

Role of CPEC in the Economy of Pakistan along with its Threats

Muhammad Hamid, Hassan Sardar Khan, Arslan Khaliq, Muhammad Ajmal

Abstract: The China-Pakistan Economic Corridor (CPEC) is a concept to unleash the process of meaningful cooperation between China and Pakistan, and for the benefit of China and West Central and South Asia. This mega project is expected to take the strengthen relationship between Pakistan and China to new heights. A hope to transform the economy and help to overcome Pakistan's power shortfall. The strategic meaning of CPEC needs to be defined and examined from different perspectives Historical, Economic, Cultural, and Political. CPEC is a big opportunity for economic development of Pakistan with the building of a network of roads, highways, railways from Khunjerab, the PAK-CHINA border, to the Gwadar. GWADAR is important PORT due to its depth.

Introduction:

Pak-China relationships have kept growing and have strengthened ever since 1951 when friendship began. Good relationships with China have always been a key component of Pakistan's foreign policy. The foreign policy of China towards South Asia consists of State to State relationships with some principles which are no interference in internal affairs, mutual trust, respect of sovereignty of independent state, understanding and confidence. China biggest interest in South Asia interest is its economic interest. China has good relations with countries of its region to get economic benefits.

The relationship between Pakistan and China became closer and stronger with the passage of time. Both states are enjoying deep diplomatic, defense, economic and Cultural ties. (Kataria & Naveed, 2014). Pak-China relationship constant from the very beginning. The Pakistan-China relations are cemented in major fields of geo-politics, strategic, economics, civil and military infrastructural development and other related areas of bilateral cooperation and investment. (Makhdoom, Khan, & Khan). China and Pakistan have developed friendly relationship to contain Indian dominance in the region. It has balanced the power (military and economic) and Indian threat has also been minimized (Ahmed & Nagra, 2014). In his foreign policy China give highly importance to South Asia.

President of China says on his official message "Friendship between China and Pakistan is based on trust and mutual support, and we have been devoted friends through both good and hard times. Our friendship is a pacesetter for amicable relations between countries." Mr. Xi Jinping

CPEC is a framework of regional connectivity between two neighboring countries Pakistan and China. CPEC will not only benefit China and Pakistan but will have positive impact on Iran, Afghanistan, India, Central Asian Republic, and the region. The enhancement of geographical linkages having improved road, rail and air transportation system with frequent and free exchanges of growth and people to people contact, enhancing understanding through academic, cultural and regional knowledge, activity of higher volume of flow of trade and businesses, producing and moving energy to have more optimal businesses and enhancement of co-operation by win-win model will result in well connected, integrated region of shared destiny, harmony and development.<http://cpec.gov.pk/>

Pakistan and China develop plans for the CPEC in April 2015, when they signed fifty-one agreements and MOU on Chinese investments, total of \$46 billion over the next ten to fifteen years. CPEC is long journey towards economic regionalization in the globalized world. It founded peace, development, and win-win Situation for all of them. China Pakistan Economic Corridor is hope for the better future of the region with collaboration, peace, development and growth of the economy.

China-Pakistan Economic Corridor is a very Critical Infrastructure project for both the countries. CPEC is a mutually beneficial project which full fill the objectives of both the countries. It provides an alternate secure route to China to import Energy and find new markets for its goods and services. For Pakistan it helps to overcome energy crisis, Infrastructure development, Removal of poverty, Peace and prosperity in Provinces and main purpose to counters Indian influence in the region, position itself as a major transit point connecting Eurasian region with South Asia and South East Asia & provide base point to kick start its economic growth.

In Pakistan, CPEC activities are being managed by the Ministry of Planning and Development in partnership with China's National Development and Reform Commission (NDRC). Both sides have established a Joint Cooperation Committee which focused on four main areas: Transport infrastructure, the Gwadar Port, energy, and industrial cooperation.

There are many constraints for CPEC like political & economic development, Geostrategic dynamics and Security-related threats (Sial, 2014). With second largest economy China have great opportunities for Pakistan to take advantage for

it.Chinese investment is playing important role to uplift Pakistan's weak economy.(**Kataria & Naveed, 2014**)

The CPEC Benefits for Pakistan are: to overcome energy crisis, Infrastructure development, Removal of poverty, Peace and prosperity in Provinces and Economic Development.(**Abid & Ashfaq, 2015**)

Literature Review:

Economic corridors are networks of infrastructure within a defined geographical area designed to stimulate economic development. Corridors may be developed within a country, between different countries or regions. Corridors already exist in Asia, Africa and some other areas. The Asian Development Bank (ADB), which first used the term in 1998, defines economic corridors as important networks or connections between economic agents along a defined geography, which link the supply and demand sides of markets(**Brunner, 2013**).corridors are planned as economic corridors and the objective from the start is to achieve a combination of hard infrastructure, transport and logistics services, institutional instruments, and community involvement that results in broad-based development of unrealized economic potential.(**Hope & Cox, 2015**)

China–Pakistan Economic Corridor

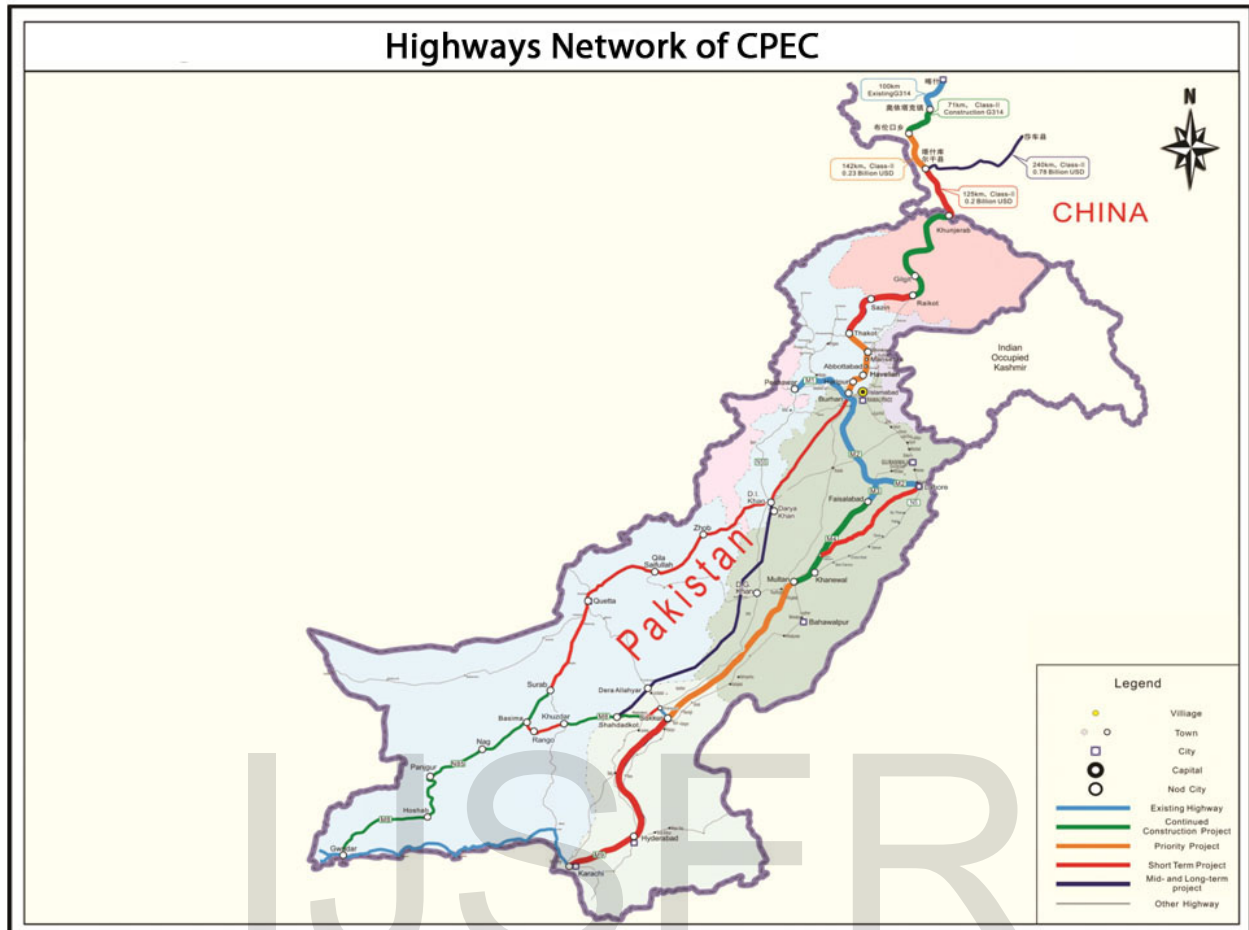
The China–Pakistan Economic Corridor often referred CPEC, is a collection of projects currently under construction at a cost of \$46 billion, intended to rapidly expand and upgrade Pakistani infrastructure as well as deepen and broaden economic links between Pakistan and the People's Republic of China. The corridor is considered to be an extension of China's ambitious One Belt, One Road initiative.

To improve the lives of people of Pakistan and China by building an economic corridor promoting bilateral connectivity, construction, explore potential bilateral investment, economic and trade, logistics and people to people contact for regional connectivity. It includes:

- Integrated Transport & IT systems including Road, Rail, Port, Air and Data Communication Channels
- Energy cooperation
- Functional zones, industries and industrial parks
- Agricultural development & poverty alleviation
- Tourism cooperation & people to people communication
- Cooperation in livelihood areas
- Financial cooperation
- Human Resource Development

China Pakistan Economic Corridor is journey towards economic regionalization in the globalized world. It founded peace, development, and win-win model for all of them. China Pakistan Economic Corridor is hope of better region of the future with peace, development and growth of economy. There are five main components of CPEC.

1. Gwadar (including port, city and Gwadar region socio-economic development)
2. Energy (Coal, Hydel, Wind, Solar, LNG, Transmission)
3. Transport Infrastructure (Road, Rail, Aviation)
4. Investment & Industrial Cooperation (Gwadar Free Zone and other industrial parks to be finalized)
5. Any other area of interest mutually agreed.



¹Source: CPEC Official website

CPEC Potential

China Pakistan Economic Corridor has Significance for the development of the region

Potential areas of cooperation/development include:

¹<http://cpec.gov.pk/map-single/1>

- Regional Connectivity
 - Transport Infrastructure
 - Energy flows
 - Logistic flows
 - Trade & Commerce
 - Peace & development of region
 - Connectivity of civilizations
- Diverse Investment opportunities
- Industrial Cooperation
- Financial Cooperation
- Agricultural Cooperation
- Tourism
- Educational linkage
- Human resource development
- Health Care
- People to people contact
- Increase in livelihood opportunities
- Enhance Security and stability of the region

CPEC Projects

- **Energy Projects** (Include Energy Priority Projects and Energy Actively Promoted Projects)
- **Infrastructure Projects** (Road and Rail Sector Projects)
- **Gwadar Projects** (Gwadar International Airport, Necessary Facilities of Fresh Water Treatment and Supply, Hospital at Gwadar, Infrastructure for Free Zone & EPZs port related industries)
- **CPEC Others Projects** (Cross Border Optical Fiber Cable, Digital Terrestrial Multimedia Broadcast)

Objectives

- 1) Impact of CPEC on the Economy of Pakistan.
- 2) How will the economic corridor be a win-win situation for both countries?
- 3) CPEC challenges for Pakistan.
- 4) Future of CPEC and recommendations.

Role of CPEC in the Economy of Pakistan

Pakistan's economy continues to maintain its growth momentum for the 3rd year in a row with real GDP growing at 4.71 percent in FY 2016 which is the highest in eight years.

Growth accelerated in Pakistan in FY2016 on the back of economic reforms, low oil prices, and improved security.²

Pakistan is a developing country and is one of the Next Eleven, the eleven countries that, along with the BRICS, have a potential to become one of the world's large economies in the 21st century. Pakistan is currently undergoing a process of economic liberalization, including privatization of all government corporations, aimed to attract foreign investment and decrease budget deficit. In 2014, foreign currency reserves crossed \$18.4 billion which has led to stable outlook on the long-term rating by Standard & Poor's. In 2016, BMI Research report named Pakistan as one of the ten emerging economies with a particular focus on of its manufacturing hub. In October 2016, the IMF chief Christine Lagarde confirmed her economic assessment in Islamabad that Pakistan's economy was out 'crisis'

The major source of growth is the China-Pakistan Economic Corridor (CPEC) initiative a \$46 billion package of projects that is an extension of the People's Republic of China's proposed 21st century Silk Road. To put this in perspective, the amount of investment roughly equals 20 per cent of Pakistan's GDP (**Liepach, 2016**). With CPEC Pakistan is entering into a new phase of economic development. (**Dr Ahmad Rashid Malik, 2016**)

i. Overcome Energy Crisis:

²<https://www.adb.org/countries/pakistan/economy>

Energy generation will be a major focus of the CPEC project, with approximately \$33 billion expected to be invested in this sector. As part of the “Early Harvest” scheme of the CPEC, an estimated 10,400 MW of electricity are slated for generation by March 2018 as part of CPEC’s “Early Harvest” projects. It includes Renewable-energy projects, Coal based plants and Liquefied Natural Gas.

Moody’s Investor Service, one of the three major international credit rating agencies has said that China-Pakistan Economic Corridor (CPEC) project will help in overcoming energy crisis in Pakistan.(Ali, 2016)

The implementation of the China-Pakistan Economic Corridor will likely support activity further, and in concert with energy sector reforms will improve the operating environment for investment.(Corporation, 2016)

ii. Infrastructure:

CPEC Infrastructure Projects include road and rail sector projects.(Planning & Reform, 2016).Minister for Finance Ishaq Dar said the ongoing projects under the China-Pakistan Economic Corridor (CPEC) are stimulating further investment in infrastructure developments in Pakistan.(The news, 2016).

To ensure smooth and efficient movement of goods and passengers in healthy environment, NHA has planned to develop approximately 2,395 km long China-Pak Economic Corridor (CPEC) connecting Gwadar to Kashghar (China) and Karachi - Lahore Motorway (KLM) 6-lane controlled access. (economic survey 2016)

iii. Employment:

China-Pakistan Economic Corridor (CPEC) is expected to add over 2 million direct and indirect jobs to Pakistan's economy and boost the country's GDP growth rate to 7.5 percent, says report released by a think-tank of South Asian Investors. According to the report, the CPEC-related projects will create some 700,000 direct jobs during the period 2015–2030 and raise its GDP growth rate to 7.5 percent, adding 2.5 percentage points to the country's current GDP growth rate of 5 percent.(INP, 2016)

iv. Digital Pakistan:

CPEC have chalked out an impressive program through which we can explore various opportunities in addition to mere energy projects. With the launch of CPEC, the installation of fiber optics and satellite Internet connections will be done in remote areas and it can help boosting up the Internet user density. Moreover, once the major infrastructure (renovation of Gwadar and other routes as agreed by all parties) is built, more and more multi-national telecommunication companies will be attracted by lucrative environment.

v. Gwadar Port Projects:

Gwadar has garnered national and international interest is because it is a hub port and enjoys the benefits associated with the Hub Status. In essence, a hub port is the single concentrated point for the collection of various trades.

There have been numerous empirical studies that define a positive correlation between growth and trade⁴³. Gwadar, being a hub port, has modern cargo facilities that allow it to meet the increasing challenge of the world trade. The advantages of being a transshipment hub is economical as it provides local importers and exporters direct access to line haul service which reduces the transportation time to and from overseas markets. The reduction in transportation time directly impacts the costs of imports, and consequently creates more jobs and income throughout the economy. The China-Pakistan Economic project will upgrade Gwadar port to enhance its effectiveness.

vi. Industrial and investment Cooperation:

Industrial cooperation is an important field of CPEC. It is of vital importance to the uplifting of the level of economic cooperation and expansion of the space for industrial cooperation between our two countries. It carries huge potential and a bright future. Both sides will keep on communication with each other on the deepening of industrial cooperation, and hopefully identify a series of win-win projects that can yield favorable economic and social benefits.

vii. Tourism:

GB is called a paradise for mountaineers and is home to five of the 14 'eight-thousanders' (peaks above 8,000 meters) in the world, including the second highest mountain, K2, and the infamous 'Killer Mountain', Nanga Parbat. It also hosts more than 50 mountains with an elevation of over 7,000 meter. this project would also promote tourism in GB, which would ultimately be favorable for the local public.

CPEC Significance for China

More than half of the world's proven oil reserves are located in the Middle East, the top region-based seller of crude oil to China. China is already reliant on the oil from these regions Via Strait of Malacca. this corridor will also open routes for China's private sectors and businessmen into world's fastest growing economy of Pakistan and to world via Pakistan.

IJSER

Threats/Issues Related to CPEC

➤ **Security Related issue**

Security concerns have been the most critical challenge to the CPEC and both Pakistan and China have been trying to meet these. For the Economic Corridor to be successful, it must address the challenges of security in a comprehensive manner to prevent risks in the future.

➤ **Political instability**

Political instability is another threat to cpec. If Pakistan expects to harvest the fruits of the CPEC opportunity, it has to undertake favorable policies on the same pattern as China.

➤ **Allegations from some political parties**

Cpec a clear cut economic agenda has been turned into a political one. Some planning aspects and technicalities associated with the route have been criticized in political forums and by the media.

➤ **Close Competition**

The future challenges to the port will be the rising competition from the existing ports. Furthermore, Gwadar port will face intense competition from existing and upcoming trade. It also faces competition from the Iranian ports of Bandar Abbas1 , Chahbahar and the port of Jebel Ali in U.A.E.

➤ **Weather Condition**

The Khunjerab Pass remains closed from November to May due to heavy snow;147 these extreme weather conditions also bring with them an array of

technical difficulties for transportation companies. if an upgrade of certain roads might help solve these difficulties implementing the KKH.

Conclusion

China Pakistan Economic Corridor is the game changer Project for Pakistan. As a result, not only China and Pakistan, but also the world economy will benefit from the integration of this region. For China it provides an alternate secure route to import Energy and find new markets for its goods and services. For Pakistan it helps counters Indian influence in the region, position itself as a major transit point connecting Eurasian region with South Asia and South East Asia and provide a much needed base to kick start its economic growth.

It will be the source of progress and prosperity for the largest and most underdeveloped province of Pakistan: Balochistan. This project aims to develop the rail infrastructure, address the energy problem and transform Gwadar Port for enhanced regional and global trade connectivity. These projects offer development and will lead towards collective positive change in the society.

References

- Abid, M., & Ashfaq, A. (2015). CPEC: Challenges and Opportunities for Pakistan. *Pakistan Vision, 16*(2).
- Ahmed, M., & Nagra, G. M. (2014). CHINESE INTERESTS IN SOUTH ASIA. *Asia Pacific-Annual Research Journal of Far East & South East Asia, 32*.
- Brunner, H.-P. (2013). What Is Economic Corridor Development and What Can It Achieve in Asia's Subregions? *Asian Development Bank Economics Working Paper Series*(117).
- Hope, A., & Cox, J. (2015). Development Corridors.
- Kataria, J. R., & Naveed, A. (2014). Pakistan-China Social and Economic Relations. *South Asian Studies, 29*(2), 395.
- Makhdoom, A. W., Khan, A. B., & Khan, M. A. A Study of Pakistan-China Defense Relations (2000-2012).
- Sial, S. (2014). The China-Pakistan Economic Corridor: an assessment of potential threats and constraints. *Conflict and Peace Studies, 6*(2), 24.

Source: <http://defence.pk/threads/an-analysis-of-china-pakistan-economic-corridor.404065/#ixzz4NpL6kaqf>

Liepach, W. (2016, November 2). Three pathways to a bright future - Werner Liepach. Retrieved November 5, 2016, from <https://www.adb.org/news/op-ed/three-pathways-bright-future-werner-e-liepach>

Ali, S. (2016, August 27). CPEC to help overcome energy crisis in Pakistan: Moody's. Retrieved November 5, 2016, from <https://en.dailypakistan.com.pk/business/cpec-to-help-overcome-energy-crisis-in-pakistan-moodys/>

Corporation, M. (2016, April 27). Moody's: Pakistan's B3 rating reflects strengthening growth, progress on structural reforms. Retrieved November 5, 2016, from Asia Pacific Sovereign & Supranational Issuer Research, https://www.moodys.com/research/Moodys-Pakistans-B3-rating-reflects-strengthening-growth-progress-on-structural--PR_347953

Planning, D. M. of, & Reform. (2016). China-Pakistan economic corridor(CPEC) official Website. Retrieved November 5, 2016, from <http://cpec.gov.pk/infrastructure>

The news. (2016, November 5). "CPEC attracting investment in infrastructure development." Retrieved November 5, 2016, from <https://www.thenews.com.pk/print/162381-CPEC-attracting-investment-in-infrastructure-development>

INP (2016) Retrieved from <http://nation.com.pk/business/08-Oct-2016/cpec-to-boost-pakistan-gdp-growth-to-7-5>

Dr Ahmad Rashid Malik (2016, May 17). . Retrieved from <http://nation.com.pk/columns/17-May-2016/cpec-transforming-pakistan-s-economy>

IJSER