

## **CHINA PAKISTAN ECONOMIC CORRIDOR: IMPORTANCE AND CHALLENGES FOR PAKISTAN AND CHINA**

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### **ABSTRACT**

Pakistan and China are friends from very long time. They have trading relations through the Ancient Silk Road. Now both the countries want to increase the volume of their trade. China decided to make large investment in Pakistan under its One Belt One Road vision through CPEC project. The CPEC is a combination of infrastructure development, power generation and research and development project. China and Pakistan are equally going to benefit from the project thus they both are interested in doing the project in time and hence are putting their all efforts to complete the project. Some of the countries are working to stop the project by strong opposition but China and Pakistan are standing erect to complete the project. The study addresses the historical relations between Pakistan and China moreover pointed out the benefits that Pakistan and China are expecting from the project. The study also discusses the external and internal challenges to Pakistan that are creating hindrance in the completion of CPEC.

**Keywords:** CPEC, China, Pakistan, FDI, Challenges

### **1. INTRODUCTION**

Pakistan is a country gifted with unlimited natural resources and has been independent from around seven decades. The country has been through many ups and downs but it has always fought hard from challenges. Pakistan has faced many challenges since its independence like separation of its part, refugees, terrorism and economic challenges also. One of the main problems that the country faced was poor economy of which the country always tried to get over. Pakistan was basically an agricultural country and has a great fertile land but now service sector is providing the main revenue to the country.

Pakistan is suffering from worse terrorism and engage in getting not only rid of terrorism but also trying to get its economy on the track. Foreign direct investment is considered as a blessing for any country to fulfil its finance need especially the developing countries which lacks finance to fund its development projects. Pakistan is also trying to raise investment level since its liberal

investment regime of the late 20<sup>th</sup> century. But after suffering from deadly terrorism the FDI inflow also went down but the country is working harder to raise the investment level.

China as one of the good friend of Pakistan has launched one of the largest investment program for Pakistan under which it is going to fund the infrastructure and power projects in the country which will help the country to get over the power shortage crisis and will also fulfil the infrastructure needs. China is not only a friend for Pakistan it is also a trading partner of Pakistan. This trade has significant impact on the GDP of Pakistan. The trading relations between both countries are older than their current existence by the Silk Road that is now planned to more strengthen by constructing China Pakistan Economic Corridor.

The project is named as China Pakistan Economic Corridor (CPEC) which is expected to become the key of door of the economic stability of Pakistan. The CPEC is widely benefit both Pakistan and China. China is also going to benefit from this investment in Pakistan which is helping China to maintain the dominance in the world market. China need CPEC to maintain their lead in the world economy and also to keep the larger impact on the region while Pakistan will be able to achieve the economic stability that it has been opted for so long (Shah, 2016). CPEC project is paving way to attract foreign direct invest in Pakistan. There are many advantages that Pakistan can gain through inflow in it. This is one of the largest investment by China in Pakistan by some foreign country. However, it is found to bring impact over the inflow in investment in Pakistan from countries other than China.

## **2. RELATIONS OF PAKISTAN AND CHINA**

Pakistan has been through many good and bad times since its formation in which few friend countries celebrated and grieved with Pakistan. The top friends of Pakistan include USA, Saudi Arabia, United Kingdom, China and many others. Among these friends, China is a friend which has always supported Pakistan in its matters. Pakistan and China enjoy brotherly relations and keep supporting each other. A friend in need is a friend indeed is a widely used quote which is fully able to describe the friendship of Pakistan and China. China has never left Pakistan in its bad times and has supported it in all means whether it is technology, finance or skills. It is not the case that China is giving and Pakistan is taking. Both the countries are providing somehow equal benefits to each other. Pakistan has supported China's interest in getting the SAARC membership while China has supported Pakistan's interest in getting the Shangai Cooperation Organization (SCO) membership (Vandewalle, 2015). It is true that the position of China is much stronger in terms of economy than Pakistan and China is dominating the world market. However, Pakistan may not be as stable in quantitative terms as China is but Pakistan has got a very good location in the world and in geostrategic way it is very important. Some critics often interpret reason behind the good relations between Pakistan and China is that both are against

India which has lead them to share interest in all the manners whether it is diplomatic policy, armed forces or the economy (Ritzinger, 2015). This criticism also however cannot be avoided as the relations of Pakistan and China became friendlier in the 1960s after the China India and India Pakistan war. But it is also the fact that the relations of Pakistan and China become stronger after China supported Pakistan in other manners also like in the nuclear program which built the trust of Pakistan over China (Ramay, 2016). China has been supporting Pakistan in economy throughout its friendship. The results of the long Pak-China friendship are the agreement between China and Pakistan to build an economic corridor with a large investment. This corridor is expected to get Pakistan's economy on track and Chinese economic position more stable.

### **3. SILK ROAD TO CPEC**

Pakistan and China were in trade relation before the formation of Pakistan. The historical Silk Road between Pakistan and China at the north of Pakistan was the route from where all the trade activities were carried out. So it can be said that CPEC is a transformation of Silk Road. The CPEC is not just a road for Pakistan and China, it is actually the foundation stone of economic growth of the entire region which will connect the economic regions and will bring economic prosperity. It will connect all the regions like Central Asia, South Asia, Middle East, Europe and Africa (Abid and Ashfaq, 2015). China planned to build a One Belt One Road project which consisted of three routes, the southern, the central and the northern of which CPEC is the southern route (Zimmerman, 2015). The CPEC idea is historical as discussed above but the corridor was also in plan from the first decade of the current century. But in the government of Prime Minister Nawaz Sharif, the vision turned into reality when in 2013, the CPEC agreement was signed. In 2014, the PM visited China and agreements were signed to build 200 km tunnel. In 2015, the Chinese President Xi Jinping visited Pakistan during which the final agreements worth \$46 billion were signed for the construction of CPEC. The CPEC agreement is not a short-term venture, it's a long-term plan scattered from 2014 to 2030. But the short-term projects of CPEC are planned to be completed by 2017. CPEC includes infrastructure and power development projects in Pakistan. The CPEC will start from Chinese North-Western region of Xinjiang and will end at the Gwadar Port. The Gwadar Port of Pakistan is already under the use of China. The CPEC is expected to bring economic prosperity in Pakistan due to its large aims. The CPEC aims at power generation which will resolve the major issue of Pakistan that is the power shortage which has disturbed its industrial sector widely. The power shortage once balanced will help in running its industries at good level again which will increase the GDP of the country, will create employment opportunities and ultimately the standard of living of the people will get better. So, it can be said that CPEC is going to affect not only the country's economy but will also have a greater impact at individual level. CPEC will raise the foreign direct investment level in Pakistan which almost always has good effects. The Silk Road and

now the CPEC is the way which can lead the economy of Pakistan to door of success. It hence can be said that Pakistan should try it best to complete this project on time so that the benefits can be delivered at the utmost degree to both the macro and micro level.

#### 4. OVERVIEW OF FDI IN PAKISTAN

Foreign direct investment is found to have several advantages like it fund the capital needs, helps in technological and skills transfer, increase exports and decrease imports as well as create employment opportunities which enhance the standard of living of people. Pakistan is working to get its economy on the track for which a huge amount of foreign investment is needed. In the early decades after formation of Pakistan, the economic policy was not up to date and foreign investment was not given consideration. But in 1990s, the country liberalized its economic policy which helped to raise the foreign investments by providing benefits to the foreign investors (Khan and Khan, 2011).

The table below shows the investment in Pakistan from different countries around the globe from 2007 to 2013. The table will provide the picture that which countries were more interested in investing in Pakistan after the 2007 crisis and before the CPEC agreement.

**Table 1: FDI Inflow in Pakistan (US\$ Million)**

Country	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
USA	1,309.3	869.9	468.3	238.1	227.7	227.1
UK	460.2	263.4	294.6	207.1	205.8	633.0
U.A.E	589.2	178.1	242.7	284.2	36.6	22.5
Japan	131.2	74.3	26.8	3.2	29.7	30.1
Hong Kong	339.8	156.1	9.9	125.6	80.3	242.6
Switzerland	169.3	227.3	170.6	110.5	127.1	149.0
Saudi Arabia	46.2	(92.3)	(133.8)	6.5	(79.9)	3.2
Germany	69.6	76.9	53.0	21.2	27.2	5.5
Korea (South)	1.2	2.3	2.3	7.7	25.4	25.8
Norway	274.9	101.1	0.4	(48.0)	(275.0)	(258.4)
China	13.7	(101.4)	(3.6)	47.4	126.1	90.6
Others	2,005.2	1,964.2	1,019.6	631.3	289.7	285.5
Total including Pvt. Proceeds	5,409.8	3,719.9	2,150.8	1,634.8	820.7	1,456.5

(Source: Board of Investment, 2016)

The table above shows that in 2008, the investment in Pakistan amounted to \$5.2 billion which decreased to \$3.7 bn in 2009, \$2.1 bn in 2010, \$1.6 bn in 2011 and \$0.8 bn only in 2012 which increased a bit in 2013 recorded at \$1.4 bn. The largest investors in 2008 were USA, UK and UAE, which in 2009 USA, UK and Switzerland were the largest investing countries and in the same year China withdrew its investment also. In 2010, USA, UK and UAE again appeared as the largest investors which remained this which till 2013. The noticeable factor here is that China withdrew its some investment twice in the period but in 2012 and 2013, it tried to contribute large sum. USA throughout the period remained the largest investor in Pakistan as Pakistan has been the ally of USA in its war against terrorism.

## **5. IMPORTANCE OF THE PROJECT FOR CHINA**

China and Pakistan are old friends and have been standing beside each other in good and bad times. China is one of the largest economies of the world and Pakistan is still striving to get rid of terrorism and economy on the right track. One of the most important reasons behind this large investment of China is the terrorism and uneven law and order situation in Pakistan and Afghanistan which may affect some regions of China. To avoid any bad effects of terrorism in Pakistan and Afghanistan in the Chinese provinces, China is investing to bring economic prosperity in the region. So, China decided to invest more than \$46 billion in Pakistan. (Bhattacharjee, 2015). China is also going to make large profits from the investment in Pakistan as the power projects will be operated by the Chinese companies. The project is also going to give China a route to Middle East through Arabian Sea. The shipments which previously took 45 days will now take only 10 days to reach China which by thousands of miles reduction in the route saving both the transportation cost and time (Naseem, 2015). The route to Europe through Strait of Mallaca would now also be shortened through using the Gwadar Port of Pakistan and will be beneficial widely (Rizvi, 2015).

## **6. CHALLENGES AND OPPORTUNITIES FOR PAKISTAN**

Pakistan and China were friends since the start of their formation, whereas, their trading relations are older through the Ancient Silk Road. In the current scenario, China has emerged as one of the largest economy of the world but Pakistan is still struggling to get rid of many internal and external issues as well as the problem of sluggish economic growth. In this situation, the resultant of China-Pakistan friendship in the form of CPEC is supposed to provide many benefits to Pakistan but like all the other things, there are major challenges also attached with the project.

Pakistan is facing a major power crisis that has been one of the major reasons of slow economic growth. Many industries of Pakistan have shut down due to shortage of power supply to the industrial sector and many have moved abroad. This has resulted in unemployment which

affected the standard of living of people badly and resulted into increased crime level. The major opportunity is that once the projects will be completed, there will be sufficient supply of energy to the industrial and household sector which will result into opening and reopening of new industries and firms which will create employment opportunities ultimately resulting into better standard of living of people and reduced crime ratio. The infrastructure development plan will also result into opening of industries like cement, steel etc. creating further employment opportunities. The developed infrastructure will result into better trading activities. Thus, it can be said that there are wide opportunities for Pakistan attached with the project of CPEC.

In 2013, many agreements were signed under that China is going to invest a huge amount of \$46 billion in Pakistan (Javed, 2016). The complete corridor will be completed by 2030 but the early harvest of the projects is too completed by 2017 for which China has allocated an amount of \$28 billion. Many projects are included under the idea of CPEC which mainly focusses on power generation and infrastructure development. The Gwadar Port will also be under operation in the project. The CPEC also includes research and development projects to be conducted in Pakistan. A fiber optical line will also be laid in Pakistan under the CPEC (Ahmar, 2015).

## **7. CHALLENGES IN PAKISTAN ON CPEC ROUTE**

China and Pakistan have always enjoyed pleasant and friendly relationships and the fruit of their friendship is the CPEC. China have an opportunity to maintain its economic position in the globe by doing this project in Pakistan as Pakistan has a very important location while Pakistan also have many opportunities to grow its economy through this project. However, the fact can't be ignored that there are still some challenges and threats attached with the project. Few of the major challenges that Pakistan is facing in conducting the project are the political instability, economic instability, terrorism and the competition among its provinces (Sial, 2014).

The economic condition of Pakistan became adverse after the huge wave of terrorism in Pakistan and big loans taken by the governments for financing the war against terrorism and then to repay the loan. Pakistan has faced a lot of terrorism since its engagement with the War against Terror initiated by USA and its allies. The terrorism has cause Pakistan a great loss both in money and human. The terrorism level is reduced somehow and the law and order situation is better after operation Zarb-e-Azab. However, the terrorism is still a challenge for Pakistan to build the CPEC as many of its routes pass from the areas which were previously controlled by terrorist wings. To cope with terrorism and carry the CPEC peacefully, Pakistan has employed a force of 12000 personnel.

It is also propagated now that China Pakistan Economic Corridor has now turned into China Punjab Economic Corridor and Punjab is the only beneficiary of the project and the share of

other provinces is captured by it. There have been many conflicts on the North Route of Pakistan between the provinces with the federal government but the federal government is trying to protect the project from all the negative things that may affect the project. It is a challenge for federal government to satisfy all the provinces equally on their share in the project and make sure that it remains all Pakistan corridor and not just Punjab Corridor.

## **8. PROPAGANDA BY COUNTRIES AROUND THE GLOBE**

Pakistan and China are friends since decades and in the start of the friendship has sown a seed which with time has become a tree and its fruit is the CPEC. However, many countries have opposed the CPEC agreement and on the top of which is India and USA. Pakistan never had good relations with India but Pakistan always tried to maintain good relationship with USA. The biggest example of effort of Pakistan to maintain relationship with USA is becoming its ally in its War against terror which was started by USA after 9/11 terrorist attack. The war caused Pakistan a great loss. Now Pakistan is trying to get over the effects of war and fight terrorism to get the economy on right track and get the opportunity in the form of CPEC, the USA opposed it.

There are different reasons behind the opposition of the project by USA and India. One possible reason may be that USA want Pakistan to stay in its control forever and never stand on feet and may be that China has defeated USA in economic terms and has appeared as the world's largest economy. On the other hand, India which is the born rival of Pakistan also doesn't want Pakistan to be successful in any terms and hence opposing the project fully (Ranjan, 2015). India has clearly said that they don't want the project to be carried out however; China has shown full support and cleared that it will carry out the project at all costs. The reason of opposition jointly may be that India and USA are good friends and both had conflicts with China and Pakistan and hence mutually opposing the project.

The table below shows the current position of foreign direct investment inflow in Pakistan;

**Table 2: Current Position of FDI (US\$ Million)**

Country	2013-14	2014-15	2015-16
USA	212.10	209.00	(71.90)
UK	157.00	174.30	65.70
U.A.E	(47.10)	216.40	151.00
Japan	30.10	71.10	20.00
Hong Kong	228.50	83.40	130.60
Switzerland	209.80	2.80	74.50
Saudi Arabia	(40.10)	(64.80)	(91.60)
Germany	(5.70)	(20.30)	(32.40)
South Korea	24.40	14.30	(16.90)
Norway	(21.60)	2.70	33.70
China	695.80	255.30	571.20
other	224.40	(93.00)	249.70
Total	1,667.60	851.20	1,083.60

(Source: Board of Investment, 2016)

The table above shows that the foreign direct investment in Pakistan from different countries has changed since the CPEC agreement. The investment amount in 2014 was \$1.6 billion out of which \$0.7 billion was invested by China only which appeared as the largest investor in this year. USA, Hong Kong and Switzerland invested around \$0.2 billion respectively. In 2015, the investment went below \$1 billion mark and was recorded at only \$0.85 billion and again China was the largest investor. USA, UAE and UK were also large investors in Pakistan. In 2016, the investment crossed \$1 billion mark again. China appeared as the largest investor again with an investment of \$0.57 billion which is around the half of the total investment of the current year. In the year 2016, the work on CPEC is fully functional. The impact of the CPEC can be seen as that in this year, it was the first time in this century when USA withdrawn its investment from Pakistan. This shows that USA is not happy with the CPEC agreement which has resulted into withdrawing \$71.9 million from Pakistan. The investment from UK has also declined which may also be one of the negative impacts of the CPEC project.

## 9. CONCLUSION

The literature shows the strong relationship of Pakistan and China which has resulted into one of the largest project of history of Pakistan with Chinese investment. The CPEC is a project done under the One Belt One Road initiative of China where China is building an economic corridor in Pakistan. The corridor consists of roads, highways, motorway, industrial parks, power generation plants etc which is expected to be a game changer for Pakistan and would make its

economy on right direction. The project is going to benefit China equally as it will provide more control to it in the region. This will also shorten the trade route of China through Pakistan which will prove to be time and cost saver.

Pakistan and China are facing large opposition from neighbor countries as they don't want this project to be completed. Pakistan and China standing with each other faced all the criticism and opposition and ensuring that the project is completed on time. Pakistan has faced huge terrorism and the corridor is also going to pass through the most terrorism affected areas especially in Baluchistan and hence has hired a special force for the purpose to protect the project and all the personnel working in those areas. Government of Pakistan has also faced criticism from the competing political parties that the federal government is only focusing on Punjab province and neglected others but the federal government is trying hard to work at all provinces with the full support of Pakistan Army.

## **RECOMMENDATIONS**

- Pakistan should focus on completing the project on time and protecting it from all evil factors that are present inside and outside the country.
- The government should also focus on providing equal chances to all the provinces to get the benefits from the project especially the deprived parts of Baluchistan.
- The people should be transferred benefits so that the standard of living of the people increases, education level rises and at all the individuals and groups are benefitted.

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