THE IMPACT OF THE CHINA-PAKISTAN FREE TRADE AGREEMENT (FTA) ON THE ECONOMIC GROWTH OF PAKISTAN

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Abstract

This article examines the impact of the Free Trade Agreement (FTA) between China and Pakistan on the economic growth of Pakistan. The nature of this article is analytical, so archival data was retrieved from (UN COMTRADE Statistics). The Econometric Modeling is based on the Time Series data of Imports and Exports for the last 12 years, from 2008 to 2020, to assess the Impact of imports and Exports on Pakistan's economic growth. E-Views are used to analyze the data. Furthermore, the Short-term link between Pakistan's imports-exports and trade flows was evaluated using a Vector Autoregressive model (VAR) and a Cointegration test. The research concludes with policy suggestions based on a study of the China-Pakistan (FTA) and the overall impact of imports and exports on Pakistan's trade flows.

1. INTRODUCTION

One of the most important agreements established between China and Pakistan is the Free Trade Agreement, which is followed by the China-Pakistan Economic Corridor (CPEC), which allows the two nations to participate in bilateral trade flows and fully use trade. This study is significant because it adds to the body of literature and enables Pakistani policymakers to establish suitable trade policies for industries that have high export potential to China. This study also helps us identify whether free trade agreements between Pakistan and china contribute to Pakistan's economic growth positively or negatively.

International trade is essential to a nation's effort to maximize its progress. Access to foreign currencies is essential but an absolute necessity for industrialization, economic and social Development. In rapidly changing international markets, foreign trade relations

between the two or more countries have become more critical, and in unique, international relationships among economies must be established to enhance international trade. New free trade agreement (FTA) between Pakistan and China signed in October 2020 further lowers hurdles regarding origin rules, investment rules, currency and services in numerous sectors. Pakistan has recently expressed its main worry that China has given tariff reductions to ASEAN nations more than to Pakistan on the bulk of the product line. As a result, exports from Pakistan are losing the Chinese market to stiff competition, especially from ASEAN nations, in this period of dynamic comparative advantage.

It is a non-stop process when we look at the history of human trade because when people do not have the currency, they may trade through the exchange of goods and services to fulfill their needs and wishes. People manufacture consumer goods that suit their needs or negotiate with others. Similarly, a nation that is not specialized in a product or service but that wishes to use it for consumption must import from a nation because it has a comparative advantage in importing rather than producing in the home country likewise, a specialized nation will export products and services which is demanded by other countries such as economic, regional, strategic, national and political conditions. Countries often have to sign mutual free trade agreements when multilateral liberalization looks unattainable. Trade liberalization often contributes to nationwide social protection (Krugman & Obstfeld, 2009).

In order to boost exports, countries can draw the conclusion FTAs boost exports. Free trade agreements (FTAs) are a key component of international trade facilitation. Exploratory research indicates that, during the ten years since the implementation of the bilateral agreement, the trade and investment between two FTA Member States has almost doubled. To achieve their desired business goals, different countries use different strategies and resources. The balance of trade is one of the main objectives of the free trade agreements. As a result of the China-Pakistan bilateral trade FTA, bilateral trade between China and Pakistan and China are strong friends with a long history of strategic cooperation. Pakistan's industry, defense, technology, and infrastructure development have always piqued China's interest is and continues to increase. The free trade agreement between Pakistan and China is a unique opportunity for Pakistan to promote the Development of world trade. The members of the world trade organization (WHO) sign a bilateral free trade agreement consistent with the Article XXIV of the General Agreement on Tariffs and Trade (GATT) 1994.

China Pakistan free trade agreement (CPFTA) are:

1. Strengthen the mutual friendship between the two countries.

2. Create diversity and grow the trade between the two countries.

3. It removes barriers to trade and facilitates the movement of goods across borders.

4. Both countries ensure fair competition in trade.

5. Developed a plan for potential bilateral economic cooperation to develop and

6. Augment the advantages of agreement.

The signing of Early Harvest (EHP) was signed on April 5, 2005, and began operations on January 1, 2006, as a first move to enhance trade and economic relations. Early Harvest (EHP) was essentially a short priority for Pakistan's Ministry of Commerce, which led to the signing of the China-Pakistan Free Trade Agreement (CPFTA) the next year and was seen as a winning approach. Commercially significant products have access to major markets in both countries. Over the next two years, the EHP program offered tax-free access to a wide variety of products. Nonetheless, numerous products were permitted for export from either side at the MFN duty rate at Margin of Preference. As a result, Pakistan and China were able to benefit from lower duty rates when compared to shipments of identical products from other countries.

The first phase of the China-Pakistan Free Trade Deal concentrated on goods and investment, but in 2007, agreements on trade in services were included to increase the scope of the agreement. Duty-free goods such as cotton textiles, industrial wines, marble, and other tiles, linens, and other domestic textiles are available. Whole Pakistan market this is all due to the Integration of the early harvest program (EHP) into China-Pakistan Free Trade Agreement (CPFTA). There are two phases to the Free Trade Agreement between Pakistan and China. The first step is to remove or reduce certain categories of tariffs: In the second phase of the agreement, Pakistan and China are seeking, in terms of tariff headings and volume of trade, to remove duties on at least 90% of the combined products. A time frame "reasonable."

Duty-free market access for cotton fabrics, beds, leather items, sporting goods, mangoes, and other fruits and vegetables is part of the broader plan for Pakistan and China. Tariffs on frozen orange juice, rubber and plastic items, seafood, dairy products, woven garments, knitwear, and other products have also been slashed by 50% in China. Fruits and vegetables, as well as, require raw materials for various industries like the engineering sector are included in the access given by Pakistan to china (Ministry of commerce 2018).

This research paper aims to study the contribution of CPFTA towards the GPD of Pakistan, and Pakistan is gaining the maximum benefits from CPFTA. This study used time series data of imports and exports to check the Impact of CPFTA on the economic growth of Pakistan. This study also to analyze the impact of the China-Pakistan free trade agreement (CPFTA) on the economic growth of Pakistan. The data and figures used in this research are from 2008 to 2020. This research aims to identify the impact of Pakistan's exports to China on the Pakistan trade flows or economic growth due to CPFTA. Second, to identify Pakistan's imports from China on the Pakistan trade flows or economic growth due to CPFTA.

2. LITERATURE REVIEW

The South Asian Free Trade Agreement (SAFTA) is analyzed by using the GTAP model, and it is found Pakistan's net exports will be increased as a result of the South Asian Free Trade Agreement (SAFTA) (Shaikh (2009) and Shaikh et al. 2012). Nevertheless, Khan

(2010) examined that intra-industry trade between Pakistan, India, Bangladesh, and Sri Lanka is very limited. Kawasaki (2003) had analyzed the significant Impact of FTA on a country's trade balance. His findings show that the import volume of Japan is higher than the volume of its exports. Preferred trade agreements are prominent all around the world. Only 26 agreements were signed with Asian countries in the previous five years by 2007, and roughly 40 agreements had been negotiated (Tumbarello, 2007). The Free Trade Agreement between China and Pakistan was signed in 2006 and came into effect in July 2007.

Free trade agreements, in essence, encourage countries to engage in free trade. The tariff rate on the list of products is normally zero in free trade agreements between countries. This means that importers do not have to pay cross-border taxes on products covered by the FTA. Unfortunately, this does not apply to the China-Pakistan trade agreement. Many of the textile tariff items covered by this agreement are taxed on both sides of the border. As a result, the significance of signing such contracts is underappreciated. When a free trade agreement was signed between China and Pakistan in 2007, trade between the two countries totaled $4 billion. It was $15.6 billion in 2016-17. Pakistan's exports to China were merely $1.5 billion in 2017, while imports were just $14 billion. The fundamental reason for fast imports and low exports is that Pakistan imports expensive capital goods and raw materials, while exports are mainly reliant on low-value-added items, exacerbating the country's trade deficit (Tribune, 2018).

The Revealed Comparative Advantage (RCA) and SWOT (Strengths, Weaknesses, Opportunities, and Threats) analyses show that there is a disparity in goods traded between the two countries in world markets and that the trade shortfall of Pakistan has increased (Irshad, Hoa, and Arshad, 2017). Further research, which used the gravity model of trade and analyzed panel data from 1992 to 2015 to estimate Pakistan's bilateral trade potential with the neighboring country, came to the conclusion that Pakistan's industry and exporters need to adopt new and improved methods to improve and boost exports to China in order to achieve rational equality in mutual relations (Irshad, Hoa and Arshad, 2018).

Since July 2013, China and Pakistan have been negotiating Phase II. The initial FTA objective is to remove tariffs for a minimum of 90% of all goods (both in terms of tariff lines and trade volume). At present, it is essential that Pakistan seize the opportunity to improve the market access of Pakistan to Chinese markets. Phase II aims to bring bilateral trade to 15 billion dollars and, at the same time, improve economic relations between two countries by means of trade. Bilateral trade rose from $3,421.96 million in 2006 when the FTA was signed at the end of 2013 up $9,278 million (Pakistan Business Council 2015).

Birinci (2013) studied the link between trade liberalization and economic development in OECD nations and discovered two - way causality. In the case of Algerian economic growth, Hamdi and Sabia (2013) discovered a one-sided cause-and-effect relationship: trade is open to both short and long-term economic growth. From 1971 to 2009, Hye and Lau (2014) investigated the connection between trade liberalization and economic development in India. They believe that free trade has a short-term favourable influence

on economic growth but is negative in the long run. Furthermore, the Granger causality test demonstrates that one-sided causality extends from trade openness to short and long-term economic development. Were (2015) discovered that trade has a favourable and considerable influence on the economic growth rates of rich and emerging nations, but not on the rates of impoverished countries, particularly African ones. Bruckner and Lederman (2015) used the dynamic variable method to a set of 41 countries in sub-Saharan Africa in their more recent study. You can see that trade openness boosts economic growth in both the short and long run. Laval, Nawanji, Assalieh, and Ahmed (2016) used the ARDL approach to Nigeria and discovered that trade openness had long term negative impact and the short term beneficial impacts on economic growth. Furthermore, a two-sided causal connection between the two variables was discovered. Musila and Yiheyis (2015) examined at the instance of Kenya and discovered that trade liberalization boosts investment rates but has no influence on growth rates.

2.1 Pakistan's Economy in a Brief

Pakistan shares borders with India, China, Iran, and Afghanistan in South Asia. Pakistan is a developing country, but its strategic geographic location has the potential to make it one of the world's largest economies. Due to the high cost of imports, Pakistan experiences a trade deficit. It does, however, rely on products with a low value-added. The textile industry contributes the most to Pakistan's export revenues. According to data from the International Trade Centre, Pakistan's imports amounted to 19.7% of the country's overall GDP in 2012, while exports accounted for only 11%. By 2016, this percentage had dropped to 17.8% of GDP, with exports accounting for 7.7% of GDP. Pakistan's exports to China account for 7.75 percent of the country's total. The GDP growth rate in 2016-17 was 5.28%, the highest in the past ten years. However, Pakistan's overall trade pattern has not shown a bright future. In 2015, the total import volume was 43.9 billion U.S. dollars, and the total export volume was 22.1 billion U.S. dollars, resulting in a trade imbalance of 21 billion U.S. dollars.

Pakistan's exports to China climbed to US$ 1906.3 million in 2016 from US$575.93 million in 2006 after the signing of the Pakistan-China Free Trade Agreement. Pakistan, on the other hand, has a 0.19 percent share of China's overall imports and a 0.89 percent portion of China's exports. Pakistan has a trade deficit of $15562.3 million with two trading partners, which is not to its advantage. In 2016 exports of Pakistan to China rose to 1906, 3 million dollars from 575,93 million dollars in 2006 following the signing of the Free Trade Agreement between Pakistan and China. Pakistan, however, has a share of the overall imports of China of 0.19% and a share of China of 0.89%. With two trading partners, Pakistan has a Trade deficit of $15562.3 million, which is not to its advantage.

2.2 Pakistan bilateral trade with China 2008-2020

As we can see from the table and figure, the bilateral trade volume of Pakistan with china at the end of 2020 was recorded at 14,353 billion USD dollars as compared to 4,689 USD dollars in 2008. The bilateral trade increased from 2008 to 2020 by 300 percent after the implementation of the FTA, as shown in the figure and table. The major part of bilateral trade consists of Chinese exports to Pakistan.

Table 1: Pakistan import and export to China.

Years	Import	Export	Total	Trade Deficit
2008	3,774	915	4,689	2859
2009	7,629	973	8,602	6656
2010	7,629	1,573	9,202	6056
2011	9.282	1,930	11,212	7352
2012	10,207	2,856	13,063	7371
2013	12,117	2,916	15,033	9021
2014	14,573	2,509	17,082	12064
2015	11,019	1,935	12,954	9084
2016	13,680	1,590	15,270	12090
2017	15,383	1,508	16,891	13,875
2018	14,544	1,818	16,362	12,726
2019	12,406	2,036	14,442	10,370
2020	12,486	1,867	14,353	10,619

Source: Researcher own calculation based on UN COM Statistic
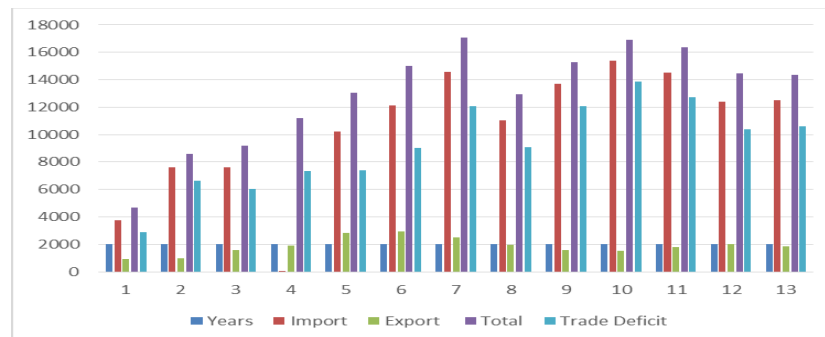
Source: fig 1: researcher own calculation based on UN COM Statistics

2.3 Main exports to China from Pakistan (6-Digit H.S. Code):

The main exports from Pakistan to China are cotton, textiles, and rice. Total Pakistani exports of $506 million to $1.906 million by 2016 to China increased significantly from 2007 to 2016.

The ITC declares that 61% of Pakistan's exports to China are cotton. In Pakistan, rice accounts for 14% of exports to China, ore, slag, and ash 5%, fish and other aquatic invertebrates 3%, and other groups 17%. 75% of Chinese exports are cotton and rice. In 2012, Pakistan achieved a breakthrough when China began importing more rice from the country, resulting in lower domestic demand and lower petroleum prices. As a result, rice exports increased from 1.3 percent in 2011 to 24.4 percent the following year (SBP, 2017). However, between 2012 and 2016, the yearly rise in the value of Pakistan's exports to China declined by 12% (ICT, 2016).

## 2.4 Main Imports from China to Pakistan (8-digit H.S. code)

Pakistani goods are subject to the 8-digit H.S. code, i.e., woven silk material, plastics and rubber items, paperboard articles, inorganic or biological chemicals, unbleached cotton textile materials, Polyester fibers, pulp cord nylon fabrics, tissue fabrics, net textiles, carpeted fabrics, shoe articles, clothing products, boiler and nuclear reactors, steel-iron products, cranes and other products. Pakistani local production itself has a considerable production potential for many of these products, which are mentioned above. The list of these products is damage to the local production line, which is one of Pakistani business community ' main reservations toward CPFTA.

In addition, China is one of Pakistan's main importers. World Integrated Trade Solutions (WITS) data show that the World Bank Group, which makes it the world's leading import partner, accounts for 29% of Pakistan's imports. Pakistan's second-largest exporter in the UAE (13, 2 percent), with Indonesia, the U.S., and Japan.

3. RESEARCH METHODOLOGY

The main objective of this research is to analyze the effects of free trade agreements between China and Pakistan on the Development of trade flows in Pakistan and to assess time-series data about import-export variables in Pakistan. The data and figures used in this research is 2008 to 2020 taken from (U.N. Comtrade Statistic, 2020)

Conceptual Framework
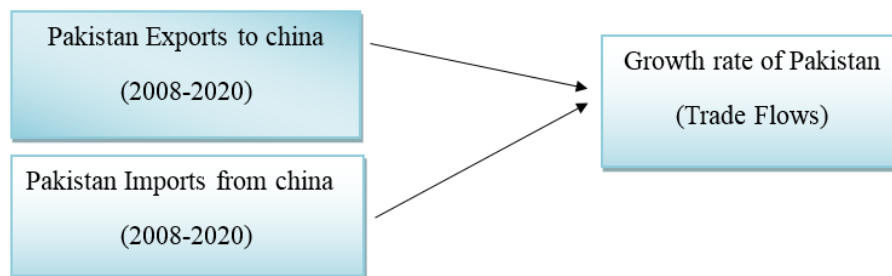
It is clearly important to first test the integrating order of the variables in order to determine whether the series used in the regression process is a unit root, a stationary difference, or a trend stationary. We used Augmented Dickey-Fuller (ADF) to check is the variables are stationary or not but normally we used (ADF) to test for unit root. We can use equation (3.1) to analyze the stationary of time series data.

$$\Delta y_t = \beta_1 + \beta_1 t + \alpha y_{t-1} + \gamma \sum \Delta y_{t-1} + \varepsilon_t \qquad (3.1)$$

The white-nose error term is represented by ε_t , with a null hypothesis that variable has a unit root. ADF regression determines whether the unit root of y_t exists and represents all-time t variables (in the form of natural logarithms).Coefficient of y_{t-1} is tested by unit root in the regression. The hypothesis is rejected when that contains y a unit root if the variable

is significantly different from zero or less than zero. The null hypothesis is $H0; \alpha = 0$, alternative hypothesis $H1; \alpha < 0$.

The multivariate Johansen and Juselius (J.J. test-1990) tests were used to check for cointegration.

$$\Delta X_t = \delta + \sum_{i=1}^{k-1} r_i \Delta X_{t-i} + \prod X_{t-k} + \varepsilon_t \qquad (3.2)$$

Form (equation 3.2) Column vector of the m variables is denoted by X_t, Coefficient matrices are represented by r and $\prod$, Lag length is denoted by k and constant is denoted by δ. No stationary linear combination can be discovered if $\prod$ it has zero ranks and according to that, variables in X_t are nonintegrated.

Standard linear equations are often used in two or more variables for a short-term relationship. However, if the interest variables are not stationary individually, there are significant deficiencies in a single estimation technique (Hendry, 1996, pp. 287-9). Granger (1969) point out that if the variables are noncointegrated with same level of stationarity then it is most suitable to use Vector Autoregressive Estimation (VAR). The initial representation of Vector Autoregressive Estimation (VAR) is given as:

$$y_t = c + \emptyset_1 y_{t-1} \dots \dots \emptyset_k y_{t-k} + \varepsilon_t \qquad (3.3)$$

Predetermined part of the equation is referred by c, Lag length is denoted by k, Gaussian error term is denoted by ε_t. Rewrite equation(3.3) in Vector Autoregressive Estimation (VAR) of order $k-1$ then the equation can be presented as:

$$\Delta y_t = c + \sum_{i=1}^{k-1} \Gamma \Delta y_{t-i} + \prod y_{t-k+1} + \varphi z_{t-1} + \varepsilon_t \qquad (3.4)$$

$$z_{t-1} = y_{t-1} - c - \Gamma \sum_{i=1}^{k-1} \Gamma \Delta y_{t-1} \qquad (3.5)$$

The first difference operator is represented by Δ, Coefficient matrices Γ representing short-run fluctuations, and all model variables are included in y_t. The matrix $\prod$, in particular, gives us the model's cointegration features; error correction is denoted by z_{t-1}, speed adjustment term is denoted by φ. The matrix $\prod$ can be represented in a new dynamical form due to the above equation with the existence of r nonintegrated relationship of matrix rank $r < n$:

$$\prod = \alpha\beta' \qquad (3.6)$$

$n*r$ are α and β where r is the nonintegrated rank of the system. In view of the diversity and potential interaction between GDP, exports, and imports. We can define Vector Autoregressive Estimation (VAR) equation as:

$$GDP = f(Imp, Exp)$$

$$Imp = h(GDP, Exp)$$

$$Exp = i(GDP, Imp)$$

GDP represents the growth in per capita; imp represents imports from china, Exp represent export to china.

4. RESULTS AND DISCUSSIONS

The descriptive statistics shown in table-4.1 of the data set consist of mean, median, maximum, and minimum values to understand the data set. The empirical findings of the ADF tests for unit root, on the other hand, are presented in Table-4.2. The results show the stationarity features of the complete sample. All variables are shown to be non-stationary at level, according to the empirical data shown in Table-4.2. At the first difference, i.e., integrated of order one I (1), the variables are found to be stationary.

Table: 4.1 Descriptive Statistics

	Import	Export	GDP
Mean	10419.71	1878.923	1077.558
Median	12117.00	1867.000	1054.228
Maximum	15383.00	2916.000	1220.456
Minimum	9.282000	915.0000	987.4097
Std. Dev.	4556.516	614.1375	87.89652
Skewness	-1.049581	0.209472	0.421180
Kurtosis	3.176384	2.410271	1.612611
Jarque-Bera	2.403695	0.283451	1.426977
Probability	0.300638	0.867859	0.489932
Sum	135456.3	24426.00	14008.26
Sum Sq. Dev.	2.49E+08	4525979.	92709.58
Observations	13	13	13

Table: 4.2 Unit Root Test

Variables	ADF		Phillips -Perron	
	Level [p-value]	1st Difference [p-value]	Level [p-value]	1st Difference [p-value]
GDP	-2.3184 (0.4176)	-6.552* (0.0000)	-2.3454 (0.4036)	-6.5677* (0.0000)
IMP	-2.1215 (0.2403)	-4.4033* (0.0073)	-2.0965 (0.2485)	-6.6543* (0.0003)
EXP	-3.019** (0.302)	-8.1817* (0.0000)	-1.7794** (0.364)	-8.5536* (0.0000)

The null hypothesis that series has a unit root

Using the optimal lag selected by information criteria tests, Johansen's method of cointegration is estimated. Johansen cointegration test (Johansen 1995) summary is presented in table-4.3 by maximum-eigenvalues and trace methods. We strongly accept the null hypothesis that there is cointegration in short-run relationships among the subject variables for at most three cointegrating equations based on 5% significance in the results

provided in table-4.3. We, therefore, agree with the alternative hypothesis that the multivariate system consists of three cointegrating equations.

Table: 4.3 Johnson cointegration test

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized No. of C.E. (s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.935233	57.04722	29.79707	0.3543
At most 1	0.908377	26.94062	15.49471	0.6342
At most 2	0.057362	0.649805	3.841466	0.4202
Note: Trace test indicates that no equation is significant				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

Table: 4.4 Var Modelling

	Short-run		
	GDP	**Export**	**Import**
GDP(-1)	----	157.2594 (48.0865) [3.27034]	10.20256 (3.92770) [2.59759]
Export(-1)	0.001975 (0.00316) [-0.62498]	----	-0.007730 (0.02503) [-0.30881]
Import(-1)	0.019776 (0.02349) [-0.84175]	3.637076 (2.27870) [-1.59612]	----
C	136.1344 (186.719) [-0.72909]	69725.39 (18110.2) [-3.85007]	309.8989 (1479.24) [0.20950]
R-squared	0.976575	0.912798	0.955249
Adj. R-squared	0.941437	0.781995	0.888123
Note: Standard errors in ( ) & t-statistics in [ ]			

Response to Cholesky One S.D. (d.f. adjusted) Innovations ± 2 S.E.

Response of X to Y

Response of X1 to Y
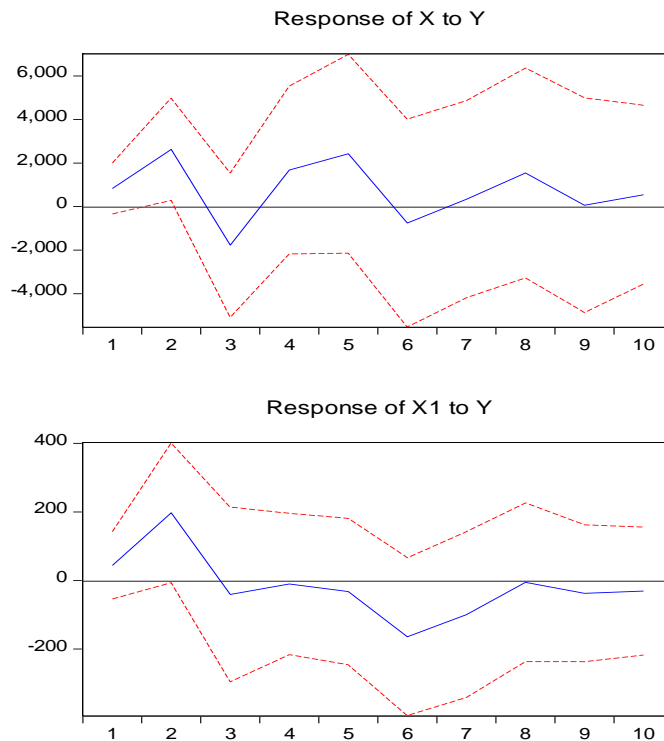
It is a graphical representation of dependent variable has positive impact on independent variables. In figure X representing Import, X1 representing Export, Y representing GDP. We have there variables and hence will have 6 impulse responses. On the basis of estimated VAR (1) model, we have generated impulse responses for 12 periods. Graphical representation of these impulse responses is given in Figure (4.4) in which the periods are on x-axis and responses are on y-axis. Impulse responses show the impact of one standard deviation change in one variable upon other system variables.

Our findings suggest that among the factors influencing Pakistan's exports to China, the world trade and competition effect played a role. The global trade impact and the competitiveness effect have both boosted Pakistan's export performance, but the market distribution effect has harmed Pakistan's export performance following the CPFTA. The ongoing trade war between the United States and other nations, notably China, and the global economy's slow development do not bode well for Pakistan's exports. China and Pakistan have been attempting to resolve the conflict, and Pakistan has requested a Free Trade Agreement 2.0 to address the problem of a rising trade deficit. However, we believe that the Pakistan FTA 2.0 would fail unless Pakistan exploits its advantages in the Chinese market, implements structural improvements, and increases domestic production. In light of this, Pakistan must come up with new ideas in order to increase its productivity and break the curse of slow output growth. Pakistan need a thorough structural makeover for this.

The persistent and widening trade deficit, especially Pakistan's trade deficit with China, needs attention. Otherwise, it may hamper growth in Pakistan and affect the prospects of long-term cooperation between China and Pakistan. Unfortunately, Pakistan's trade deficit with the rest of the world shows the same picture, indicating serious structural deficiencies in Pakistan's external sector. Nevertheless, the outcomes of this comparative dynamism additional benefit research suggest that Pakistan should exploit its competitive advantage to grow its exports to China and decrease its large trade imbalance with China. Pakistan's trade imbalance with China poses a threat to the country's fragile macroeconomic framework. This research study proposes several corrective actions to achieve balanced trade. In the industrial chain, Pakistan lacks expertise and efficiency. Pakistani exports to the Chinese market are similarly restricted to a few high-value items. Pakistan must move up the technical pyramid by encouraging productive imports. Pakistan must also diversify its export base in order to fully benefit from the China-Pakistan Free Trade Agreement. One strategy would be to move China's outsourcing activities along the China-Pakistan Economic Corridor to special economic zones. This is really a win scenario for everyone. Nevertheless, luring outsourcing business from China and reducing the trade imbalance with China will be difficult without upgrading infrastructure and addressing security concerns. From the graph, we can see that Import and Export have positive Impact on GDP of Pakistan under china and Pakistan trade agreement.

Table 4.5 Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
Import does not Granger Cause GDP	11	0.38432	0.6965
GDP does not Granger Cause Import		1.35743	0.3263
Export does not Granger Cause GDP	11	1.89410	0.2303
GDP does not Granger Cause Export		0.73353	0.5188
Export does not Granger Cause Import	11	0.97595	0.4296
Imports does not Granger Cause Export		3.25474	0.1103

The results of table-4.5 reveal that the probability values of F-Statistic show that there is no granger causality exists between GDP, imports and exports. So null hypothesis is accepted.

CONCLUSIONS

This article examines the trade flows between Pakistan and China following the 2006 Bilateral Free Trade Agreement signing. Pakistan has a sound economic and military policy, similar to China. China is the second-largest economy in the world and the world's export and manufacturing powerhouse. It has a population of 1,4 billion. Export growth has played an important role in the development of China and its transition to an enormous economy. The current trade imbalance between Pakistan and China is $12 billion and is likely to continue to rise as Pakistan imports heavy-duty machinery to the China-Pakistan Economic Corridor (CPEC). The main exports to China of Pakistan are low-cost products concentrated in a large number of products and categories. The

Ministry of Commerce says that exportations to China are dependent, more than on finished and added value, on primary and secondary products.

This article aims mainly to analyze the Impact of CPFTA on Pakistan's economic growth. A model for econometric analysis was developed by the researcher. The model aims to analyze the impact on the growth of Pakistan's trade flows of exports to China and imports from China. From the results, we can conclude that export to China and import from china have a significant effect on the trade flows of Pakistan.

The Implication is that to maximize the benefits of free trade, China and Pakistan signed a free trade agreement; however, it was fruitless. This research will benefit policymakers, exporters, importers, manufacturers, and the business community in general, particularly The Federation of Pakistan Chamber of Commerce and Industry, to understand the need for new and innovative manufacturing methods. Although Pakistan has many resources, export competitiveness cannot be achieved unless the value-added objective is achieved, according to the findings of this report.

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