

## THE POTENTIAL SOCIO-ECONOMIC IMPACT OF CHINA PAKISTAN ECONOMIC CORRIDOR



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### ABSTRACT

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Road and transport corridor play a significant role in the development of the country. This study examines the socio economic impact of China Pakistan Economic Corridor. Pakistan and China has great relations from the beginning. China Pakistan economic corridor is very significant for both countries as it provide access of China to the warm water of Arabian Sea through a short and safe route which will save billions of shipping charges and time and will cover the current energy crises in Pakistan and provide employment and trade opportunities for the local people which will minimize unemployment and poverty in Pakistan and will improve the living standard and boost the economy of Pakistan.

**Contribution/ Originality:** This study is one of the few studies which have investigated the different socio economic impact of China Pakistan economic corridor (CPEC) on Pakistan. This study revealed that CPEC will improve the living standard and economic condition of the local people of Pakistan.

### 1. INTRODUCTION

Road and transport corridor play a significant role in the development of the country. Pakistan and China have an evergreen friendship, and considered greater than mountain and deeper than Ocean. They are the most reliable, tested, trusted and all weather friends and called iron brother (Sial, 2014; Tharoor, 2015) During Chinese President Mr. Xi Jinping visit to Pakistan on 20-21st April 2015 Pakistan Prime minister Nawaz Sharif said that Chinese friendship is one of the biggest part in Pakistan foreign policy. Chinese President said on this occasion that “I come here for the first time but it seems that i am in my own brother home” (Tharoor, 2015). Pak-China relation is like a tree growing and becoming tall and strong (Asia, 2015). Similarly, Pakistan Ex-President Musharraf said that Islamabad considers Beijing is a time tasted and reliable friend (Mahmood, 2000). On another occasion he said that Pakistan have proud on their relation with China (Sattar, 2007). Pak-China relation is based on Four pillars and interest Economic cooperation, Shared internal security concern, Both countries energy security, and geostrategic interest (Mezzera, 2011).

Economic corridor and transport infrastructure is a tactic for the development of poorer region focusing on investment in the vital areas like roads, trade, energy, communication and investment for development (Ramachandran and Linde, 2011). Bothe China Pakistan decide to construct such Economic Corridor which is dream and strategic choice for both Beijing and Islamabad to support each other and to shad a peaceful development (Mengsheng, 2015). China Pakistan Economic Corridor (CPEC) was officially inaugurated by Chinese President Xi Jinping in Islamabad during his visit on Monday 20 April 2015 (Ali et al., 2017). One of the big project of the history include linkage of Gawadar (Baluchistan) and the Western region of China Kashghar (Xinjiang) through 27km roads, gas and oil pipelines, railways, optical fiber linkage as shown in Figure 1 (Ali et al., 2016; Ali et al., 2017). Moreover, 21,690 MW Energy projects Dam, Hydro, Coal, Nuclear and solar power projects, establishment of several economic zones, up gradation of Gawadar sea port, Gawadar International Airport and both countries livelihood development and improvement is the part of this project (Haider and Haider, 2015; Mengsheng, 2015). With the construction of CPEC the current sea rout (12500km) across the Strait of Malacca will be replaced which open a new route for the developing economy (Mengsheng, 2015).

One of the biggest MOU has been signed in the history between Pakistan and China on 22nd -23rd May, 2013. According to the MOU the Gawadar Port (Baluchistan) will be connected through road via Khunjrab Pass (Mengsheng, 2015). Chinese Government announced in November, 2014 that they are going to finance the Chinese companies to build infrastructure and energy project of \$45.6 billion in Pakistan as a CPEC project. Reuters show on the basis of various document that a total of \$ 33.8 billion in energy project, \$11.8 billion in infrastructure projects with the approximate completion in the year 2017, \$622 for Gawadar port and \$15.5 billion in solar, wind, coal, hydro and wind energy projects which will add 10400 Megawatt of energy in the power network of Pakistan (Mughal, 2016). President of Pakistan Mamnoon Hussain gone to China in February 2014, for discussing the CPEC (Tiezzi, 2014) after two months of this meeting Pakistan Prime minister Mian Muhammad Nawaz Sharif

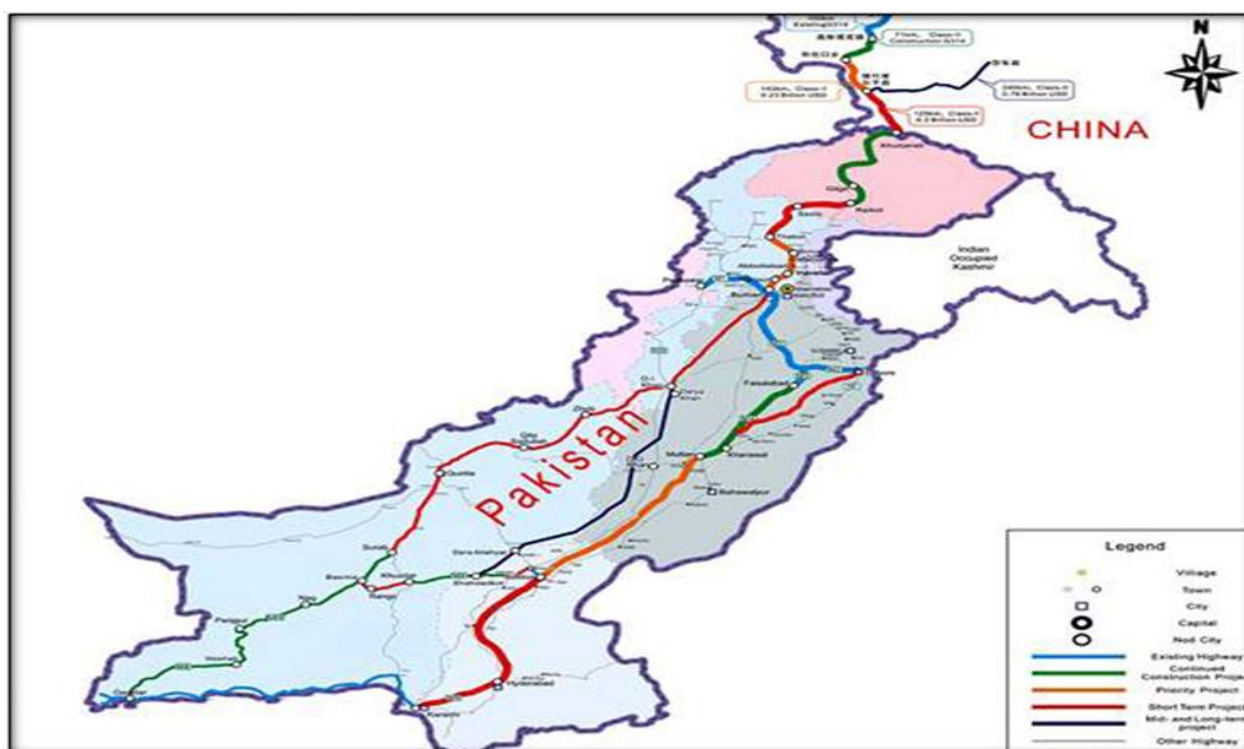


Figure-1. CPEC Highway Network

Source: Government of Pakistan CPEC official page (GOP, 2017a)

meet Chinese premier Li Keqiang and Negotiate on the building of economic corridor via Pakistan (The Economist Time, 2014). CPEC is the vision of Musharraf Leadership; however the corridor took shape during Sharif

Government (Zaman, 2015). Finally Chinese president Xi Jinping come for a two days visit to Pakistan on 20 April, 2015 and signed an agreement of \$46 billion the 20% GDP of Pakistan (Haider and Haider, 2015; Hooper, 2015; Zaman, 2015) Within immediate project of \$28 billion and the remaining are worth of pipeline project (MOP, 2015).

## 2. ECONOMIC IMPACT OF CHINA PAKISTAN ECONOMIC CORRIDOR

The rising of China as an economic supremacy in the World as a great support and strengthen the China Pakistan relations. Economic ties between both countries are maturing continuously, the bilateral ties move in to a new era with stringing the coordination in different sectors i.e. infrastructural development, establishing power and energy project, telecommunication and strategic fields (Khan *et al.*, 2013). CPEC is one of the great project and both nations have many expectation from it. The main importance of this corridor is to boost the economy of Pakistan and give social and infrastructural development to Pakistan while the other hand it will boom the Chinese trade with Pakistan and the rest of the world and save a lot of transportation and shipment cost with a safe and shorter route replacing the strait of Malacca (Ali *et al.*, 2016; Ali *et al.*, 2017).

### 2.2. CPEC Effect on Gross Domestic Product

Pakistan minister of planning, development and Reform Professor Ahsan Iqbal describe “CPEC, Pakistan’s visions 2025” in Beijing in his speech in the think tank of China at Pak-China Joint Cooperation Committee (JCC) on CPEC, he said that “Pakistan itself seeking his position from a lower middle income country to high middle income country by achieving the target per capita GDP of \$4200, to touch this goal and generate jobs opportunities for the new phase into the labor force”. He further added that “Pakistan aim to achieve his goal of growth rate 8% and fall the inflation rate to one digit in the period of 2018 and 2025”. Mr. Ahsan added that in “vision 2025 seeks to increase exports from the present \$25 billion to 150\$ billion, tax GDP ratio to 16-18%, investment rate in the range of 22-25% of GDP through domestic saving of 18-21% and foreign saving of 3-4% of GDP in the long run”, he said that main objective is the long-term sustainability, peace and development of both countries (Iqbal, 2015). On another occasion during the inauguration ceremony of China Pakistan Economic Corridor Council (CPECC) on 8th April 2015 Professor Ahsan Iqbal said that this multi-billion project will solve many of the social and economic problems. Pakistan is facing slow pace of business activities and unemployment. In another study it is mentioned that CPEC is expected to stumble in growth to add 2% GDP and to omit the economic barrier for investment worth 7.6% of GDP or US\$22 billion with a concessionary loan for the different project (Mazher *et al.*, 2015).

Naseem (2015) revealed that Sino investment can improve the GDP up to 6% with a direct influence in the FY 2016-18. He further added that a part of investment about US\$ 18 billion undertake a great investment on Gawadar port, Railways and Hydro power plants 50-80% and less for the other machines goods for power plant of Coal 20% which added 2.1% GDP growth annually in the era of FY 2016-18 and rise the GDP growth up to 6% in the FY 2016-18 based on FY 2014. While indirect impacts are too much which add 15000 plus MW in the national grid station and power network that is 74% of Pakistan current energy. This would affect the investment of the private sector investment activities and productivity. An average of 9.6% GDP are correlate to private investment during the era of last five year as opposing to 12.7% during preceding five time, during the same time private sector credit to GDP fallen from 28.8% to 12.6%, Pakistan growth can left up to 6% while the last year GDP rate of Pakistan was 4.1%. Moreover the author added that energy shortfall covering can pick the economy of Pakistan by providing 10GW and due new power project the coal consumption and their contribution toward energy increase up to 16% in 2018 which is 1% in 2014. He further added that extra demand of cement 1.3 to 2.3 million tons show a great investment in infrastructure of Pakistan (Naseem, 2015). Pakistan main purpose to enhance GDP ratio in the coming 3 annum will reach from 12.6% to 20%. the noticed by IMF stated that symptoms indicating that economy of Pakistan are improved and predict to touch 4% in FY 2014-15, which is 0.3% more than the primary estimation (Mangi and Haider, 2014). The GDP of China and Pakistan is shown in Figure 2.

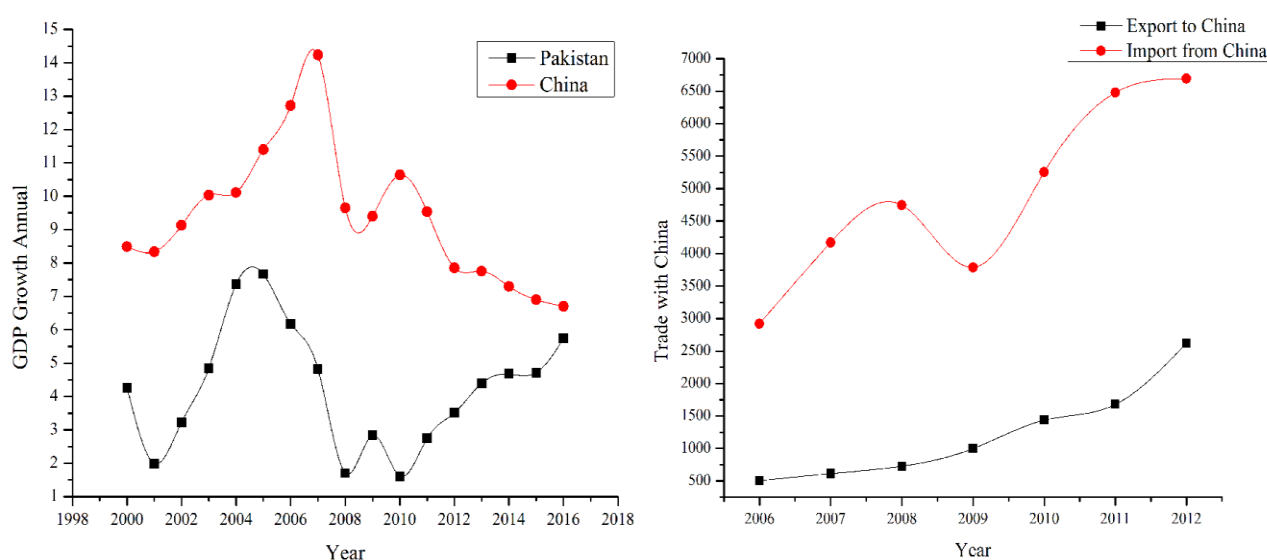


Figure-2. GDP of China and Pakistan

(Source: World Bank (2017)) and Pakistan trade with China (Kataria and Naveed, 2014).

### 2.3. Special Economic Zones (SECs)

Eight Economic zones in the different part of Pakistan has been plan under the CPEC (Mengsheng, 2015). Chinese largest private bank Industrial and commercial bank of China (ICBC) and Habib Bank Limited Pakistan (HBL) are setting up to establish an Economic zones in Punjab and Baluchistan. The government of Pakistan announced a special package for the Special economic zones including tax free for ten year and importing machinery will be duty free both countries largest banks playing main role in the development of Pakistan, supporting credit and suggestions for the investor. For the investor Government of Pakistan has identified thirty fore Economic zones, twenty nine Industrial and twenty two special economic zones in different part of Pakistan (Mazher *et al.*, 2015). These special economic zones will boost the economy and generate millions of jobs and business opportunities for Pakistani people, which will eliminate poverty and unemployment in the Pakistan and improve their living standards.

### 2.4. CPEC Effect on Trade

Sustainable and high international trade is one of the symptoms of the growing country, the term economic and trade is correlated with country trade industry and money (Din *et al.*, 2003). CPEC will generate trade opportunities and improve the current trade in Pakistan and in neighboring countries directly or indirectly which enhance the economic condition of Pakistani people. Mr. Ahsan Minister of Planning, Development and reform said in the third JCC meeting of China Pakistan economic corridor in Beijing that in “vision 2025 seeks to increase exports from the present \$25 billion to 150\$ billion (Iqbal, 2015). As we discuss earlier that economic and bilateral ties strengthen with the dawn of 2000, the economic trade volume in 2003 among the two countries are 4 billion which is growing with a consistent ratio but the trade boost after the free trade agreement in 2006 which effect in 2007. The Chinese ambassador Sun Weidong said in 2014 that “The trade volume between China and Pakistan was registered at 12.8 billion during the last 10 month, showing 10% increase than the corresponding period of the last year”(Zafar, 2014). This Project will improve the bilateral trade to many billion in the coming years (Hussain *et al.*, 2015). These existing situations translate that the trade balance is in the favor of China and however export of Pakistani commodities to China and neighboring countries are increasing day by day, and with CPEC establishment these opportunities will boost and improve the economy of Pakistan.

## 2.5. Increase in Revenue

CPEC as a transportation project which transport world import export from Gawadar to China and from China to the entire world and Gawadar port will play a role of hub. The expected revenues from Gas and Oil will be around US\$1,000,000 (Economic Significance of Gawadar Port, November 10, 2009, Haider and Haider (2015). While according to recent report CPEC will operational in 2019, and start revenue from 1.5 billion to 1.9 billion US\$ and will reach to US\$ 5 billion in 2022 (Disk, 2017). Such amount will strengthen Pakistan economically.

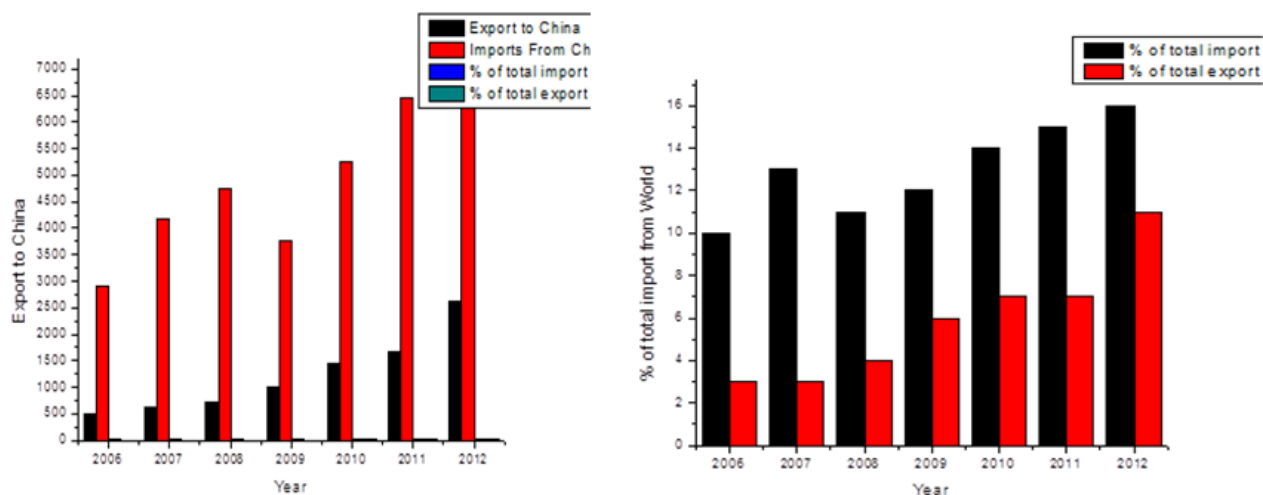


Figure-3. Post FTA Trade between China and Pakistan and Pakistan Trade with World

Source: Pakistan Bureau of statistics, Government of Pakistan

## 3. SOCIAL IMPACT OF CHINA PAKISTAN ECONOMIC CORRIDOR

### 3.1. Employment Opportunities

CPEC is a transport infrastructural and development project which will established many economic zones and industries which will create millions of job in the area. Chairman Gawadar port authority (GPA) Dost Muhammad Khan only said that Gawadar port are creating 40,000 thousands of job (Webdesk, 2016a). In 2013 about 114 different Chinese companies are engaged in different a project which provides jobs for the local people (Akhtar, 2014). CPEC is in the initial construction stages and only this year 38000 jobs have been created out of which 75% covered by the local people of Pakistan (Yousafzai, 2017). CPEC is multibillion projects and it is expected that CPEC will generate two millions of jobs (Web Desk, 2016b) not only in Pakistan but for the entire region as it is also beneficial for the Central Asian countries and Afghanistan. It will also create opportunities in these neighboring countries due to engaging in many different trade and businesses in the region, which will eradicate poverty from the country and will improve the living standard of Pakistani people.

### 3.2. Living Standard of the People

CPEC is an infrastructural and developmental project which will provide thousands of opportunities for the local people like employment and business opportunities which increase their income. Moreover, this project will provide an easy access to basic amenities of life like banking, market, transportation, education and health. Specifically, it will provide access to education and health in different rural and remote areas these factors contribute directly or indirectly toward improvement in the living standard of the Pakistani people and lead it toward development and prosperity (Haider and Haider, 2015)

### 3.3. People to People Contact

CPEC will provide the opportunities for people to people contact. CPEC will exchange cultural and tradition of China Pakistan in the entire region specifically between China and Pakistan. CPEC will promote different tradition

and culture of Pakistan and China and Chinese culture in Pakistan (GOP, 2017b). Moreover, CPEC will promote regional cultures and heritage within the country. CPEC will promote and develop cultural heritage and give identity to the different culture of Pakistan.

#### 4. CONCLUSION

China Pakistan Economic Corridor is the linkage of China and Pakistan with about 2700km long road, rail and gas and oil pipeline. This connectivity will replace Chinese current lengthy (12500km) shipping route which will save a lot of time and billions of shipping charges for China and provide a short and safe route for their trade with the entire world. However, CPEC will play a significant role in the development and prosperity of Pakistan. CPEC has many socio economic impact on the local residents of Pakistan as it will cover the current energy crises in Pakistan and provide millions of jobs opportunities for the local people of Pakistan, it will increase the trade and business opportunities which will directly improve the income of the common people and minimize unemployment and poverty in the country and will generate revenue for Pakistan which strengthen the economy of Pakistan. CPEC will provide access to basic amenities of life specifically in remote and rural areas of Pakistan like Education health and banking. These opportunities will directly or indirectly affect the people of Pakistan and will improve the living standard of Pakistani people. That's why CPEC is called the fate changer for Pakistan.

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