

# China- Pakistan Economic Corridor (CPEC), Its Impacts On Pakistan Economy

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*Abstract: China is opening up its land borders in Xinjiang to interact more freely with central Asia and Europe. China and Pakistan are jointly building the china- Pakistan Economic Corridor (CPEC), with passes through Pakistan-occupied Kashmir. India views this as violation of its sovereignty. Geopolitics rather than geo-economics predominates India's thinking on possibilities offered by the revival of the old Silk Road by the Chinese. The CPEC project has been divided into phases, the first phase being the completion of Gwadar International Airport and major developments of Gwadar Port. This phase is expected to be completed by the year 2017. The project also includes the expansion of Karakoram Highway- the road that connects China with Pakistan and placement of fiber-optic line ensuring better communication between the two countries. This paper analyses the steps that should be taken to favour this scenario and warns about the consequences of poorly-managed implementation of the CPEC such as aggravating divisions within Pakistan and heightening tensions between Islamabad and other regional players. This paper will also look into the prospective implications of the CPEC on development of Pakistan and other neighboring countries.*

**Keywords: CPEC, Development, Economy, Phases, Silk Road Etc.**

## I. INTRODUCTION

The 3,000 km-long china Pakistan economic corridor (CPEC) consisting of highways, railways and pipelines is the latest irritant in the India-china relationship. The corridor connects china's landlocked western province of Xinjiang to Gwadar port in south Pakistan. According to Pakistan Economic Survey 2014-15, the volume of trade between Pakistan and China has increased to \$16 billion. China's exports to Pakistan increased by ten percent during the five years from 2009-10 to 2014-15. As a result, China's share in Pakistan's total exports has gradually picked up from four percent in 2009-10 to nine percent during the fiscal year 2014-15. The most recent milestone achieved in this bilateral relationship is the signing of Memorandum of Understanding on the construction of China-Pakistan Economic Corridor (CPEC). CPEC is a 3,218 kilometer long route, to be built over next several years, consisting of highways, railways and pipelines. The actual estimated cost of the project is expected to be US \$75 billion, out of which US \$45 billion plus will

ensure that the corridor becomes operational by 2020. The remaining investment will be spent on energy generation and infrastructure development. The much advertised US \$45 billion China-Pakistan Economic Corridor will pass through the beautiful Gilgit-Baltistan province in the north which will connect Kashgar in China's western province Xinjiang to rest of the world through Chinese-operated Gwadar port in the country's south. This mega project is expected to take the bilateral relationship between Pakistan and China to new heights; it's a beginning of a journey which hopes to transform the economy and help bridge Pakistan's power shortfall. The CPEC project has been divided into phases, the first phase being the completion of Gwadar International Airport and major developments of Gwadar Port. This phase is expected to be completed by the year 2017. The project also includes the expansion of Karakoram Highway- the road that connects China with Pakistan and placement of fiber-optic line ensuring better communication between the two countries. It is estimated that if all the planned projects are implemented, the value of those projects would exceed all foreign direct

investment in Pakistan since 1970 and would be equivalent to 17% of Pakistan's 2015 gross domestic product. It is further estimated the CPEC project will create some 700,000 direct jobs during the period 2015–2030 and add up to 2.5 percentage points to the country's growth rate.

## OBJECTIVES

- ✓ To assess the economic impact on local people of the Pakistan.
- ✓ To assess the future relationship between Pakistan and china.
- ✓ To highlight the Benefits of CPEC on Pakistan economy
- ✓ To find out the various obstacles faced by the CPEC.

## II. OBSTACLES

The massive prospective benefits that the CPEC can bring to Pakistan are contingent to its actual implementation which faces serious obstacles. One of the most obvious is security situation of the country that poses a bigger challenge despite the improvements on that front during the past two years. The well-known pro-independence Baloch leaders have denounced the negative impact they believe the CPEC will have in Balochistan and some have even warned China to stay away from Gwadar. Beijing's concerns on this issue made the Pakistani authorities announce, during Xi Jinping's visit to Islamabad in April 2015, the creation of a 12,000 strong force devoted to protecting Chinese interests and nationals in Pakistan. This new Special Security Division is funded by Pakistan, although certain well-informed sources have suggested that China will provide some equipment. Moreover, Rs 45 billion is expected to be spent in fiscal year 2016 on raising the security unit and on Operation Zarb-e-Azb. This is a key issue since Beijing has become more sensitive over the past years to attacks against Chinese nationals on foreign soil. Security of the CPEC is also closely interlinked with regional geopolitics, particularly with India's stance on the initiative and on the stabilization of Afghanistan. In India, many voices have raised concerns about the CPEC, and even the Indian Prime Minister, Narendra Modi, criticized the project as "unacceptable" during his visit to Beijing in June 2015. Indian reservations are mainly related to certain CPEC transport projects crossing Gilgit-Baltistan, part of the disputed territory of Jammu and Kashmir, and the implications of China's easier access to the Indian Ocean and how they might affect India's security and strategic context. Various quarters in Pakistan believe that these misgivings have even led to cooperation between Indian security agencies and Pakistani militants, especially following the arrest in Baluchistan in March 2016 of an alleged officer of the Research and Analysis Wing. This is not to deny that the CPEC can offer incentives for India to improve its relations with Pakistan since the corridor could facilitate Indian access to Central Asia. In other words, the CPEC can also contribute to improve regional connectivity and security. The potential contribution of the CPEC to regional stability is more evident, at present, with regard to Afghanistan. Peace in Afghanistan is a key factor for the success of the CPEC and the reduction of international support

for the East Turkestan Independent Movement militants. These are the main reasons of Chinese decision to participate in a joint effort with the governments of the US, Pakistan and Afghanistan to revive the Afghan peace process. Another difficulty is the lack of experience in mutual economic cooperation since Pak-China relations have been traditionally limited to political and military factors. This scant economic interaction is illustrated by trade and investment figures. The value of bilateral trade was below US\$1 billion until 2001 and China ranked among the three main foreign investors in Pakistan during only one fiscal year (2006-07) in the previous decade. Therefore, it can be argued that the CPEC incorporates an economic pillar to this long and consolidated bilateral relationship and both sides are now learning how to co-operate in this field.

## III. ECONOMIC CORRIDOR

Unlike transit corridors, economic corridors are explicitly designed to stimulate economic development. In order to overcome its energy crisis, Pakistan needs to articulate an industry and trade boosting programme to gain from the CPEC in terms of additional business opportunities, apart from temporary jobs. The fact that the lion's share of CPEC-related investment will be allocated to projects in the energy sector, to help Pakistan overcome its chronic energy crisis is a solid indication that the China-Pakistan corridor honors its official designation as an economic corridor. Most of the energy projects are being financed under a build-own-operate model. In this scenario, Chinese investors are entering the Pakistani energy market as independent power providers with special protection guarantees. Chinese independent power-providers are assured an 18 per cent return on their investment whereas the rest are getting a 17 per cent return for their equity; and some complain that this would distort the level playing field. This, like the establishment of exclusive Chinese special economic or industrial zones should be managed with extreme caution in order to avoid potential Sino phobic feelings that might hinder the implementation of the CPEC. In any case, if the energy projects are implemented and the National Electric Power Regulatory Authority (NEPRA) is able to set prices that are acceptable to investors and consumers, the spillover effect on the Pakistani economy will be colossal.

How the CPEC favors the mobilization of Pakistan's industry and trade sectors is not clear at present. The Government of Pakistan has proposed the creation of 29 industrial parks and 21 mineral zones and 27 of them to be granted the status of Special Economic Zones (SEZ). The most advanced of these projects is the 9 km<sup>2</sup> Gwadar SEZ, expected to be fully functional by the end of 2017, which will accommodate industrial units for mines and minerals, food processing, agriculture, livestock and energy. It is hoped that these initiatives might attract Chinese investment, technology and know-how, which will translate into greater and more diversified Pakistani exports. The two projects, joint cotton biotech laboratory and a joint marine research centre which are already agreed upon can contribute to achieve these objectives. However, the traditional perception in the Pakistani business community is that Chinese investors are neither

interested in investing in Pakistan as an export base nor in generating profits from Pakistan through joint ventures of private foreign ownership. Indeed, Pakistan-China Industrial Cooperation Committee is not yet established and the absence of concrete financial commitments for most of the announced industrial parks and mineral zones are not very promising signs.

#### IV. DEVELOPMENT CORRIDOR

There are three routes (Western, Central and Eastern) of the CPEC, after it enters Khyber-Pakhtunkhwa from the Khunjerab Pass and Gilgit-Baltistan. Through the first (Western) route, the CPEC will enter Balochistan via Dera Ismail Khan to Zhob, Qila Saifullah, Quetta, Kalat, Punjgur, Turbet and Gwadar. The second (Central) route goes from Dera Ismail Khan to Dera Ghazi Khan and onwards to Dera Murad Jamali, Khuzdar, Punjgur, Turbet to Gwadar. The third route (Eastern) enters the Punjab province from Khyber Pakhtunkhwa, going through Lahore, Multan and Sukkur, from there it takes the traditional highway to enter Balochistan, passing through Khuzdar, Punjgur, Turbat and Gwadar. An alternate route is to go from Sukkur to Karachi and from there take the coastal highway to Gwadar. It is important to adopt additional measures so that all the regions of the country reap the gains from the CPEC.

It is generally believed that in the early project stage priority is given to the eastern route at the expense of the western one and to local conglomerates such as the Dawood Group at the expense of small and medium enterprises. In this scenario, it is believed that the CPEC could lead to growing inequality and materialize into local discontent. Therefore, additional measures are needed to make the most out of the CPEC and to ensure that the economic opportunities opened up by the initiative should translate into development opportunities for wide strata of Pakistan's population and help foster a more cohesive country. There are great expectations throughout Pakistan on the potential benefits of the CPEC, but if no sense of ownership is given to local governments and communities the situation could change. Influential voices, such as, Maulana Fazlur Rehman, the leader of the Jamiat Ulema-e-Islam, initially criticized the CPEC assuming that the project would not benefit their constituencies. These precedents require a more committed participation by local actors in the CPEC through consultation and engagement. Another key measure is investing in education in order to entitle local communities to exploit the opportunities that the CPEC offers. Even if the infrastructure, logistics and regulatory frameworks are right, industrial parks will demand skilled workers. Establishing vocational schools is an excellent way to increase the educational improvement of the local labour force. However, this point is not completely neglected as US\$10 million Pakistani-Chinese technical and vocational institute is scheduled to open its doors in Gwadar by December 2017, a bigger commitment on this front would be very welcome. Furthermore, the federal government should also provide industrial policies and commerce and trade experts to provincial governments to develop local capacities in these areas and avoid a disconnection between the policies

of the central government and local economic sectors. Meanwhile, the financial sector should give more attention to small and medium-sized enterprises, which faces difficulties in obtaining finance in Pakistan.

#### V. BENEFITS

The CPEC will open doors to immense economic opportunities not only to Pakistan but will physically connect China to its markets in Asia, Europe and beyond. Almost 80% of the China's oil is currently transported from Strait of Malacca to Shanghai, (distance is almost 16,000 km and takes 2-3 months), with Gwadar becoming operational, the distance would reduce to less than 5,000 km. If all goes well and on schedule, of the 21 agreements on energy- including gas, coal and solar energy- 14 will be able to provide up to 10,400 megawatts (MW) of energy by March 2018. According to China Daily, these projects would provide up to 16,400 MW of energy altogether. As part of infrastructure projects worth approximately \$11 billion and 1,100 kilometer long motorway will be constructed between the cities of Karachi and Lahore. While the Karakoram Highway between Rawalpindi and the Chinese border will be completely reconstructed and overhauled. The Karachi-Peshawar main railway line will also be upgraded to allow for train travel at up to 160 kilometers per hour by December 2019. Pakistan's railway network will also be extended to eventually connect to China's Southern Xinjiang Railway in Kashgar. A network of pipelines to transport liquefied natural gas and oil will also be laid as part of the project, including a \$2.5 billion pipeline between Gwadar and Nawabshah to transport gas from Iran. Oil from the Middle East could be off loaded at Gwadar and transported to China through the corridor, cutting the current 12,000 km journey to 2,395 km. It will act as a bridge for the new Maritime Silk Route that envisages linking 3 billion people in Asia, Africa and Europe, part of a trans-Eurasian project. When fully operational, Gwadar will promote the economic development of Pakistan and become a gateway for Central Asian countries, including Afghanistan, Uzbekistan, linking Sri Lanka, Iran and Xinjiang to undertake marine transport. Over \$33 billion worth of energy infrastructure will be constructed by private consortia to help alleviate Pakistan's chronic energy shortages, which regularly amount to over 4,500MW, have shed an estimated 2-2.5% off Pakistan's annual GDP. With approximately \$33 billion expected to be invested in energy sector projects, power generation assumes an important role in the CPEC project. Over 10,400MW of energy generating capacity is to be developed between 2018 and 2020 as part of the corridor's fast-tracked, Early the region of Baltistan is known for its fresh fruit exports, like cherries, apricot and apples, CPEC will be a game changer by opening business opportunities for the region's traders. This will provide local traders with an advantage and help them double their sales by tremendous saving in cost of transportation. Presently, fruits are being exported through air-cargo via Dubai it would be faster and cheaper if the same could be sent by road to China via Xinjiang.

## VI. CONCLUSION

The CPEC appears to be a very crucial project for both the countries. 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. The CPEC provides an opportunity to reinvigorate Pakistan's economic structure, particularly, through the development of its energy sector and by fostering a greater connectivity. Unfortunately, the huge potential of the CPEC for promoting socioeconomic development in Pakistan has sometimes led to over expectations and to an uncritical approach to the project. The CPEC is at a very early stage and it is impossible to confirm, at present, the actual impact of the project. In this context, this paper presented different scenarios of the eventual impact of CPEC on Pakistan in order to promote a debate on ways and means to maximize its benefits in terms of prosperity and stability. Should the CPEC become a development corridor for most of Pakistan it would increase employment generation, alleviate poverty, help to maintain law and order by engaging youth in commercial activities and improve the socioeconomic outlook and indicators. Strengthening the weak links between Pakistan's domestic commerce and its exports should boost both exports and investment, and foster innovation in products and services. All of this would significantly increase the country's GDP and have a multiplier effect on taxation besides making room for increased expenditure on social sectors such as education, health and basic amenities. In this context, the CPEC could even contribute to improving security in Pakistan, indirectly through incentives for regional stability and better relations

with India, and directly through development opportunities for Baluchistan and Khyber Pakhtunkhwa.

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