

CPEC: An Opportunity for a Prosperous Pakistan or Merely a Mirage of Growth and Development

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Abstract

China-Pakistan Economic Corridor (CPEC) is an opportunity that is expected to bring development, growth and prosperity directly for Pakistan and indirectly for neighboring countries. As such, there has been a great deal of discussion about CPEC and many advantages have been highlighted by experts. However, literature on CPEC- as the two sides of the picture has been lacking. Therefore, this study made an attempt to answer; whether CPEC would be an opportunity for a prosperous Pakistan or it would be a mirage of Growth and Development? To answer this, this study compiles CPEC associated virtues and iniquities as per available in literature, the study also considered the logical understanding of authors on the phenomenon of interest. The findings indicate that perks associated with CPEC are far greater than the expected pitfalls and will indeed benefit economic development of Pakistan in the future. To sum up, this study concluded that CPEC will open new horizons of development, economic growth and prosperity for Pakistani nation in years to come and will be the game changer for the country. Also, the limitations of the study have been discussed to direct the future studies on the topic.

Keywords: China-Pakistan Economic Corridor, CPEC, Economic Development, Foreign Direct investment,

Introduction

Due to globalization, in 21st century world has seen a riding trend in vertical and horizontal integration and linkages among the global economies. Due to this global business trends are continuously changing in terms of economic activities of nations, leading to a rapid shift with regards to the developed and developing status confined to various geographic parts of the world. The integration process is facilitated by the emergence of

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economic corridors as transport routes globally. The developments have influenced the macro economic activity and enabled the global economic forces to create linkages among global production networks. These linkages are often known as the developmental or even economic corridors are declared to be the most crucial factor in the effective management of the cross-border trade and related aspects among nations. This type of initiatives has been taken by the decision makers across the globe to ensure the regional economic development and prosperity.

Initiatives like Sarawak Corridor of Renewable Energy (SCORE) Malaysia, The Nanning–Singapore economic corridor, The EastWest Economic corridor, BengaluruMumbai Economic Corridor (BMEC) India, Eastern Economic Corridor" (EEC) Thailand, BangladeshChinaIndiaMyanmar Forum for Regional Cooperation(BCIM), Continental 1 Trade Corridor North America, Kalahari CorridorPort of Walvis Bay and Trans European Network Corridors (series of various economic corridors connecting European countries) are some great examples of global economic corridors. The effectiveness of these linkages can be understood by their overall implications for involved geographic areas/countries and their role in the economic development of the whole region covered by these corridors of economic activity.

What is an Economic corridor?

Literature has not specified a clear definition of the economic corridors and the concept has been explained very vaguely. Economic corridors often described as trade or transportation corridors and at times are also called as developmental corridors. All the said terms are used for the economic activity and do not represent the true scope of the term economic corridor. The economic corridors follow a development path and different imbricating stages. These are the single combination of wide range of economic activities pertaining to transportation, logistic trade, economic, growth or developmental aspects. Here one need to understand that a transport corridor administers an optimum and efficient transport facilities resulting in reduction in transportation time, and related economic and environmental costs through an enhanced infrastructure and services. This leads to sustainability of the trade and accommodates integration within the local, national or supranational region and global markets, especially very beneficial for developing landlocked countries globally. At the same time the aim of the logistic corridor is to ensure an efficient movement and storage of freight, people and related information.¹

Similarly, the Trade corridor lacks a precise definition and is normally comprehended in terms of transportation or logistic corridor which facilitates Trade. Having said that, they do have a significant impact on improvement in trade flows through integration of cross border trade activities through land sea or air routes. Economic corridors are based on two dimensions including analytical which relates to spatial-functional forms and patterns and the policy dimension pertains to the interpretation of corridors in context of planning.² Further, development or growth corridors refer to the economic activities that lack economic elements and are mainly focused on health, education, environmental issues.

Keeping in view all the differences among the aforementioned corridors, all are exclusively designed for promoting economic growth with the help of betterment in the transportation and logistics services along the geographic locality covered by these corridors. This is due to the fact that the core focus behind the corridors is to promote economic activity and promote entrepreneurial aspects. Therefore, by considering the aforementioned aspects from management perspective countries through developing better transportation and logistical infrastructure can realize the optimum economic potential hidden in the Economic corridor phenomenon.³

By taking the above-mentioned characteristics of the term Economic Corridor. The term has been defined as “The definition reasserts the original theme behind the economic corridors that whatever it may be called, it is specifically developed for configuring the natural and socio-economic responses with the development of the geographical area involved”.⁴

CPEC – An Overview

Since the start of 21st century there have been many exceptional changes within the global trends of foreign trade and investment. This has led to mega developmental projects which provide a clear index trade and investment priorities of the world economic powers. This has certainly made a huge impact on the world economic forum and has resulted in institutional changes with regards to lending and investment trends. Here, it is important to note that western economic forces which held the major funding related aspects in the developing countries mainly invested with conditions of good governance and focused on moral aspects while funding the developmental projects in the developing state. This trend has changed due to the active participation of the capital-rich China in the cross-border project financing as a crucial financier in

the global scene. The Chinese have emerged as a capable lender in its neighboring Pakistan as both countries have a history of strong diplomatic, economic and military relations since 1950's. This relationship has further strengthened in recent times due to mutual regional and international interests.

Mr. Xi Jinping the president of the People's republic of China first visited Islamabad, Pakistan in 2015 considered to be a visit to the home of a brother. Further, prior to the president's visit, Li Keqiang's the premier of the council of the People's Republic of China, paid a visit to Islamabad back in 2013, declared while addressing the Pakistani parliament that "If you love Pakistan, please also love China". Mega project of One Belt One Road (OBOR) initiative is under way with the focus of the Chinese on the creation of economic corridors for connecting main land China with the Central, Western and Southern parts of Asia and Africa.⁵ China Pakistan Economic Corridor (CPEC) is a sub project of the OBOR initiative with involved cost of \$ 62 billion approximately.⁶ CPEC's major and most vital objective is to accommodate the creation of efficient land-based trade route by connecting Kashgar in the north with the Gwadar in the south of Pakistan. This is to be achieved mainly through a vast network of highways, railways and pipelines. It is a mega development project initiated with the Chinese collaboration on the Pakistani soil as is declared to be a "game changer" on economic and geo-strategic grounds by many experts. The project comes with multi-faceted purpose where it will enable China to achieve its long-term foreign policy aims and also help them further their expansion along the South China Sea to the Indian Ocean and Arabian Sea. In Pakistani context the initiative is supposed to ensure economic growth for the developing nation and it is also anticipated that the project would have positive economic impact on the subcontinent region. Due to its geographical positioning Pakistan is a vital stakeholder as the successful project completion would allow China to comfortably pursue multilateral relationships with other neighboring countries in South Asian region. Therefore, Pakistan holds high importance for China for achieving its geo-strategic goals globally and regionally.

China and Pakistan both have shown strong determination towards the implementation of CPEC in order to expose the associated benefits of the initiative. The reality has been rarely acknowledged by the academic circles that Sino-Pak relationship is a legacy of relationship which is created on a strong foundation of mutual trust and credibility. It all began with Pakistan recognizing

China and its pivotal role in closing the gap between the U.S. and China on diplomatic front. This development enabled China to position itself on the world political scene as a key player and made way to its permanent membership of the United Nations Security Council's.⁷

The study is focused on providing an extensive review about the available information and literature. The aim is to explore on different point of views regarding the initiative's scope, associated positive and negative aspects for the linked macro & micro economies, environments, local populations etc. as per the existing research. The study will also help to clarify any misconceptions about the mega project will enable the researchers to segregate the myths from reality. Further, most important objective to be achieved from the study is to highlight and elaborate gaps in existing research on the topic.

CPEC Scope and Geographical Dynamics

CPEC is an initiative which includes wide range of projects in communication, fiber optics, infrastructure (Industrial hubs, sea port, road networks) and energy/power sectors. It is an augmentation of Chinese One Belt One Road initiative, that will not only generate immense levels of new economic opportunities for Pakistan but has already connected main land China to South-Asia and will also connect China with Europe and beyond. In Chinese perspective CPEC will enable a significant reduction in the existing trade and oil transportation channels of China through Gwadar deep sea port. For Pakistan it is anticipated that CPEC will contribute towards an additional 2-2.5 % gross annual economic growth of the country and will also create direct and indirect job opportunities between 2015-2030.⁸ An amount of \$34 billion in energy sector, \$16 billion on transportation infrastructure development, \$793 million for the seaport at Gwadar and \$44 million are dedicated for miscellaneous but related projects.⁹ Further, during the period 2016-2020 a total of 49 sub-projects are to be executed under CPEC initiative out of which 16 will be in Baluchistan, 8 in KPK, 13 in Sindh and 12 in Punjab out of which 16 sub-projects are already underway and are expected to be completed by 2020 keeping in mind the omissions in terms of nature of the projects.¹⁰

Figure 1 shows the detailed route map of CPEC in Pakistan. There are three routes planned for CPEC from west, east and central regions of the country. The western route starts in the south, starting from Gwadar and pass through the areas of Turbat,

Panjgur, Naag, Basima, Sohrab, Kalat, Quetta, Qila-Saifullah, Zhob, DIK, Mianwali, Hasanabdal and Islamabad. Central part of CPEC route will connect DI Khan with Gwadar, through Basima, Khuzdar, Sukkar, Rajanpur, Liya, Muzaffargarh, and Bhakkar. Finally, from eastern CPEC, the areas of Basima, Khuzdar, Sukkur, RY Khan, Bahawalpur, Lahore, Islamabad and Mansehra will be connected directly to Gwadar. The idea behind this route plan is to equally distribute the associated economic gains like employment generation, increase in national and international trade, and new opportunities for improved living standards for local population including health and education facilities etc. across the four provinces of Pakistan.¹¹

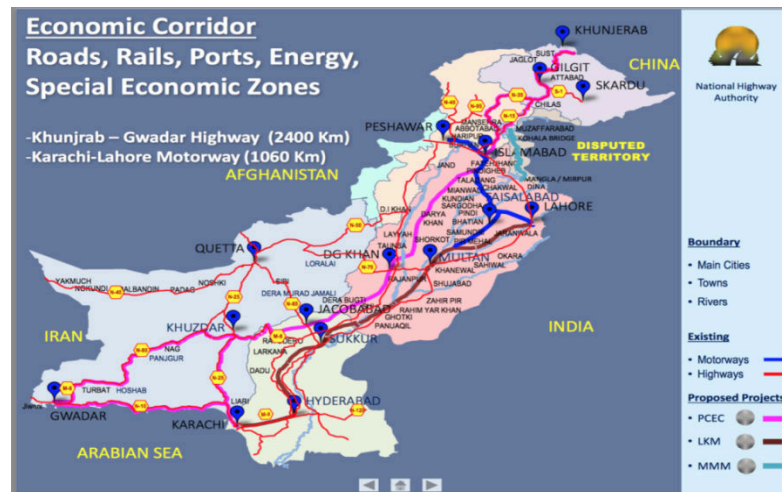


Figure 1: CPEC route map (Mushtaq, 2017¹²)

It is a notable fact that the mega project is based on four phases. First is the Early Harvest (2015-2019) where majority of initiatives are related to the energy generation to complete by the end of 2019 expected to contribute an estimated 7000 megawatts of electricity to national grid. The core focus of the projects will be on making up for the shortages in the energy shortages faced by Pakistan's power sector which has been the main factor in the downfall of the industry and exports. Second phase includes short term projects expected to be completed by year 2022 with a focus on the infrastructural development road networks, Gwadar port Development, Optic fiber network and the Hydel, coal mining and power projects etc. Third phase will include medium level projects to be completed by year 2025 with a focus on

development of rail networks and Industrial zones. The fourth and final phase will focus on the long-term projects which will include the completion of new Industrial zones for development of Agriculture, Tourism etc. sectors by the end of 2030.¹³

Literature Review

Opportunities for Pakistan

Pakistan's geographical location makes it a connecting point between South Asia, Central Asia, China and the Middle East. This clearly elaborates the importance and highlights all the possible opportunities of economic development in the region. Due to its global positioning Pakistan can be the central point for any economic activity in said region. Indeed, CPEC is expected to bring vast number of benefits as Pakistan has a large population, abundantly available dynamic resources (including human and natural) and lack of exposure to the international markets. All these factors are fundamental in providing new opportunities for trade and business of any country. These possibilities have already been discussed in detail and it is proposed that CPEC will be "a game changer" for Pakistani economy. The project is expected to bring a huge level of FDI from China as a bi-product and will directly impact and boost the Pakistani annual growth levels beyond 6% for the period of 2016-18. There will also be indirect economic impacts that are likely to be much larger than initially expected. Intriguingly, this proposition is supported by the available data and both contributing partners, Pakistan and China are expected to gain substantial benefits from this initiative.¹⁴

Adding to the benefits of CPEC, the most significant benefit for Pakistan will be in power generation sector. Pakistan has been through severe energy crisis in past decade, which resulted in significant and continues decrease in industry, low levels of FDIs, inappropriate infrastructural development, reduced self-dependency due to increasing import levels and terrorism.¹⁵ It is a crucial step towards updating and enhancing the under-developed infrastructure of the country by an in pour of \$11 million investment. This amount will be utilized for the development of new roads, railway network and also for the upgrade of existing infrastructure. As well-developed transport infrastructure is required for the efficient inter- and intra-regional communication, this subproject of CPEC will improve the efficient communications and transport connectivity among all four provinces of Pakistan. In addition to roads, better connectivity through Railway network is also ensured under CPEC. As a part of

this subproject, Karachi-Peshawar 1872km long railway track and Kotri-Attock 1,254 km long railway track will be upgraded with the help of \$5 Million amount allocated for the purpose.¹⁶

The growing list of CPEC benefits also includes the setup of specialized economic zones. Such economic zones promote new entrepreneurial activity and also initiate the inception of new enterprises within a pre-selected geographical area. Further, these economic zones will be equipped with state of the art facilities. As a CPEC subproject, initially, 9 specialized economic zones are to be developed that are expected to boost up struggling economy of the country by providing new opportunities especially for the local communities of underdeveloped areas across Pakistan, e.g. KPK and Baluchistan will be the biggest beneficiaries of this subproject.¹⁷ In these provinces, main focus of specialized economic zones will be on the industries like food, pharmaceuticals, engineering, auto and food packaging.¹⁸ In addition, Baluchistan will also reap benefits of these centers of the economic activity at locations like Gwadar, Lasbela, Turbat, Dera Murad Jamali, Bostan etc. Further, Sindh province will also get its fair share by setting up of industrial parks at Karachi & Port Qasim.¹⁹

As the aim of these specialized economic zones development is to improve the industrial production in order to increase the country's exports. This will not only have a positive impact on the domestic economic conditions but will also accommodate large scale industrialization within the region.²⁰ The future implications of projects associated with CPEC initiative will be a success factor for the social welfare in terms of employment generation and better economic, health and education opportunities for the local populations of Pakistan who will be the direct beneficiaries of the associated benefits. This will not only enhance connection among all four provinces of the country and will also generate employment opportunities for native population. Further, average household income levels are estimated to rise 5.21% approx. by 2020.²¹

Challenges for Pakistan

Along with all its positive aspects, CPEC initiative may have few challenges associated with it. The most talked about and significant issue that has been the matter of discussion for experts is the actual terms of the loan that Chinese government and banks have and will lend for the mega project over the specified time period. Empirical evidence based on existing research work has shown that similar

debt services to the extent of the debt associated CPEC had previously impacted the Pakistan's Gross Private Capital Investment in negative manner.²² Another aspect highlights the possibilities of before and after CPEC implications may include Chinese state owned enterprise contracts within Pakistan who may have limited rights to the endproduct of the project.²³ Intriguingly, the financial aspect of CPEC has now entered another avenue as authorities from both countries have recently agreed on settling the trade in local currency, Pak rupees or Chinese Yuan. This could be of advantage as traders will not have to pay extra conversion costs for USD. On the other hand, according to experts this currency swap is actually a step forward for globalization of Chinese yuan. However, it is still not clear that how exactly this currency swap proposal will be effected and how the shortage of yuan in local foreign exchange markets will be overcome.²⁴

Further, ongoing war on terror and unpredictable security situation of Pakistan has also increased the project liability for country's economy. The most important factor associated with CPEC for Pakistan is international pressures by its western allies who are already in competition with china in the global markets. Moreover, Pakistan's long-term counterpart USA also explicated some reservations. Efforts to obstruct the initiative from going ahead by Pakistan's traditional oppose, India, who is also a mutual enemy of China is and can be a challenge. Strategically, Pak-China collaboration is of major concern for India with reference to Afghanistan, where Chinese circle of concern is much wider than just economic interests e.g. China has been actively involved in facilitating Taliban-Afghan government dialogue for peace. Previously this role was supposed to be taken by India who posed to be a major player in the region. Indian hostility towards the CPEC initiative is also due to the fact that China has formally accepted Pakistan's stance on the Kashmir issue and has shown full commitment and support to the Pakistani cause.²⁵

In terms of regional stability of the south-Asian region, previously USA considered Pakistan as a non-NATO ally and India as a friendly country. Due to Pak-China growing relations in economic and defense sector that perception has shifted, US now consider India as an ally and Pakistan as a threat. This shift in the US foreign policy can create problems like stoppage to economic and political support for Pakistan in coming future.²⁶ In addition internal provincial reservations from KPK, Baluchistan and Sindh also pose a threat to timely and successful completion of the project. The successful completion of CPEC project is a challenge

to deal with by Pakistan's federal government due to a number of grievances especially from the provinces of Baluchistan and KPK. Due to all aforementioned reasons and sensitive nature of the regional, cultural and political differences, achieving the project completion deadline of 2030 as per MoU, seems an uphill task to be achieved.²⁷

On the one hand China is closing their own coal based power plants in view of degradation of the environment while on the other is transferring the same to Pakistan in complete disregard to the international standards regarding environment. "Though the Hydroelectricity is cheaper but it needs lot of time to build. To solve Power Generation problem as fast as possible, Pakistan don't have any choice but to accept Coal based plants which later become major problems for Pakistani Environment".²⁸ The question is why the Pakistani setup has allowed it to occur? It may also have drastic impact on the environment of the region. China's track record of non-compliance to international Environmental laws and their involvement in related issues may bring utter destruction of ecological systems in the areas it may operate.²⁹ Pakistani authorities need to ensure that the local environment must not be manipulated. According to a report by International Union for Conservation of Nature (IUCN), roughly 54,000 trees have been cut down for the construction of CPEC infrastructure in KPK in various associated sub-projects. This is destroying the ecosystem in the region and the infrastructure development and coal-energy generation projects will increase the Greenhouse gas (GHG) emission straining the local volatile environments. This is threat for climate change and agriculture sector and the current rise in temperatures and shortened winter weather is a sign of the problem. This is assumed that the productivity of the agriculture sector will be reduced. It reveals that environment impact assessment (EIA) has not been done before the inception of CPEC. Despite the assurance from China-Pakistan Governments many doubts about the positive effects of CPEC have been raised. Lack of transparency, vague term of investments and heavy lending terms from china and over all red-tapeism culture has made it controversial.³⁰

Discussion

CPEC has been anticipated to bring an economic boom not only for Pakistan and also other neighboring countries in the region. With all its benefits for Pakistan, this also brings some challenges. In local context, investment only in energy sector will have

positive implications for the industrial sector as well as for general population. About 140 million Pakistani nationals suffer from the long duration power cuts due to power shortages. Some even do not have any access to the electricity.³¹ CPEC is expected to play a vital role in improvement of this situation through a dedicated investment of \$34 billion in energy and power sector. This will include solar, wind, Hydro and coal energy projects.

The impact of progress in energy sector will in turn support the manufacturing sector by cheaper (The per unit energy cost is cheaper in South-Asia) and uninterrupted energy supply. This will cause industrial expansion and fast-track gross ROIs. Overall, economic sector of the country will be benefited from the project under CPEC and will result in a stable stock market capital. This will also help the country in increasing its exports in sports, surgical equipment, textile, fruits industries through Gwadar sea port and other associated projects. Further, improved transportation will help local traders to easily access the Chinese markets via Xinjiang and this communication will be time and cost effective in contrast to previous trade routines of the countries.³² At the same time, new business opportunities for the Pakistani business community in China are also opened.

As Chinese market is undergoing a transformation phase due to improved living standards, this has resulted in creation of upper middle class who takes the most benefit from e-commerce.³³ Expectations are that average income per capita in China will convert the Chinese society into mainly consumer oriented. Due to rapid technological development, China is also expected to move into high-tech manufacturing sector like pharmaceuticals and aero-space industry. The current trends indicate the expected outsourcing of consumer oriented manufacturing sector like food, textile, paper and leather for cost reduction through utilizing cheaper labor markets as Pakistan. China intends to transfer production related operations in textile industry (One already in Faisalabad) worth \$300 billion to Pakistan within the specialized industrial zones planned under CPEC initiative.³⁴ If it's done, it will certainly boost up the Pakistani manufacturing sector a great deal. Thus, commencement of this mega project, CPEC, is a step towards achievement of a shared vision of peace and economic prosperity for the south-Asian region as a whole.³⁵

In addition, to the power sector, CPEC also impacted on the country's real estate sector that already has an annual growth rate of 118% in past decade.³⁶ CPEC has certainly influenced the

property rates (rise of up to 70%), especially in Gwadar region.³⁷ This led provincial administration and government to promote the development of modern housing projects that is a boost for real estate property business in an underdeveloped province. It is evident from current trends that the real estate prices has increased along the Western, Central and Eastern CPEC routes.³⁸ Furthermore, Baluchistan province of Pakistan is blessed with natural treasures like natural gas, gem stones, gold and minerals. The effective utilization of these mineral resources by integration, industry education partnerships, infrastructure development, and industrial revolution.

Despite the aforementioned pros, research has proved that due to strong existing policy barriers to Pakistan-India trade along with the significant land transportation barriers in Pakistan-China trade may convert this endeavor for Pakistan very costly.³⁹ Political instability within Pakistan is also another factor that may convert CPEC into a long and difficult project with more negative impacts for the country's economy. Without the involvement of all political stake holders within the country, Pakistani government will fail to make this project effective to produce desired commercial and economic benefits.⁴⁰ Thus, CPEC is also expected to bring negative implications for social, political, and economic aspects related to the local community. The implementation related to CPEC and its associated projects legality is in doubt to some extent and is not aligned with the international agreements as per UN charter.⁴¹ Another aspect highlights the fact that in general there is a clear difference in goods (excluding the top-ranking brands) bilateral trade by China and Pakistan globally. In contrast to China, Pakistan trade levels are not substantial enough to penetrate the Chinese market and lack control over its exports to china. This can be a major problem for creating balance of mutual trade among both countries, which in the long run may negatively affect the outcomes for Pakistan.⁴²

Additionally, ongoing security situation in the country has put an immense strain on the economy as the government has already indulged 10,000 army personnel along the CPEC routes to safeguard the Chinese from terrorism activities. This has resulted in additional burden on the economy in shape of increased defense budget. Having said that, existing studies revealed that regardless of pressures related to debt associated with CPEC, there are positive implications for Pakistan's economy in the long run through loaned investments.⁴³

Environmental aspects are also of great concern as Chinese Coal Fired Power Plants, tree loss, and other related projects may have a long lasting negative impact on the country's ecology and environment. These effects may be of dire implications for the local Flora and fauna but Pakistani administration is trying to counter this threat by taking preemptive measures like billion tree project in KPK. In addition to facts discussed above, there has been unrest among the local community of Gwadar regarding the hospital and college developed under the initiative which will only provide its services to the Chinese personals. Study also revealed that due to under tariff eliminations of Pakistan and China FTA, Pakistan's economy may be affected negatively in contrast to China. Major fear associated with outcomes of CPEC for Pakistan is that it may lose more in terms of welfare, actual GDP and trade balances, whereas China will come out to be the real winner in the situation.⁴⁴ However, the vision of CPEC project as a whole will enable government of Pakistan to develop and implement sound systems for ensuring a sustainable economic growth in the long run.⁴⁵

Conclusions

By keeping all its positives and negatives in view, CPEC provides an opportunity for Pakistan in terms of infrastructure development along with overcoming country's energy deficit. It will also help in revitalizing the county's agriculture sector which is placed at the core of Pakistani economy. The CPEC initiative will certainly enable Pakistani government to effectively conduct institutional development, their monitoring and regulatory processes for skimming the maximum benefit out of the project. In order to do so, government of Pakistan will have to enhance total investment to be able to effectively create new employment opportunities for local community. At the same time, the government must ensure to keep the internal and external debts to lowest possible level to provide cushion against the negative aspects related to the project. It is also evident that even though there are some negative aspects related to CPEC initiative that may affect Pakistan in future, the positive implications of CPEC mega project are far greater. To conclude, it will be safe to say that CPEC is certainly the game changer for Pakistan that will open new horizons of development, peace and prosperity for not only this developing nation but will have positive implications for the whole south-Asian region. The mega project will help Pakistan in poverty eradication and will give way to new economic opportunities and accommodate better

quality of life for the masses. After carefully reviewing the expert opinion and available empirical data one must realize that the associated benefits for the local economy is far greater than the negative implications of the initiative, which can be dealt with by careful planning and execution of the project. The scope of the project clearly gives way to the emergence of developed and prosperous Pakistan in coming future. Based on the study findings, CPEC is much bigger and is beyond the concept of a corridor. It is an economic uplift program spanning over the time period of 30 years. It can be safely assumed that the coming three decades will bring economic development, peace and stability in Pakistan and the whole region.

Limitations

This study is based on secondary sources extracted from online web pages and journals, newspapers, various industry and government publications. Information about the scope of CPEC's contribution in the development of discussed industries is not available. Further, lack of primary research on the subject is also a setback as there is only limited research available on the subject. Therefore, it is recommended that future researchers should address this issue by focusing on specific dimensions related to the project.

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