Study on Risk Management of Small Foreign Trade between China and Pakistan

By Saddam Fuad Huseein Alqadami

Abstract: China and Pakistan relationship has been worldwide recognized. Neighbor partners are more considered as the strategic partners since last couple of years. Day by day, both of the countries are strengthening their relationship and are engaged in number of projects that would benefit them in both, economically and growth terms. It would also result in the smoothening of the flow of relationships as well. However, there is some risk also involved with the execution of CPEC projects and other related projects well. This research paper revolves around to conduct the Study on Risk Management of Small Foreign Trade between China and Pakistan.

Paper considers the adoption of qualitative research approach with the integration of positivism research philosophy. Several recent past researches have been analysed and discussed in detail. The findings have considered that there is an extensive need of integrating effective risk management in context to the small foreign trade, and focus needs to be incredibly laid on overall minimizing the risk occurrence to that maximum advantages can be extracted.

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1. **Introduction**

Emergence of globalization and existence of international markets have dynamically impacted on the way businesses should be conducted transforming business working environments into dynamically complex and competitive workplaces. Today, countries have started to recognize the importance of neighbor countries and how strong ties can assist countries to strengthen their relationships, make them really financially strong and extensively conduct businesses in order to enhance the foreign trade within the countries (Omri, et al., 2015).

Emergence and integration into global economy has extensively proven really powerful and significance means for the countries in promotion of the economic growth and development, and dynamically reducing the poverty rate of the country (Lardy, 2016). Over past twenty years, dynamic growth of the world trade has averaged seven percent every year, twice as rapid as the world’s output. But, it needs to be considered that the trade is deliberated as a growth engine and accelerating force for a long much. Since the year 1947, when GATT that is General Agreement on Tariffs and Trade was developed and created global trading system has overall drastically benefited from the 8 round of the multilateral trades liberalization, and from the regional and unilateral liberalization (Ahmed, et al., 2016). It would not be wrong to state that indeed, last of the eight round led to establishment of WTO to assist growing body of the multi-lateral trade agreements.

Resulting integration and emergence of global economy has raised the living standards around globe. Most of the developing countries have overall shared in such prosperity, for instance, rise in the incomes. As group, the development countries have tended to become really significant part in the global trade, for instance, as mentioned in (Irshad, 2015) accounting for the one-third of the global trade, up from the early 1970s. Substantially, most of the developing countries have increased the exports of services and manufactures related to the traditional commodity export, and on other hand, manufactures have overall risen to eighty percent of the developing country’s exports. Similarly, it is considered as mentioned in (Wei, 2015) that the trade between the developing countries have dynamically risen.

However, progress of the emergence and integration has not being uneven in the recent decades. The progress has been really impressive for number of the developing countries in different regions of Asia. These countries have extensively successful due to the aspect that they had chosen to participate in the global trade, assisting them to attract bulk of the FDI in the global markets. In this aspect, we cannot neglect the significance of trade between Pakistan and China since embedded of the trade liberalization and several others related market oriented reforms, and Silk Route construction.

Pakistan and China are recognized worldwide due to their strong friendship relationships. Pakistan has been recognized one of the first countries that had recognized China as a country in year 1950. Pakistan and China relations initiated on the basis on the low ebb as the China was really disappointed over the latter joining of Western Military Alliance SEATO and CENTO. Pakistan expressed it’s the desire of fostering the friendly relationships with the China even before the joining of SEATO (Katania & Naveed, 2014). Bandung Conference has provided Pakistan an opportunity of dispelling mistrust of China and explains reasons of Pakistan for the joining of Western Alliances. Mohammad Ali being the Prime Minister of Pakistan assured the Chinese Premier Zhou Enlai overall ensured...
China that Pakistan had no aggression against China and it was all done to guard against the India’s treat.

On occasion, Pakistan had criticized the expansionist policies of Soviet Union and overall appreciated policies of China. This overall resulted in dispelling of the China’s misunderstanding and Premier of the China conceded membership of Pakistan with SEATO should no longer become a hurdle to the strong friendly relationships with China.

Following Since Indian War of the year 1962, Pakistan and China became really closer in forging the common strategic understandings. At that time, Pakistan overtly and extensively condemned India as aggressor. Soviet aid and American to the India during war resulted in China realizing and understanding the importance of Pakistan in the counter balancing regional as well as globe’s power configurations. Thus, China realized geo-political importance of China and historic enmity with the India, result in China to overall seek to increasingly cultivate as well as consolidate its ties with the China in order to incredibly balance off the New Delhi. Moreover, on the other hand, geographical proximity of the Kashmir to dispute India and China boundary had overall contributed as one of the major factors and components in bringing Pakistan into strategic central phase of the South Asian policy of China (Javaid & Jahangir, 2015).

Since then, China and Pakistan relationship started to strengthen and became really stronger. In year 1963, China and Pakistan had signed the boundary agreement in demarcating boundary between the Chinese regions of Xinjiang. During the India and Pakistan War in 1965, China provided economic, moral and diplomatic support to country, Pakistan, and was Chinese ultimatum to the India of dismantling its overall military works on Chinese sides of China-Sikkin borders, resulting in the quick call for the ceasefires to the Security Council (Tan, et al., 2015). Moreover, during year 1971, the Pakistan and India conflict that led to the dismemberment of the Bangladesh from the Pakistan China extended its complete diplomatic assistance to the country Pakistan and incredibly condemned the India as the aggressor. Since that time, Pakistan and China ties are getting stronger and stable day by day.

Pakistan and China has been engaged and in future is engaging in number of developing projects that enhances overall the flow of trade between the countries. Pakistan and China have recognized the significance of the small foreign trade, however, it has been considered that such trade does involves some of the risk that is still big questionable. In this paper, we have conducted in-detailed study of conducting the risk management of the small foreign trade between Pakistan and China.

a) Small Foreign Trade

Emergence and integration into global economy has extensively proven really powerful and significance means for the countries in promotion of the economic growth and development, and dynamically reducing the poverty rate of the country (Javid & Sharif, 2016). Over past twenty years, dynamic growth of the world trade has averaged seven percent every year, twice as rapid as the world’s output. But, it needs to be considered that the trade is deliberated as a growth engine and accelerating force for a long much. Since the year 1947, when GATT that is General Agreement on Tariffs and Trade was developed and created global trading system has overall drastically benefited from the 8 round of the multilateral trades liberalization, and from the regional and unilateral liberalization (Alam, et al., 2016). It would not be wrong to state that indeed, last of the eight round led to establishment of WTO to assist growing body of the multi-lateral trade agreements.

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b) Problem Statement

Since last couple of years, small foreign trade has been recognized to be really productive generating growth and development of the economy of developing countries like Pakistan. However, it does involve the risk which is most commonly not recognized or either ignored due to the aspect of its high number of benefits. Importance of conducting the risk management of the
small foreign trade needs high consideration, and it does vary from country to country. In this paper, we have conducted and presented the study on risk management of Small Foreign Trade between China and Pakistan.

c) Research Objectives

Paper, “Study on Risk Management of Small Foreign Trade between China and Pakistan” revolves around the following research objective:

- “To examine and highlight the risk management of Small Foreign Trade between China and Pakistan”

The paper is comprised of four remaining sections. In second section, literature review is presented with in-detailed discussions of past researches and theories that have been conducted by the past researchers in the similar domain. Third section presents research methodology in terms of identifying strategies, design and approaches adopted by the research. This section is followed by the section of discussion and analysis. Finally, on the basis of the discussions and analysis, conclusion is presented.

II. Literature Review

Pakistan and China relationship has been well known and recognizable throughout the globe. Since last couple of years, with the growth and progress of the CPEC projects, there is a great probability that foreign trade between the countries would immensely increase. Lot of researches and theories have been conducted and presented by the past researchers regarding the risk management and foreign trade. This section of literature review presents and discusses the past researches and theories in-detail.

Risk is referred as the term that can defined as probability of the suffering harm from the hazard and hazard is deliberated as source of the risk that is known as to the actions that could cause the harm. It needs to be considered as mentioned in (Kamkar & Mukherjee, 2017) no industrial and trade sector is free of the risk belonging in context to its internal as well as external environment. In order to grow and gain high amount of profits whether it is specifically in terms of business or broadly country wise, the significance of risk management cannot be neglected at any instance.

China-Pakistan Economic Corridor is considered to be one of the fastest and really effective accomplishment progresses, with the nineteen early harvest projects that are being aimed at modifying and updating the transport infrastructure of Pakistan and can result in bridging country’s long lasting energy deficit as mentioned in (Ali, 2017). The investment practices and policies, as well as financial services between two countries have involved and evolved to assist the projects that are been implemented and integrated under the CPEC, and have really nurtured enhancement and improvement of the professional practices and industrial linkages in the catering for enhancing investments.

In accordance to (Wolf, 2016) it has been considered and deliberated that the CPEC would open number of new grounds and platforms in context to the increasing the trade flow between both of the countries, however, it has been argued that to some extent, the industries of Pakistan might face some of the risk. For instance, it has been realized and recognized that textile industry of China has given Pakistan textile industry really fierce competition. In past, Pakistan’s textile products were immensely exported to the European countries and were well known amongst the countries. However, today, China’s textile is globally recognized at high quality and low pricing. It is considered that to some extent, the opening of CPEC might give Pakistan some competition, as with the easy and fast routing of China to other countries, whilst increasing lot of its exports all around the globe. It means that Pakistan’s sales would also be impacted. Moreover, when viewing the scenario on the small aspect, number of small industries of Pakistan is evolved in textiles, from the uneducated women living in rural areas to the fashion designers in urban areas, their overall economic power and growth is impacted.

CPEC is considered to be one of the major parts of Belt and Road which is considerably of major interests in the professional networks around globe, and particularly, in Pakistan (Abid & Ashfaq, 2015). Generally, whilst the people have agreed that The Belt and Road would be really advantageous to Pakistan, there are increasing risks that country might be unable to repay loans that are obtained for the financing of the projects, that the China might dominate project an consequently, objectives of China would overall override Pakistan (Wang, 2017). Hence, it needs to be considered that B& R has generated both hopes as well as fears.

It has been considered in context to (Hsiao, 2017) that there are number of risks involved in the conduction of the small foreign trades. Firstly, foreign exchange risk, which is deliberated or defined as risk of the financial losses due to devaluation of the foreign currency against United States dollar. The foreign exchange risk is considered as one of the major reasons why number of the United States exporter prefers in selling in the United States dollars. Secondly, existence of the country risk, basically, country risk could be taken in terms of many forms such as unforeseen economic and political events that interprets the normal business activities and might affect the ability of the customers in paying on time. Similarly, convertibility risk that is considered as risk that local currency would not be overall convertible to currency needed in making the payments to exporters. Thirdly, transfer risk is defined as the risk in which there is a risk that buyer is really unable,
due to several legal as well as other barriers for the transferring of the funds in foreign currency to placement of the payment when it is been due (Nabi, et al., 2017).

In context to the (Wei, 2015) putting forward the argument by (Dalin, et al., 2017) it is seemed to be really important for the country economists to focus on minimizing the occurrence of the risk involved in the foreign trade, and focus should be laid on the adoption and integration of the strategies in managing the risks.

III. Research Methodology

Research needs to be appropriately bridged on the considering and integration of effective and specified research methodology. Research methodology clearly provides the set of the research methods and techniques that should be considered and indulged accordingly so that appropriate research can be carried out. Number of researches utilize different research designs and methodology depending upon the type of the research that is been carried on. Paper, “Study on Risk Management of Small Foreign Trade between China and Pakistan” is based on the qualitative research tools and instruments.

Figure 1: Research Philosophy and Approach

a) Research Design

Adoption and integration of appropriate research design bears incredible importance in the conduction and presentation of paper. It evolves number of important research phases and stages that the researcher needs to cover in order to appropriately conduct the research with the combination of research strategies and policies. The paper, “Study on Risk Management of Small Foreign Trade between China and Pakistan” is qualitative in nature, and has been based on the qualitative research approaches and design. In this research, focus has been increasingly laid on the qualitative research design.

b) Research Philosophy

Research philosophy as defined by (Thanh & Thanh, 2015) as a belief about perspective through which the data about the phenomenon need to be collected, analysed and utilized. Research, “Study on Risk Management of Small Foreign Trade between China and Pakistan” after considering in-depth analysis and viewing various different researches and papers, have adopted interpretivism research philosophy. Basically, interpretivism philosophy is based on the interpretivists contents which only through subjective interpretation as well as intervention in the reality could which the reality be completely understood. The research of the phenomena in the natural environment is deliberated as the major key to interpretivist philosophy with the combination of the subjective analysis. Interpretivism research philosophy completely revolves around the aspect that there are number of interpretations of the reality, but maintaining of all these
interpretations are deliberated themselves a aspect of scientific knowledge which are incredibly pursuing.

Inductive reasoning and the common research approach. Inductive approach is most important to increasingly emphasize on the aspect of explaining theories of those of the patterns. It is very important to increasingly emphasize on the aspect that patterns from the observations and development of the inductive research approach is the search of the theoretical knowledge is considered and adopted.

Through the direct interventions in the issues, research aims in creating really practical, most often emancipatory, results whilst aiming to overall re-inform the existing theory in domain that is being studied. However, different researches mostly interpret the results and events differently. Personal ethics and values of researcher are really critical, since opportunity for the direct research intervention is really existent.

Secondly, subjective and argumentative research strategy has also been used. For instance, hermeneutics requires researcher in adopted and considering the creative and speculative stand, rather than only presenting the observer viewpoint. It is overall deliberated to be really useful technique since number of new theories could be built, with the generation of new ideas and subsequent testing.

d) Research Approach

Research approach needs high considered as it plays a vital role in the conduction of the research. Study, “Study on Risk Management of Small Foreign Trade between China and Pakistan” adopts inductive research approach. Inductive approach is most commonly referred as the inductive reasoning, beginning with theories and observations that are proposed towards end of research process as outcomes of observations.

Basically, as defined by (Kaplan, 2015), the inductive research approach is the search of the patterns from the observations and development of the explanation theoriesof those of the patterns. It is very important to increasingly emphasize on the aspect that the inductive approach do not implies disregarding theories in the formulation of research objectives and questions. It would not be wrong to stat that such approach overall aims in the generation of meanings from data set that is gathered and collected in order to effectively identify relationships and patterns in building the theory.

e) Secondary Source of Data

In this paper, the researcher has increasingly emphasized on the use and integration of secondary source of data. It needs to be considered that secondary source of the data is completely based on the past researches, theories, articles and journals that have been conducted by the previous researches on the similar research environment. In this research, the literature and information of Pakistan and China relationship, CPEC project, risk management and small foreign trade has been indulged and in-detailed discussed.

The data that has been collected from the researches and papers have been properly screened and accordingly analysed so that productive outcomes and results can be accomplished.

f) Ethical Aspects

It is very important that the researcher highly considers and deliberated ethical code of conduct during the complete research. It has been considered that ethical code of conduct not only assists in the smooth conduction of research operations, but also overall enhances the ethical credibility of the research. In this paper, the researcher has high considered the ethical aspects. No information has been misinterpreted and the copyrights have been highly considered. The aspects of biasness have been minimized and the focus has been completely laid on the presentation of the accurate outcomes and results.

IV. Analysis and Discussions

In context to the data collected and evaluated, it has been really clear that Pakistan and China relationship in past and in future can play an immense role in the countries success and enhancement of the foreign trade. However, on the similar end, it needs to be discussed that there are number of risks that the relationship has posed to in context to the strengthening of the relationship and with the beginning of the CPEC project. Basically, CPEC project enhances and improves transportation and infrastructure of Pakistan, which combination of several other factors as well, as shown in the figure as followed:
With the great contribute of CPEC investment to Pakistan mainly in the four basic areas, that incudes energy, roads, rail and transport, however, on the other hand, it needs to be considered that fast routing of China to other Asian and European regions might also threaten the trade, especially exports of Pakistan in the other countries as well, for instance, industrial and textiles. Risk of the decreasing of the Pakistan’s exports in the Asian and European countries needs high consideration.

Similarly, on the other hand, there are several also risks that can be also faced by the countries. Pakistan is deliberated to be the amongst really economic fluctuation country, where the country as well as businesses incorporated are facing lot of the threats due to the economic uncertainties. These risks have tend to have the negative impact on the China’s progress. Similarly, it needs to be discussed that in last couple of years, Pakistan is facing lot of terrorism. Thus, the terrorism risk overall can pose lot of problems and issues for the country, and can overall minimize the revenue generation. For instance, in the recent incident, some of the Chinese engineers in Pakistan had been also face several terrorist incidents. It is considered that if all of these risks with the other related risks are well catered by the both, Pakistan’s and China’s government, and adequately managed with the integration of the good risk management approaches, then lot of advantages in the future can be extracted and obtained.

With the several risks, CPEC tends to provide really positive and good job creation opportunities in Pakistan as well. The figure below presents and identifies the Job Generation by CPEC in Pakistan in the sectors of Energy, transport and Gwader.
This is considered to be really good prospective of the CPEC project enhancing and improving the employment rate in Pakistan. In next section, conclusion of the paper has been presented.

V. Conclusion

In accordance to in-detailed analysis and discussions through considering past researches and implication of the practical approach, it has been considered that the small foreign trade significance to the countries cannot be neglected at any instance. Small foreign trade assists the country in strengthening their overall economic growth and development. Moreover, on other hand, the people involved in the small foreign trade can enjoy high profits and revenue generation. In context to Pakistan and China, both of the countries can enjoy the strengthening and growth of the small foreign trade. However, there is the existence of several amounts of the risks.

Pakistan is deliberated to be one of the countries that do faces uncertain economic fluctuations due to the increase political uncertainties. Thus, it is really important small foreign trade should consider the increasing aspect of such fluctuation and their impacts on the overall profitability and businesses. Similarly, it has been considered that if the country focuses and emphasizes on the development and adoption of the effective strategies and policies lot of issues regarding the risk occurrence of trade can be minimized. It is concluded that Pakistan and China are focused on really good relationship and both of the countries can extract and generated high opportunities. However, it is very important that countries minimize the occurrence of risk through consistent risk assessment and monitoring.

In future, more researches should be conducted on the broader aspect as Pakistan and China relationship is deliberated to be one of the most interesting topics. Moreover, on the broader aspect considering variety of other research parameters and environments as well, future researches should be bridged.

References Références Referencias

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