

The Role of Banking Collaboration in Development of Pakistan and China Trade and Economy

Saleem Ahmad¹, Muhammad Ziaullah¹, Yang Chen¹, Donghua He¹
Meng Su¹, Shakoor Muhammad Rizwan¹

¹(School of Management and Economics, University of Electronic Science and Technology of China)

Abstract: *The Pakistan-China trade evolved to become a competitive strategy for the two nations. The increasing globalization has enabled Pakistan to benefit big from the partnerships with other countries around the world. This research has explored the trade partnerships between China and Pakistan especially the banking collaborations. Further, the research has explored in depth how these two countries have use internationalization strategy as a mechanism of survival and economic development. These two countries have been able to trade without many barriers to entry of goods and services. Therefore, the paper has mainly focused on banking collaborations between china and Pakistan. However, the research has noted that most of Pakistan banks have restricted their collaborations domestically. The paper further has looked at the viability and importance banking collaborations to the economy of these two countries and also to the banks. In addition, the paper has explored the trade partnerships between china and Pakistan. No country is an Island and therefore it is important that countries collaborate and partner in matters of development. Therefore, the paper has explored the partnerships that exist between these two countries and the trade agreements between them.*

Keywords: *Trade development, Banking Collaboration, Economy, Pakistan and China.*

I. Introduction

The Pakistan-China trade has become the model competitive strategy for developing the economy within the two countries. Pakistan has a long history of international trade, but its major emphasis has been on its relation with India (Hong, 2004). Contrarily, the increasing globalization and internationalization activities provide that Pakistan is set to benefit a lot from partnership with other countries that neighbors its jurisdiction. In the international market, limiting the number of trade partners is risky for a country because it fails to obtain other products and services that are unique in other market. In this regard, there are other extended benefits that Pakistan will get from the strategic effort to collaborate with other countries in the global market. Relying on a single country for trade can easily lead to a restricted international market value, diversifications of its products and services, and chances of globalization (Nag, 2005). In addition, increased trade partnerships will provide a continuous and extended market for Pakistan to ensure that its economy is boosted positively from the increased balance of payments that will accrue from increased internationalization activities (Lijun, 2003). Therefore, it is important for Pakistan to increase collaboration with other countries like China, which is an emerging market in the world. This paper will present an analysis of the effects of banking collaboration to Pakistan-China trade and economy.

II. Background Of Research

International trade has become a contemporary survival strategy for many organizations because it provides various benefits to these nations. In its simplest definition, international trade is the strategic exchange of goods, services, and capital among countries independently or within a regional block because of reduced trade barriers. This indicates that international trade is a major pillar in promoting the GDP of a country (Ahmad, Mahmud, Hamid, & Rahim, 2010). Thus, the economy of the country will grow exponentially because of indulgence in global trade. On the other hand, developing countries have an extended benefit from this type of trade because they are able to obtain revenue from the partnership with other countries within a certain geographical location. Increased advances in technology have improved the prospects of international trade. This has enabled rapid transport systems, production techniques and reliable procurement services within the context of the global trade (Nabi et al., 2005). Here, companies have been provided with an opportunity to explore international market and not just its neighbors because of geographical distance.

Pakistan and China enjoy a collaborative relationship for a long time because of their trade objectives. This relationship has been very fundamental in stabilizing their governments that was unstable because of the regional situation (Kumar, 2006). Consequently, in the increased activities for international trade countries choose partners that provide opportunities for new and emerging markets for their products and services. However, in the recent past, scholars within Pakistan and China have forged strategies that will stabilize the

region through discussions for “Regional Situation and Security” (Ziad, 2013). Interestingly, the two countries form home for almost half of the global population, and this indicates that the geographical location of these two countries is very important for international trade. In addition, the region between the two countries has vast economic resources that are essential for other countries in the world. Therefore, it is vital that stability is developed between these two regions so that other countries in the region and the world at large can benefit from the stability and prospects of the natural resources specific to this region (Nabi et al., 2005). However, international trade can only prosper within this region because of a common banking system. All the activities in the international market deal with exchange of money and through a collaborative banking system, then the activities will become easier. In this regard, it is vital to unravel the effect of banking collaboration between the two countries to understand whether it can be an important factor in promoting international trade and boosting its economy.

III. History Of Banks Collaboration In Pakistan

Collaboration among the banks has become a survival strategy because of increased globalization activities. This is so due to the fact that the collaboration provides important information that is strategic for initiating transformational policies. However, in the context of Pakistan banks, collaboration has remained as a domestic affair. Most of the banks in the region do not collaborate with partners from other countries. For example, the First Women Bank is a leading and unique bank in the region that has maintained its partnership within the jurisdiction of Pakistan. Its major partner is the government with a stake of about 56% with the remaining as shares from women. Similarly, the State Bank of Pakistan has focused on internal collaboration ads opposed to foreign investment. The government is the main shareholder with other investors being local Pakistanis. Therefore, the extent of collaboration in the Pakistan banks has remained as an entire internal affair, but increased globalization provides a shift in the future.

IV. Major Outcomes Of The Banking Alliances

Banking alliances is very fundamental for promoting the economy of Pakistan. Alliances are ideal for providing large capital outlays that are needed for expansion of the banks’ lending abilities. The availability of large amounts of capital gives the bank an opportunity to become reliable lending institutions. Secondly, alliances will forge the peace and stability within the region (Kennerley & Nelly, 2003). Pakistan has for a long time been a target for terrorist activities. Therefore, its government has strategically developed policies that reduce the instances of terror in that country. Therefore, with foreign interest in the banking, the country is set to boost its security against terrorist activities. This is very important for the future of the country because it will provide an environment for vast economic activities to take place (Kennerley & Nelly, 2003). In addition, banking alliances will provide financial institutions with an opportunity to enjoy increased financial services that are not found within its jurisdiction.

V. ICBC Introduction And Profile

2011 was a difficult year for the banking industry of China because of the increased financial activities and competition in the global market. In this regard, Industrial and Commercial Bank of China was introduced to provide services in the real economy. The basis of this financial institution was to reinvent itself in the new market situation and diversify its needs based on the customer needs. Consequently, the introduction was boosted by its corporate decision to advance integrated operations in the international market. Here, the bank would maintain its position in the world as a leading financial institution in terms of market value and the amount of customer deposit. In addition, the ICBC was profiled as a leading institution in China to promote international cooperation and trade.

VI. Trade Relationships Between China And Pakistan

Trade relationships between China and Pakistan are hindered by the prospects of an ongoing collaboration with Indian. China has decided to partners with India from the South Asia countries because it has a well-developed economy compared to other countries within the region. The World Bank statistics indicate that the last year’s GDP of India was about \$1.9 trillion, which is a 12 percent increase to what was the value of Pakistan (Chunshan, 2014). This indicates that the former is a reliable economic partner as compared to the former. Similarly, the economic growth of India is at a stage of booming business, and this serves as an important economic partner. On the other side, Pakistan remains an important partner to China because of its role in international relations (Chunshan, 2014). International trade can only take place effectively within an environment that experiences peace and stability. For example, China has traditional improved its bilateral cooperation with Pakistan as a move to contain India because of its rapidly growing economy. Secondly, the increased terror activities in the west of China have necessitated a bilateral relationship between the two countries. The attacks are said to be staged from Pakistan, and the relationship can be ideal in dealing with this

problem. Therefore, the future of international trade in China is based on its Sino-Pakistan collaboration (Chunshan, 2014). Furthermore the Fig.1 shows the Pakistan China trade volume growing year by year.

A WIN-WIN SYNERGY FOR PAKISTAN & CHINA

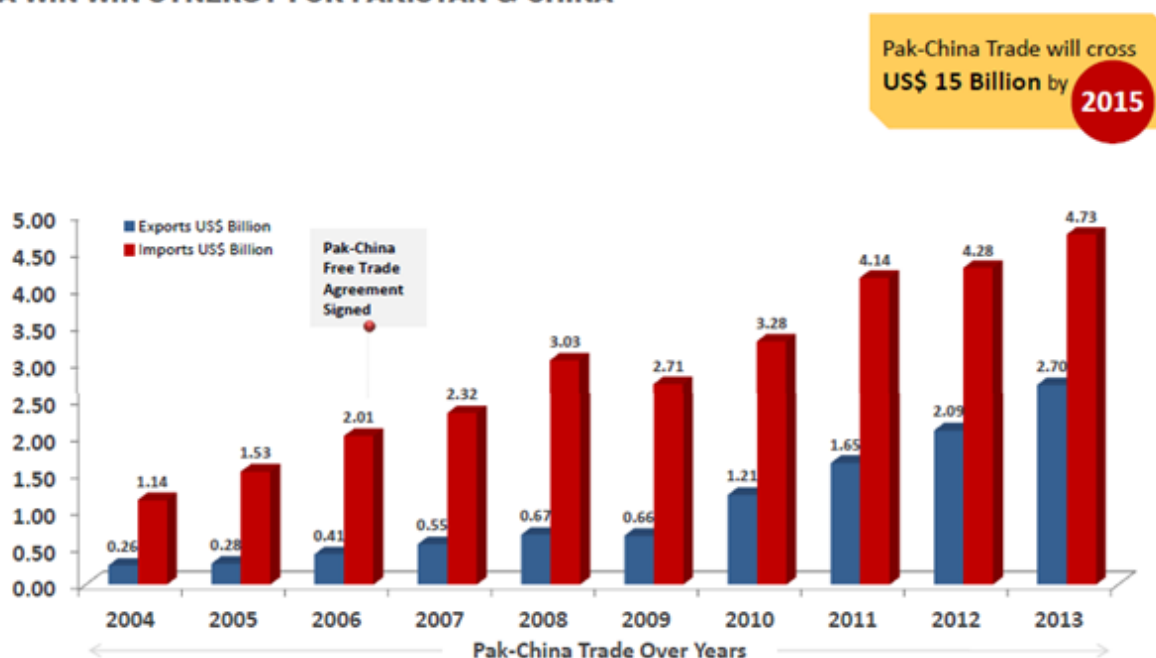


Fig.1 Source: State Bank of Pakistan; Trade Statistic

VII. GSP Plus Status and Gwadar Port

The GSP Plus and Gwadar ports are important landmarks in promoting international trade within Pakistan. In 2011, China pulled out of the Gwadar ports, and this resulted in a huge blow for Pakistan (Zahid, 2012). This is due to the fact that Pakistan is a relatively low economy country that lacks extensive financial muscles for developing these strategic landmarks. However, to improve its economy and trade, it is important for these two places to be improved so that they can attract foreign investors into the region. Therefore, the future of Pakistan economy and trade is based on the development of GSP plus and the Gwadar port.

VIII. Framework of Alliance Formation

Entering into a new market in the global scale requires specific information about important aspects in that market. In the case of ICBC, establishing an alliance with Pakistan was fundamental in promoting the stability of their governments (Kumagai, 2008). On the other hand, the manner in which the alliance should be formed is a cause of concern for the latter. Secondly, the economy of Pakistan is very low compared to other countries in the world. Therefore, the ideal framework for establishing an alliance would be through collaboration with the local banks and financial institutions. For example, through investing a local bank, the ICBC will be able to achieve a high level of corporate success because it will have a ready market for its products and services (Hitt, Ireland, & Hoskisson, 2013). This is warranted by the fact that the country has low financial activities, and the limited number clientele can only be increased through collaboration.

IX. Opportunities for ICBC to Grow Bigger

One of the major opportunities for the ICBC to grow bigger is through increased subsidiaries in the Pakistan banking industry (Eichengreen, Rhee & Tong, 2007). Through collaboration with the local banks, the number of clientele will be increased due to the availability of large amounts of capital. This will attract an extended level of borrowing in the region. As a result, economic activities in the region will be increased, and the GDP is set to improve because of increased investment activities (Nabi, 2012). Here, the ICBC will have a good opportunity to establish its financial activities because of an increased market within the region. In addition, the improved economic growth will attract other foreign investors into the region that would serve as a market for ICVBC diversification and expansion strategies.

X. Gwadar Port: A Major Point in Silk Road

International trade has existed in the world for an extended long period. The Gwadar port is a major strategic point in history that serves as the central place for the Chinese trade during the 1700s (Dowling & Wignaraja, 2006). It is important point at the end of the Gulf region that has strategic importance for trade in the region. It is the main point of entry of goods from China and central Asia, which provides Pakistan with an opportunity to earn millions of dollars annually for cargo and freight charges. Recently, Pakistan handed the management of the port to China so that it could be developed into an international hub to compete with the UAE (Haseeb, 2013). Therefore, its development is a significant aspect in promoting international trade between Pakistan and China. The port can be an avenue to strengthen the China-Pakistan collaboration.



Fig.2: Saved Distance after operationalizing the Gwadar Port

Currently Chinese trade route is much longer and its cover the distance with Middle East is (12537 miles) and the distance with Europe (19132 miles) and after operationalizing the Gwadar Port the distance will be saved between Europe and China (9535 miles) and between Middle East and China (10242 miles). As aforementioned Fig.2 illustrated saved distance between China, Middle East and Europe.

XI. How Can ICBC Avail Itself from Promising Opportunities Available in Pakistan?

Exploring an opportunity in the market is a competitive strategy that defines the success of an organization. ICBC is a leading bank in the world that has decided to exploit the global market through diversifying its product to a wide geographical region. Regarding this, it provides a range of products and services that satisfy the demand of its customers across the globe (Kojima, 2000). However, it is not obvious that its services will be embraced in all markets across the world. Thus, there is a need to present its products and services to the market in a strategic manner in order to ensure that it is able to achieve success. Here, ICBC can avail its position in the banking industry through collaboration with local banks, this will establish its brand in many countries, and penetration of the market will be relatively easy (Eichengreen et al., 2007). Once the bank has entered the market, it will be easy to explore its opportunities.

XII. Proposed Strategy for Banking Alliance in Changing Scenario of The South Asia

The ideal strategy to change banking alliance in South Asia is through improving international trade ties. The typical strategy in south is the internal investments from its locals, but this trend can be altered through the international trade (Deighton & Kornfeld, 2009). Banking is a fundamental aspect in promoting international trade because it serves to provide funds for initiating projects within the region. In order to change traditional perception in the South Asia markets, increased trade with other countries is very fundamental. For example, Pakistan has maintained a sole partnership with India, but other countries like China are important for its development (Fazlur, 2012). Thus, reducing the regional and trade barriers with other countries will be an important strategy to attract many international trade investments into the region. However, collaboration in the banking industry will facilitate activities in the international trade and this will lead to a change into the perception of globalization within the area (Petri, Anita, & Lauri, 2010).

XIII. Conclusions

Internationalization is a current competitive strategy that has enabled many organizations to achieve success in their activities. Pakistan and China have had a friendly relationship, but it has limited trade relations. This is due to the fact that China has focused its South Asia relations with India because of its increasing economic position. However, the responsibility of Pakistan in dealing with the menace of terrorism in the region is very important for the China–India partnership. Therefore, in order to improve their partnership, there is need for collaboration in the banking industry. For example, ICBC is a leading Chinese bank that has decided to open subsidiaries in the Pakistan market in order to diversify and expand its market. This can be achieved through international partnership between the two countries so that the economy and trade partnerships are improved.

References

- [1] Ahmad, H., Mahmud, M., Hamid, N., & Rahim, T. (2010). A strategy for reversing Pakistan's dismal export performance. Lahore, Pakistan: Centre for Research in Economics and Business
- [2] Chunshan, M. (2014, September 27). China's Choice: India or Pakistan? *The Diplomat*
- [3] Deighton, J., & Kornfeld, L. (2009). Interactivity's unanticipated consequences for Marketers and marketing. *Journal of Interactive Marketing*, 23(1), 4-10.
- [4] Dowling, M., & Wignaraja, G. (2006). *Central Asia's economy: Mapping future prospects to 2015*. Baltimore, MD: John Hopkins University, Central Asia–Caucasus Institute.
- [5] Eichengreen, B., H. (2007). China and the exports of other Asian countries. *Review of World Economics*, 143(2), 201–226.
- [6] Fazlur, R. (2012). Pakistan-China Relations at 60. *China.org.cn*.
- [7] Haseeb, A. (2013). Pakistan hands over Gwadar Port operation to China. *The Nation*.
- [8] Hitt, M. A., Ireland, R. D. & Hoskisson, R. E. (2013). *Strategic management: Concepts and cases: Competiveness and globalization*. Mason, OH: South-Western Cengage Learning.
- [9] Hong, H. (2004). ASEAN and China Sign "Dirty" FTA. *Taipei Times*, Dec.
- [10] Kennerley, M. & Nelly, A. (2003). Measuring performance in a changing business environment. *International Journal of Operations and Production*, 23(2), 213-229.
- [11] Kojima, K. (2000). The "flying geese" model of Asian economic development: Origin, theoretical extensions and regional policy implications. *Journal of Asian Economics*, 11(4), 375–401.
- [12] Kumagai, S. (2008). *A journey through the secret history of the flying geese model*. Chiba, Japan: Institute of Developing Economies.
- [13] Kumar, A. (2006). *China-Pakistan Economic Relations*. Institute of Peace and Conflict Studies, special report 30.
- [14] Lijun, S. (2003). *China-ASEAN Free Trade Area: Origins, Development and Strategic Motivations*. ISEAS Working Paper, International Politics & Security Issues Series No. 1.
- [15] Nag, B. (2005). Trade Cooperation and Performance in East and South Asia: Towards a Future Integration", *South Pacific Development Journal*, 12(1), 1-29.
- [16] Nabi, I., et al. (2005). *Towards a prosperous Pakistan: A strategy for rapid industrial growth*. Pakistan: Lahore University of Management Sciences.
- [17] Nabi, I. (2012). Back to the future: Regional trade as a vent for economic growth. Paper presented at the 8th Annual Conference on Management of the Pakistan Economy, Lahore School of Economics, Pakistan.
- [18] Petri, A., Anita, J. & Lauri, H. (2010). Toward the theory of temporary competitive advantage in internationalization. *Advances in Applied Business Strategy*, 12(1), 121-144.
- [19] Zahid, A. K. (2012). *China's Gwadar and India's Chahbahar*. Institute of Strategic Studies Islamabad.
- [20] Ziad, H. (2013). Could Pakistan Bridge the U.S.-China Divide?" *Foreign Policy*.