

Impact of China Pakistan Economic Corridor on the
Economy of the Pakistan

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Muhammad Umair Jilani

University of Education, Lower Mall Campus, Lahore,
Pakistan.

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Abstract:

CPEC is a large-scale initiative to build energy, highway, and port infrastructure to deepen economic connections between China and Pakistan. Now the two nations are making efforts to expand their bilateral collaboration economically as well. The construction of CPEC is a milestone that signifies this shift. China and Pakistan regard the CPEC as a new source of potential synergy between their respective national development strategies, which may help the two countries translate their close political cooperation into multifaceted economic cooperation, attain mutual benefit. China first proposed the corridor project in May 2013. Chinese President Xi

Jinping then visited Pakistan in April 2015. During Xi's visit, the two countries signed 51 agreements at an estimated value of \$46 billion. The CPEC is now moving into the implementation phase. On May 6, 2016, there was an opening ceremony held in Sukkur in Pakistan's Sindh Province, as construction began on a section of highway between Sukkur and the city of Multan it will be part of a network of highways that will connect the cities of Peshawar and Karachi. This network is a major component of the CPEC's plans for infrastructure expansion, which highlights the progress the two nations have achieved thus far in the area of transportation. China hopes this will create Pakistan's internal stability, thus reinvigorating the latter's economy through investment in infrastructure projects as well as the construction of oil and gas pipelines and in turn stabilize

China's western periphery, particularly the province of
Xinjian.

Keywords: CPEC, political cooperation, economic
cooperation, potential synergy, benefit.



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1. Introduction:

Sustainable growth and development in China during the last four decades has assigned the country a special status in the world economy. The financial crisis of 2007-08 not only strengthened the Chinese economy

but also enhanced its role and say in global governance. Though China has started redefining its role in the 1990s, war on terror gave it an ample time to think and devise its strategies in accordance with the new world scenario. During this period when the world was engaged in war on terror and was hit by financial crises, China increased its trade and international recognition, revisited its old relations, and ventured in new partnerships and friendships. President Xi Jinping for the first time raised the slogan of constructive engagements across the world. South Asia, being the neighbour of China, has a special significance in enhancing the agenda of constructive engagements, which is now evident from the active engagement of Chinese leadership in South Asia. Mr. Xi visited South Asian countries, and announced huge investment packages and global community have mixed

opinion. Keeping in view all the perceptions, this paper demystifies the confusion and presents the facts.

2. Literature Review:

Pakistan and China have been enjoying cordial and friendly relations since 1950. The first decade of relations was not as smooth as it was after 1960 against the threat from India (Syed, 1974). Pakistan also utilized the Bandung Conference to clarify the doubts and China endorsed Pakistan's seven pillars of peace at the conference (Chaudhri, 1970). President Ayyub Khan's statement in 1959 about Tibet again created problems for Pakistan with especially after the China-India war, and Pakistan-India war. At first, Pakistan was reluctant to accept China due to differences between communist and capitalism blocs. The two countries also did not know much about each other,

which hindered their bilateral cooperation. Fortunately, at that time the then minister for foreign affairs, Sir Zafarullah Khan, had some knowledge about Chinese mindset, which paved the way for Pakistan-China relations (Chaudhri, 1987). Relations between the two countries later strengthened after the devaluation of Indian currency in 1949, which impacted Pakistan's economy badly. Pakistan was importing coal for its nascent industry, but the devaluation halted the trade leaving Pakistan with no choice except to enter into an agreement with China on barter trade of coal for cotton. Pakistan also supported the permanent seat of China at United Nations Security Council (Arif, 1984). Relations further enhanced after the two countries signed a trade agreement in 1953 (Dixit, 1987). Regard to relations with China (Jain, 1981). Fortunately, the damage was controlled by the then Foreign minister Zulfikar Ali

Bhutto and foreign secretary S. K. Dehlavi. Signing of agreement on border demarcation by Mr. Bhutto in 1963 gave an impetus to Pak-China relations. Moreover, China also helped Pakistan during the war of 1965, which brought two nations very close to each other. However, China's neutral stand during 1971 was conceived by many Pakistani leaders as a sign of no interest (Javaid and Jahangir, 2015). From 1970s onwards, the relations between Pakistan and China strengthened more in all sectors. China has generously supported Pakistan in military, missile and nuclear program, and economic sector, even during the sanctions imposed by the US. This led to confidence building between Pakistani and Chinese policy makers and people. As a result of this long-standing friendship, we see a big achievement in the form China-Pakistan Economic Corridor (CPEC). China has been working since decades to restore its lost glory.

Since Mao's time, China has devised a policy of cosmopolitanism and made it the most Routes as a trade and financial initiative. However, many experts believe that it is not only a trade or economic initiative but also a plan for the expansion of China's role in the world. China is building its leading role in Asia and beyond for economic and political cooperation through "One Belt One Road" (Wang, 2015). First, China worked with group of Non-Allying countries and gradually enhanced its role. Bandung Conference as launching pad and strengthened its relations with many developing countries. China also remained neutral in international affairs and focused gradually on the economic development and building economic relations with the world. The first step on this direction was its economic assistance for South East Asian Countries during the economic and financial crises of 1990. It was also the

beginning of change of relations with South East Asian Countries (Vaughn and Morrison, 2006). President Hu Jintao, during his tenure, remained focused on economic development opportunities and building more close ties. During that period, China emphasized its relations with Middle East, Central Asia and Africa. President Xi, gave a new direction to foreign policy and initiated “Constructive Engagement” policy .Economic engagement was given the prime focus to move forward the agenda of constructive and Development Bank, and Naval bases in different countries are being quoted as examples. Creation of Asian Infrastructure and Development Bank is being taken as competitive to existing financial system and supremacy of USA in the international financial sector (Xu, 2015).String of Pearls, a term which is being used to describe a series of Sea Ports, i.e. Sri Lanka, Bangladesh, Burma and Pakistan

has been considered as strategic investment to curtail India (Kabraji, 2012). Construction of Djibouti base is another example. Moreover, recently China also marked the vast area in South China Sea as its territory and claimed it as part of China. USA (State Department) has strongly opposed this move along with South East Asian partners. However, China is moving ahead on this. International media, academicians, many western countries and India believe that CPEC is a strategic corridor, which covers the trade and development needs of Pakistan. It has become one of the highly debated issues within the country and internationally. Debate has generated some controversies among different stakeholders in Pakistan, which is negatively impacting the CPEC progress. The history of Pak-China relations can be traced back since 1950. Both China and Pakistan managed their relationship in a very productive and

articulated way. Although confusion over some issues, especially during the first half 1950s and 1970s, impacted the ties but the two nations never let them altogether spoiled. Both of them helped each other at the crucial times. Pakistan helped China to connect to the world. Pakistani air space was opened for Chinese airline and PIA made travel easy for Chinese. Pakistan also advocated and supported the admission of China in UN system and permanent member of UN Security Council. Furthermore, Pakistan played the role of facilitator to arrange visit of Henry Kissinger to China, which laid the foundation for the visit of President Nixon in 1972. On the other hand, China also supported Pakistan during the times of need and helped Pakistan built its military and economic capabilities, especially Heavy Mechanical Complex, Taxila in 1968, Ordinance Factory in East Pakistan in 1970 and Aeronautical Complex (Javaid and

Jahangir, 2015). During the sanctions imposed by USA in 1980s, 1990s and 2000s, China helped Pakistan in every field deal on missile and nuclear programme. China resisted to this pressure and continued to help Pakistan. Andrew Small (2015) was of the view that most of the deals and cooperation were kept secret in efforts to avoid criticism. He coined a term “Cooperation in Shadows” to describe the relation .Over the years both countries developed a strong bond of trust. Trust always has been key element of strong relations. Building on the past, Chinese foreign policy gives a special focus to Pakistan in future endeavours of China. China-Pakistan Economic Corridor is one of the most prominent examples of that. The two governments had been working on the concept for a long time (almost two decades). Both countries tried to move on bit-by-bit and smooth the process to implement the final phase. Joint

Deceleration of 2003, after the visit of President Musharraf, is first document, which outlined the future cooperation plans of two countries. Later, Free Trade Agreement was signed in 2006, which helped boost the trade. Trade reached to \$15.15billion in 2015 from \$1 billion in 1998(VANDEWALLE, 2015). Further both the governments have plans to increase the trade up to \$18billion till 2018 (See Annexure).Former President Asif Ali Zardari also pursued the whole development very actively to secure CPEC and cooperation from China during the last PPP-led government. Present government has been keeping the momentum and is actively engaged with Chinese government .President Xi during his visit inaugurated some projects along with Prime Minister Nawaz Sharif. Economic significance of the CPEC is very high. It will give an impetus to economic growth and development.

3. Research methodology:

BMA capital did an analysis of CPEC on national economy.

4. Research design:

Private investment will add 0.5 per cent to the GDP of country. Second, they analyzed the potential impact of investment on national GDP. According to a study, for one-unit incremental growth in GDP, there is need for 3.6 units of incremental investment. CPEC will increase GDP growth rate at 1.5 per cent in next three years. Moreover, it will also enhance the private investment due to positive environment, economic opportunities, improved infrastructure, stable economy and generation of much needed energy. Despite this enormous potential, CPEC is surrounded by the

controversies on the route. Baluchistan and KPK argue that the government has changed initial route.

Controversy started to emerge by the end of 2013 and start of 2014. PSDP allocation in 2014-15 made it sharper and the government remained silent on the issue.

Later, the government insisted that there would be no change in route and maintained this stance for quite a while. Meanwhile, an advocacy campaign started that there would be two routes, Eastern and Western, and Western route will be given the priority. Budgetary allocations were/are contrary to the government claims for giving the priority to western Allocation shows that the government is focusing more on Eastern route and is giving less preference to the Western route. Dr Qasir tried to sum up the debate and presented rationale for action on any route. According to him, the first

presentation on the subject in 2005 only contained the central route.

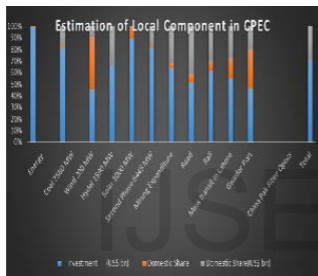


Figure 1: Estimation of Local Component in CPEC

5. Data collection and analysis:

He concluded that Eastern route would be costly on the basis of production loss, population displacement and loss of productive land (Bengali, 2015). He also talked about the Central route and according to him Central route original route. This route was proposed and presented by Deputy Chairman of Planning commission, in his first ever presentation to President Musharraf in 2006. He emphasized on the revival of first route. Moreover, he proposed that in the present debate of Eastern and Western routes, priority should be given to Western route or at least it should be treated like Eastern route. Apart from the importance of CPEC for Pakistan, there is another dimension. It also has a special significance for China and its future role as great power at global level. China considers regional connectivity as a fundamental element and first step to rise at global level. President Xi, during his address to

Foreign Affairs committee at Communist Party meeting in 2014, said that we will give priority to neighbours in our diplomacy on all fronts (Xi Jinping, 2014). Other part of policy is to build relations with developing countries and resource rich, including energy rich, countries. It will help china brand as the development partner and non-interfering ally (Go dement, 2014).President Xi's visit to Saudi Arabia and Egypt (and Iran will be final destination) is another step to enhance the periphery of friend, on the lines defined in foreign policy. China has offered to invest \$55 billion to the Middle East as loan for development of industry, road, infrastructure, and energy exploration. Mr. Xi was present at the opening of joint oil refinery venture in Saudi Arabia. Both countries have agreed to work on "Comprehensive Strategic Partnership" framework. This is exactly in line with the policy of China to enhance the

constructive engagement. These investments in region will boost trade ties and Chinese products would be in great demand. After having a brief look at above mentioned developments, it would be easy to understand the importance of CPEC. Strategic location of CPEC is cortical, as it is located at the meeting point of Road Belt and Maritime Belt (Shah, 2015). It will provide opportunity to China to establish and strengthen its position in Indian Ocean. It will also help secure the Energy route from Middle East and Africa, which is critical for China's future development. Route of energy will also be shortened considerably (Bhattacharjee, 2015). It would also be easy and cost effective for China to reach the Middle East and North African markets, among others. Analysis of facts and figures shows that CPEC is critically important for both countries. Pakistan needs it to overcome its economic, development, social

and energy problems. China needs it to expand its periphery of influence, consolidate its global presence and securing future supply routes of energy and trade goods. However, important point to note here is that concept was developed by China, as part of its policy “Go Global 2001”. Pakistan is one of the beneficiaries of Chinese dream. Therefore, it is advisable for Pakistan to remain focused on development of the country rather than wasting time on petty issues. Provincialism should not be given the chance to hijack the development agenda by any stakeholder, including the federal government.

6 .Results and Recommendations:

From the analysis it is found that CPEC leads to 2.00% increase in GDP growth potential of Pakistan.

1. Government must make decision on the basis of economic gains and multiplier impact on the economy.
2. Route prioritization must have decided on the basis of population density (directly relates to population displacement), productive land under the route, loss of production.
3. Strategic importance and its relevance for Pakistan in short and long run must give due importance.
4. Transparency must be ensured for smooth functioning and equal distribution of benefits.
5. Government must use the existing institutions (Council for Common Interest) for resolving all controversies related to CPEC. Last, but the most important aspect, all stakeholders must have good

understanding of Chinese needs, as China is investor of the project.

7. Conclusion:

During the Analysis it has been found that China Pakistan Economic Corridor produce 2.00% increase in GDP growth potential. Through this mega project Pakistan will become the hub of business and trade in Asia and western china will penetrate into Asian and European market. It will cater to the needs of all federating units of Pakistan through proper rail and road network.

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