

Effectiveness of Pakistan China Free Trade Agreement: A Gravity Model Analysis

By

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Abstract

This study aims to investigate the impact of the Free Trade Agreement (FTA) between Pakistan and China. To this extent, by utilizing a panel dataset consisting of 35 significant trading partners of Pakistan from the year 1990-2015, a gravity model has been employed to investigate the impact of FTA on Pakistan's imports and exports. The empirical findings suggest that there is a positive impact of FTA on both imports and exports of Pakistan. Nonetheless, evidence has shown that more resounding impact on imports suggests that in general, FTA with China has created trade for Pakistan. Considering the country specific variables i.e. common language, colonial origin and common colony show little evidence of significant impact on imports and exports of Pakistan. However, distance from the trading partners significantly determine the trade. The study, therefore, has implications for China Pakistan economic corridor (CPEC).

Keywords: Free Trade Agreements, Gravity model, CPEC.