opportunities presented by China's opening up need to be fully exploited by Pakistani firms.

This leads me to the second suggestion which I would like to make. Pakistani firms should enter into joint ventures with the Chinese firms both in the country as well as in China. The joint ventures will provide a platform for Pakistani products to penetrate Chinese market as well as other markets where China has presence and relationship. These ventures

will also promote transfer of technology, spread new managerial skills and enable Pakistani companies to remain in touch with the changing market conditions. There may be some industries in China in the post-WTO period which may do well by relocating in Pakistan while there may be other opportunities for Pakistani firms to establish joint ventures in China. This dynamic two way relationship will also help boost trade between the two countries.

Finally, China's membership in the international financial institutions and its growing importance as an emerging economic power should help Pakistan in getting a fair deal. At least China will be able to ensure that the treatment which Pakistan receives at these institutions will be equitable and comparable to others and there will be no discrimination against it.

To sum up, the strategic direction through which the economic ties between Pakistan and China can be strengthened in the coming decade lies in intensified trade, investment and transfer of technology. This route is feasible as it creates win-win situation for both the countries.