

POLITECNICO DI TORINO

DEPARTEMENT OF ENGINEERING & MANAGEMENT

MASTER DEGREE IN ENGINEERING & MANAGEMENT

Master's Degree Thesis

“China Pakistan Economic Corridor and its Impact on the Development of the Region”



Supervisor

Professor Luigi Benfratello

Candidate

Shahzada Muhammad

Emaad Khan Durrani

MARCH 2020

ACKNOWLEDGEMENT

Pakistan is going through a stage of revolution in becoming a game changer, in terms of new economic hub connecting Asia with the Middle East and Europe, and Africa. The CPEC corridor has been a new word of mouth in the region, people being optimistic and waiting for CPEC to change their lives, this has generated a strong wave of optimism in people to see Pakistan prosper. My work is underlined what has been actually done and achieved, how things are on the current stage. There is an interesting fact that I learned and explored during my research was, economic stability is dependent on the political atmosphere especially in case of Pakistan surrounded with four different neighbors. Although it was very tough to gather data and meet people for the actual outcome of CPEC, continuously dynamic policies for the project was very challenging and required a high degree of effort to see discover why China is so interested in the development of Pakistan.

In truth I could not have achieved my current level of success without a support group, I would like to thank my parents specially my Father Dr. Imran Hameed Khan Durrani who helped me when I felt lost in my objectives of research guided me through each step of life and my family who supported me with love and courage of understanding the importance of work that I am doing is for the betterment of Pakistan, secondly I would like to thank my supervisor Professor. Luigi Benfratello, who not only guided me but helped me to design the research process, I am thankful for your unwavering support. I dedicate my work for the benefit of Pakistan.

Table of Contents

| | |
|---|---------------|
| CHAPTER NO 1 | 6 |
| "INTRODUCTION" | 6 |
| ABSTRACT | 6 |
| HISTORICAL PATTERNS. | 7 |
| PHYSICAL FEATURES. | 9 |
| RESOURCES AND ECONOMY. | 10 |
| REVIVAL OF HISTORICAL TRADE ROUTES | 13 |
| CHINA AND PAKISTAN'S RELATIONSHIP | 14 |
| BELT ROAD INITIATIVE BACKGROUND (BRI) | 15 |
| OBOR VISION AND OBJECTIVES..... | 17 |
| OBOR ELEMENTS..... | 18 |
| ONE BELT: THE SILK ROAD ECONOMIC BELT (SREB) | 18 |
| ONE ROAD: THE 21ST CENTURY. MARITIME SILK ROAD (MSR) | 18 |
| SIX ECONOMIC CORRIDORS | 19 |
| NEW EURASIAN LAND BRIDGE | 19 |
| CHINA - MONGOLIA - RUSSIA CORRIDOR..... | 19 |
| CHINA - CENTRAL ASIA - WEST ASIA CORRIDOR..... | 20 |
| CHINA - PAKISTAN ECONOMIC CORRIDOR..... | 20 |
| BANGLADESH - CHINA - INDIA - MYANMAR CORRIDOR | 21 |
| LITERATURE REVIEW | 22 |
| INTRODUCTION | 22 |
| 1- RESERVATIONS OF CPEC ON ECONOMY OF PAKISTAN | 22 |
| 2- THE MACROECONOMICS OF PAKISTAN'S QUEST FOR ENERGY AND THE CPEC | 23 |
| 3- CHINA-PAKISTAN ECONOMIC CORRIDOR AN ASSESSMENT OF POTENTIAL THREATS AND CONSTRAINTS. | 23 |
| 4- EMPLOYMENT OUTLOOK OF CHINA PAKISTAN ECONOMIC CORRIDOR: META-ANALYSIS. | 24 |
| 5- CPEC: BENEFITS FOR BALUCHISTAN | 24 |
| 6- STRATEGIC NATIONAL PERSPECTIVE & CPEC UNDERSTANDING THE CHANGING INTERNATIONAL PARADIGMS... | 25 |
| 7- CPEC'S LINK TO EUROPE..... | 26 |
| 8- CPEC PROVIDES A CHANCE TO IMPROVE OUR INSTITUTIONS OF GOVERNANCE | 27 |
| 9- INDIA AND CHINA: A RIVALRY ENDURES..... | 27 |
| 10- CPEC: BUILDING JOB OPPORTUNITIES..... | 28 |
| 11- ANALYSIS OF CHINESE ECONOMIC AND NATIONAL SECURITY INTEREST IN CHINA-PAKISTAN ECONOMIC CORRIDOR (CPEC) UNDER THE FRAME WORK OF OBOR (ONE BELT ONE ROAD) INITIATIVE. | 28 |
| 12- CHINA-PAKISTAN ECONOMIC CORRIDOR: A ROAD TO PEACE?..... | 28 |
| 13- CHINA-PAK ECONOMIC CORRIDOR AND ITS GEOPOLITICAL PARADIGMS | 29 |
| 14- CHINA PAKISTAN ECONOMIC CORRIDOR: WILL IT SUSTAIN ITSELF? | 29 |
| 15- CHINA PAKISTAN ECONOMIC CORRIDOR: PROSPECTS AND CHALLENGES FOR REGIONAL INTEGRATION | 30 |
| 16- JOB CREATION UNDER CPEC: A REALITY | 30 |
| 17- CPEC A DEBT RELIEVER, NOT A 'DEBT TRAP FOR PAKISTAN' | 31 |
| 18- CPEC'S SECOND PHASE CAN PUT PAKISTAN'S ECONOMY BACK ON TRACK | 31 |
| 19- BRI & CPEC: VENTURING INTO THE FUTURE..... | 31 |

| | | |
|-----|--|----|
| 20- | ALIGNING THE GLOBAL VALUE CHAINS OF CHINA AND PAKISTAN IN THE CONTEXT OF THE BELT AND ROAD INITIATIVE AND CHINA PAKISTAN ECONOMIC CORRIDOR | 32 |
| 21- | CAPITALIZING BALUCHISTAN’S POTENTIAL UNDER CPEC | 32 |

CHAPTER 2..... 33

| | |
|---|-----------|
| “ CPEC AND ITS IMPORTANCE” | 33 |
| WHAT IS CHINA PAKISTAN ECONOMIC CORRIDOR | 33 |
| IMPORTANCE OF CPEC FOR CHINA AND PAKISTAN | 39 |
| SIGNIFICANCE FOR CHINA | 39 |
| SIGNIFICANCE FOR PAKISTAN | 41 |

CHAPTER NO 3 47

| | |
|--|-----------|
| “SWOT ANALYSIS OF CHINA PAKISTAN’S ECONOMIC CORRIDOR UNDERTAKING PAKISTAN AS A FOCAL POINT” | 47 |
| INTRODUCTION | 47 |
| SWOT ANALYSIS OF CHINA PAKISTAN ECONOMIC CORRIDOR (CPEC) | 48 |
| STRENGTHS..... | 49 |
| GEO-STRATEGIC SIGNIFICANCE | 49 |
| STRONG COMMITMENT AND INSTITUTIONAL MECHANISM. | 49 |
| COUNTER TERRORISM OPERATION | 50 |
| COMPREHENSIVE PROJECT | 51 |
| WEAKNESSES | 52 |
| DOMESTIC SECURITY SITUATION | 52 |
| WEAKNESS OF GWADAR TO GENERATE POTENTIAL ECONOMIC INCENTIVES | 53 |
| POOR GOVERNANCE AND LACK OF CONSENSUS | 54 |
| GEOGRAPHICAL OBSTACLES..... | 58 |
| LACK OF TRANSPARENCY AND FACT SHEET FOR THE INVESTMENT AND LOANS. | 58 |
| OPPORTUNITIES..... | 59 |
| PROSPECTS OF ENDING ENERGY SHORTFALL..... | 59 |
| PROSPECTS FOR ECONOMIC INTEGRATION THROUGH REGIONAL CONNECTIVITY..... | 62 |
| POTENTIAL GROWTH IN FOREIGN DIRECT INVESTMENT (FDI) | 64 |
| PROSPECTS FOR REGIONAL CULTURAL CONNECTIVITY | 66 |
| THREATS..... | 66 |
| CHABAHAR PORT AND THE INDIA AFGHANISTAN AND IRAN NEXUS | 66 |
| INDIA’S ACTIVITIES TO DESTABILIZE THE CPEC PROJECT..... | 67 |
| RISING EXPENDITURE COST | 68 |
| WATER AND GAS SCARCITY NATIONAL SECURITY ISSUE..... | 69 |
| FLOOD MANAGEMENT | 70 |
| WATER POTENTIAL IN BALUCHISTAN; | 70 |

CHAPTER NO 4 72

| | |
|--|-----------|
| “ECONOMIC ANALYSIS” | 72 |
| INTRODUCTION | 72 |
| FINANCING INSTRUMENTS..... | 72 |
| CHINESE COMPANIES INVOLVED..... | 73 |
| COMPARISON OF INVESTMENT VS. LOAN PROJECTS | 75 |

| | |
|--|----------------------|
| NET TOTAL INFLOWS AND ACCUMULATED OUTFLOWS..... | 76 |
| COMPARISON OF INVESTMENT Vs LOAN SCHEME. | 77 |
| FACT SHEET ANALYSIS | 77 |
| ENERGY PORTFOLIO | 78 |
| INFRASTRUCTURAL PORTFOLIO | 79 |
| <u>CHAPTER 5.....</u> | <u>82</u> |
| “CONCLUSION AND RECOMMENDATIONS” | 82 |
| RECOMMENDATIONS. | 83 |
| <u>REFRENECES</u> | <u>85</u> |

Chapter No 1

“Introduction”

ABSTRACT

National interest is considered as the top priority for the survival of any country. With the changing paradigms at the regional and international levels, Pakistan’s national position is facing the ever-changing scenario of its dynamic nature. The local and foreign powers (especially China) with their mega projects have created ripples in the region, thus changing the paradigms internationally. CPEC is among one of the standards, which is a Comprehensive Development Framework (CDF) that involves Chinese investments of over 46 billion dollars in various sectors, including; Gwadar Port, energy projects, infrastructure development, and industrial cooperation. CPEC has been rightly titled a “game-changer” in terms of its promise to transform regional connectivity through shared economic growth. The research is aimed at what is the actual perspective of China taking territorial control over the subcontinent, increasing its market capitalization and its global implications. Critical SWOT analysis and Economic Analysis describes a deep understanding of the actual progress in CPEC, policies being amended continuously to achieve the desired goals.

The SWOT analysis is made to understand the deep concepts of the possible opportunities and unforeseen threats that might encounter on way of the completion, the fact that research is focused on the sole interest of Pakistan, how China is reaping the benefit by giving Pakistan a minor share in the profits. On the other hand, Economic Analysis is done to show the actual work done by the Chinese firms, and the bidding is open for Chinese firms Pakistan is losing the labor market in regards of self-production and independent firms. This analysis is done to show the real picture and draw out proper recommendations for the future policy and smooth implementation of the project.

Pakistan is considered a young country with countless material benefits soon after its independence from India and East India Company on the 14th of August 1947. The country is located in South East Asia 24.35 North Longitude and 37.05 North latitude. The area occupied Pakistan is 796096 Km², which is stretching 1600 Km from North to South and about 885 Km from East to West.

After the independence of Pakistan, it was divided into two parts; West Pakistan, which was situated alongside the Indus River Basin, and East Pakistan, which is known as Bangladesh in the current era. These two wings were separated by 1000km of Indian territory among them. When Pakistan emerged on the world map in 1947, it was forecasted that it would not survive in the world of sovereign states accounting its extremely vulnerable defense and early economic situation was in bad shape. However, with all the setbacks and crises, Pakistan survived the dark days and made progress for its subsistence, and the most important aspect which helped Pakistan to sustain was its Geo-Strategic location and the ideology of Pakistan.

Pakistan is the country with significant geographical importance all over the world. It plays the role of a bridge connecting Asia to the south, central Asia, and the west by means of the ocean. Global rivalries of great powers have been impacting Pakistan's economic situation from merely the start, Pakistan's foreign Policy opted is defensive and promoting peace and trade with the trades to boost economy.

Historical Patterns.

Pakistan has suffered external pressure soon after its independence in 1947, inherited a disproportionately small share of its assets, and was given a larger share of the liabilities. It was unevenly divided which had one-fifth of the area and the highways, one-sixth of the population and railroads, one-seventh of the cultivated land on which till today Pakistan is known as an "agriculture state," the defensive was very weak, and it was thought that India would attack and take over Pakistan soon after independence as Pakistan's army was one-tenth of total India's army. There was a small minority of the educated middle class, very fewer tradesmen and professional classes, and with a minute proportion of industrial workers with a small fraction of the industrial equipment and few mills. Pakistan had only one official port for the trade with the world known as "Port Qasim" Karachi seaport.

Later change in the governmental regime, history took a turn in the separation of West Pakistan, which is known as "Bangladesh." Separation in 1971 turned out to be a good situation for Pakistan's food supply and reduced the population problem. But it came with an unbeatable price of diminished revenue base export of jute and tea. It was difficult to manage the two wings of Pakistan by a long and costly air-routes across northern India with an alternative slow sea route, which was 3,000 miles more than 4,827 km around India and Sri Lanka. Separation lifted the major burden from Pakistan's shoulders due to awkward political geography done by the British Empire. Pakistan's share of natural resources such as coal, iron, and other basic materials was insignificant. The major sources of gas and oil are located in the Sui fields.



Source: https://en.wikipedia.org/wiki/Indus_Waters_Treaty
 Figure 1 Indus Water treaty Water Distribution in Pakistan

Geographically and historically, it was foreseen that the Muslims and non-Muslims could not live together, as per the difference in the religious beliefs and the oppression from party to the minority. The international borders between the two independent states were unevenly divided; it could not be argued that the major proportion of industries were in Indian territory. India wanted to take control over the water in Pakistan canals by diverting water to its own territory, choking Pakistan on the agriculture base. Two states agreed on the Indus water treaty in 1960, which was regarded for the distribution of waters. Water is the base issue of Pakistan's agricultural survival disturbing the river flow can cause massive flood on the downstream side of Pakistan, in past Pakistan, has suffered numerous man-made floods, as the water level raised on the Indian dams they used it to spill on the under-capacity dams on the downstream side, which were unable to hold the high pressure from the upstream and usually beaked down and which cause a massive flood in the major areas of Pakistan. This flood caused Pakistan a massive loss in the agriculture sector, India keeps on violating the Indus water treaty; this has been since the agreement by 1960. To encounter this issue, Pakistan has

decided to build a major dam known as Daimir- Bhasha Dam, which has a storage capacity of 10,000,000,000 m³ (Ann-Kathrin Schneider September 2008).

Physical Features.

Majority areas in Pakistan's land are dry, which are considered as desert countries, transverse by the Indus and its tributaries, creating a sedimentary lowland as the western part is considered where mountains and uplands are flanks its frontiers with the neighbors Afghanistan and Iran.

Pakistan can be easily explained geographically, divided into the four main topographic regions; Northern and Western highlands, Punjab and Sindh plains, Baluchistan plateau, and the famous Thar Desert. The northern and western highlands cover much of the northern and western parts of Pakistan.

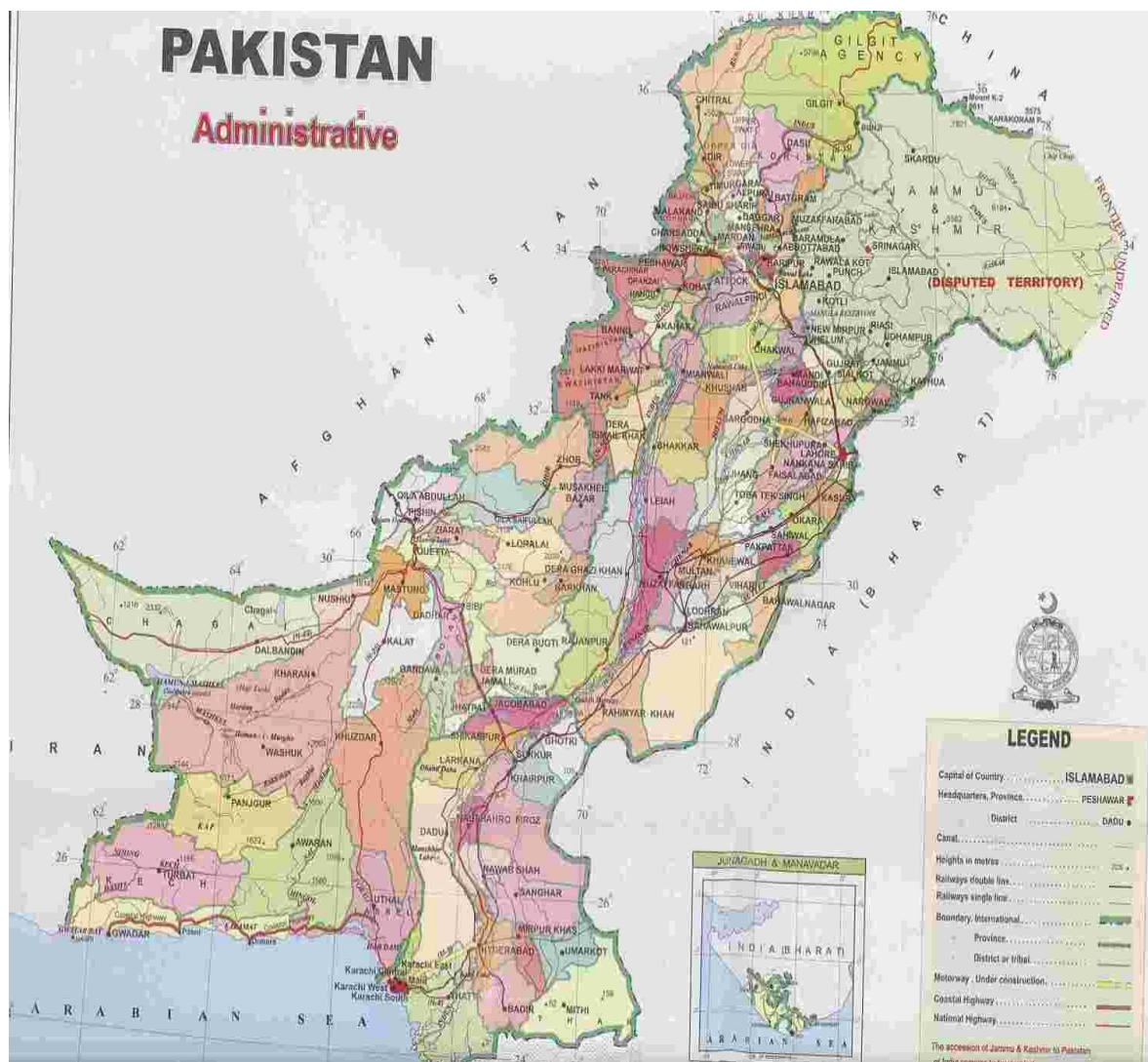


Figure 2 Map by Administration of Geological survey of Pakistan

The famous Himalayan region with high mountains and several glaciers lies in Pakistan. The second highest peak of the world, K2, which is 28,250 feet high, lies in the northernmost part of the Karakoram Range. The highlands in the western region include the Sulaiman Range and other various hills with low range altitude, which has an elevation of 4,000 to 10,000 feet, but in nature, they are soft in nature less dissected than the rugged range in the northern region.

The Punjab and Sindh basins occupy most of eastern Pakistan's region and are traversed by the Indus River and its four tributaries, Chenab, Jhelum, Ravi, and Sutlej. These plains are formed by the occurrence of the river and very gradually rise to occur from the Arabian Sea to nearly 1,000 feet in the north, a mere distance of 700 miles. It can be observed that economically, politically, and culturally the rivers are connected in the country's heartland. Baluchistan plateau is located in the southwestern part of Pakistan; geographically, it is the driest and cold region of Pakistan. The elevation extends up to the Makran coastal highway and is fringed by low, but hills are rugged in nature. Desert area in Pakistan lies in southeastern Pakistan, which an extension of the great Indian desert. Some areas of the desert are occupied by the population as they have easy excess to the Indus river, but mostly the desert areas in Pakistan are dry and wasteland.

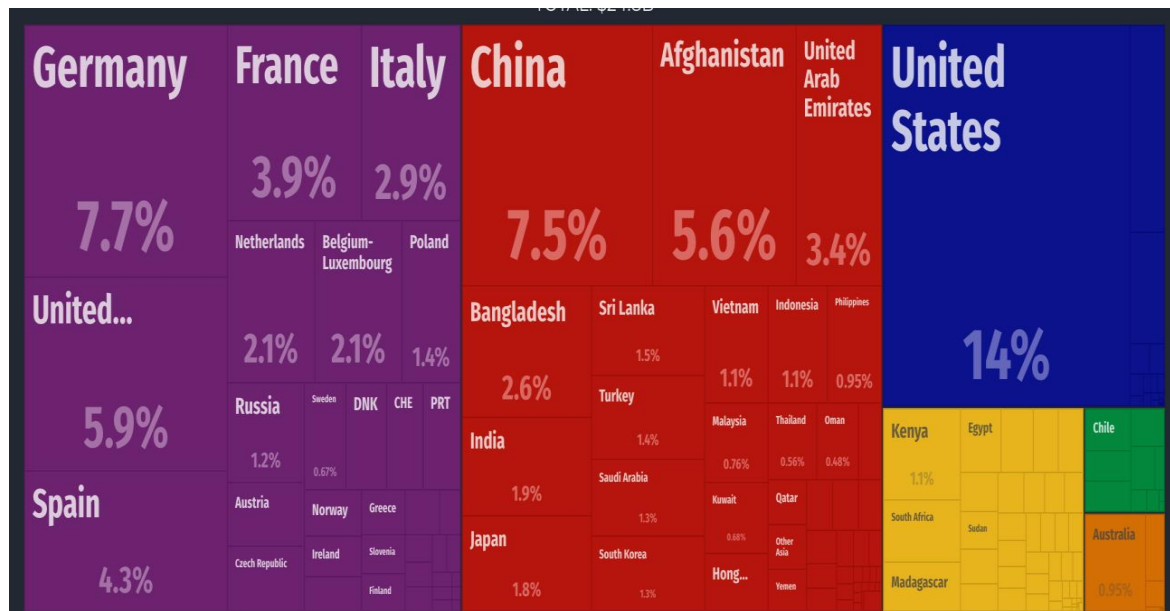
Resources and Economy.

Pakistan soon after independence realized that shortage of resources would bankrupt the country, in order to sustain the political pressure and threats to from neighboring countries, Pakistan opted to go for an agricultural economy based system as major agriculture lands were in Pakistan's regions. The main aspects were agriculture, forestry, and fishing; close to one-half of the labor force is engaged in these activities, but these accounted for less than one-quarter of the gross domestic product. In the British regime in the subcontinent in the late 19th and early 20th centuries, the land was converted into the canal irrigation in the major part of Punjab and Sindh region. This helped to foster many local agricultural goods such as wheat, rice, cotton, and sugarcane, which were the important crops that were grown on the "canal colonies." Many other crops like oilseeds, chickpeas, and millets vegetables were introduced to sustain the local demand of these goods and reduce imports from other continents, in short Britishers were clever to grow these crops in order to spend less money on the expensive imports.

Pakistan went through the "green revolution" in the late 1960s along with India and Sri Lanka, and the concept was for the introduction of the high-yielding varieties of rice and wheat, these varieties needed extension of the irrigation canals into the arid zone lands inside the interior of Punjab and Sindh, this increased the annual crops productions sustainability. By the end of the 1970s, Pakistan was successful in attaining the self-sufficiency in food, which was fruitful by the 1980s as Pakistan became the important exporter of rice; this enhanced the production of cotton significantly since the 1960s. The region of Baluchistan is still unexplored and untapped in terms of extraction in minerals. Baluchistan being dominant in the hard terrain region, and hard climatic conditions come with a complete package of minerals and natural

gas. Gas covers the country's demand, and other minerals such as graphite, coal, iron, and marble are exported worldwide. Regardless the energy generation is still the biggest challenge for Pakistan's economic development.

- Hydroelectricity accounts for only 18% of the total energy produced, the shortage of electricity is due to insufficient capacity of hydropower utilization. Tarbela and Mangla Dam on the Jhelum range are the only dams providing hydropower extension of dams is under construction in Pakistan, which intends to end the energy shortfall.
- Natural Reserves for gas are abundantly located in Baluchistan, Sui. The other reserves are in Potwar Plateau, and in Sindh, production is limited.
- One nuclear power plant is in Karachi, the corporate capital of Pakistan. Under the CPEC project, it is intended in one of the early harvest projects to enhance the nuclear plants in Pakistan to meet the energy shortfall.
- One-eighth of the labor force is employed in the manufacturing sector, which accumulates less than one-fifth of Pakistan's GDP. Soon after independence, Pakistan has focused on industrialization in order to sustain economic growth, but due to fewer energy resources, it has not achieved the optimal target.
- Initially, manufacturing in Pakistan was related to agriculture only in terms of cotton textile mills and production of sugar, paper, tobacco, and leather. After the 1960s, a great effort was put in the heavy industries, which would enhance Pakistan's ability to immediate production capital. By production of chemicals, fertilizers, and engineering equipment.
- Early in the 1980's Pakistan started steel mill developed at Pimpri near Karachi, most of the development was due to the international aid and bilateral ties. The Karachi city was one of the largest city and was the first capital of Pakistan.
- Refugees from partition played an important role in the establishment of the new industries expanded regionally and internationally due to strong connection before the partition, the city grew into "boom-towns" as aligning seaport of Karachi attracted many manufacturing industries taking advantage of reduction in the transaction cost in assembling of raw materials and for supply of finished goods
- Pakistan shifted its capital from Karachi to Islamabad due to the insufficient security of the port, the new capital was a planned city and was designed by a famous French architect le ca busier.
- The city of Lahore in the province of Punjab became Karachi's competitor in the industrialization. Faisalabad, which has emerged from a canal colony, became to be the biggest retailer in the clothing industry in Punjab.
- Petroleum products machinery, including chemical fertilizers, are the main imports of the nation. Leather goods, wheat, rice, cotton, and ready-made garments are the top in the exports list.

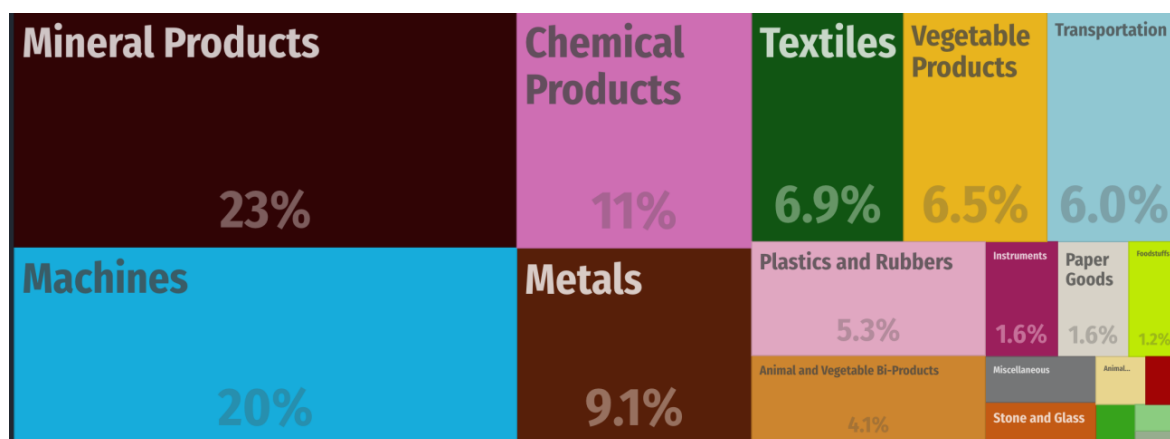


Source: <https://oec.world/en/profile/country/pak/>
Figure 3 Exports by Pakistan to world

Top export destinations of Pakistan are below;

- The United States of America. \$ 3.5 Billion
- Germany \$ 1.9 Billion
- China \$1.85 Billion
- The United Kingdom \$ 1.46 Billion
- Afghanistan \$ 1.39 Billion

The total exports to the rest of the world by Pakistan are accumulated to be \$ 24.8 Billion.



Source: <https://oec.world/en/profile/country/pak/>
Figure 4 Imports by Pakistan from rest of the world

Pakistan is still struggling to lower the imports from the rest of the world and encouraging the local consumption. But this operation would take a span of more than 10 years and would help Pakistan in future, at the moment Pakistan has imported \$ 55.6 billion making the country 47th largest importer worldwide. In span of last 5 years the imports have been growing with a rate of 5.1% from \$ 43.4 Billion in 2012 to \$ 55.6 Billion in 2017. The most expensive imports are refined petroleum which accumulated of 12.6% of the total imports of Pakistan.

Revival of Historical Trade routes

The history teaches us the methods to prosper into a better future and not to revise the mistakes and to learn from the mistakes made in the past. From ancient times the infrastructural development of any society requires an investment of time, money, and intelligence. The investment in infrastructural development needs a risk of failures; in the development sector, it is important to undergo the probability of the failure as the investment made is heinous. The tendency of reducing risk is a way through which one can mitigate the risk of being risk-free. Therefore in this research, the socio-economic aspect of the project discussed, which is recently become the most common aspect of discussion for the millions of people worldwide. The project is known as the CPEC China Pakistan Economic Corridor will be the highlighted discussion among the implications of the projects between two economies and their results. The world is changing, and the new mode of war is on the economy, how china has captured the world market with the products and cheap production cost. China is the world leader in the usage of the products of petroleum and is currently facing trouble by paying a large amount of the overhead cost while importing oil and petroleum from the middle east using the Shanghai's sea route. China has forecasted the additional cost of paying for the imports and mitigated the risk of avoiding the economic inertia China plans to increase its revenue by focusing cost reduction policies based on mutual benefits with Pakistan. Pakistan, a state with geostrategic importance by location, is currently facing difficulties in the aspect of the various important fields of daily life, including technology, social development, educational development as well as structural enhancement most of the regions are landlocked and rich in natural resources. These developments are essential for Pakistan, which cannot be taken for granted as these will boost the rate of employment and optimal allocation of the resources that will empower to increase the GDP of Pakistan. Hence looking to the opportunity here china is the world's second-largest economy and aims to the superpower by 2030, whereas Pakistan is an energy-hungry nation. China's strategy to invest in developing countries is to maintain a surplus in the revenue.

China Pakistan Economic Corridor has been considered as a game-changer which has started in 2013 mega project and completed in the modern of the South Asian countries, the strategy behind this project is to connect Asia with the European Countries. The scope of this project it generated 4 million jobs and creates a huge socio-economic impact with investing in the infrastructure and the energy sector of neighbor Pakistan. Through this mega project, Pakistan aims to improve its economic situation of the people; CPEC includes heavy industrial works in these countries not only increase the employment rate but help to increase the bilateral ties to enhance the further growth in socio infrastructural conditions of the China and Pakistan.

CPEC has been the talk of the tongue for millions of people, not only in Asia but worldwide. CPEC is the largest project Pakistan has taken with the current economic and political implications; the people of Pakistan are highly optimistic and aim to promote the work done as soon as possible. The transportation system is considered as blood circulation system of the country, the transportation system in Pakistan was weak before the CPEC project, as now the main aspect of this mega project includes development in the new and renovation of the old trains tracks, highways, and motorways. It is enhancing the national health systems introducing hospitals in the landlocked regions, increasing the cultural exchange among the youth providing scholarships to Pakistani students. This project will empower the energy hunger of Pakistan, which includes the energy capabilities improvement in the creation and renovation of dams, wind plants, petrol, and gas extraction in various areas of Pakistan. China has also initiated a program for increasing the capabilities of the Naval export system of Pakistan to increase the volume of the trade. This includes the high level of additions of new aircraft, containers, and cruise ships as well as heavy logistics systems to be run by famous companies like Amazon and Maersk.

Chinese are considered as hardworking people all over the world, although the geographical area of China has maintained its dominance in the world through high exports and high imports all over the world. China has been working on its internal development and maintained a world record for the development of the railroad system from 2005 to 2008. In these three years, china established a well-defined rail network that connects all of the china within. This hard work has astonished the world because it took two to three decades for Europe to create a rail network. The biggest investment boom in history claimed economists it's the heaviest investment in the development sector to any nation in the world. This corridor will help to improve the weak economic areas of Pakistan will uplift the living standard of Pakistani people creating more job opportunities and with improvement in communication channels new means for investments and creating smart cities all over the landlocked regions. This Economic corridor is not the road to the economic prosperity of Pakistan. This is termed as the future of the world.

CHINA AND PAKISTAN'S RELATIONSHIP

Pakistan and China have been friends soon after the independence of Pakistan, on May 21st, 1951, Pakistan and China formally established diplomatic relations. Pakistan is known as a sworn friend of China; these diplomatic relations are 60 years old from now. These two nations are the best example of friendly neighboring countries in the world and have admired their friendship, which is a role model for countries with disputes. The bond between Pakistan and China grew to economic and social relationships from the start Pakistan acknowledged and was the first Muslim and the third non- communist country to do so. This enormous Chinese investment is likely to invest in the development of infrastructure, roads, highways, ports, and energy communication sectors. These investments result when the leadership of the country is sincere, both the countries because it's the development of both states, and the goal is growing economically strong together. Importance of Pakistan as an investment for China is important because it can provide safe and easy short access to middle east, Europe and Africa through Gwadar which is deep natural seaport for imports

and exports, on the other hand, to obtain the access China has helped Pakistan to enhance its defense system increasing the amount of fleet for naval protection of the port, empowering the air defense system to counter any unexpected terrorist attacks. These perks were the result of a true bond of friendship when China and India were at war in 1960, Pakistan stood alongside China on the moral grounds. Therefore when Pakistan and India were at War in 1965 and 1970, China supported Pakistan, as well as in the current days, China has supported Pakistan on its war on terror to eradicate the evil from its roots. Pakistan's Market is composed of Chinese goods and products which are highly appreciated by the consumers in Pakistan; China has played a pivotal role in the development of Pakistan. The most precise term to use for Pak-China Friendship is "all-weather" friendship. The border sharing of both nations have a deep impact on this relation, geo-economic strategies implemented previous helped to enhance the bonding to augment the profits the two sides completed legendary Karakorum Highway (KKH), linking Pakistan's Hasan Abdal, a town near the capital city of Pakistan to China's Kashgar via Khunjerab Pass. In 2000 the highway was expanded to make it operational for all types of the traffic year-round through which the inland roads connect to Hasan Abdal with Pakistan's Gwadar and Karachi port situated in the south of Pakistan.

Pakistan the first Nuclear power in the Islamic states worldwide has gained international importance soon after its independence, early in the 20th century, it was quite evident that the success would come with international integration with economic giants, for this the diplomatic ties between Pakistan and china became stronger, and the main focus was to enhance the economic relations between the countries. President of Pakistan stated that "Pakistan considers China as its most reliable and time tested friend."

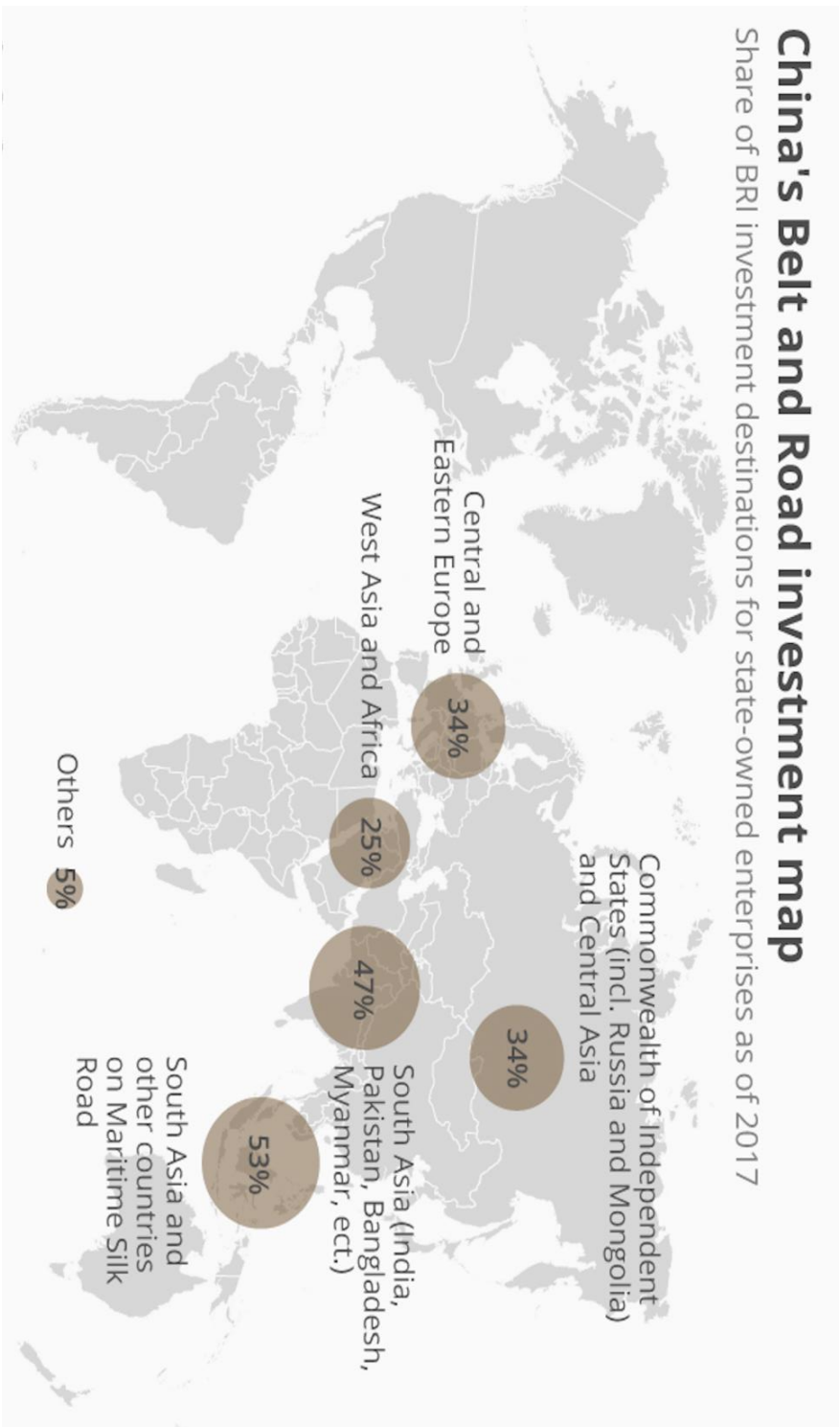
Pakistan has been suffering because of its poor management and irregularities. Pakistan is an energy-hungry nation to increase its production; it lacks the source of energy. Other than that, the nation faces a tremendous amount of challenges regarding poverty, lawlessness and mismanagement are increasing the source of internal problems of Pakistan. Policymakers analyzed the geographical location of Pakistan can be utilized in terms of progressing forward with the strong economic ties and end all these problems by developing the nations internally through proper welfare and well-being of Pakistan.

BELT ROAD INITIATIVE BACKGROUND (BRI)

China's one belt, one road initiative (BRI), was announced by President Xi Jinping in 2013. The goal is to make a connection to the major Eurasian economies in terms of trade, infrastructure, and investments. China is seeking to enhance its trade routes from Asia till Europe through connecting with different countries in the midway. This will increase the foreign direct investments both in china and in the connecting region. President In a speech addressing a Chinese communist party (CCP) on "Periphery Diplomacy," Xi Jinping focused that China remains committed to peaceful and mutually beneficial relationships with its neighbors. He clarified the motivation of growth for china and helping its neighbors to get benefit from china's increasing market worldwide. This speech was a clear message to the world which described the "Chinese dream" with the regional development and initiation of the New silk road initiative.

China's Belt and Road investment map

Share of BRI investment destinations for state-owned enterprises as of 2017



Source: cpecinfo.com

Figure 5: OBOR One Belt One Road Initiative

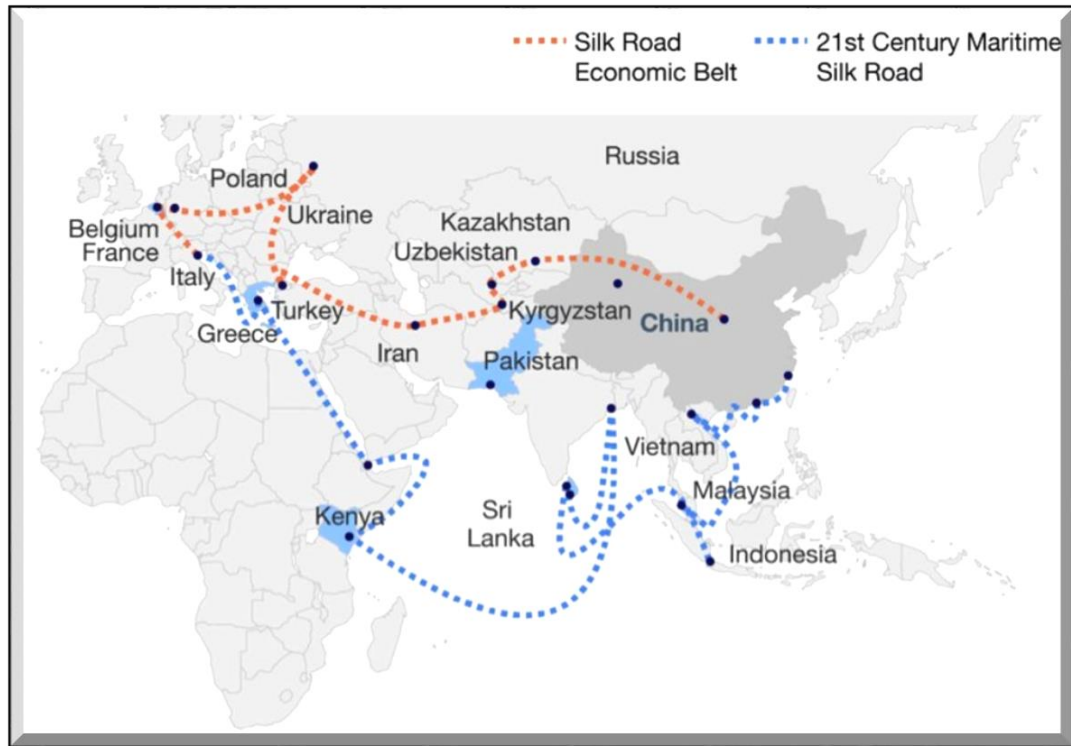


Figure 6 One Belt One Road Initiative Map

OBOR Vision and Objectives

The introduction of new trade routes is one of the main objectives of this convention, which has particular reliance on the economic drive between these nations. Connectivity and business linkages with economic giant China and more than 60 countries connecting along Asia, Europe, the Middle East, and Africa. Aim and objectives of BRI are following;

- Enhancing the development in the western region of China, which connects to different countries to increase economic development.
- Establishing an alliance of Partnership with different countries along the BRI and the trade routes, which mostly consists of developing countries.
- The high degree of integration, Economic development, with a particular interest in strategic fit among the connectivity in the economic zones for transit.

China seeks to expand not only in Asia but to excel in the wide-open oceans, expanding trade worldwide, generating high revenues. Hence BRI is the only one possibility that will help china to attain its goal of expansion and shifting excess production capacity to the world market. In recent years China has remarkably improved its economic growth and industrialization, which is mainly composed of large foreign direct

investments. China's foreign ministry and National Development and reform commission are working tirelessly to make the OBOR (One Belt One Road) initiative to be a successful implementation and a mark of trade route worldwide.

OBOR Elements

This mega project of Belt and Road Initiative has two major elements:

One Belt: The Silk Road Economic Belt (SREB)

With high regional connectivity this can be stated that OBOR is envisioned as a bridge connecting Asia and Europe, in which will be working on logistics chain from China's east coast to all the way till Europe (Rotterdam). The routes connecting the three major continents are as follow;

- Connecting China with Europe through the passage of Central Asia and Russia.
- Connecting China with the Middle East through Central Asia.
- Connecting China with Southeast Asia and the Indian Ocean.
- Chinese are focused on the regional development through specific corridors, which serves only one purpose is the economic stability and China's connection with the world.

One Road: The 21st Century Maritime Silk Road (MSR)

This is an old sea route of trade known as Maritime Silk Road. China's Xinjiang and Fujian are the ones who have high stakes in the One belt and One Road with numerous opportunities for further development. These provinces are approved for the core area of the 21st Maritime silk road while the other one is the core zone of the silk economic belt. The old routes are being revised to achieve the maximum from this project as expansion is necessary to maintain economic development. The maritime sea route is an old route for trade across the world, which uses china's coastal ports. The route runs from the west to the east coast of Europe is connected through the china's sea and the Indian Ocean and furthermore establishes a connection with east into south pacific.

The following routes have been established for the 21st century maritime silk road are;

- Linkage of China with Europe through South China Sea and Indian Ocean.
- Connecting China with the South Pacific Ocean with connection through the South China Sea.

Six Economic Corridors

Economic Routes are being proposed and agreed upon are 5 in numbers, which develops a linkage with more than 60 countries which is accumulated as 60 percent of the global population and approximately 33 percent of the global GDP. These five routes established will be built through the setting up way for six international economic corridors. These economic corridors are established to enhance the trade and connectivity strengthening China's existing partnerships with the neighboring countries. This new multilateral mechanism will be developed in order to facilitate enormous trade and transport of goods and movement of people. The six economic corridors to be established outside China's region and are considered to be the highest outcomes of OBOR initiative. The following are described in detail;

New Eurasian Land Bridge

Connecting Asia with Europe territories is the main aspect of this route, this route is also known as New Eurasian Continental Bridge. The connection is planned to be as international railway line running directly from the port of Lianyungang in China's province of Jiangsu through the city of Alashankou in Xinjiang province all the way to Netherlands (Rotterdam) in western part of Europe. Railway section for the route includes Lanzhou-Lianyungang railway and the Lanzhou-Xinjiang Railway. This rail network also runs through eastern, Central and western China. As the rail exits the Chinese territory, it passes through Kazakhstan, Belarus, Russia and Poland finally reaching to their destination on eastern coastal ports in Europe.

China - Mongolia - Russia Corridor

Every Corridor has its own aims and objectives, particularly this corridor foresees a trilateral international cooperation between three countries China, Mongolia and Russia to enhance their existing economic cooperation. All economic corridors are part of China's One Belt and One Road initiative, while on the other hand Russia is empowering its rail network that is the renovation of Eurasia land bridge to develop rail and road network between Moscow and Beijing. Mongolia's Steppe Road Program which is comprised of five elements to be build are rails, roads, infrastructure, oil and gas pipelines. This trilateral collaboration is working on high integration of network and soon they will initiate a fast train network between these three countries. The routes of this corridor are divided as follow;

- Beijing/Tianjin/Hebei to Russia (via Hohhot, Inner Mongolia)
- Dalian to Chita in Russia (via Shenyang, Changchun, Harbin, Manzhouli and Inner Mongolia)

The empowerment to integration and to promote trilateral growth the countries have joined hands to a single point custom clearance and transport facilitation to broaden the connection in variety of fields.

China - Central Asia - West Asia Corridor

Export and import of Natural resources is one of the main aspects regarding Central Asia and West Asia Corridor. Oil and gas running to Xinjiang from Arabian peninsula, Turkey and Iran. The route of this corridor is settled from the province of Xinjiang in China, and an exit from the Chinese territory via Alashankou to provide a connection with the rail networks in Central Asia and West Asia before entering Arabian Peninsula. This corridor spans for the five Central Asian states of Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan connecting further to Iran and Turkey in the western Asia. To bring the concept in working reality China has entered in talks with the stakeholders and with a positive response Central Asia Cooperation firm held in 2015, participating governments shook hands for jointly development of the project. China has signed bilateral agreements with all the countries that are connected through this route.



Source: cpecinfo.com

Figure 7 The New Eurasia Land Bridge

China - Pakistan Economic Corridor

All the routes have their own specific importance regarding economic growth and stability, in the case of Pakistan it seems to have most importance out of all. The main aspect is enhance trade and economic ties with Pakistan, to reduce the distance and exploit the opportunity of the port in Gwadar. Gwadar is one of the natural deep sea port and due to its geographical location it is one of the main interest of Chinese investment in the country. This corridor is envisioned to link Kasghar in Xinjian, in the north with deep sea port of Gwadar located in Baluchistan province south of Pakistan. This corridor is due to its importance is flagship project of the One Belt and One Road

Initiative. It has been decided that 3000km long corridor will help China to establish a connection to Middle East via Pakistan territory bypassing the strategically sensitive Strait of Malacca. Both nations agreed the terms in April 2015, proactively construct the corridor and deepen the cooperation of the Phase-II of the CPEC project. Under the project both nations have mapped out the plans to construct motorways from Karachi to Lahore and a rapid passenger train line in Lahore. These exclusive economic zone tend to create value in terms of high regional connectivity in the regime and the new joint venture has agreed to establish a Pakistan cross-country fiber-optic network.

Bangladesh - China - India - Myanmar Corridor

Regional connectivity and high trade transition with all the neighbors is main aspect of the corridor. The linkage from Kolkata with Yunnan province will be passing through Myanmar and Bangladesh among the famous cities of Mandalay and Dhaka. The estimated long route has been decided to be 2800 km long road network connecting these countries. The Bangladesh-India-Myanmar-China will enhance Chinese integration in the South Asia and beyond. China has propose the infrastructural development in the terms of rail network and roads including industrial cooperation and professional training services.

Literature Review

Introduction

The literature review is comprised of the research papers, which are the most related to the dynamics of this research that I have made in the dissertation. The facts gathered from the previous research in the same domain were extremely helpful in defining the objective of the research, intended to make sure that the possible direction chosen is the right one. It helped to draw the specific outlines in order to limit my research to the point and be accurate to achieve the intended objective.

1- Reservations of CPEC on economy of Pakistan

Published in DAWN 2017 Planning commission and PIDE use the well-established framework of cost benefit analysis to evaluate and monitor the net benefits of the CPEC which are further composed in to three aspects; Direct benefit is incorporated with the incremental measure of gross value added by the energy and infrastructure. Some assumptions are taken for the elasticity in the growth factor that a two percent growth in energy production will boost up the GDP by 2 percent from the current level. Second aspect of the benefits is found out by the multiplier effect of the activities that are linked to the direct investment. Third aspect of the benefits discussed here is that network externalities, linking up good transportation system and road usage will enhance skilled labor to work in the areas where these projects are under deployment rather than moving away from the area.

One of the factors that has most reservations of the project in CPEC is “COST”. Cost of CPEC are classified into four aspects; 1) Direct cost of the investments related to infrastructure and the energy project of CPEC. 2) premiums on the large scale investments and domestic prices of some goods are bid up. 3) Due to unavailability of goods and services in the project duration some of the goods have to be imported in order to counter the shortfall of domestic supplies. 4) avoidable incremental cost is related to proper planning, monitoring and risk mitigation of the project, which can substitute high-cost inputs with low cost keeping quality integral.

The author has emphasized on the avoidable cost that can impact project on high grounds, the fact discussed here if Chinese professionals are deployed for the special task all over the project the duration of project life cycle will be the same but the expenditure cost will be higher considering security, mobility, housing the unit cost of the labor after these considerations will be much higher. This cost can be reduced if the government of Pakistan employs preponderantly Pakistanis over a specific period (Contract Based) under Chinese supervision the cost benefit would be substantial and the net benefits would be much larger. As integration of provinces is one of the aspects in CPEC

connecting deprived Baluchistan province with the other provinces will enhance the trade sector and will pull them out of poverty trade activities ensuring economic stability in the regime, creating income and job opportunities.

2- THE MACROECONOMICS OF PAKISTAN'S QUEST FOR ENERGY AND THE CPEC

Published by Hiba Zaidi and Tokhir Mirzoev IMF Country Report No.17/213 July 2017 authors of this report have focused on special areas of China Pakistan Economic Corridor that how it has impacted the Macro level policies of Pakistan in the national and international markets.

- 1) Energy shortage and underinvestment in the infrastructure was one of the main issues in Pakistan due to which the international investment flows were insignificant. Operational inefficiencies and inadequate tariff policies produced a significant amount of debt in power sector. Hence the gap estimated in power sector was 10-12 hours per day according to FY2012/2013.
- 2) Reforms by higher authorities have led to remarkable improvement in the economic situation considered as low prices of oil, power tariffs to close to recovery and collection of tariffs in the sector has led power shortage to 6 hours per day in the residential sector of the country and less than 2 hours in day to optimize the residual capacity and deployment of recourses to its optimal usage according to FY2015/2016. Collection of tax revenues to bring down the circular debt in the public sector has increased GDP outcome 0.5 percent over the last three years.
- 3) Pakistan has focused on wide-ranging initiatives to increase Infrastructure and energy projects to its full potential. 19 CPEC projects (\$17 billion in energy sector and 5.9 billion in infrastructure) and non CPEC projects worth (\$24.5 billion) are in the advanced stage and near completion.
- 4) CPEC has influenced the international market players to invest in Pakistan. Projects in energy sector involve foreign direct investment. Financing of non CPEC projects is financed by the private domestic players and government financial borrowing from international financial institutions is one of the channels which has been taken in consideration while completing the projects.
- 5) Pakistan's economy relies on the export and substantially it needs to be increased in order to counter the foreign currency financing needs. Projects will lead to high exports all over the country and local industries established in the gradual time span would increase the productive capacity and enhance the export.

3- China-Pakistan Economic corridor an assessment of Potential Threats and constraints.

Published by Safdar Sial October 2014 Author is mainly focused on the potential geographical implications and constraints to completion of the project. Geography of Pakistan and its neighbors are of key importance when projects like CPEC are focused in the regime. Pakistan has been a target for challenges in the sect of security and instability issues. Taliban influence in the Khyber Pakhtunkhwa region and Baluchistan Gwadar. The threat of militancy and instability has been proven a fact of involvement of international intelligence agencies with the aim to sabotage the

project. Insurgents in Baluchistan funded by terrorist organizations were a key threat to CPEC. They were focused on destabilization of the infrastructure and energy related projects in the eastern alignment of the province. However in the past two years Forces in Pakistan have strictly swept away all the possible threats which could prolong the completion of the project in remote areas, ensuring maximum security to the Chinese workers and infrastructure assets.

4- Employment Outlook of China Pakistan Economic Corridor: Meta-Analysis.

Publication by Center of Excellence China Pakistan Economic Corridor Working Paper#21 Dr.Shahid Rashid, Muhammad Ali Zia, Shujaa Waqar, Economically Pakistan is suffering from a wave of unemployment where people with good backgrounds are jobless. The fact of local hiring and promoting our people with technical knowledge is not practiced. This case study explores the different aspects of CPEC in energy sector and infrastructure sector that how can they meet the job demand on the domestic side. Total number of major projects are 43 and out of which 22 projects are on the fast track of completion as they are considered backbone of the corridor. According to the studies conducted on CPEC has generated 80,000 jobs in different projects since started in 2013 and has a potential to create more than 1.2 million jobs through its currently agreed projects. Moreover sectors such as tourism, agriculture, mineral processing, oil and gas services has enhanced since the commencement of the project.

5- CPEC: Benefits for Baluchistan

Publication by Institute of Strategic Studies Mir Sherbaz Khetran Feb 2016 Author is an research associate in the institute of strategic studies and has focused on the economic development of Baluchistan through the project CPEC. The main concerned area are minerals and infrastructures. In the past Baluchistan has been the province with the least contribution to the GDP of Pakistan, the reason for the poor economic drive in the province is poverty and roughness of the terrain which is mostly dry and composes of water scarcity. Initiation of CPEC has changed the local level business approach in Baluchistan as it has connected major cities Quetta, Kalat, Labella and Zhob through proper roads (Arterial Highways). China's aim to enter Asia Middle East to Europe and opening up new markets is with numerous trade opportunities is worth billions of dollars. The Center of attention in CPEC project is Gwadar port which is one of the natural deep sea ports all over the world, the city is considered one of the main pillar of the CPEC as all the shipping consignments will be traded from the deep sea port. The port is being developed in consideration to connect china and Pakistan to the West Asia, Middle East and Africa. The port is usually termed as a catalyst in tremendous economic activities on a large scale. Social and economic activities have boosted Baluchistan's business mindset. People are investing in the areas where road and infrastructure projects have been completed. Investment is in the food chain industry, Mining of marble and other natural resources. This has led a wave of new optimism in the

region where the youth is eagerly waiting for the promises undertaken by the initiation of the project CPEC.

6- Strategic National Perspective & CPEC Understanding The Changing International Paradigms

Published by Dr. Muhammad Zia-ur-Rehman Goal oriented CPEC projected has projected Pakistan's economic situation from geography oriented economy to a Strategically Economy Oriented Contingency (SEOC) this is considered an economic strategic move by Chinese president Xi Jiping.

International Paradigm shift of this strategic move has changed the indulgent of the project and international consent has taken a role.

- a) **AFGHANISTAN** is comprised of hard and rough terrain which has abundant supply of minerals such as gas, oil and many resources to be explored. Country can be turned to economic power but unfortunately it has no linkage to sea to get the resources exported to different parts of the world. This is major deficiency of Afghanistan which is solely dependent on the neighbor Pakistan for its international trade. To gain access to sea port CPEC is the only way to get acceptance in the world trade through port of Gwadar.
- b) **IRAN** a Muslim state in the subcontinent has always been friendly to its neighbors and corporative with Pakistan because of its initiative of Pakistan gas pipeline and its expansion to the other countries such as China itself. CPEC contingency is to bridge the international trade gap between the countries offering fruitful trade among all. International trade and economic stability is one of the aspect on which future ties rely on, Iran has its own port "Chahbahar" which is a competitor to Gwadar deep sea port, while on the other hand India's New Dehli port is of significance importance in promoting economic stability of India worldwide. The concept is strengthening the international ties of trade in the region by mutual consent in trade aspect. Sea ports in the region would work on mutual sharing, coordination which would led Iran and Pakistan towards prosperity.
- c) **Central Asia** is economic hub that has been one of the major suppliers of goods to other continents due to lower production cost and abundant supply of minerals the region has high strategic economic importance to the world. Expansion of Turkmenistan-Afghanistan-Pakistan-India will enhance the trade with the central Asian countries in area.
- d) **Russia** as one of the powerful nations all over the world has been a strategic player in reviving its global role among the world after the Great Russia-Afghan War. It has worldwide stakes,

CPEC has given opportunity to Russia to start its trade to the warm waters through this initiative Russia aims to expand its trade routes and economic activities throughout South Asia.

- e) **USA** being the known super power in the world has its own concerns about CPEC. USA ally to both Pakistan and India has been supporting the international trade in the region but as the Chinese entered with expansion project in the region USA has not vowed any interest in the economic sector of the project. Meanwhile USA is quite worried about its pivot hold in the central Asia, where china has declared to be the next super power by end of decade. CPEC is going to influence the economy and strategy of USA in South Asian region
- f) **India** a state which is totally against the CPEC project as it claims the routes of CPEC pass through the Gilgit Baltistan region which is disputed territory and this project would affect the economic strategies of India and its trade with the world. One the other hand India has been opposing and playing a mischievous role in the international sector promoting nationalism, sectarianism to drive attention away from the successful completion of the project. The evidence has been seen from the past terrorist attacks and abductions of Chinese engineers from the sites in the region of Baluchistan.
- g) **Middle East** has been supportive to Pakistan in terms of trade sector, but CPEC has initiated an undesirable quest of competition in their minds that progress of Gwadar port would subordinate the market capitalization of Dubai port. The fact is CPEC will make trade easy with the middle east and it would be economically suitable for middle east to export oil and other tradeable goods in the world.

7- CPEC's Link to Europe

Opinion June 2019 by Adam Garrie CGTN Belt and Road Initiative has been one of the game changer for not only Asian countries but also Europe. It has granted effective and the most efficient route of transporting goods from western part of china to Pakistan (Gwadar port) and worldwide. The wide trade has expanded its roots to Afro-European region. This would be beneficial for Europe's Belt and Port linkage to the CPEC in network of port that stretch from Pacific Ocean into the Mediterranean on both African European sides of the sea. Furthermore European companies started investment in the CPEC project that can further enhance to win-win opportunities and strengthen the bilateral ties between Pakistan, China and Europe. Chinese exports amounted in 2018 in Europe were around 394.7 billion Euros, as in the present stage Pakistan remains an important exporting partner to Europe and in future with BRI (Belt Road Initiative) the trade can be free trading relationship which is to cut the tariff and export on one currency.

8- CPEC provides a chance to improve our institutions of Governance

Published in Dawn April 2017 Public institutions in Pakistan have a history in corruption, which has affected the completion of many projects since independence of the state. The political background relies upon the corrupt leaders who are backed by the Godfathers(Political) sabotaged the integral part of the projects in order to make black money. Policies are meant to change the dimensions of the political infrastructure in the democracy. The risks in the completion are quite high the reforms against the corrupt culture has be to strict and cautious, in the start we may face resistance by the unfaithful people to the nation but if laws are established firm and solid but solid and practical leadership will strengthen the Administrative institutions to eliminate the corrupt mindset all over the nation. The motivation to be successful is not only for the leaders to think of, it is nations duty to elect and promote justice and equality through on mindset that should be Nationalism.

9- India and China: A Rivalry Endures

Published by Startfor Worldview April 2018 India considered as an economic giant worldwide has been notorious during the implementation of the CPEC. The unrest in the subcontinent caused by the hasty decisions by extremist government in India has led its position down as a business tycoon in the world. Tension are no longer manageable between India and China where as both are thriving to obtain a superior position in the sub-continent. Foreign policy of Pakistan has shifted away from USA as Pakistan's ties with China became stronger by initiating CPEC. Whereas USA's concern of China's dominance in the region is a threat to its sovereignty, India's foreign policy is more inclined towards USA and it has invested more the 25 billion dollars in Afghanistan. On the other side China has support Pakistan in resolving Kashmir issue in United Nations and stood shoulder by shoulder. Massive infrastructure is linked to Pakistan administrated Kashmir which is a territory that India claims as its own. Bhutan is the only state besides India that has ongoing dispute with China in this situation Bhutan's army was supported by Indian troops and came face to face with Chinese troops. This situation clearly depicts that India has a deep concern on CPEC success and would continue to be a mischievous state creating unrest for the future.

10- CPEC: building job opportunities

Published by Zamir Ahmed Awan in Chinadaily.com.cn August 2018 Job scarcity is one of the major issues even if the CPEC has been initiated. The long term planning till 2025 includes a large proportion of jobs in the regime and has created 70,000 jobs till now in the National and International Market. Issue relies on the Pakistani workforce which is not well trained not enough skilled, in the longer run the workforce is needed to be trained up to a mark to bridge up the gap between local hiring and Chinese hiring. These training would also include the linguistics and international work ethics which are highly needed to promote local hiring. Being optimistic about training workforce soon Pakistan will only rely on its own workforce rather than hiring international people to get the job done.

11- Analysis of Chinese economic and National Security interest in China-Pakistan Economic Corridor (CPEC) Under the Frame work of OBOR (one belt one road) initiative.

Published by Sai fur Rahman and Zhao Shurong July 2017 School of Political science and Public administration China CPEC has a strategy to connect china to Eurasia Middle east and many other countries. The OBOR has been one of the best solutions to connect more than 65 countries through a road network of trade. The old methodology export oriented production, china has undertaken the domestic economic growth model to international economic stability model as it has increased chineses direct investment which exceeded to foreign direct investment. OBOR is the new strategy to promote the international trade in china for economic stability and Pakistan being the first beneficiary of the project has been the benchmark of strategic initiatives in the Asian region. To be global power China has been working on strategy to move from regional power to global power by expanding its roots in the sector of development. Regional integration is china's aim to empower its roots in the business and lead the world market by investing in the energy and infrastructure in Pakistan it has made the grounds of expansion more acceptable for international trade. China's policy of neo mercantilism is aimed to accumulate the wealth of Chinese owned enterprises, it has intended to grow a sustainable economic model through its SOE's this strategy has focused on free trade and globalization while adopting a policy of non-intervene in the domestic affairs of the host country.

12- China-Pakistan Economic Corridor: A Road to Peace?

US institute of peace December 2016, upgradation in the infrastructure and energy sector in Pakistan will ease the internal and external political conflicts. Investment in Pakistan has led to meet multiple objectives in china; to support infrastructure activities in Pakistan the

state financed are on a very low cost that has encouraged participation of both economies at a large level. CPEC's international relations are concerned on Pakistan, China and India's relation as India being economic giant is concerned about the business growth of its rival Pakistan. CPEC is aimed to promote regional prosperity and peace among all the countries in Asia and including India in CPEC is one of the concerns which address the future perspective of the foreign policies aligned in one direction with China and Pakistan.

13- China-Pak Economic Corridor and Its Geopolitical Paradigms

International Journal of Social Sciences, Humanities and Education by Fakhar Hussain and Dr. Mezhzar Hussain Volume 1 November 2017 it is an important aspect to realize the concept of is Chinese perception of CPEC in Pakistan with the comparison of Pakistan's Perspective of CPEC. This paper highlights the geopolitical importance of the projects including opportunity for china as a rising economy to be the next super power. China's strategy to invest in the landlocked nations is based on "Constructive engagement" policy initiated by Chinese president. This aims to stabilizes Pakistan internally and externally in return which will play a key role in stabilizing the provinces in china (ZHIQIN and YANG). In a similar way china has also focused on reviving its previous trade routes concentrating on Bangladesh-India-Myanmar which will benefit Chinese province of Yunnan. China's aim to expand its strategic plot in west. Pakistan due to its geo-strategic land locations serves as a bridge between China and Central Asia specially the middle east. Stability in these regions would return favor to china in security terms. Gwadar a deep sea port has solved a business route for china through which the shipments from Xinjian's region for the transportation of their goods has been reduced to 3000 km inside Pakistan territory. Gwadar has a 200,000 ton tanker capacity which attracts all the oil producing states due to is geographical location it will become trans-shipment port. Pakistan's perspective on CPEC is to stabilize the country a large investment by China and international players would increase the economic stability and strengthen the economic ties with the neighbors. Full filling the economic drive of employment and resource optimization china being a partner will take Pakistan along with itself to be one of the leading economies.

14- China Pakistan Economic Corridor: will it sustain itself?

Published by Ejaz Hussain August 2016 University of Fudan, Numerous challenges awaits in the completion of Sino-Pak Project since the start. The fundamentals of the project is to expand the business horizon geographically. Challenges foreseen are law and order situation in different regions of Pakistan such as Baluchistan and FATA, these situations are solely responsible for the acute delay in the delivery time of the project. For this

challenge Pakistan's government has undertaken the security regime strict and highly vigilant to any mishap. On the Chinese side they have kept its high state of confidence and trust in the government of Pakistan to see the project deliver fruitful results. Development in energy and infrastructure in the long-term will reduce the rift of opposition in the remote areas (militants), as the youth is deprived of job opportunities and high quality education, this project will nourish the roots in the deep and strengthen the backbone of nation by initiating massive projects creating more than 0.7 million jobs.

15- China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration

Published by Akbar Ali School of Journalism & Communication Shanghai University
China July 2016

The paper has focused on the future prospects and regional challenges faced by both countries in the agreement Pak-China, land locked and resource rich countries have always been a keen observer in expanding their trade to the west such as Afghanistan, Iran. To obtain high degree of economic integration CPEC in future should consider partnering with India and Afghanistan helping them to expand in the global market and stabilize the regional and international political affiliations. In order to be successful the socio economic impact is the only way especially in the region of Baluchistan. The problem of local integration into the CPEC has been a challenge for Pakistan and China facing difficulties in hiring, educating and training the individuals. The only solution to this challenge is to involve the local community and help them to invest in the project which can benefit them in the long-term.

16- Job Creation Under CPEC: A Reality

Written by Muhammad Zia April 2019 Published by China Pakistan Center of Excellence,
In the modern world the means of economic generation are the most vital elements of the sustainable growth of a country. The concept of "Industrialized Estates" initiated by CPEC project defines special economic zones which will produce high value in the economy, increase in export and attract foreign investments. These areas due to their geo strategic location in the region gets benefits from these aspects of trade. Industrial growth is the most fundamental foundation of economic growth, CPEC has introduced more the 400,000 jobs after its inauguration. But due to lack of expertise most jobs created are taken by the foreign workers. Till now 75000 jobs have been taken by the locals in early harvest projects. Job creation under the special economic zones is comprised of the relocation of the industries with a goal to add value to the domestic or local productions of goods, by decreasing the specific transaction cost will provide massive work opportunities to domestic workforce.

17- CPEC a Debt Reliever, Not a 'Debt Trap for Pakistan'

Published by Yasir Mahmood April 2019 China daily, Beijing Controversies on the CPEC project as soon it has entered the second project phase, people have been questioning regarding the loans and current economic situation of Pakistan. Is CPEC a game changer for economy or it's another debt trap for Pakistan? To understand these circumstances it is highly important to discuss

the facts and figures according to Financial figures shared by Chinese embassy in Pakistan, out of 18.9 billion dollars 5.9 billion dollars funding is provided by Chinese companies for infrastructure project which constitutes a loan with 2 percent interest payable from 2021. The remaining sum is meant to be used for the energy projects, funded by Chinese companies and other partners. Loans taken are being utilized 20% on the welfare projects and 80 percent of the projects are being financed by the international financial modalities according to the international rules. Despite the fact that people with hidden motives are spreading the proxy news to sabotage the implementation of the project phase, while looking at the figures it is quite evident that CPEC initiative has rich reaping benefits and will make Pakistan a new economic hub in Central Asia.

18- CPEC's second phase can put Pakistan's economy back on track

Express tribune by Shakeel Ahmad Ramay in September 2019, There are thousands of questions regarding the second phase of the CPEC project regarding Economical revival of Pakistan. What is the second phase of CPEC is composed of and how many sectors will be given a proper infrastructure in this phase, This phase is focused on the strategical development of industries, development of agriculture and trade. The second phase will have a leading role of actors, who are mainly industrialists, private sector and business owners while the government will be only acting as a facilitator. The business council is focused on promoting "Small medium Enterprises" this will play an important role reversing the economic downfall. Pakistan is now focused on the joint ventures with Chinese and European counter parts, this will help Pakistan to generate huge export impetus and exploit maximum potential resources.

19- BRI & CPEC: Venturing into the Future

ISLAMABAD policy institute published by Faisal Ahmed, the main concept stated is the future expansion of CPEC and BRI (Belt Road initiative) that how these initiative will enhance the regional integration enhancing trade and optimizing the landlocked regions

within the special economic zones. This includes policy coordination implying policies that are fruitful for the region with consultation of the nations involved. Enhancing trade sector bilateral and regional trade segment would be highly appreciated in this sector. Financial integration is one of the important aspects, with mutual coordination and consultation of the trade will held in the local currency to motivate the local traders so that inflow and outflow of the capital in the region would take place smoothly.

20- Aligning the Global Value Chains of China and Pakistan in the Context of the Belt and Road Initiative and China Pakistan Economic Corridor

Published by Center of Excellence written by Yasir Arafat Research associate, With the growing trade and e-commerce it has been observed that Pakistan has been using conventional means of supply chain management which has not been suitable with the current economic conditions of the economy, china being a partner is now helping Pakistan to industrialize the landlocked nation to optimize its maximum resources to grow GDP. Pakistan needs to strategically align itself with the Chinese exporting industrialization regime which will create a baseline for much needed industrial revolution in Pakistan.

21- Capitalizing Baluchistan's Potential Under CPEC

Published by Dost Muhammad Barrech, October 2019, the writer has focused on the area of Baluchistan's share in the CPEC and has made a clear contrast which part of the country will capture the lion's share of the fruitful project. Apart from the geostrategic location and well defined strategy of the routes in CPEC Baluchistan is considered a backward province when compared with the other provinces. Baluchistan is rich in minerals, extracting mineral and natural resources will usher the progress in the province. The majority minerals are metallic and non-metallic in nature which includes Gold, Copper, Magnesium, Salts, Coal and Fluoride ores. If the ores are utilized as planned under the CPEC there is no doubt that Baluchistan will become the richest region in the world. Baluchistan has been the highest contributor in the mangroves contributing annually US 4 Billion dollars to its export earnings. All these aspects are related to socio economic welfare of the region, people of Baluchistan are still optimistic that CPEC will be the game changer for the region, providing vital opportunities for the youth in terms of Chinese scholarships, jobs creation and local hiring to be enhanced.

Chapter 2

“ CPEC And Its Importance”

China Pakistan Economic Corridor is a part of Chinese One Belt One Road Initiative. It is a symbol of Chinese President's strong diplomatic relations in terms of strong foreign policy project. The projects aims to integrate high regional connectivity and fosters a new era of global relationships with the countries involved in it. OBOR initiative intends to foster a new kind of global association in order to obtain the win-win cooperation. The aim of the project is to envision the direct investment in the infrastructure, communication, oil and gas pipelines which will extend not only in the Asian countries but will have deep connections in Europe, Middle East and Africa. Goal of the CPEC is to revive the old trade routes, the famous route of Silk Road trading in order to achieve high regional stability and economic integration. This chapter is focused on the detailed explanation of Economical and technical aspects related to stability of the region.

What is China Pakistan Economic Corridor

China Pakistan Economic Corridor is the flagship project in the OBOR initiative, it establishes a connection via road and rail networks to China's western region Kashgar with the Pakistan's deep sea port Gwadar located in Baluchistan it is well connected Khunjarab Pass across Karakorum highway, about 3,000 kilometer long running. China plans to invest an heinous amount which is approximately US\$ 46 billion in development deals made by the two government over the period of next 15 years, till 2030. The investment equals to the 20 percent annual GDP of Pakistan. Out of the 46 billion dollars it has been agreed to meet the energy requirements of Pakistan and to invest 34 billion dollars in the energy sector which will add around 17,000 megawatts of electricity generation in the national electric grid to sustain the new requirements of the projects. The remaining sum of 12 billion dollars has been agreed upon the infrastructural development which has main components of transport, communication and upgradation of Pakistan's railway network.

Overall all planned investment in different phases of the projects renewable energy sector such as (coal, hydroelectric, solar power, wind and natural gas). Transportation sector includes upgradation of infrastructure (Railways track, Airports and Roads), Pakistan's shipping ports including Gwadar and Karachi port, oil and gas pipelines and introduction of optic fiber line in the special economic zones for high communication. This mega project has been scheduled to be completed in the next 15 years and is to completed in the phases. Early harvest of the projects to be completed by 2018 and short term projects by 2020. Medium term and long term are to be completed in phase 3 and 4 which will around year 2030. Financial breakdown of the CPEC project and allocated budget for the project has been described in the table;

Table 1 Financial Cost Break Down Structure of CPEC

| Project Details | Estimated Cost (US\$ billion) |
|---|-------------------------------|
| Energy Sector | 33.793 |
| Transport Infrastructure | 9.79 |
| Gwadar Port including city and Gwadar region socio-economic development | 0.793 |
| Mass Transit Lahore | 1.6 |
| Fiber Optic Project | 0.044 |
| Total Cost | 46.013 |

Energy sector related re further divided in high priority projects and energy actively promoted projects. The projects related to specific provinces are the once to be commenced later according to the development situation. Out of the energy budget allocated a total sum of US \$ 21.5 billion is for the high priority projects expecting to generate 10,400 megawatts of electricity, whereas the remaining amount of \$ 12.9 billion has been planned to be utilized for actively promoted projects generating 6,645 megawatts electricity to the national electric grid of Pakistan.

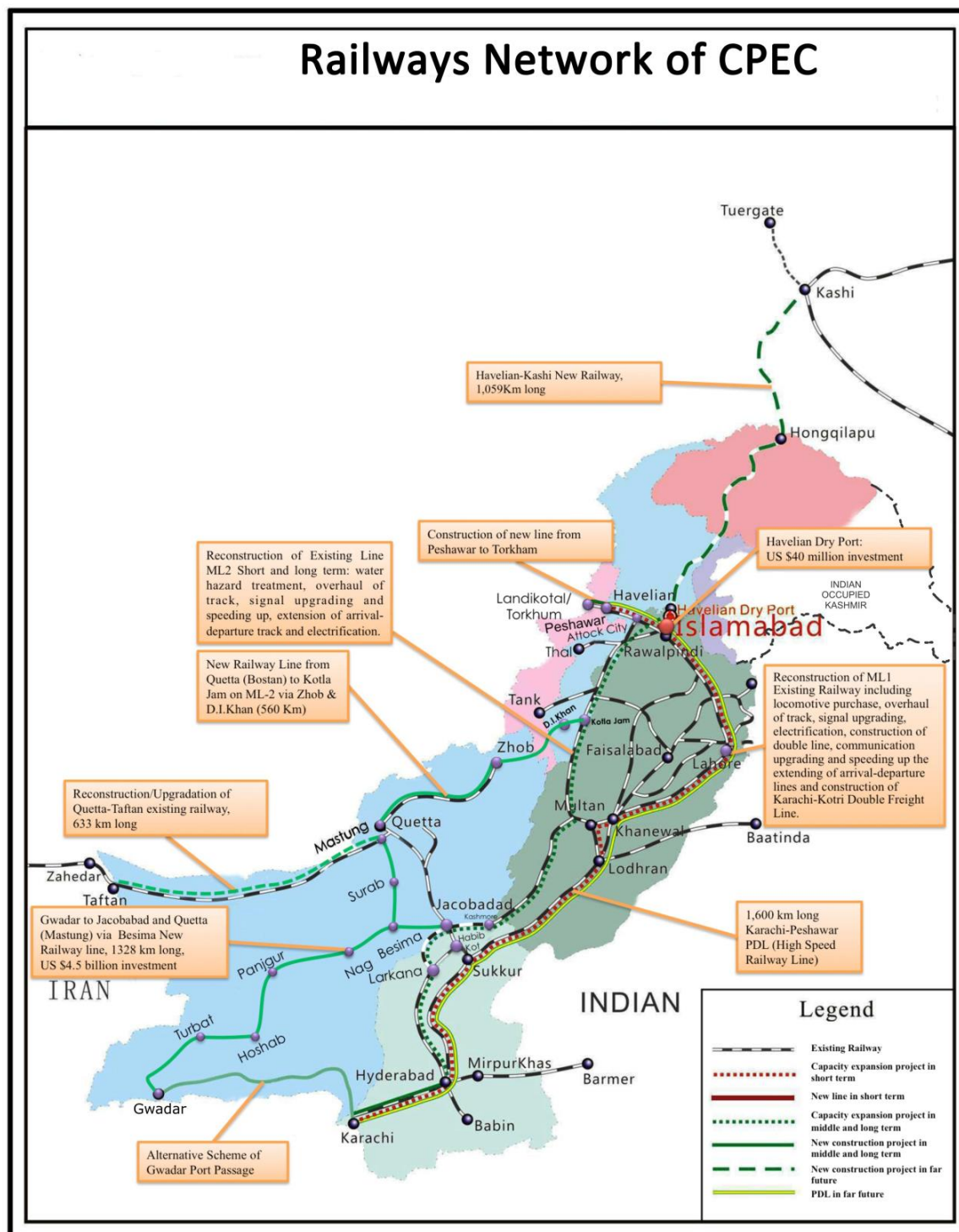


Figure 1 Rail Network Under CPEC

Highways Network of CPEC

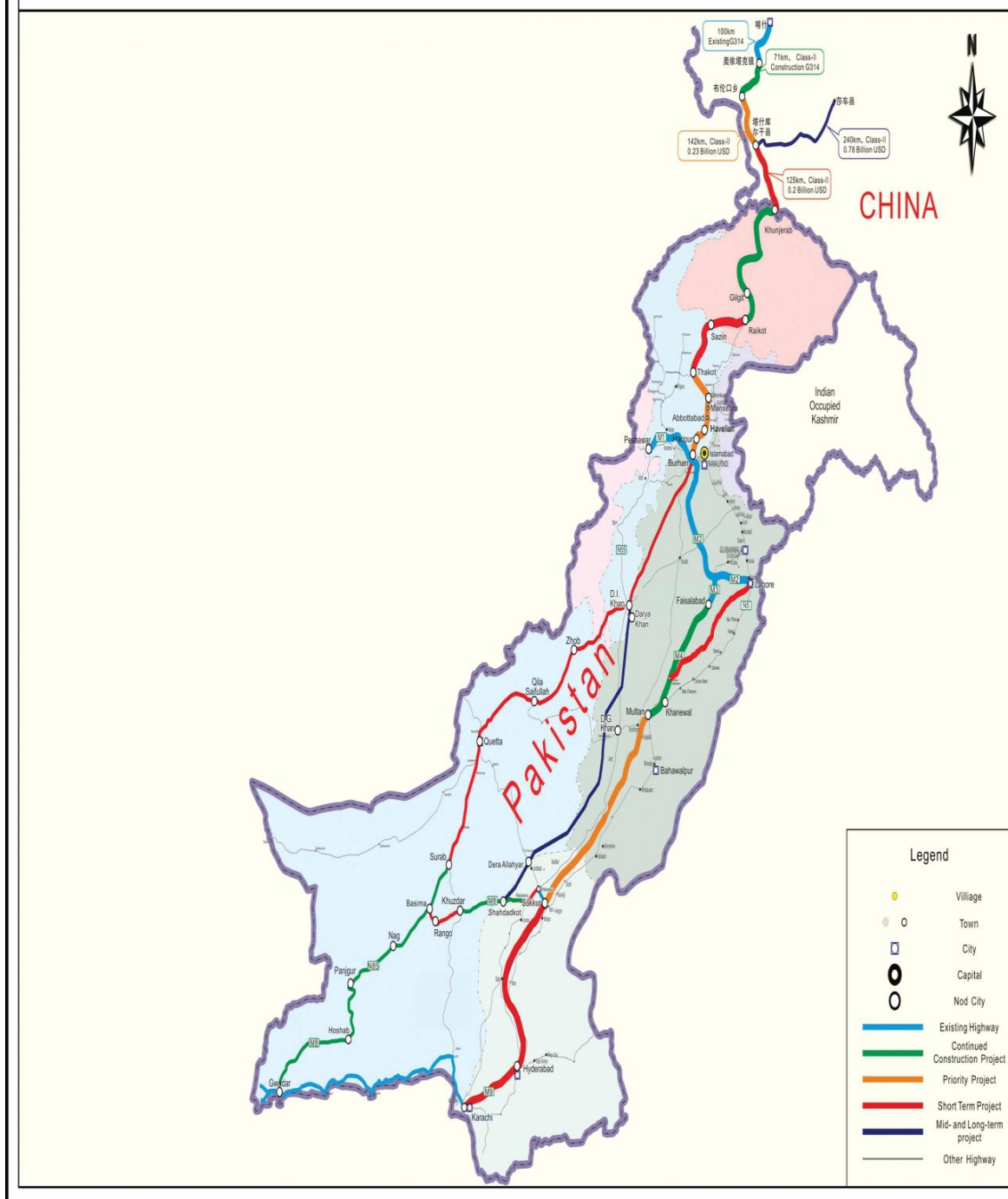


Figure 2 Highway Connectivity through CPEC

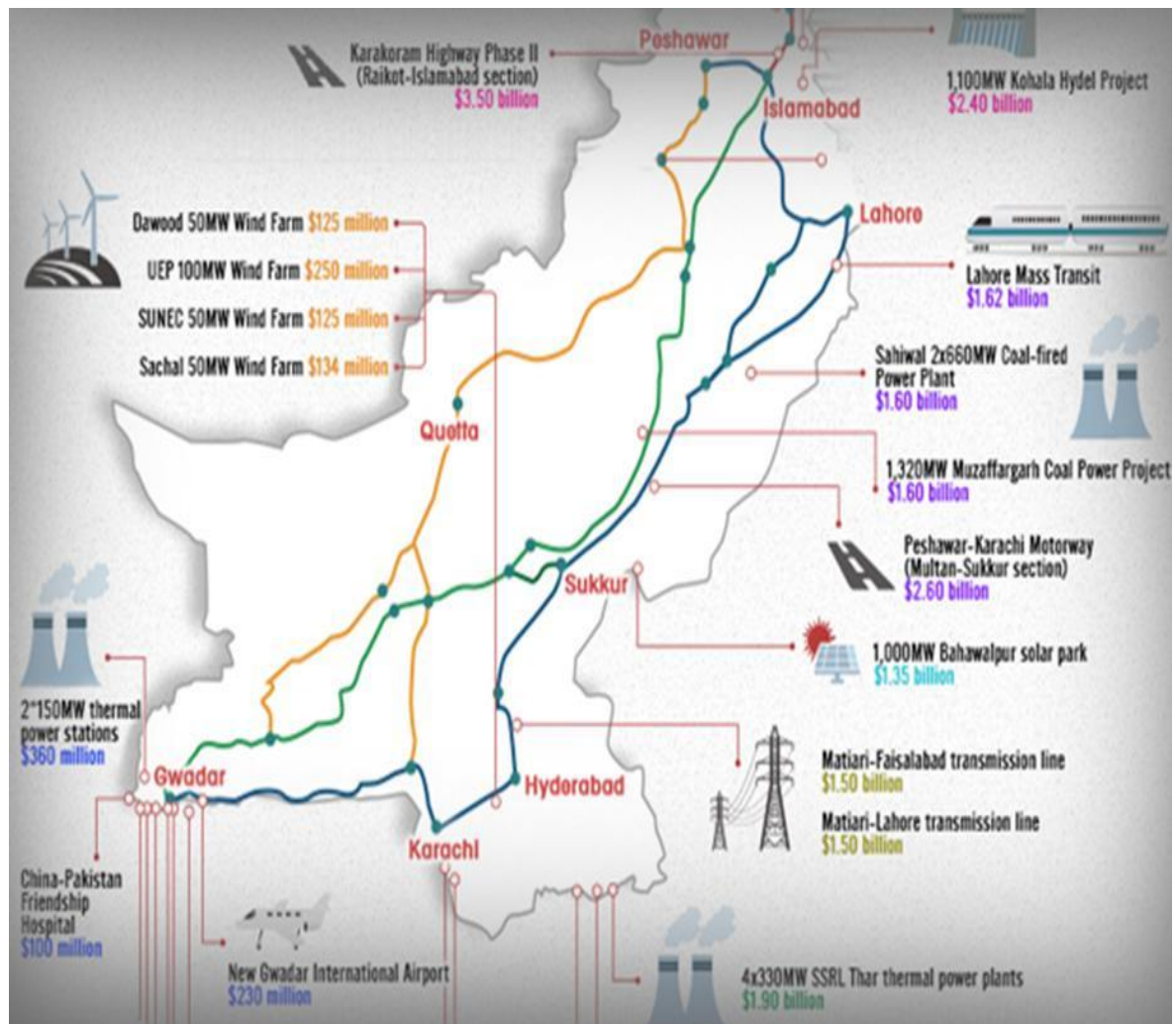


Figure 3 Energy Sector distribution through CPEC

Infrastructure development is a country's back bone in the economic development, in the case of CPEC it envisions widening, construction and upgradation of existing and new road networks. Establishing new railway lines will encourage high speed transportation through different regions of Pakistan till the port and beyond the borders. The rail segment is composed of including 1,200 kilometers of new tracks and upgradation of 3,100 kilometers of existing tracks. The Economic corridor is composed of the three routes: The Western Route running along areas of Baluchistan and Khyber Pakhtunkhwa provinces via Panjgur, Turbat, Qalat, Quetta, Zhob, Dera Ismail Khan and then to Havelian. The western route have branches expanded to the international borders of Iran and Afghanistan through Chaman and Taftan borders.

The second route is known as eastern route which originates from the deep sea port Gwadar and run along the province of Sindh and Punjab via Karachi, Hyderabad, Sukkar, Rahimyar Khan, Multan and then to the Havelian connection via motorway. The alternate route which is mostly known as a central route crosses the country from Gwadar till the Havelian via establishing connection with the different cities of Baluchistan,

Sindh and Punjab provinces. Providing a well-established connection of central route via cities Khuzdar, Sukkar, D.G Khan, Mianwali and Taxila. The extensions provided by motorway will expand the trade route to enter the international border through Peshawar motorway to Afghanistan Torkham will be connected to Jalalabad in Afghanistan. There is another route which is allocated for the northern region of Pakistan specifically that is common to all the specific connections to Kashgar via Karakorum Highway. As the comparison of the routes is concerned it has been justified that the western route is comparatively shortest and effective, which established a well connection through relatively underdeveloped areas of Baluchistan and KPK, unfortunately there are some security challenges in following the routes. The eastern route passes from the peaceful and a developed area, which have requirements in infrastructure development only. The work on the high integration highways has already begun in the areas connecting Punjab-Baluchistan and Sindh.

On the regional connectivity encourages the government in consultation with the provincial and local governments has identified over 40 sites which can generate high economic growth in Pakistan the sites are from Khunjarab Pass till Gwadar to be established as Special Economic Zones under the CPEC project. SEZ's are expected to encourage Direct Foreign Investment and the will help to enhance the industrialization process by helping to generate local employment with high integration with the local traders and foreign.

On the other hand its quite evident that upgradation of rail network by expansion and reconstruction of 1,736 Kilometers of existing track on ML-1 connecting Karachi and Peshawar will have a cost of US \$ 3.6 billion. The railway system will be upgraded in a way that rail mass transit to the provincial headquarters will be also a part of CPEC project. Long term phase-4 projects includes a railway network of 682 kilometers of running track from Havelian to Khunjrab border, Gwadar to Karachi and Gwadar to Jacobabad. Currently the monitoring and feasibility studies are under way for these projects.

Deep sea port of Gwadar has its own significance for the CPEC, it would be right to say that Gwadar is the only Gateway for China's expansion to Middle East and Europe. Gwadar port once fully functional would enable the project to become the energy project. US \$ 793 million investments have been allocated to Gwadar's infrastructure development of new Gwadar smart city, New international airport, Hospitals and its would provide a free Economic processing zone besides the expansion and upgradation. Monitoring and evaluation to move forwards with smooth and timely implementation of the CPEC projects, Both the countries have opted the ministerial level cooperation committee with the five working groups which are devoted to work on the specific areas such as Energy, Gwadar port, Industrial Parks, Transport and Planning. All the plans and projects are referred for the discussion in the working groups before presenting to the committee to finalize the strategy.

Financial assistance for the undertaken new projects China has established a silk road fund company limited in the end of fiscal year 2014. The construction of new banks under the supervision of aforementioned company such as China Development Bank and China Exim Bank is providing the finances for the project.

Importance of CPEC for CHINA and PAKISTAN

The CPEC signifies a new kind of Sino-Pakistan cooperation having the potential to further strengthen their political and economic relationship through trade and development. The project has strategic and economic importance for both China and Pakistan and has the ability to eventually facilitate the creation of regional stability in South Asia. Ensuing paragraphs explain the strategic importance of CPEC for both China and Pakistan.

Significance for CHINA

The main aspect for China is trade expansion through cost effective means to access to the Indian Ocean and from the pivot point to further the Middle East and Africa. This would only be accessible through the Gwadar Port the CPEC maritime distance is estimated to be 12,000 kilometers between Beijing and Persian Gulf which shrinks the on land route for around 3,000 Kilometers land route from Kashgar to Gwadar. These new routes will give wings to China's export and import of important supplies as oil from the Middle East and Africa in about 10 days as compared to 45 days shipping time. The new route is expected will enable China to reduce the transportation cost to one-third of the current cost of trading supplies. China will save about US\$ 6 million everyday which sums up to be US\$ 2 billion every year, it has to utilize the CPEC route for only 50 percent of its imports.

CPEC project is basically a future expansion for China to take over trade in Asia, which will help the country to take over future supply routes of trade goods and energy. Geographical location Gwadar which is situated closer to the Strait of Hormuz which is one the largest channels of world's oil trade, it is also well known for the around the world's third largest oil export route. CPEC allows alternative transit route for connecting China to the Indian Ocean the Gwadar port, which is helpful in avoiding the risk of pirates and the bad weather it is most suitable to avoid the "Malacca Dilemma" as China imports more than 85 percent of oil through straits of Malacca which is known as the world's busiest waterway, it would become stagnant point in the future as it has traffic issues in the long run. This issue would be likely generated due to high usage of this route by the world's economic players including various regional and global players. CPEC has provided China to reduce its vulnerability and provide an alternate route for the continuous increasing demand of oil and other fuels that would have been shipped through Strait of Malacca. Figure 4 explains the existing maritime route and proposed CPEC route.

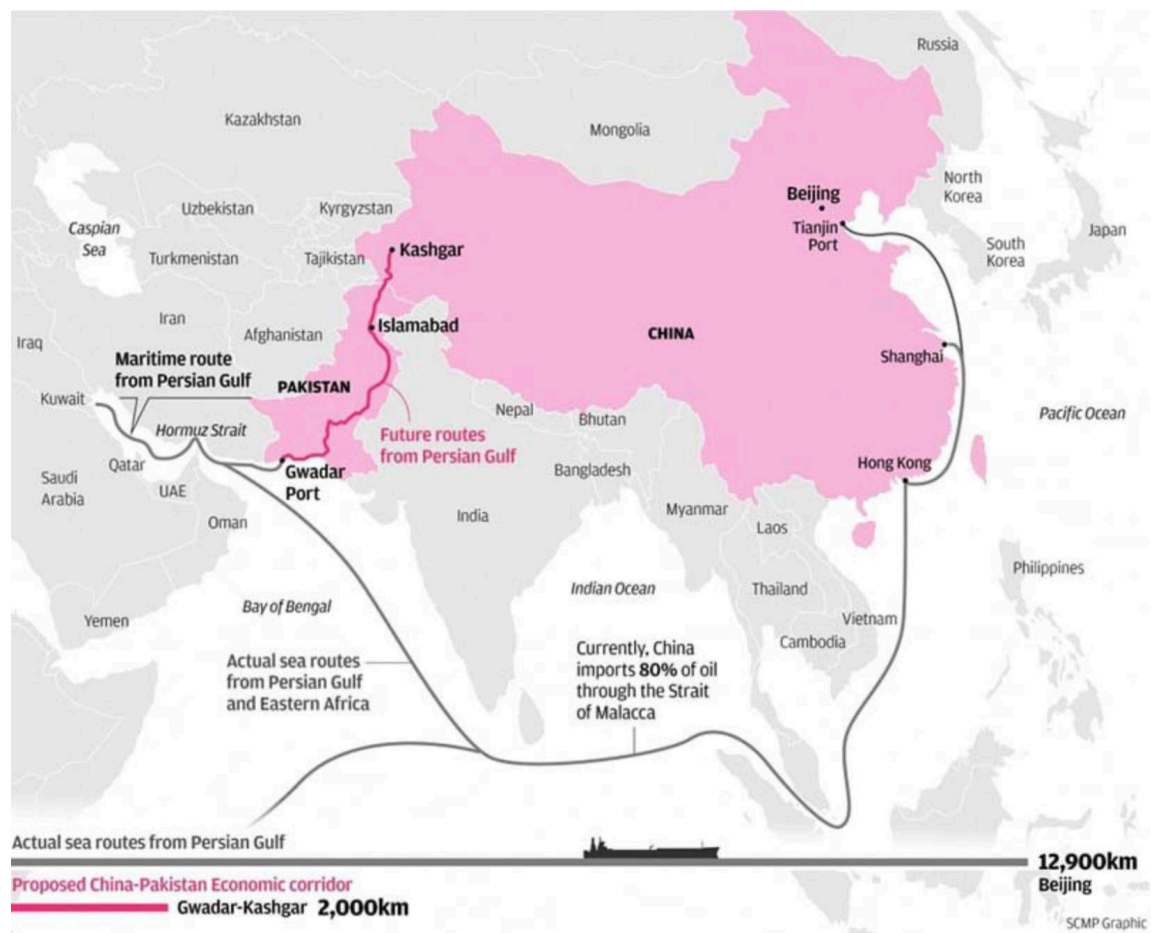


Figure 4 CPEC Route and Existing Maritime Route

Even though the project has its high aim to promote the regional stability, it is quite evident that the current internal security concerns are still considered as unaligned with the project growth. China has aim to address security concerns in the western region of Xinjiang through proper economic development. Gwadar is the largest deep sea port in the landlocked region western region and it has been one of the objectives of this project to attract direct foreign investment and increase the trade activities will promote economic growth and stability, which is the key to eliminate all the threat factors increasing high socioeconomic activities in the region. The look West policy opted by China has aim to develop its broader western territories. Xinjiang serves a key role in developing this policy up to the mark which envisions the connection of the Chinese economic growth and as well as cultural growth with six Central and South Asian Muslim neighbors, including Kyrgyzstan, Kazakhstan, Turkmenistan, Tajikistan, Afghanistan and Pakistan. For creating China a positive external region, this environment will help to create a wave of optimism for managing its domestic goals in the western region, besides peace and economic stability the port of Gwadar offers China an advantageous position in the energy rich Caspian Region. The corridor has opened the gateway of trade route link to Xinjiang to the energy rich central Asian countries through Gwadar port for energy and trade goods exchanges. International Monetary Fund, the trade between China and five central Asian States is already

on the verge of expansion amounting the sum since 2000, it has been estimated till now is about US\$ 50 billion in 2013.

China helping the neighbors to develop has opted for non-interference policy and constructive engagement policy which gives priority to building relations with its neighbors(developing countries). Completion of CPEC will boost China's integrity as a development partner and a non-interfering friend in business. China's commitment to the OBOR is strong and other connectivity projects. This image of China will help private sectors in China and businessmen to access the world's fastest growing economies with the help of Pakistan.

The misperception for the China's CPEC project has been for a quite while people claim that this project is more than an effort to strengthen bilateral ties and blame China for using Pakistan's territory to full fill its objective and advancing power in the region. But the image is quite different, through the port of Gwadar China can watch the Sea Lines of Communication (SLOC) as more than 60 percent of the Chinese energy supplies are generated from the Persian gulf and move along this passage. This would allow china to monitor the U.S maritime activity in the region, as China has no interest in the military expansion, and the rift between U.S and China is on the maritime route.

Significance for Pakistan

Significance of the China Pakistan Economic Corridor is merely important for Pakistan to stand out from its current economic recession, the project worth of more than US\$ 46 billion is a way out for Pakistan to address its main economic roadblocks which are mainly in terms of growth in the energy sector and the infrastructure, most importantly narrow foreign investments. The main essence of CPEC is to drive Pakistan out of this situation and to promote economic growth and value added in terms of social welfare in the country.

Economy of Pakistan is merely based on the agriculture, from the past decades the country has been a target of energy crisis which has affected the overall economic growth of the country. Loss in GDP which was accumulated annually was of 2% which quite a lot for a country whose economic survival is on the agriculture. The gap between supply and demand of energy hungry country will even get more as the population growth is about 2% annually, which worsen many economic factors such as unemployment caused by sacred outlets of productivity. Around US \$ 34 billion dollars has been allocated to invest in the energy sector of Pakistan which has been undertaken to establish new power plants and revive industry such as textile and agricultural activities. This would enhance the productivity improving the strained socio economic conditions of the population. Out of 21 energy projects 14 are designated to "early harvest" coal

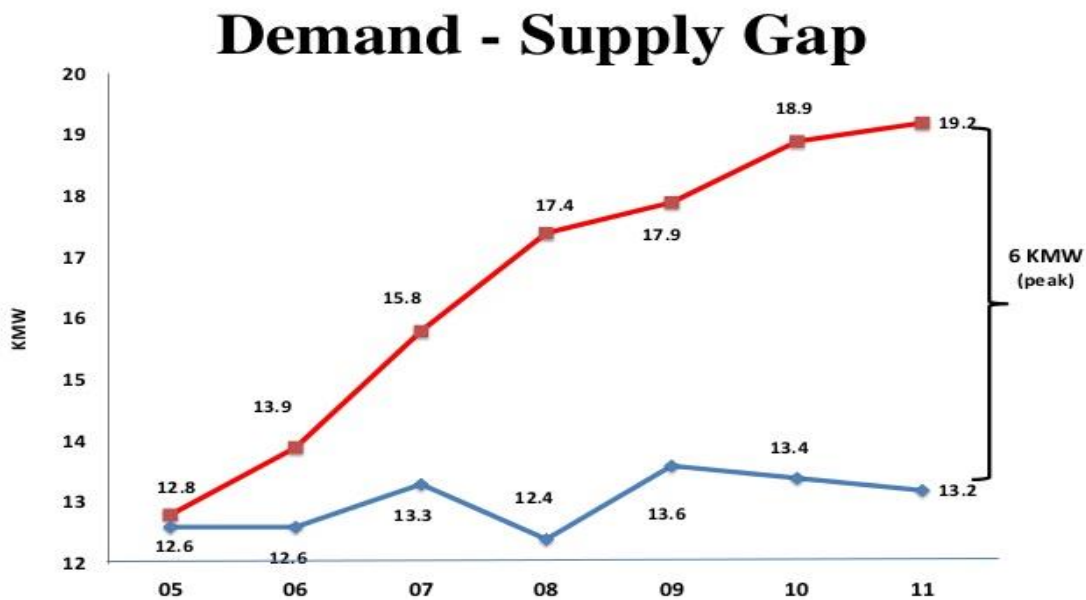
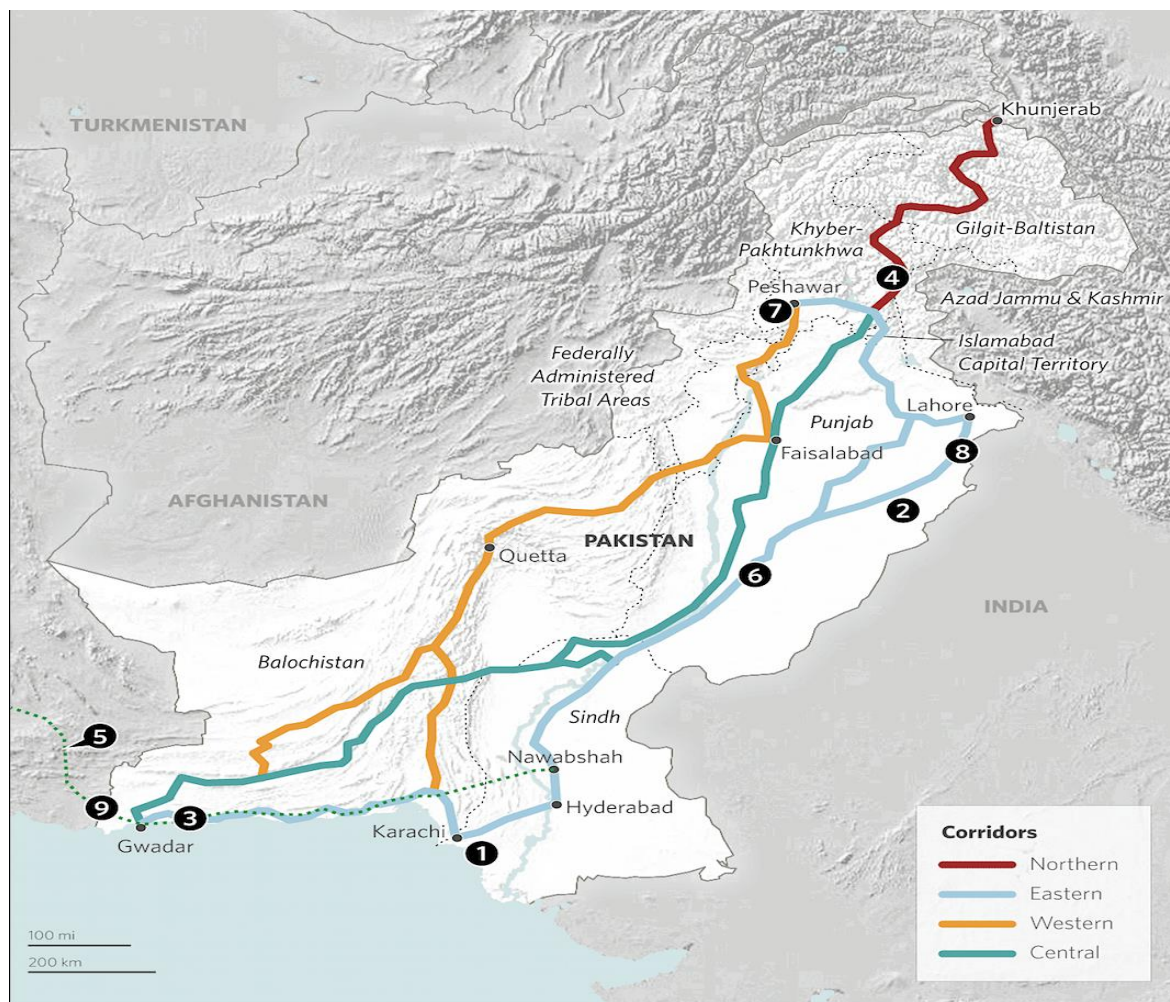


Figure 5 Supply and Demand Gap of Energy

Overstated the graph helps us to understand the poor economic generation due to lack of energy. Pakistan is a country blessed with enormous amount of natural resources, but due to the poor management and political hurdles the country has not been able to utilize its potential and resources to the full use. This gap is to be covered by the new mega projects taken to improvise the current economic condition of Pakistan.

The most important fact to be considered here is that Pakistan has started various projects to use its location and natural resources in order to meet the energy demand, extracting natural resources, such as coal to produce thermal energy is beneficial for the energy sector. CPEC has initiated the thrive for energy in Pakistan, this mega project will enhance the energy growth which will cover the loss in the annual GDP.

Challenges are not only in one sector as we have discussed it is composed of series of interconnection from one sector to another. The other sector which has been affecting the economic growth is poor communication infrastructure, transport system of any country is considered to the “Blood Circulatory” system of that country, hence due to poor communication transport connection Pakistan has been losing about 4 to 6 percent GDP to the state’s economy every year. Around US \$ 12 billion dollars have been devoted to infrastructure, transport logistics, and communication under CPEC. This connectivity is essential for Pakistan, economic development in Pakistan.



| Energy | Cost | Infrastructure | Cost |
|-------------------------------------|---------------|--|---------------|
| 1 Port Qasim Coal-Fired Power Plant | \$1.9 billion | 6 Peshawar-Karachi Motorway (Multan-Sukkur section) | \$2.6 billion |
| 2 Sahiwal Coal-Fired Power Plant | \$1.6 billion | 7 Karakoram Highway Phase 2 (Raikot - Islamabad section) | \$3.5 billion |
| 3 Gwadar Coal Power Project | \$360 million | 8 ML-1 Railway Project | \$3.7 billion |
| 4 Suki Kinari Hydropower Station | \$1.8 billion | 9 Gwadar International Airport | \$230 million |
| 5 Pakistan-Iran Pipeline | \$7 billion | | |

Figure 6 Cost Breakdown for Transport and Energy

The concept behind improving the transportation system is concerned to make Special Economic Zones, under CPEC project. These zones will be established along the planned routes, these (SEZ's) would be competing in the markets of manufactured goods, agriculture and the services sector through which it has been forecasted to wide spread the urbanization process. These economic zones expected to aim at specific products and amenities in particular area, which has focus to utilize available local raw material and labor force. The concept is to draw investments into more export oriented industries and internationally competitive goods, this will help Pakistan to convert the current trade deficit in its favor. The purpose of high integration in the communication is to turn the effective trade in domestic market and also explore the landlocked markets through exports.

As depicted in the map above, CPEC routes pass through all the four major provinces of Pakistan which are mostly backward areas of Baluchistan. Baluchistan is the biggest province of Pakistan with the lowest literacy rate, which gathers up the assumption of low economic contribution by the largest province. Baluchistan has been blessed natural mineral resources which are still un tapped; the major part of natural resources are in the mountains the scope of mining industry is high in the region. On the other part of country Gilgit Baltistan is renown of it fresh fruits market such as cherries, apricots and apples this would be beneficial for the export to perish items by using the upgraded transportation system. This upgradation would lower the cost of transportation and would be more effective in the regime. Tourism sector has been neglected in Pakistan due to these problems, but proper transportation would enhance the tourism sector and will attract tourist which would increase the foreign direct investment.

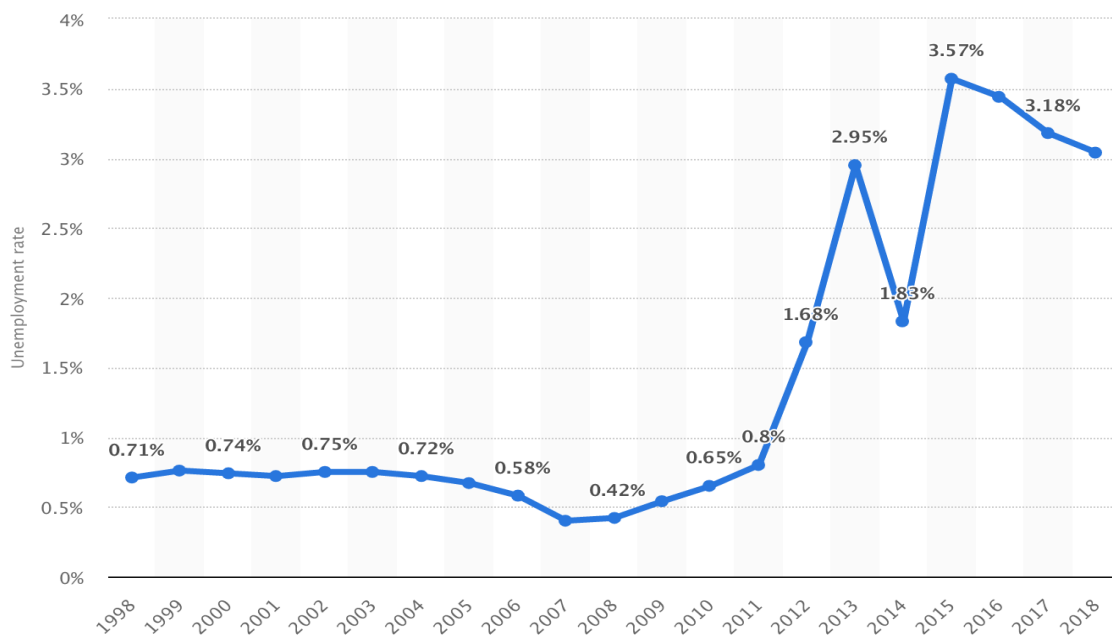


Figure 7 Unemployment Rate in Pakistan 2018

Socioeconomic development would bring peace and stability to the internal and external regions of the country, in general and specifically to the low productive province of Baluchistan, making it more economically viable and sustainable. Pakistan has been target of insurgencies in the past, insurgent groups have been using resource exploitation and deprivation slogans as a major tool to rally public support for sub nationalism. In order to encounter such situation which separatist and insurgents want to create the effective communication infrastructure will support the socioeconomic boost to the local people by supporting micro, medium and small sized industries, this concept is based on engaging local people in promoting business in special economic zones.

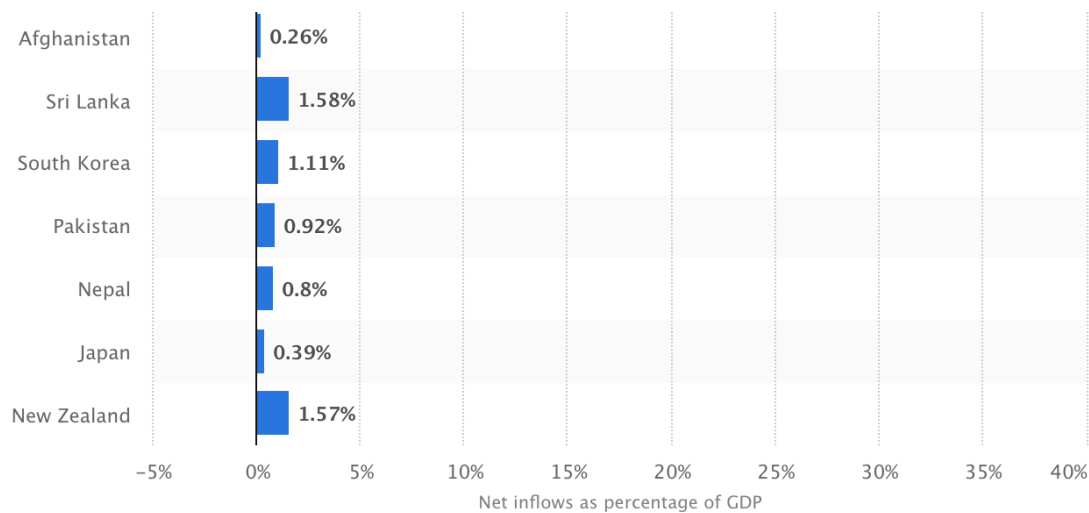


Figure 8 Net flow of Foreign Direct Investment in Under developing countries

This fact will counter another aspect of unemployment and improve the literacy rate and living standards of the local inhabitants. The improved socioeconomic conditions will help people to diversify in different trade market adopting the change and delivering according to the new market demand that would be created in the regime. This would help each province in Pakistan to generate a large amount of revenues and would be highly contributable in Pakistan's GDP. CPEC is likely to mitigate the future risk that Pakistan is foreseeing in terms of economic survival. As the proposed Chinese investment more than doubles all the foreign direct investments in Pakistan. This will help Pakistan to maintain a good global image in terms of "Business Hub" and "Emerging Economy" in the current year the industrial sector has already witnessed a notable growth of 6.8 percent compared to 3.62 percent increase in 2015, it is a record set high in last eight years. The fact of low labor cost and high industrial and competitive base in Pakistan is likely to attract foreign investors who are looking for cheaper market of manufactured goods for export to developed countries.

It has been forecasted that on a regional level Pakistan could play a pivotal role for the regional trade expansion due to its geostrategic location. Pakistan's location is attractive because it shares borders with

different nations and high consuming market for oil and minerals. CPEC project offer the best opportunity for Pakistan to enhance its own trade with the central and South Asia, including other contingents. With the high demand of economic growth and significance of economic interdependence and regional connectivity, Pakistan has this wonderful opportunity to emerge as an important economic-hub. The high degree of regional integration shows that the agreed nation have joined hands to move forward in being the economic players for ASIA, Pakistan, Kazakhstan, Kyrgyzstan, and China, and the Afghanistan-Tajikistan transit treaties to facilitate regional incorporation; Gwadar would renovate Pakistan's economic progression. Gwadar deep sea port will act as a gateway in the regime and open trade for Europe and the Middle East. The profit markup obtained from high transit, Pakistan can meet its energy requirements from resource rich central Asia via Afghanistan. Combining all the international markets is one of the main concerns in CPEC, it will provide a gateway for Iran and Turkey to transport their goods to regional world markets. CPEC has the potential to become as a multilateral project as the corridor is more inclined towards the regional integration, as the trade and economic benefits spread in the region among China, Pakistan, Iran, Afghanistan and Central Asian Countries.

The initiation of this mega project is still in the early phase of implementation, it is impossible to forecast that what this would bring for the country's growth, if the patterns are observed it seems to be good for Pakistan, but we need more mitigation and risk analysis in Pakistan's act in the development of this initiative. This huge investment of US \$ 46 billion dollars will enhance Pakistan's growth and regional infrastructure with the high energy self-reliance would promote socioeconomic development and augmentation of underdeveloped areas. Though CPEC offers countless openings to Pakistan and other regional states, the regional subtleties can limit or expand these opportunities.

CHAPTER NO 3

“SWOT ANALYSIS OF CHINA PAKISTAN’S ECONOMIC CORRIDOR UNDERTAKING PAKISTAN AS A FOCAL POINT”

CPEC is a major project in history of Pakistan, apart from roads and railways, special economic zones and industrial parks are part of the project belt, which makes it go through different test and techniques to identify the present gap and prepare for the future ahead. This chapter is focused on conducting a strategic examination of the CPEC through SWOT analysis. The following questions will be of high priority; what are the strengths, weaknesses, opportunities, and threats to development projects? The contrast between weakness and threats segment to the strength and opportunities segment? If higher the weakness segment, what measures Pakistan and China would take to minimize the weakness and threats in the successful implementation of the project. This study found out the following strengths: Geo-Strategic significance of Pakistan, The comprehensiveness of CPEC with strong commitment and institutional mechanism, and counter-terrorism operations by Pakistan. Weakness: Domestic security issues, Weakness of Gwadar port & establishment of new economic ties, poor governance and lack of transparency, Opportunities: Emergence of Pakistan as a new commercial hub in ASIA, prospects of regional connectivity, Expanding the energy network and ending energy crisis, Increase in foreign direct investment and cultural connectivity. Threats include India’s activities to destabilize the project, Kashmir Issue, rising expenditure over water, and gas due to scarcity.

Important Keywords: China Pakistan Economic Corridor (CPEC), SWOT Analysis, Strengths, Weaknesses, Opportunities, Threats.

Introduction

The economic corridor has initiated a wave of new means of generating business in different economic zones, the creation of Special Economic Zones has a sole objective that it is due to the connection of road and infrastructure that is part of CPEC. Economic corridors connect economic agents together with defined geographical entities built connections among urban and rural areas of the region. Economic corridors besides a gateway of imports and exports are also considered as an economic generator for many industries in technology and services to the people (Investor, 2015). As briefly discussed in the introductory chapters of this research, we need to analyze the opportunities, strengths, weaknesses, and threats. It is important to describe the parameters which are solely responsible for regional stability, and it has been forecasted the economic generation is based on regional stability in terms of Politics, International Relations, and undivided

interest to move forward as one. The study of SWOT analysis is to determine the internal and external strengths, weaknesses, and external factors such as opportunities and threats to CPEC. The tool of SWOT analysis is one of the main tools in the field of management and economics to focus on the key aspects of internal and external factors affecting the project, whether the project will be suitable or not in the long terms and what are unforeseen possible threats for the long term. CPEC is a widespread project which has many internal weakness and external challenges.

SWOT Analysis of China Pakistan Economic Corridor (CPEC)

The factors highlighted in the SWOT analysis is based on the current scheme of the project each segment in the below chart will be discussed briefly according to the references. The below figure highlights the internal weakness and external opportunities for the Pakistan.

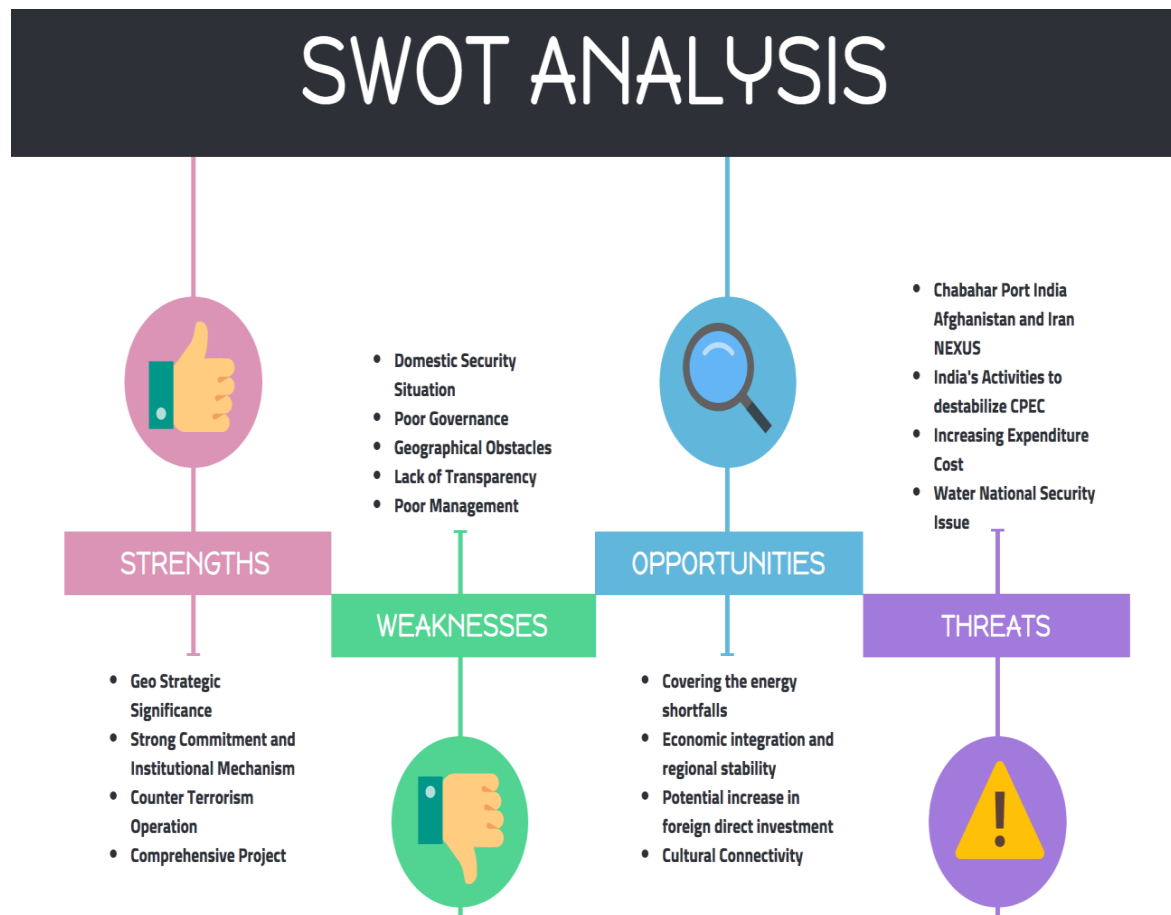


Figure 8 SWOT ANALYSIS FOR THE PROJECT CPEC

SWOT analysis made on the chart each segment will be discussed in the detail to overlook the issues and present proper explanation according to the real status of the project. The facts and figures are taken by the meetings with high officials and the center of excellence CPEC Pakistan.

STRENGTHS

Geo-strategic significance

There is no question in the suitability, and the geostrategic location of the project is of the core importance. Pakistan is located at the juncture of the west, the Persian Gulf, Central Asia, and the Middle East, which provides Pakistan Strategic significance for regional connectivity due to this CPEC will enhance the future growth due to Strategic significance. Beijing taking advantage of the geostrategic location of the Gwadar port has invested billions of dollars in the project to construct a Gwadar port, which is a trade and energy corridor. China has been growing its economy to get the lion's share in the market, and it has generated trillions of dollars in past decades capital reserves to maintain its sharp economic growth. To maintain such position china needs greater natural resources; in fact, its indigenous natural resources are significantly exhausted, and it is getting dependent on the imports of crude oil and natural gas from the oil-rich states in the Persian Gulf and the Middle East. The dilemma is that more than 60% of the Chinese energy supplies come from the US-dominated Malacca strait, which possesses a future threat for the smooth supplies for China. This alternative route of Gwadar will provide China to access and maintain its energy supplies; it will save time and money for the Chinese economy and will help to open new routes to ship goods to the Middle East and Africa. After successful completion of the project, China will take control of the key maritime trade routes in the Indian ocean and the strait of Hormuz (Finance international, 2015). The corridor is a source of connectivity between East Asia and South Asia, and it establishes a connection with the Gulf and the Middle East.

Strong Commitment and Institutional Mechanism.

Bilateral relations between China and Pakistan have been strong since the beginning. Both Countries have managed to support each other during the hard times, and now both are striving for the better economic future of the region under the initiative of OBOR (One Belt One Road). Under the Mechanism of CPEC, five working groups have been established to evaluate the progress of the entire project. The joint working group, given the responsibility of the energy sector, observes the ongoing power projects. The transport-Infrastructure group is responsible for the feasibility study of the roads and railways infrastructure projects. The last joint group is responsible for the Special Economic zones considering the economic projects in these zones. The federal and provincial government of Pakistan is working on the fast track implementation of the project to complete the projects in SEZ's to generate revenue and attract foreign direct investment.

To make CPEC a successful project in Pakistan and China, the actors in the development sector, such as Military establishment, Federal Government, and the regional stakeholders in Pakistan, province of Punjab, and economic hubs, particularly Karachi, are devoted to the success of the project. On the Chinese side of the project, it has been observed that the Chinese Communist Party (CCP), the state, the Banking sector, and state-owned cooperation (Khan M. 2015) are devoted to the successful implementation of the project.

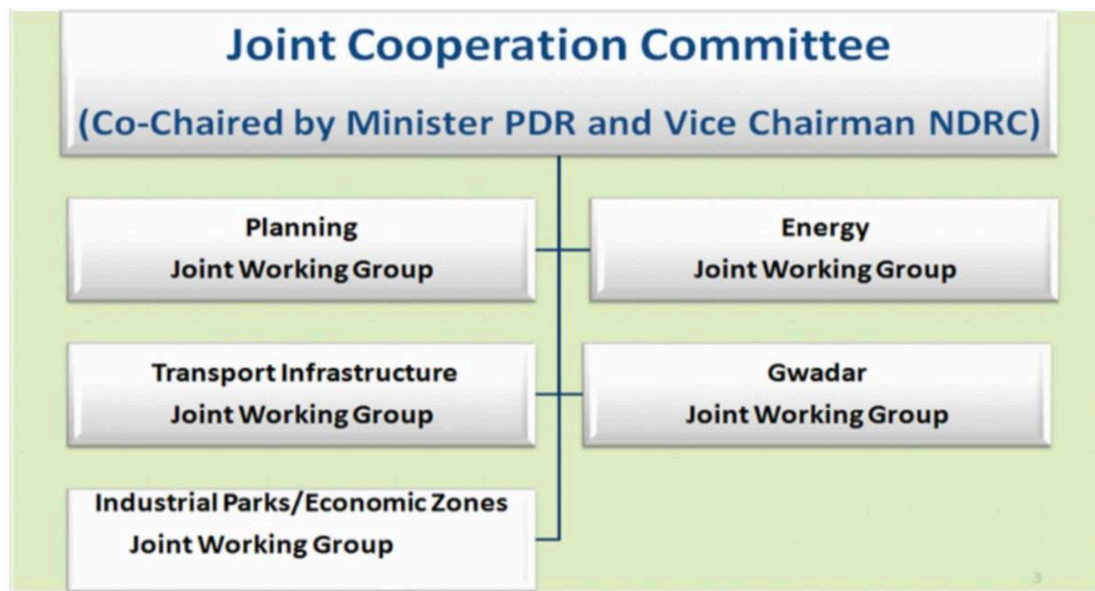


Figure 9 Source Ministry of Planning Development and Reforms Pakistan.

Counter Terrorism Operation

Peace and Security are the basic measures of the economic development of any nation. In the past decade, Pakistan has faced a wave of terrorism, which had slowed down the progress of the entire nation, affecting development projects the most. To overcome this disaster, Pakistan initiated a comprehensive security counter-terrorism operation which was named as “ZARB-E-AZAB” merely started in 2013. It was estimated that more than 3500 terrorists were killed and more. Then, 992 hideouts were destroyed (Tribune T.E., 2016). Gradually, the area of operation expanded all over the country, which aimed to wipe out all the terrorist hideouts and their financiers in the regime and make the development process unstoppable.

For a stable and progressive CPEC project, a special force of safeguarding the project has been dedicated to the 3,000 km long economic corridor (BBC News, 2015). A notification from the interior ministry of Pakistan was to establish a special security division (SSD) for the Security and protection of the CPEC project. We cannot deny the fact that diplomatic relations with India have been worse after Mohdi came in power, CPEC has been hard bite for India to swallow as it would challenge its economic dominance in the region. India is trying to sabotage the project by many different means, such as Kashmir Issue, engaging militants in the province of Baluchistan. The act of special force in Pakistan’s Army is solely dedicated to the protection of the economic corridor, which comprises 15,000 troops on the ground in which further division is made 6,000 para-military forces and 9,000 from the infantry unit of the army. It has been estimated that Rs.1.3 billion has been allocated for the deployment of (SSD), and its assignment is to protect Chinese workers and CPEC project (DAWN, 2017).



Source official Pakistan Today

Figure Special Security Division established by the Ministry of Interior to Protect CPEC Projects

The devotion of the Pakistan Army and government officials in protecting the CPEC is noteworthy, and the institutional mechanism is highly committed to safeguarding the project at any cost. To construct a terror, free corridor government has initiated new terror-free forces in the province of Baluchistan and Sindh. Intelligence agency of Pakistan is dedicated to (IBO's) Intelligence-based operations, which has a targeted terrorist and their supporters, financiers, and sympathizers. After a clean sweep of these militant groups the situation in the country has been improved (Haider.2015).

Comprehensive Project

CPEC is a project with descriptive nature; in other words, we can say it is termed as long term project. Both the nations Pakistan and China are motivated to complete the project in the given time period. Instead, it covers broader areas of cooperation between Pakistan and China. The official news from Minister of Planning and Development Commission of Pakistan Mr. Ahsan Iqbal has made it clear that the project spreads over Pakistan from south to North, containing different projects which are dedicated to infrastructure, energy trade, and commerce, tourism, health care, educational linkages, clean drinking water, etc.: (Ministry of Planning). This economic corridor of 3,000km, which is a network of highways and roads, will be a bridge between Gwadar port and China northwestern city of Kashiger. Railway links will connect China and Pakistan, which is objected to open gateways for Gwadar and China transit. More than nine special economic zones have been approved for the development alongside the economic corridor, which will integrate the local production and help them to export via transit lines to the worldwide. Integration of

landlocked nations such as Afghanistan, Iran, and Central Asia is the main theme of this project which will Pakistan and China to expand its trade routes to the world. As far till now, the investment by China is more than any foreign direct investment in Pakistan since 2008, and this investment is even more than the total U.S investment in Pakistan from 2002 till now. Being optimistic about the project, it has been forecasted that CPEC will be a hub of technology and will initiate more than thousands of jobs and economic spark in the country. This project has the potential to transform Pakistan into emerging economic power through industrialization and technological progression.

WEAKNESSES

Domestic Security Situation

Security has been impediment measure in the way of success for the CPEC project, a network of militants stretches from Xinjiang to Gwadar with numerous militant groups like East Turkestan Islamic Movement, Tehreek-e-Taliban (TTP), Lashkar-e-Jhangvi(LeJ), Daesh (ISIS) and the Baluch Liberation Army. Pakistan has been the biggest victim of these militant groups and has lost a lot of lives in fighting with the terrorist within.

The fatalities due to these militant insurgencies have been highest in the regime of Baluchistan and KPK, and we cannot deny the fact that the people who joined these groups have been funded by the enemies of the state of Pakistan. The most challenging situation was that the enemy was unknown; our forces burned the midnight oil to overcome the situation. The main targets were Baluchistan, Sindh, and KPK. These insurgencies were on its peak in the last two decades, the situation in the provinces of Baluchistan was fragile along the coastal highway of makran, where Gwadar port is situated. One report disclosed the list of attacks that occurred between 2007 to 2014. Over 1,000 terrorist attacks took place in six major districts, including Gwadar, and killed thousands of people (Sial, 2014). The main target of the insurgent groups has been attacking the development projects in remote areas, which were quite easy targets for the insurgents before the operation of Zarb-e-Azab. The reason behind this fight was that the government had deployed non-local people of Baluchistan to work in the development projects, and they will exploit the natural resources of Baluchistan there hatred was never-ending, the militant groups in the region of Baluchistan were not happy to see the development works. They thought that it would threaten their feudalism and continued to target the Chinese workers working on the CPEC project and Gwadar port. A major attack took place in May 2004, a car bomb in which three Chinese workers were killed, and more than 10 Chinese workers got injured at Gwadar (POT, Pakistan Series, 2004).

Ethno-Sectarian fault lines are also fragile in Baluchistan (K.Iqbal, 2005). In the past decade, the sectarian genocide against any race rather than Baluch was quite a prominent issue, and it cast bloodshed and massive killings of non-locals working in Baluchistan. Balochi nationals expressed strong anti-Punjabi sentiments and killed Punjabis working in Baluch regions. After the successful implementation of the operation “Zarb-e-Azab,” these situations came into control.

Fatalities in Terrorist Violence in Pakistan 2003–2016

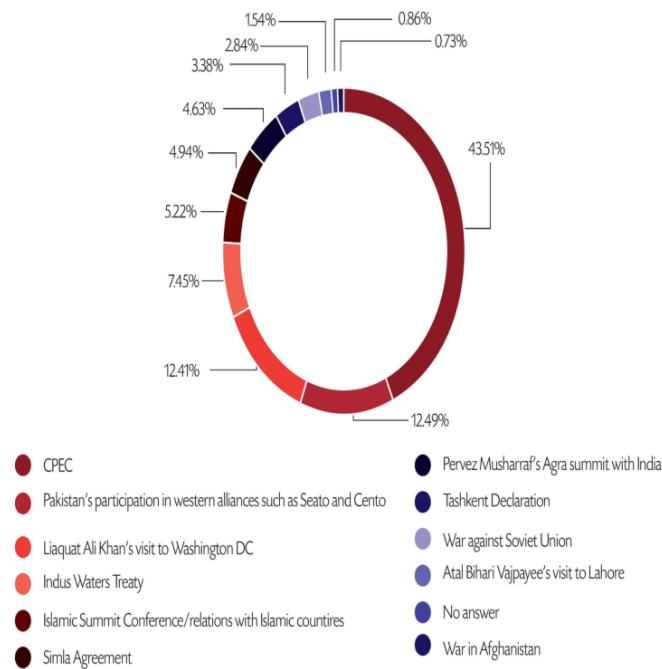
| Year | Civilians | Security Force Personnel 's | Terrorists/ Insurgents | Total |
|-------|-----------|--------------------------------|---------------------------|-------|
| 2003 | 140 | 24 | 25 | 189 |
| 2004 | 435 | 184 | 244 | 863 |
| 2005 | 430 | 81 | 137 | 648 |
| 2006 | 608 | 325 | 538 | 1471 |
| 2007 | 1522 | 597 | 1479 | 3598 |
| 2008 | 2155 | 654 | 3906 | 6715 |
| 2009 | 2324 | 991 | 8389 | 11704 |
| 2010 | 1796 | 469 | 5170 | 7435 |
| 2011 | 2738 | 765 | 2800 | 6303 |
| 2012 | 3007 | 732 | 2472 | 6211 |
| 2013 | 3001 | 676 | 1702 | 5379 |
| 2014 | 1781 | 533 | 3182 | 5496 |
| 2015 | 940 | 339 | 2403 | 3682 |
| 2016 | 512 | 194 | 748 | 1454 |
| Total | 21389 | 6564 | 33195 | 61148 |

Source: South Asia Terrorist Portal (STAP)

Weakness of Gwadar to Generate Potential Economic Incentives

CPEC has been word of mouth for a long time with hype about the potential of Gwadar port. The hype has been around from past 25 years within the three phases, the very first phase began in the mid of 1990s which took at least a decade when Pakistan thought to exploit the deep seaport and thought that it would become a gateway to central Asia, but unfortunately due to lack of resources, the idea could not be implemented into a reality. Similarly, the second phase came into being around with Chinese involvement in short term projects within the Gwadar and near the port. Eventually, the Chinese interest grew in developing their own business in the region and thought that the development of this port would help reduce their own trading cost here is when the third and the final phase came into being, which was around 2010. It took merely three years of discussions and strengthening the bilateral ties between China and Pakistan; hence in 2013, it was the time when China Pakistan Economic Corridor (CPEC) was initiated.

What has been Pakistan's most important foreign policy decision?



Source: Herald Article, How Pakistan Views itself at 70

As this development created a wave of optimism in Pakistan and people thought that the change in the regime would be rapid, at the end of day Gwadar port has failed to generate any kind of generous rewards for Pakistan or China. The reason here is lack of operational activities, this shows a deep concern that how it can generate revenues when it lacks operational excellence. As compared to the Karachi port, Gwadar port needs operational staff and high degree of new installations in order to be an economic actor, for the generation of FDI.

Poor Governance and lack of Consensus

The impact of poor governance has been a major gateway to destabilizing the progress of the project CPEC. Pakistan has been a victim since it had got independence in 1947. The factors slowing down the progress of CPEC are poor bureaucratic management, corruption, and struggle for power is the main aspect of poor governance. The international community depicted the impact of corruption, and poor governance has spread into every sect of the government branches, no public office in Pakistan is said to be corruption free.

There has been a dilemma about the transparency of the CPEC project. The voice has been raised in

the assembly of Pakistan, that there is no definite mechanism to justify the financial budgets been utilized on the dedicated projects, poor project management has led to the misutilization of the funds allocated. Instead of the government sector, the private sector in the regime of working in CPEC has been more effective and has managed to maintain its good position in terms of transparency and accurate fund utilization. Transparency and corruption-free management are necessary for this project as most of the projects are private sector ventures and their utmost importance to know about the sort of debt-to-equity ratios that have been proposed under each project.

The economic corridor map was established in early 2004. There are three routes proposed.

- **Central Route which is situated in such order that it would pass through specific areas such as**

Gwadar → Turbat → Panjgur → Khuzdar → Ratodero → Kashmore → Ranjapur
Dera Ghazi Khan → Dera Ismail Khan → Bannu → Kohat → Peshawar → Hasanabdal →
and goes on till China (Bengal, 2015).

As soon the development phase began the second alternative route was presented, it was known as “Eastern route” for the mega project CPEC and was entailed to pass through the following areas of Pakistan;

- **Eastern Route would pass through some part of Baluchistan till Punjab.**

Gwadar → Turbat → Panjgur → Khuzdar → Ratodero → Kashmore → Ranjapur
Dera Ghazi Khan → Multan → Faisalabad → PindiBhaitan → Rawalpindi → Hasanabdal →
and goes on till China. The third route was established in later 2013 as CPEC left behind the province of Baluchistan, that would have created the Baluch area development sentiment and was agreed as to be named “Western Route”.

- **Western Route which is solely dedicated to the development of backward Provinces of Pakistan.**

Gwadar → Turbat → Panjgur → Khuzdar → Kalat → Quetta → Zhob → Dera
Ismail Khan → Bannu → Kohat → Peshawar → Hasanabdal and goes on till China.



Figure Original Map of CPEC presented to President of Pakistan in 2006.

Source: Dr. Kaiser Bengali, Chief Minister's Policy Reform Unit, Government of Baluchistan.

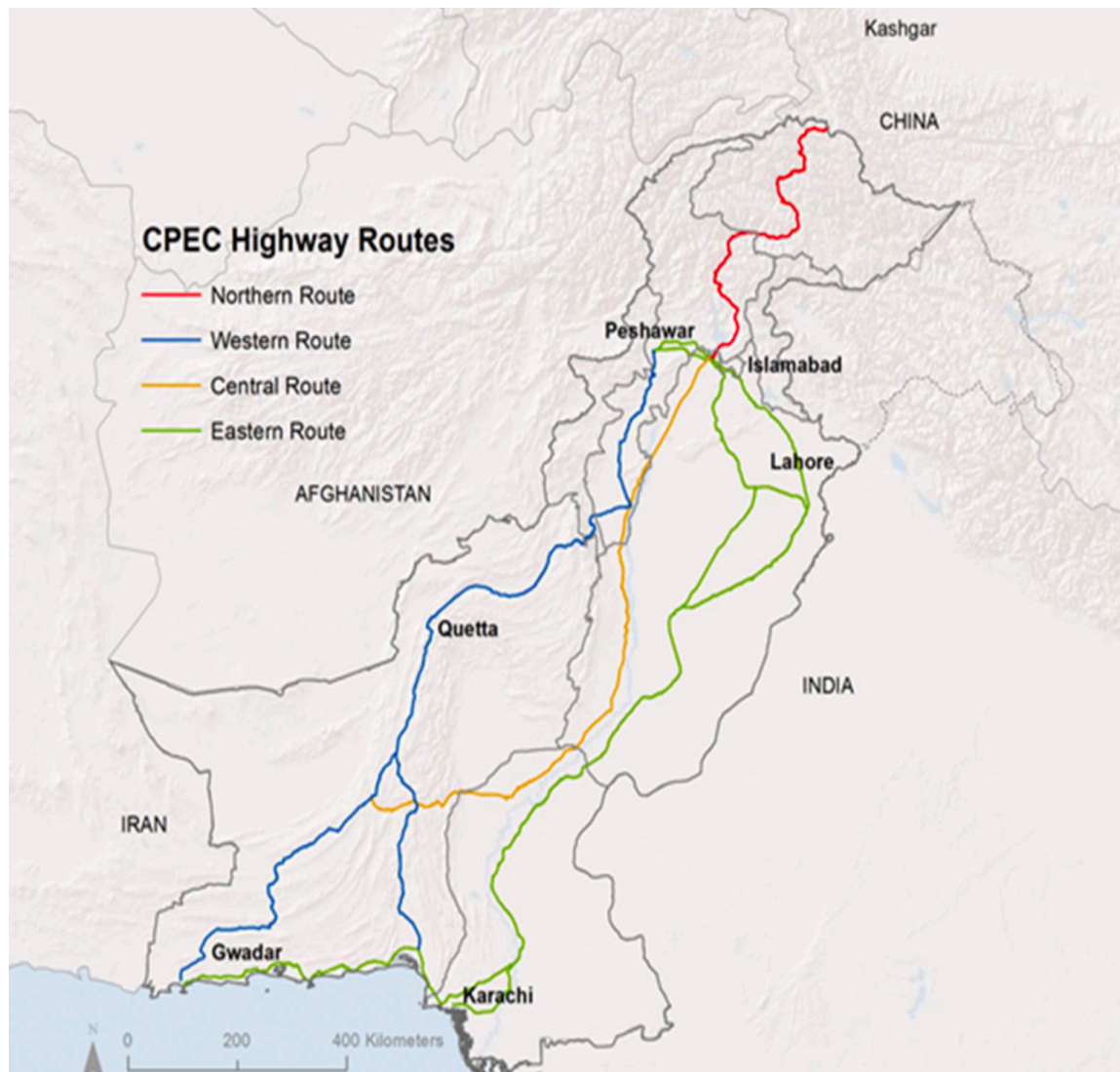


Figure Designated Routes for CPEC

Source: Ministry of Planning and Development, Government of Pakistan.

In Pakistan's history, CPEC has been one of the largest investments by any other country. The dilemma later in 2015, the regime was present when the Government disclosed the routes; it was stated that the central route was the only route that would be followed. This hasty decision by the Government made the backward provinces flare-up, there was no proper planning for each segment of the country to be interconnected by this economic corridor so that all could get the benefit. It was observed that the central Government and political parties in power had the intention to give maximum benefit to the region of Punjab rather than KPK or Baluchistan, preference was given to the eastern route as it passes through the industrial areas of Punjab. The endless quarrel amongst provinces was incessant. People's representation in the senate of Pakistan who belongs to Baluchistan and KPK walked out from the parliament to make their stance clear about the routes resolution. After these issues between the provinces, it was decided that the route to be followed was

“Western Route,” which would create special economic zones in these provinces and will increase the total revenue generation for the deprived provinces.

Geographical Obstacles

Pakistan has hard terrain in the mountainous ranges through which the economic corridor passes. The routes are facing a high degree of obstacles in making a smooth infrastructure to make transit transport easy. Khunjrab pass, which is located in the northern areas of Pakistan certainly in the winter season it remains close to all kinds of traffic to pass through it as it touches the Himalayas terrain. After all the precautions, the corridor remains vulnerable to the climatic effects of the harsh climate. Many workers lost their lives in the harsh climate as there were no proper medical units established in the high terrain.

We cannot forget the fact that Pakistan lies in a seismic zone, which is further divided into four zones. This hard terrain brings problems such as earthquakes, poor management of Disaster in Pakistan has made more disasters in a particular situation. Earthquakes have a history in Pakistan, an earthquake of 1935 struck the major area of Baluchistan and was originated from Chaman. The magnitude was around 8.5 magnitude in scale, which demolished the city and killed more than 80,000 people. Similarly happened in 2005, which was in 7.6 of magnitude, and the death toll was around 100,000, which made millions of people homeless in the north region of Pakistan.

High terrain in Karakorum highway is another challenging situation faced by the population who usually travel to Khunjrab pass is a challenging pass for the high transport vehicles due to its altitude of 15,397. These trucks have to offload their cargo for crossing the Punjab pass, which increases the cost and with additional effort to export the load.

Lack of transparency and Fact Sheet for the investment and loans.

Transparency in the project is the key to further success. Certainly, the documents on which CPEC is agreed upon are not published, the public is unaware of the financial and economic impacts of CPEC, the project cannot be predicted with a hundred percent success, as many factors play a role in the demise of this project. The projects bided in this mega project did not go through public bidding, which means the overall bidders were pre-selected, and national companies in Pakistan were not given a chance. Due to this act, many companies that would have offered most cost-efficient services were neglected over Chinese companies. Transparency aligns with the national interest of the government, but in this case, the particular ruling government had its hidden objective, which has highly affected the national firms.

On the other hand, loans granted by these Chinese institutions come with a price; the deal made by the Chinese companies in the bidding process seems uneven. It is forecasted that major portions of these loans will be channeled back to China, which would only benefit the Chinese construction companies, in the shape of the equity debt payment. This action caused a serious debate in the parliament when the Minister of Planning and Development Ahsan Iqbal was asked to share the details of the project and to make the public. Still, his response was, “the internal agreement is confidential and cannot be shared.” The statement made

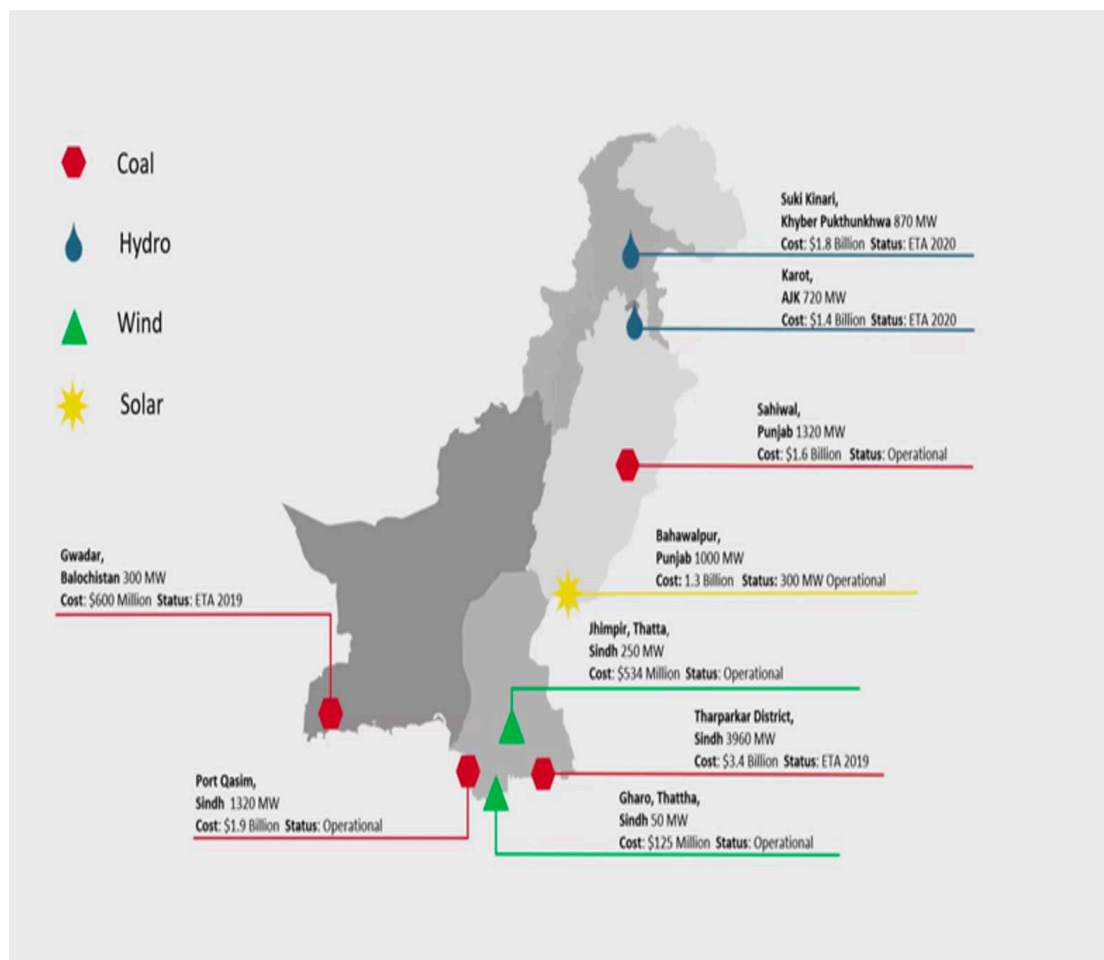
many speculations, and people are now pessimistic about this project and have urged the government to share official stats of cost-benefit analysis for the project.

OPPORTUNITIES

Prospects of ending energy shortfall.

The energy sector was the most deprived sector in Pakistan facing many issues, Pakistan's economy lies mainly on the agriculture sector for which energy requirements were quite low in order to attain maximum output. Energy is described as a lifeline in the country's progress and development; unfortunately, Pakistan has been a target for energy trap due to the growing population and high industrial demand. This lead to the inefficiency of the political regime in Pakistan, behind the energy shortfalls (VoiceofPakista,2015).

In the context of overcoming energy shortfalls, Pakistan has been rope China into finding a fast and reliable solution in order to end this energy crisis. This economic corridor has agreed upon the investment in the energy sector in Pakistan to maintain the high consistency of economic growth for the region. The project will add 17,000 Megawatts to Pakistan's Energy grid with the combination of Coal, Nuclear, and, most importantly, the renewable energy projects by 2018 (Tharoor,2015). The cost of power generation is \$ 34 billion, the construction phase has already begun, and they can be termed as early harvest projects under the flagship of CPEC.



Source: Gwadar Central Housing Project

The following are the basic early harvest projects schemed under the project CPEC;

| Sr. No. | Project Name | MW | Estimated Cost (US \$ M) |
|---------|---|------|--------------------------|
| 1 | Port Qasim Electric Company Coal Fired 2x660, Sindh | 1320 | 1,980 |
| 2 | Sahiwal 2x660 MW Coal Fired Power Plant, Punjab | 1320 | 1,600 |
| | Engro Thar 4x330 MW Coal Fired, Thar, Sindh | 1320 | 2,000 |
| 3 | Surface Mine in Block III of Coal Field, 6.5 Metric Ton per Annum (mtpa), Thar, Sindh | | 1,470 |

| <i>Sr. No.</i> | <i>Project Name</i> | <i>MW</i> | <i>Estimated Cost (US \$ M)</i> |
|----------------|---|-----------|-------------------------------------|
| 4 | Gwadar Coal/LNG/Oil Power Project, Gwadar | 300 | 600 |
| 5 | HUBCO Coal Power plant 1x660 MW, Hub Baluchistan | 660 | 970 |
| 6 | Rahimyar Khan Coal power project, Punjab | 1320 | 1,600 |
| 7 | SSRL Thar Coal Block 1 - 6.5 Metric ton per annum (mpta), Thar, Sindh | | 1,300 |
| | SSRL 2x660 MW Mine Mouth Power Plant, Sindh | 1320 | 2,000 |
| 8 | Quaid - e - Azam 1000 MW Solar Park, Bahawalpur, Punjab | 1000 | 1,350 |
| 9 | Dawood 50 MW Wind farm, Bhambore, Sindh | 50 | 125 |
| 10 | UEP 100 MW Wind Farm, Jhimpir, Sindh | 100 | 250 |
| 11 | Sachal 50 MW Wind Farm, Jhimppir, Sindh | 50 | 134 |
| 12 | Suki Kinari Hydro Power Station, KPK | 870 | 1,802 |
| 13 | Karot Hydro Power Station, AJK & Punjab | 720 | 1,420 |
| 14 | Matari to Lahore Transmission Line | | 1,500 |
| 15 | Matari to Faisalabad Transmission Line | | 1,500 |

Source: Ministry of Planning Development & Reforms

| <i>CPEC- Energy Actively Promoted Projects</i> | | | |
|--|--|------|-------|
| 16 | Gaddani Power Park Project (2x660MW) | 1320 | 3,960 |
| | Gaddani Power Park Project (Jetty+Infrastructure) | | 1,200 |
| 17 | HUBCO Coal power plant 1x660 MW, Hub, Baluchistan | 660 | 970 |
| 18 | Kohala Hydrel Project, AJK | 1100 | 2,397 |
| 19 | Pakistan Wind Farm II 2x50 MW (Jhimpir, Thatta, Sindh) | 100 | 150 |
| 20 | Thar Mine Mouth Oracle, Thar, Sindh | 1320 | 1,300 |
| 21 | Muzaffargarh Coal power project, Punjab | 1320 | 1,600 |
| 22 | Gas Power Plant 525 MW | 525 | 550 |

Source: Ministry of Planning Development & Reforms Pakistan

Prospects for Economic Integration through Regional Connectivity.

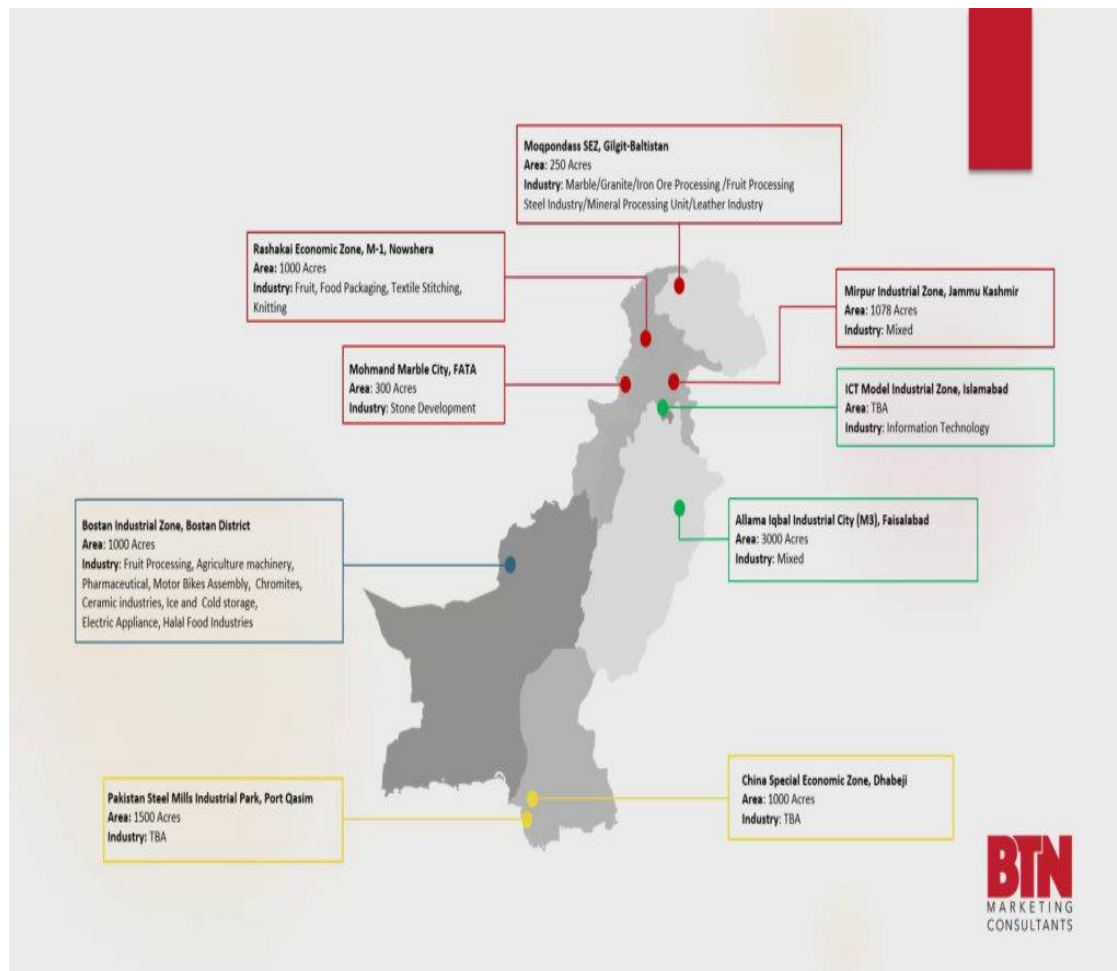
Revival of ancient silk routes is revival of historical trade route in the region, in order to boost the regional connectivity by bilateral connection of different nations involved. Silk route will strengthen a deep connection of China with Asia, south Asia and Europe. This was a great opportunity to be seized by the Government of Pakistan to establish a strong route for the trade from China to the rest of world. This will have a great impact on the Macro and Micro level of the economy in Pakistan, creating numerous business opportunities that will lead and prosper in the regions connected to the route within the geographical boundaries of Pakistan.

With the cooperation of South Asia Association for the Regional Cooperation (SAARC), Association of South East Asian Nations (ASEAN) and the Central Asian Regional Economic Cooperation (CAREC) (**Khan A.U.,2015**), have forecasted a future potential growth in the regime through the economic corridor. This would increase the bilateral trade will reduce the market transaction cost incurred due to distant import and shipping of material from Europe and other regions. Landlocked regions such as Afghanistan and Tajikistan with greater access for transporting goods and services based on the trade agreement with Pakistan will get benefit from the route **Ahmar, M. (2015, May 12)**.

CPEC is multi-dimensional project which has high grade involvement of intercontinental routes, through means of Road, Railways and oil gas projects. The creation of Special Economic Zones within the trade routes will encourage rehabilitation of the industrialization in Pakistan. Road projects under-way increases the high degree of connectivity without causing any delays for the trade consignments. These roads are the basic ingredient of connecting economic deprived rural areas to the industrial areas inside Pakistan in order to increase the local domestic trade and recognition of goods and services provided by the local market of Pakistan, creating enormous value for the deprived regions(**Khan A. U., 2015**).

Frame work of Special Economic zones under the project CPEC;

SEZ's is a famous term referred to "Clustering of Industries", a group of industries bundled together in order to support cross functionality in the trade sector to boost the economic conditions in the market. SEZ's established across Pakistan in order to boost the economic growth in the meantime and increase the trade opportunities alongside.



Source: Gwadar Central Housing Project (Special Economic Zones)

1- Industrial Cluster

The term defines itself, and industries are interlinked businesses which are responsible players in the market to produce and manufacture for common industries. They are placed in one locality to promote the socio-economic parity for the community within the zones. Industries specialized in sports goods are located in Sialkot, Specialized Industries for Ceramic are located in Gujrat and Marble Cluster in Khyber Pakhtun Khwa.

2- Industrial Estates

Comprise of a large number of factories within the proximity to one another, around 1970's more than 100 industrial estates were developed by the government of Pakistan to boost the economy, due to inefficiency and mismanagement, the industrials aspect suffered through the past three decades; SEZ's are subjected to the revival of these industries by occupying lesser area with high degree of workability within the regime.

Potential Growth in Foreign Direct Investment (FDI)

Asia has been a target in investment for different industrial players, such as low manufacturing production cost, and human resources attract foreign investment to roll in the regime(**Chang, 2014**). Pakistan's FDI had dropped in the past decade as the country has suffered a war on terror affecting the economic aspect drastically, which made investors reluctant and pessimistic to investment.

China's entrance in Pakistan has changed the course of investment and Pakistan regained its position for a reliable destination for the FDI; the multi-billion dollar initiative despite all the challenges for Pakistan has been facing China extended its hand to pull Pakistan out of its major economic and security crisis(**Rafi, 2015**). CPEC has a positive impact on the increasing investments by foreign players, developing industrial parks and economic zones.

As per central bank stats, Pakistan received \$334 million in investment inflows from Norway in July-November. The Norwegian companies, had, however, pulled out \$74.2 million from the country last year. Investment by Chinese firms rose to \$141.9 million from \$96.6 million a year ago.

Net FDI into the communication sector reached \$291.6 million in the first five months of this fiscal, while the industry had seen an outflow of \$113 million in the same period last year.

Financial business inflows totaled \$131.1 million in July-November FY20, compared to \$64.9 million a year earlier. FI (FOREIGN INVESTMENT) in government securities such as market treasury bills and Pakistan Investment Bonds was at \$1.2 billion, against \$0.1 million in the last fiscal year.

Summary of Foreign Investment in Pakistan

| | FY16 | FY17 | FY18 | FY19 ^(P) | December | | Jul-Dec | | Change over Jul- Dec FY19 | |
|------------------------------------|----------------|----------------|----------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------------|--------------|
| | | | | | 2018 ^(P) | 2019 ^(P) | FY19 ^(P) | FY20 ^(R) | Absolute | %age |
| Foreign Private Investment | 1,985.6 | 2,234.0 | 3,230.5 | 1,252.8 | 230.3 | 486.3 | 377.0 | 1,359.4 | 982.4 | 260.6 |
| Direct Investment | 2,305.3 | 2,746.8 | 3,471.2 | 1,668.0 | 319.5 | 487.0 | 796.8 | 1,340.6 | 543.8 | 68.3 |
| Inflow | 3,165.2 | 3,451.0 | 4,185.4 | 3,090.9 | 401.9 | 566.0 | 1,848.4 | 1,731.8 | (116.6) | (6.3) |
| Outflow | 859.9 | 704.2 | 714.2 | 1,422.8 | 82.4 | 78.9 | 1,051.6 | 391.2 | (660.4) | (62.8) |
| of which Privatization Proceeds | 24.0 | 36.5 | | - | | | | | | |
| Portfolio Investment | (319.7) | (512.8) | (240.7) | (415.2) | (89.2) | (0.8) | (419.8) | 18.8 | 438.6 | 104.5 |
| Equity Securities | (319.7) | (512.8) | (240.7) | (415.2) | (89.2) | (0.8) | (419.8) | 18.8 | 438.6 | 104.5 |
| of which Privatization Proceeds | | 27.9 | | - | | | | | | |
| Debt Securities | | | | | | | | | | |
| Convertible Bonds of Pace Pakistan | | | | | | | | | | |
| International bonds of PMCL | | | | | | | | | | |
| Foreign Public Investment | (8.8) | 262.1 | 2,450.5 | (1,002.0) | (0.0) | (684.5) | 0.1 | 452.2 | - | - |
| Portfolio Investment | (8.8) | 262.1 | 2,450.5 | (1,002.0) | (0.0) | (684.5) | 0.1 | 452.2 | - | - |
| Equity Securities | | | | | | | | | | |
| Debt Securities * | (8.8) | 262.1 | 2,450.5 | (1,002.0) | (0.0) | (684.5) | 0.1 | 452.2 | - | - |
| Total Foreign Investment | 1,976.8 | 2,496.1 | 5,680.9 | 250.9 | 230.3 | (198.3) | 377.0 | 1,811.6 | - | - |

Million US\$

Source: State Bank of Pakistan

(P): Provisional

(R): Revised

The data for FY20-Q1 has been revised

* Net sale/Purchase of Special US\$ bonds, Eurobonds, FEBIC, DBC, Tolls and PIBs

Source: FDI Calculation by State bank of Pakistan

<http://www.sbp.org.pk/ecodata/NetinflowSummary.pdf>

Prospects for Regional Cultural Connectivity

Regional connectivity will be expanding throughout the region, which is the primary objective of the mega project, to expand the bilateral ties between Pakistan and China. This is the future planning to stabilize the market of the labor demand, training youth according to the future prospect is one of the primary tasks. The Chinese government has signed an MOU with the government of Pakistan to spread the number of overseas scholarships for the youth of Pakistan, which has benefited people from the deprived regions and less economic resources to get a full-fledged scholarship in order to promote the cultural connectivity. The most important fact in designing these cultural programs is the understanding of the Chinese working of way.

Although China is not an English speaking country it offers, courses were acknowledging both Chinese and English. Most international students join the academic courses of Bachelors' as well. However, the undergraduate level is taught in Chinese. Due to this, most of the international students suffer a language barrier gap and in daily living, which ultimately affects their learning in the duration of studies (**Rashid Latif, 2018 June**). It would be beneficial for China and Pakistan to encourage the level of education and scholarship with a mandatory step of pre-language training prior to the departure of students in China so that they may not get the language barrier as a tough barrier to overcome.

THREATS

Chabahar port and the India Afghanistan and Iran Nexus

There is no doubt that the MEGA project has internal and external threats. India has always been on the opposing side, due to its history with Pakistan. On the other hand, India supporting Afghanistan and Iran in the policy demising the economic growth for Pakistan. Geo-political challenges raised due to India's intervention in the War wounded country "Afghanistan" and invested more than 30 Million dollars in Afghanistan and to gain their trust in establishing the Chabahar port. CPEC is a most significant challenge to India's economy as China has started working on the developing routes; however, India agreed with Iran to expand the Chabahar Port after a long delay (**The Economist times,2014**).

After the incident of 9/11 India has been heavily investing in Afghanistan mining industry, and construction projects, the Indian presence in the region of Afghan soil poses a significant threat to CPEC because India is the rival of Pakistan's security and economic growth. As soon as India's intervention with Afghanistan, the security situation in Pakistan was getting corrupt due to militants attacks and targeting the crowded markets through mined blasts; this made Pakistan invest heavily in securing borders with the Afghanistan region. India and Afghanistan signed a transit trade to use the Iranian Seaport (**Butt, 2015**).

India's Activities to Destabilize the CPEC project

India has always been upset by Pakistan's growing economy and kept Pakistan at stake of international pressure claiming Pakistan to be supporting terrorists, on the other hand, Pakistan lost its economic growth on the war on terror. The power regime of Modi's government has a sole objective to destabilize Pakistan, and portray an image of Pakistan to China as incapable of handling the project. Still, the Chinese government gave a blunt refusal to abandon the multi-billion project.

The Indian intelligence agency (RAW) has been proven to be involved in the regions of progressive CPEC projects and training the resistance groups to destabilize the project in the areas of Baluchistan and interior Sindh (Bhutta,2015). It can be seen that India's involvement in the Gwadar port is due to the secondary naval base in Gwadar for Islamabad's headquarter is a strategic importance of the navy to monitor the activities of the U.S. and Indian navies in the domain of the Indian Ocean. New Delhi has been on unrest as China's intervention in the Indian ocean has created an alarming situation for the USA and India (**Fazl- e- Haider, 2014**).

The largest province of Pakistan has been a significant target for the terrorism and separatism during the last decade, and Pakistan has confirmed Indian funded operations in the Baluchistan by arresting a Naval Spy Kal bushan Jadav, was detained in the zone of Chaman crossing the border from Afghanistan to Pakistan. Lt. General Asim Bajwa Director General of ISPR “ Arrest of Jadav is a great achievement and was handled by India's RAW Chief, the spy confessed that the mission was to encourage activities for destabilizing the CPEC project (**DawnNews, 2016**). KalbushanJadhav is a serving Indian Naval officer and due to retire in 2022. He entered Pakistan in 2003 and developed a strong network and was involved in many terrorist activities in Karachi and Baluchistan. His purpose was to meet Baloch insurgents and carry out terror activities in collaboration with them. Jadhav also revealed that he had purchased boats in Iran to target the Pakistani ports of Karachi and Gwadar(**DawnNews, 2016**).

India violated the airspace of Pakistan on the 18th of February. It dropped bombs in an area near the line of control claiming to hit the terrorist camp, but it was merely a forest, and more than five trees were destroyed. Pakistan took strict action against India's international law violation, and the second time when the Indian jets entered Pakistan, they were shot down by Pakistan's Airforce, and the pilots were captured and taken in custody. It was said to the international media that Pakistan is capable of defensive response and can respond within minutes. The shooting of two Indian jets was a clear message to the world of reliable defensive mechanisms by Pakistan. Later on, the captured Indian Pilot was released and handed over to Indian armed forces as a gesture of promoting peace and harmony in the region(**CNN world**) .

Unfortunately, India couldn't face the shame of international criticism and force-fully captured the disputed territory “Jammu-Kashmir,” which is known as the Dispute zone. Bypassing the international law, India passed a bill in the senate assuming the disputed territory under its control, killing civilians and implementing curfew forcefully, to starve people from death. Pakistan's approached U.N. (UNITED NATIONS), and the debate over the forceful capture of undisputed territory by India is being discussed. China played a strategic role and said that it would support Pakistan on the Kashmir Issue.

Rising Expenditure Cost

Pakistan's international financing comes in five primary forms; concessional loans, FDI foreign direct investments, loans, grants, and project financing. In the case of financing the CPEC project by Chinese firms and the government seems to be without transparency or clarity (**Saleem,2016**). The current rising cost and the economic pressure on Pakistan seem to incur the future high fee of CPEC.

The Chinese rate of return on the energy sector has created an additional cost for Pakistan's people (End-Users). They have to pay an additional amount to the usage of electricity. As far as providing power is concerned, Pakistan has the highest rates of providing electricity. The government has imposed an additional CPEC security tax of 1% on all electricity bills. CPEC project will take another 10-15 years to complete, and the public has been made to pay Security tax now.

| Projects | Total Cost | China's Share | Pakistan's Share | China's Return on Investment |
|----------------|---------------|---------------|------------------|------------------------------|
| Infrastructure | \$ 11 Billion | 40-50% | 50-60% | Not Known |
| Energy Sector | \$ 35 Billion | 80% | 20% | 27.2 % |

Source: Ministry of Planning and Development Pakistan.

Due to the poor feasibility planning and future forecasting, there are numerous differences in the calculation and implementation of the financial issues. The first example is Pakistan Power Park in Gaddani, it was inaugurated in 2013, by the prime minister for the fanfare and imposing his attributes towards development. During the initial implementation phase, the portfolio was made up of 10 projects that would be able to generate more than 6,600 MW of the electricity from imported coal, with the total cost of \$ 8 billion and an additional \$ 5 billion allocated for the infrastructure (Husain,2016). In 2014 it was decided to reduce the number of projects from 10 to 4 in the portfolio in order to sustain the development as the overhead cost incurred was estimated to be more than the price of the projects excluded from the list of early harvest projects. Many other projects subjected to the same issue of excessive cost and equity share (**Husain, 2016**).

Water and Gas Scarcity National Security Issue

The current struggle for overcoming the challenges in the water and gas scarcity is considered to be the National Security Issue for Pakistan. Water is considered to be life, but the current strategic scenario depicts a high degree of threat for the preservation of the water to accommodate the whole nation. Pakistan's water supply is dwindling because of climate change, outdated farming techniques, and an exploding population.

India's expansion in the dams project is a strategic tool to control the water and limit the supply side for Pakistan, which depicts the apparent violation of the "Indus Water Treaty." Some significant issues to be considered with this move of India controlling the water demand.

- a) A 2011 report by the U.S. Senate Committee on Foreign Relations said New Delhi could use these projects as a way to control Pakistan's supplies from the Indus, seen as its jugular vein.
- b) "The cumulative effect of these projects could give India the ability to store enough water to limit the supply to Pakistan at crucial moments in the growing season," it said India says the projects are "run-of-the-river" schemes that use the river's flow and elevation to generate electricity rather than large reservoirs, and do not contravene the treaty.
- c) Modi holds a meeting of government officials on the Indus treaty last year that "blood and water cannot flow together," soon after India blamed Pakistan-based militants for a deadly attack on its troops in Kashmir.
- d) Modi's message was two-fold, Indian foreign ministry spokesman Gopal Baglay said. Terrorism had to stop, and India must fully utilize the economic potential available to it within the Indus treaty.

The Indus water treaty at the age of 57 years ago states, "Treaty clearly states that power generation projects can be built on any of these three western rivers of the Indus River system as long as they benefit the local people and generally do not interrupt the flow of the river." The project area to be built for the economic development of the nations and prevents the intervention in inviolate Water supply for each of the countries. Somewhat the circumstances have changed, Pakistan is currently facing challenging scenarios for the CPEC and water supply gap concerning its demand.

The primary threat in the successful construction of CPEC due to lack of water resources. Water depletion in the region of Baluchistan has been drastic, through which a significant part of CPEC will follow SEZ's will be built. Quetta, the capital city of Baluchistan, is much affected by the unambiguous depletion of water due to the growing population. Presently nearly three million peoples are residing in the town alone.

Flood Management

- a) The Strategy to welcome floods is lacking that needs pre-flood arrangements by the construction of dams, expansions of levee's structures, implementation of Building codes to avoid human-made disasters. Pakistan government must finalize the draft water policy document, which is under consideration since 2007.
- b) Stored water value one MAF stored water's value is equal to 2 billion U.S. (in 2010) if stored water capacity is enhanced, can earn 70 billion U.S. dollars/year.
- c) Pakistan is one of the most water-stressed countries in the world, with a per capita annual water availability of roughly 35,300 cubic feet the scarcity threshold.
- d) Pakistan is agrarian but no major dam is constructed since 41 years. India established 171 hydro dams
- e) In absence of an ambitious plan, such floods can hit the backbone of country's economy after every few years
- f) \$30-50 Billion expected flood damages per decade
- g) Building new dams can assure a favorable availability of the right amount of water at the need of time, and this will allow to control the floods and strengthen the operational side of Pakistan's National Water distribution.

Water Potential in Baluchistan;

- a) Total Water potential is 17 million acre-feet (MAF), of which only 2.5 MAF is utilized, and the remaining flow into the sea.
- b) The domestic water has increased from 25 million cubic meters in 1950 to 395 million cubic meters of now.
- c) By 2025, it would be 525 million cubic meters.
- d) Water table has fallen at an alarming rate. (3 to 4 meter per annum)
- e) During the last two decades, the number of tube-wells has increased from 7,000 to over 22,000 in the Province.
- f) Investigations carried out before the drought show that 2 out of 14 basins (Pishin Lora and Nari) are entirely exhausted,
- g) Whereas 6 out of 12 remaining basins have used more than 80 percent of their water resources. In other basins, the water table is falling rapidly.

On the other hand, the situation on the shortfall of gas is becoming more and more dangerous during the winter season, when the domestic demands for gas consumption increase in the cold areas of Pakistan, such as

Baluchistan and the northern regions. Pakistan gas reservoirs are depleting on a full scale, and the country is facing a 40% shortage of total relative demand.

Punjab and KPK are the provinces who face the most significant shortfall on gas, and accumulated deficiency is 200 million cubic feet shortage per day (**Dost,2016**). The government has made some efforts to control the gas crisis and has signed a deal with Qatar to import LNG, but the distribution of gas is still under controversy among the provinces. The cost of this import is four times higher than the wellhead gas and is accumulated more than \$ 18 million British thermal units (**Ijaz,2015**). This expensive import will have an impact on the current economic situation of Pakistan, which is subjected to the high burden of domestic and international debt.

Chapter No 4

“Economic Analysis”

Introduction

China Pakistan's economic corridor (CPEC) is currently a 62 billion dollar multi-sector project agreed between Pakistan and China, which is the starting aspect of the Belt Road Initiative (BRI) taken by China to strengthen its routes deep inside Asia with connection to other continents. The project has been under observation on the top of the list by the policymakers and ordinary citizens. The project is not risk-free as the ambiguity among the policies defined and implemented have made people think over the future aspects of the projects, according to International monetary fund (IMF) has expressed its concerns about the oversize and low resource allocation by Pakistan on CPEC which will result in strict loan repayment implications. According to the IMF, Pakistan will be paying \$ 4.5 to China after phase 2024, and this has been a hard decision for Pakistan. The ambiguity among the contracts given to the Chinese companies rather than involving Pakistan's construction firms has raised certain concerns. Construction of CPEC projects Pakistan due to low resources in technology has to go through high-cost technological imports from abroad. This is increasing the import bill when the country has applied the monetary policy, high liquidity, and high exchange of monetary means over imports. These machines are required for CPEC power generation and transport infrastructure project, the total imports are expected to raise \$ 27.8 billion by 2021. CPEC has been a game-changer for Pakistan, as discussed in chapter 3 previously, there are numerous challenges which awaits for the successful implementation of the project.

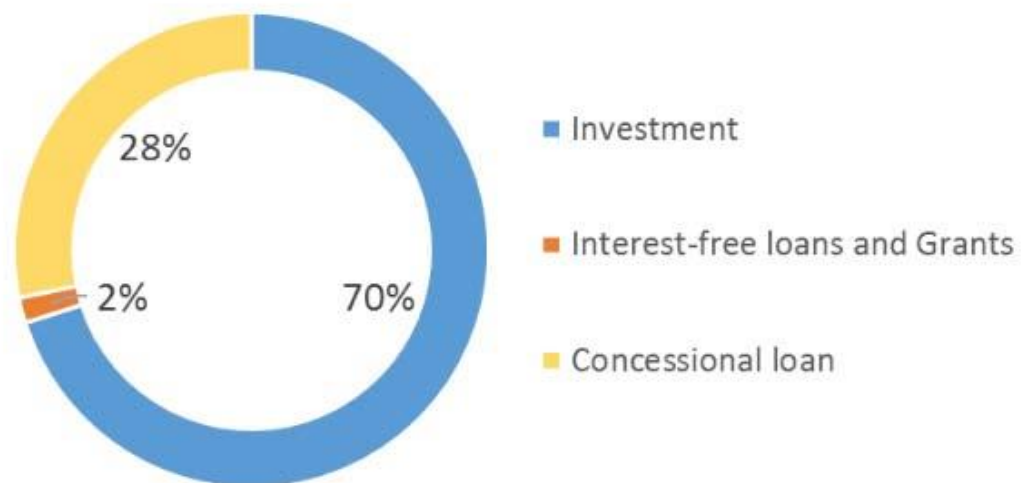
IMPORTANT KEY WORDS: Belt Road Initiative (BRI), International Monetary Fund (IMF), London Interbank Offered (Libor)

Financing Instruments

China Pakistan Economic Corridor (CPEC) is a project financed by China to expand the trade routes. The CPEC project consists of four different types of loans by China. The first type is known as the "Investment," where the Chinese firms are undertaking the infrastructure project implemented in Pakistan, and the commercial loans have an interest rate between 4-5%. The second type is known as "Concessional Loans," which are provided to the government of Pakistan with an interest rate of 2-2.5%, which has a maturity period of 25-30 years. These loans are to be utilized under the supervision of the government of Pakistan to strengthen the core infrastructure of the projects and other derivatives related to CPEC's progress. The third category is "interest-free loans," which constitutes a small proportion of overall financing with zero interest payments. This would be utilized in

strengthen different departments in perspective of CPEC, such as cost incurred in detail surveys. The last category to be discussed here is the issuance of "Grant," which has a sole aim to improvise the state's capacity and strengthen the strategic fit concerning CPEC. The graph below shows a break-up of the financing prearrangement in the portfolio of CPEC.

Source of CPEC Money for Completed and Ongoing Projects (worth \$19bn)



Source: Data Provided by the Governments of Pakistan and China

Source: cpecinfo.com

Figure 1 Types of loans under CPEC

Chinese Companies Involved

Projects under the CPEC have a majority of Chinese firms, which are major players in China; these are stakeholders in the CPEC project. There are nine companies dominating the CPEC portfolio in Pakistan's territory. The companies which are state-owned took the infrastructure projects that have taken projects previously in China and other countries in the past. China's state construction is the largest contributor to the portfolio and is financed a total of \$ 3 billion.

To be precise out of \$ 39.83 billion, the debt repayment schemes of Energy and infrastructure amounts to \$ 28.43 billion. The remaining amount of \$11.4 billion is destined to be paid in the shape of dividends and equity holders

to the investors. The loans for the government have been signed with an interest rate from 2% to 5.2 %. Currently, in the scheme, there are three governmental loans with a total amount of \$ 774 million that have been obtained at 5.2% in order to complete the necessary projects which are not part of CPEC but will assist in CPEC. The commercial loans are considered to be used for the power plants that have been according to the standard of London Interbank Offered (Libor) plus an additional 4.5%. The problem is with the return on equity, which is estimated at 34.2% and will create an outflow of \$ 11.3 billion.

Financing by Chinese Companies in completed and ongoing projects

(worth \$19bn, USD billion)



Source: Data Provided by the Governments of Pakistan and China

Source: Cpecinfo.com

| Name of Company | Number of Projects |
|--|--------------------|
| China Communications Construction | 2 |
| China Gezhouba Group | 1 |
| China Machinery Engineering | 2 |
| China Power International Holding | 1 |
| China Railway-China North Industries Group | 1 |
| China State Construction Engineering | 1 |
| China Three Gorges South Asia Investment | 2 |
| Huaneng Shandong Ruyi | 1 |
| PowerChina Resources | 1 |

Source: Data Provided by the Governments of Pakistan and China

Source: cpecinfo.com

Comparison of Investment Vs. Loan Projects

Pakistan and China agreed upon widening the CPEC net, and this has increased the total project cost from \$ 50 billion up to worth of \$ 62 billion. The major project which is expected to be completed in the next few years is worth \$8.2 billion "Mainline-I project of Pakistan Railways." This project cost has not been included in the current total cost of CPEC. Pakistan's Ministry of Finance reported to IMF about the decisions of expanding CPEC and confirmed that the country on an average would return \$ 2 billion per annum to China.

Whereas, inflows are concerned based on the projects under implementation and the outflows are subjected to account on the debt servicing of the Energy and infrastructure projects, which includes dividends paid on the power plants. The portfolio of projects is currently comprised of the Energy project, being set up by the private investors; on the other hand, the infrastructure scheme is taken by the government. The total inflows accumulated until 2022-23 will be \$26.5 billion, according to the Planning Ministry's working. With these calculations, Pakistan's authorities have estimated that the country is subjected to return an amount of \$ 39.83 billion to Chinese private companies.

Total Debt and Dividend Outflows

by Emaad Durrani Publicly visible

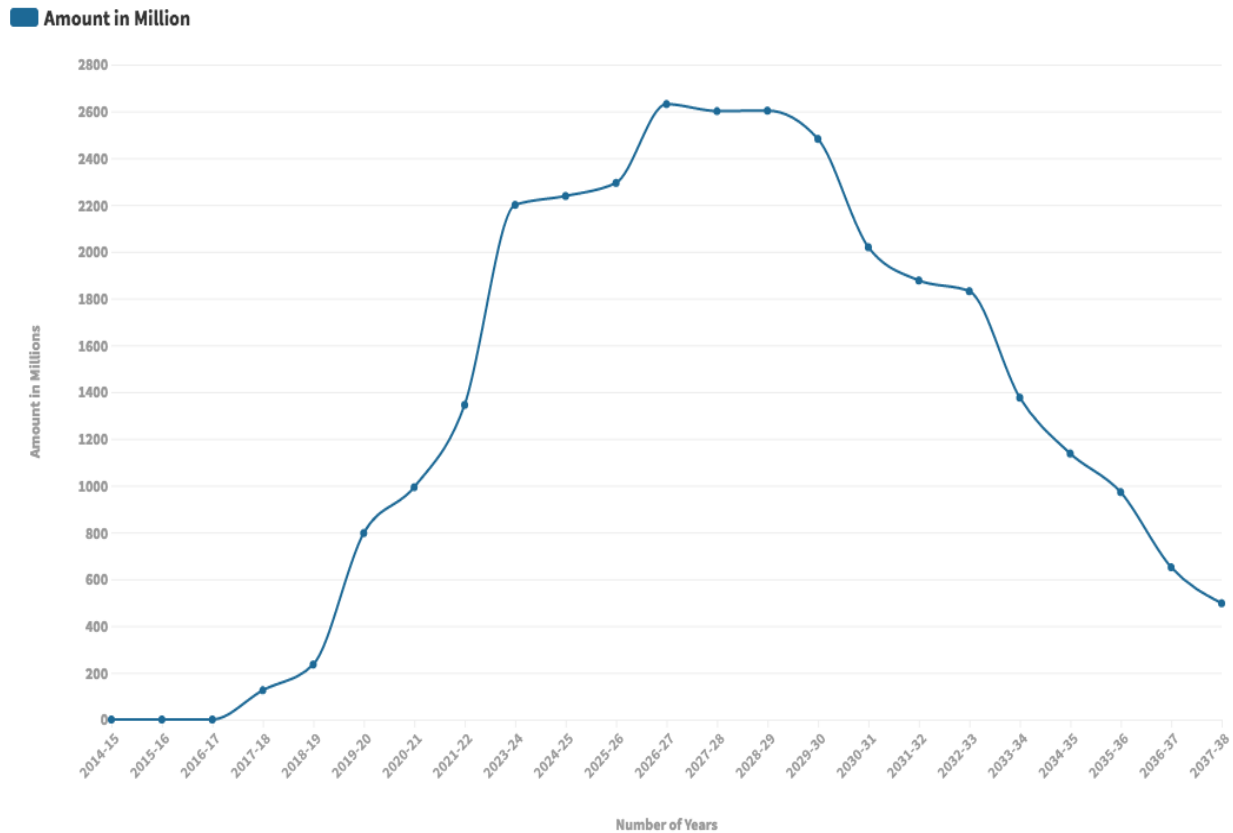


Figure 2 Debt repayment from 20-2038

Net Total Inflows and Accumulated Outflows.

The statistics depict that the net inflows related to the CPEC project account for about 18 energy projects and, including five infrastructure-related projects, began in 2014-15 and with estimated completion in 2022-23. Pakistan has received \$ 11 billion worth related to net capital CPEC inflows. For the running year, the net inflows are estimated to be \$ 4.2, which is determined to be the summit in net inflows. After this, there is a gradual downstream in the inflows amounting to \$ 4 billion, \$ 3.73 billion, \$2.53 billion, and \$ 1 billion in the year 2022-23.

Whereas the energy outflows are concerned, the total outflows began in this fiscal year that will continue to 2037-38, as shown in the above graph. As there is a strange thing to be taken in account that Pakistan needs to return \$ 2.3 billion in loans against the Chinese investment of \$ 2.4 billion in hydropower projects and the rest

would be returned in the scheme of dividends payment, which accounts for \$ 2 billion. This sums up the major proportion of money is going back to china in terms of dividends paid, and Pakistan is going to pay till 2038 (Shahbaz Rana 26 Dec 2018).

If we look to the infrastructure projects a loan of \$ 5.9 Billion was granted for five infrastructure projects, Pakistan due to its need in improvising the infrastructure will have to return \$ 7.5

billion to the Chinese government over a period spread to 20 years; in the case, the time value of money would decrease, but the recurring payment till 20 years will be a debt burden on Pakistan. As an example, with the interest rate implied by the agreement a loan of \$ 1.3 billion for the Karakoram Highway phase-II project, Pakistan will have to pay back \$ 1.63 billion.

Comparison of Investment Vs Loan Scheme.

Fact Sheet Analysis

Current facts and figures, as discussed previously, showed us that the money invested by China is going back to the Chinese market and economy, this will slow down the economic progress of Pakistan in the long run, and China will take the lion's share of the project by 2030. Listed below are the main facts gathered from different aspects and interviews with the officials, which depicts that Pakistan's growth will be slow, but China will be the main player for the foreign markets.

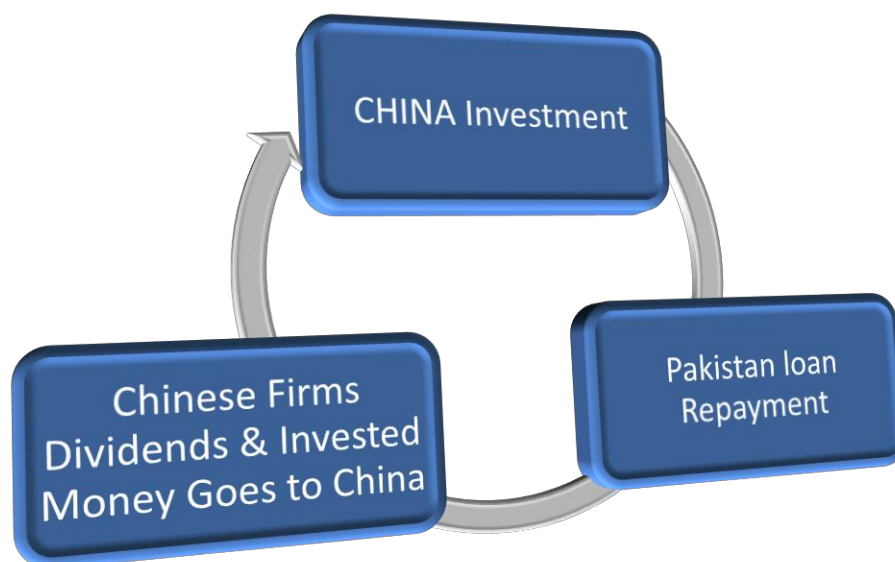


Figure : Explaining the Chinese Money regeneration from Pakistan's Debt.

Following are the gathered facts;

Concessional loans for internal development have an interest rate of (2-5%) with a longer repayment scheme. The total network of the project currently in now \$ 62 billion dollars.

Energy portfolio

- In order to counter the energy shortfall in Pakistan, \$ 35 billion has been invested in order to meet the demand for Energy.
- Registration of the projects was subjected to a financial processing fee of \$ 20,000 to Chinese sponsors and local investors for the proposal processing fee payment.
- No discrimination policy implemented by the Private-Power-Infrastructure-Board (PPIB) energy policy by Pakistan; this is a long term tariff policy implied for CPEC energy projects for all the sponsors.
- The feasibility of the project is to be determined by the Internal Rate of Returns in order to measure the success rate of potential investment in the regime. Chinese firms have a competitive advantage in this regard as they have good numbers in IRR due to worldwide projects.
- In order to promote the power projects in Pakistan, exemption of income tax and withholding tax on imports was available for power projects for smooth implementation.
- Chinese companies have a competitive advantage of fast and operational excellence within the work. These incentives are given by the government of Pakistan in the shape of IRR's, which are mostly 20-20.5%.
- To utilize the maximum natural resources such as using coal power generation projects, there are zero percent custom duties on coal mining imports, which will aid the Chinese investment.
- Emphasized focus on the early harvest project such as Suki Kinari Hydropower, Karot Hydropower project, and Sahiwal Coal-Fired Power project are based on the scheme of Build-Operate-Transfer (BOOT) model or Build-Operate-Own (BOO) model regardless of the investors. The projects can be subjected to the audit by the provincial legislations depending on the area of the project in accordance with the provinces.
- A strict protocol in order to manage the energy portfolio is being followed by Pakistan, which has the same rules and obligations for both foreign and local investors under the scheme of Independent-Power-Producers (IPP) scheme of investment.
- Accumulated foreign direct investment forecasted is to be \$1 billion, which further can be used to finance current financing of the projects in Pakistan's regime and reduce the external debts.
- The government has planned to substitute from the imported fuel to the domestic reserves, which will save \$ 1 billion annually.

Infrastructural Portfolio

- Payback period estimated for the development projects in the regime of infrastructure is 20 years, the interest rate is approximately 2% Pakistan Government has to pay \$ 250 million within 20 years this also includes additional 6 % of the insurance rate factored cost.
- Pakistan, for its internal development, had taken a loan from Chinese banks and AIIB with an interest rate ranging from 0.75% to 3%. It has been estimated that \$3.5 billion is an additional burden on Pakistan annually, with 7% is implied for the total foreign exchange earnings to service the GDP growth of infrastructure projects.
- The forecasted increase in exports due to low-interest rates and monetary policy impact in Pakistan, it is estimated that 14% of the increase in exports will compensate for the outflows, which is a positive sign for CPEC.

| Gwadar Projects Under Loan Scheme and Grants | Type of Loan or Grant | Amount of Loan in \$ Million USD |
|--|--|----------------------------------|
| Gwadar East Bay Express way | A Mix of concessional loans and grants | 140.06 |
| New Gwadar International Airport | Total Chinese government grant | 230 |
| Construction of Breakwaters | A Mix of concessional loans and grants | 123 |
| Dredging of Berthing areas and Channels | Chinese government concessional loan | 27 |
| Development of Gwadar Free Zone | Chinese government concessional loan | 32 |
| Necessary Facilities of Fresh water and water supply | Total Chinese government grant | 130 |
| Pak-China Friendship Hospital | Total Chinese government grant | 100 |
| Technical and Vocational Training institute | Total Chinese government grant | 10 |

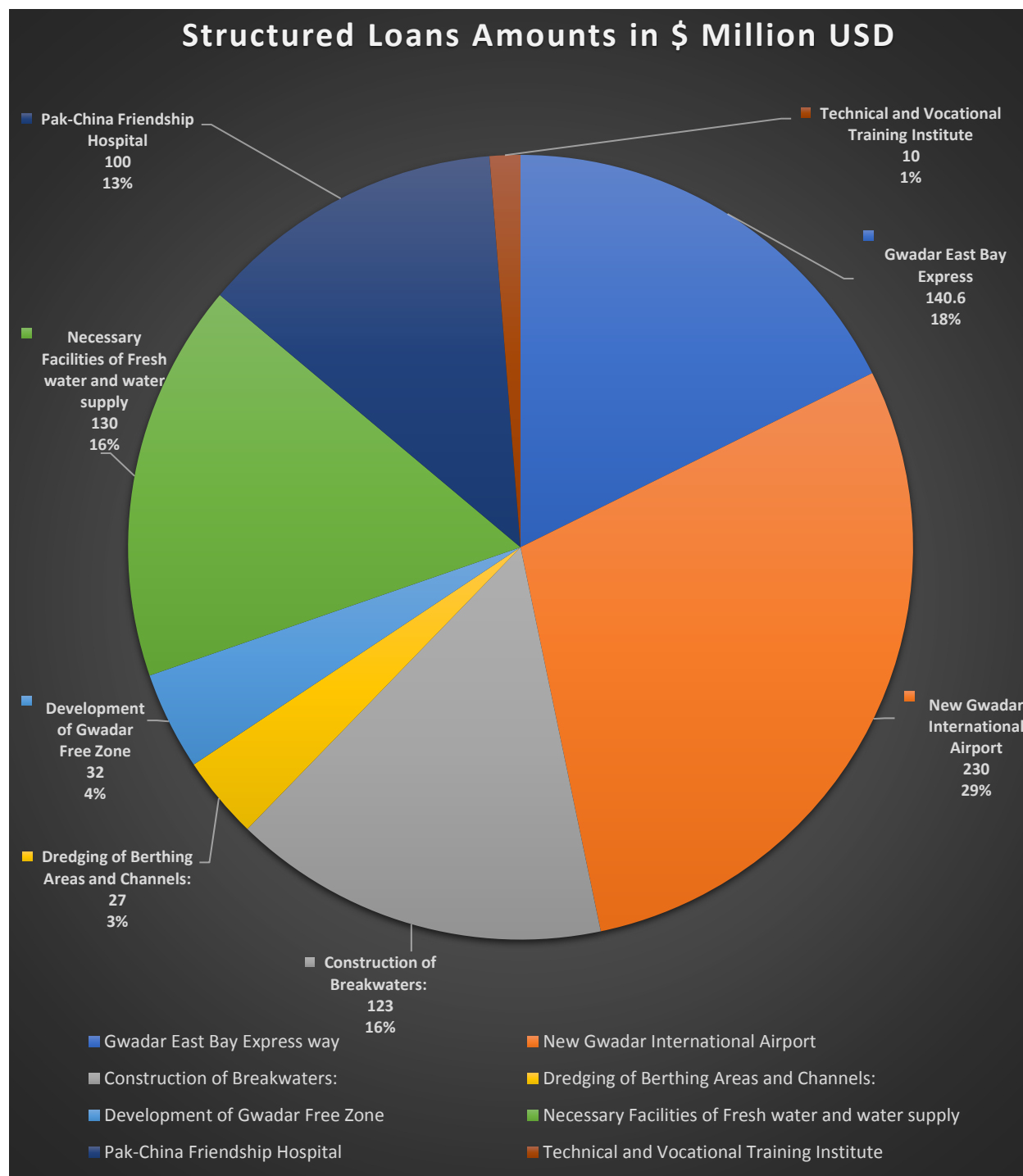


Figure 3 Structured loan for Gwadar Projects

The economic analysis has been made regarding the investment in Pakistan is going to suffer from debt for a quite long time, China being a dominant stakeholder for promoting Pakistan's economy will continue to support the growth aspect in the socio-economic terms. Furthermore, the financial sector will be getting massive support

from china; we can relate to the element of 40% acquisition of the Pakistan Stock Exchange by a syndicate of three Chinese bourses in Dec 2016. Following this aspect, full buy out of Pakistan's most abundant eCommerce shopping "DARAZ" was bought by a Chinese commercial giant known as "ALI BABA" in last year May 2018.

Since the project has promised a future with many possibilities and economical generation in Pakistan, but there are some aspects that Pakistan had not chosen wisely in debt obligations associated with the CPEC, this has caused a reconsideration of terms of agreements between China and Pakistan in 2019. However, China is the largest source of foreign direct investment in Pakistan since its independence. The relations have an extent in terms of expansion in the security matters, combined strategic alliance to any unforeseen threat is implemented by the two nations to grow their friendship bond stronger.

Chapter 5

“Conclusion and Recommendations”

China Pakistan Economic Corridor is a mega project, and it is highly diverse, this makes many opponents for this project. The rational approach is required to achieve the desired objectives, not for China only. Still, most importantly, Pakistan, which is a significant stakeholder in the project as a critical analysis, has been done in the previous chapters, to identify the possible threats and opportunities for the project. It has been seen that as the diversity of the project is increasing, the scope has been not determined well, which needs to be revised with a specific goal-oriented approach. Pakistan has opted to revise the policies regarding the bidding and majority industry to the Chinese, has been under discussion. The approach taken by the government seems good as regarding the previous policies, the total benefit of the project was given to China, and Pakistan was getting less than 8 percent of the advantage and was obligated to pay loans till 2038. The following are the recommendations under the research that should be taken to complete the project until its desired period.

Pakistan, at this stage, needs its business strategy to be the new economic hub; corporate strategy will define the vision of organizational structure and will focus on the vision of completing the project in time. This is the key to adding value to the economy of Pakistan, Ahmed, Mansoor. 2017, 12. The devaluation of money has increased inflationary episodes in the economy of Pakistan, which is going into the recessionary phase. The conventional approach would be eradicated, and modern techniques would help to finish the project life cycle successfully. In this way Government and Multi-National agencies working in the region will opt for the projectized organizational structures which would counter the rising unemployment; this would give the beneficial long term impacts in value creation of the economy by the appropriation of human resources. In all over Pakistan, more than 60 thousand engineers who graduated from well-reputed universities are unemployed, which has initiated a wave of depression among the youth of Pakistan and specifically Baluchistan.

Introduction to Entrepreneurship is a goal-oriented task to minimize the rate of unemployment and encourage the development of new business ventures, the reason here is to attract foreign direct investments in Pakistan due to low production cost, current circumstances depict this is the peak time to attract FDI because of the monetary policy applied by the State Bank of Pakistan. Sustainable Development Goals 8 and 9 are based on the essence of entrepreneurship and Innovation Hussain Ahmad Siddiqui, 9. These facts are missing in the previous researches made, as they are more focused on the development and feasibility side of the project Hussain Ahmad Siddiqui,5. The analysis for the up-gradation of different businesses in the deprived provinces of Pakistan, such as Baluchistan, such as the mining industry, introduction treatment water plants, introduction to smart cities, these major projects are part of CPEC, which are following SDG's 8 and 9.

Baluchistan island of opportunities, highly rich in natural resources, but the inadequate capability of local people to manage the new technology is the biggest issue of all. Chinese industries are working and extracting natural resources and exporting in the international market, and this is the problem identified that these tasks are important to enhance the local market of the minerals in the international market. Local people who are willing to invest in the mining sector of Pakistan would be a great opportunity to make new business ventures within the economy of Pakistan.

The linguistic barrier is a major hurdle in future employment; this would make a huge hurdle in working alongside with the Chinese and international people. This depicts a common goal for enhancing the future employment of Pakistani people in CPEC, as many Chinese investors have already stepped in Pakistan and see CPEC as a prospect, there is a high need of Chinese interpreters in the market. This language is a model of success for the domestic market as the trade in the future would be solely dependent on linguistic terms. The reason for learning the language is quite evident Chinese government has given scholarships to Pakistani students to learn the language and their culture in China so they can work in the CPEC in the future; this would benefit both Pakistan and China to enhance local hiring. Pakistani youth will be eligible to work worldwide as China captures the lion's share in the world market.

Recommendations.

- Regardless of the self-interest of the political regime, Pakistan should focus on the future aspects and trade options for the project. In order to maximize international trade within the special economic zones, constructed for the sake of the regional development. The current scenario of establishing proper use of SEZs is still under construction, which should speed up to promote the local market during international trade; this would attract a high percentage of foreign direct investment
- Pakistan should focus on the essence of entrepreneurship in the project; encourage local and domestic investors to trade among the routes in SEZ's to attract new markets and new business ventures into Pakistan. The fact the local production cost of goods in Pakistan is low due to low labor cost, this is the biggest advantage to attract big companies to install their plants in Pakistan for low manufacturing cost and increase the employment rate
- SEZ's are aimed to add value to the remote areas with high intensity of natural resources, but if the people of those areas will not be taken in confidence, how SEZs will perish and add value to the economy of Pakistan. There is no defined policy for the local inhabitants of these areas; we need a proper infrastructure in SEZs to promote local hiring and trade
- CPEC promises to bring employment and creation of new jobs in the energy, communication, and infrastructure sector, the problem here is how it is going to work? All projects require technology

development and human resource development. Therefore, Pakistan must create and strengthen proper infrastructure and facilities at R&D organizations and universities in Pakistan so that the future demand for technological technologists, scientists, and engineers are met.

- The Baluchistan province needs an integrated developmental approach in which all stakeholders, including government departments, politicians, civil society leaders, community elders, and local NGOs, are to be brought on one page to take maximum advantage of C-PEC for community development. The western route of the CPEC has excellent potential for developmental projects. For sustainable development- harmonized with local communities, the developmental activities should involve local communities through a consultative process. It's imperative to bring the rural communities into the mainstream by transforming and empowering them in decision making. The empowerment of communities in developmental activities may initiate from project identification to implementation and operation and maintenance to the project's ownership.

REFRENECES

- <https://pakobserver.net/index.php/2019/10/23/capitalizing-balochistans-potential-under-cpec/>
- <https://cpec-centre.pk/global-value-chain-of-pakistan-china/>
- https://www.academia.edu/39701578/BRI_and_CPEC_Venturing_into_the_Future
- Express tribune by Shakeel Ahmad Ramay in September 2019, <https://tribune.com.pk/story/2052518/2-cpecs-second-phase-can-put-pakistans-economy-back-track/>
- <https://dergipark.org.tr/en/pub/ijsshs/issue/26213/275986> Published by Akbar Ali School of journalism & Communication Shanghai University China July 2016
- <https://cpec-centre.pk/cpec-a-debt-reliever-not-a-debt-trap-for-pakistan/> Published by Yasir Mahmood April 2019 China daily
- <https://cpec-centre.pk/job-creation-under-cpec-a-reality/> Written by Muhammad Zia April 2019 Published by China Pakistan
- Published by Ejaz Hussain August 2016 University of Fudan, [https://www.academia.edu/33130612/China-Pakistan Economic Corridor Will It Sustain Itself?auto=download](https://www.academia.edu/33130612/China-Pakistan_Economic_Corridor_Will_It_Sustain_Itself?auto=download)
- Strategic National Perspective & CPEC Understanding The Changing International Paradigms Published by Dr. Muhammad Zia-ur-Rehman
- Employment Outlook of China Pakistan Economic Corridor: Meta-Analysis. Publication by Center of Excellence China Pakistan Economic Corridor Working Paper#21 Dr. Shahid Rashid, Muhammad Ali Zia, Shujaa Waqar
- THE MACROECONOMICS OF PAKISTAN'S QUEST FOR ENERGY AND THE CPEC
- Published by Hiba Zaidi and Tokhir Mirzoev IMF Country Report No.17/213 July 2017
- Hussain Ahmad Siddiqui, "CPEC Projects: Status, Cost and Benefits," *Daily Dawn*, last modified July 13, 2015, <http://www.dawn.com/news/1194014>.
- Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," Hussain, "China Pakistan Economic Corridor."
- Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," . Hussain, "China Pakistan Economic Corridor,".
- Bhattacharjee, "China Pakistan Economic Corridor (CPEC)," 5.
- Markey and West, "Behind China's Gambit in Pakistan," 2; Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,".

- Source: “China’s New Silk Road: What’s In It for Pakistan?” *Dawn News*, April 20, 2015, <https://www.dawn.com/news/1177116>.
- Ritzinger, “The China-Pakistan Economic Corridor,”.
- Bhattacharjee, “China Pakistan Economic Corridor (CPEC),” 2; Markey and West, “Behind China’s Gambit in Pakistan,” 3.
- Ritzinger, “The China-Pakistan Economic Corridor,”.
- Javaid and Javaid, “Strengthening Geo-Strategic Bond of Pakistan and China,”.
- Hussain, “China Pakistan Economic Corridor,” 14.
- Esteban, “The China-Pakistan Corridor.”
- Aziz, “Pakistan’s Power Crisis - The Way Forward,”
- Markey and West, “Behind China’s Gambit in Pakistan,”
- Nazir, “Macro and Micro Dividends of CPEC.”
- Esteban, “The China-Pakistan Corridor,”.
- Ali, “China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,”.
- Nazir, “Macro and Micro Dividends of CPEC.”Ibid.
- “Adventure Tourism,” Pakistan Tourism Development Corporation, accessed February 12, 2017, http://www.tourism.gov.pk/adventure_tourism.html.
- Perveen and Khalil, “Gwadar-Kashgar Economic Corridor,”.
- Markey and West, “Behind China’s Gambit in Pakistan,”.
- Esteban, “The China-Pakistan Corridor,” 2.
- Nazir, “Macro and Micro Dividends of CPEC.”
- Ali, “China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,”.
- Lim, “The China-Pakistan Economic Corridor One Year On – Analysis.”
- Ali, “China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,”.
- Sial, S. (2014). The China- Pakistan Economic Corridor: An Assessment Potential threats and constraints.
- Khan, M. (2016, October 5). Restoration of original CPEC project
- Retrieved October 6, 2016,from Dawn News:
<http://www.dawn.com/news/1288075/restorationoforiginalcpecprojectdemanded> Khan,
- Ijaz, A. (2015, January 18). Retrieved August 23, 2016, from The London Post:
<http://thelondonpost.net/2015/01/pakistan- gas- shortage- crisis- causes- and-remedies>

- Bearak, M. (2016, August 16). Retrieved from The Washington Post: <https://www.washingtonpost.com/news/worldviews/wp/2016/08/16/by-simply-mentioning-a-Pakistani-province-modi-fuels-theories-about-India-s-role-in-rebellion-there/>
- Perveen and Khalil, "Gwadar-Kashgar Economic Corridor,".
- Markey and West, "Behind China's Gambit in Pakistan,".
- Esteban, "The China-Pakistan Corridor," 2.
- Nazir, "Macro and Micro Dividends of CPEC."
- Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,".
- Lim, "The China-Pakistan Economic Corridor One Year On – Analysis."
- Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,".
- Planning and Development Department, Government of Baluchistan, Quetta. IUCN-The World Conservation Union, 2000. *The Baluchistan Conservation Strategy*. Quetta, Pakistan.
- Pakistan Poverty Alleviation Fund, Government of Pakistan, 2013. Baluchistan Strategy, a roadmap to inclusive socio-economic development of the province. Islamabad, Pakistan.
- Ahmed, Mansoor. 2017. New Great Game and the CPEC in Baluchistan: Opportunities and Challenges: *Pakistan Journal of History and Culture*, Vol. XXXVIII, No. 1, p 83-108
- Monetary Policy State bank of Pakistan, 2017. STATE BANK OF PAKISTAN
- Muhammad Khudad Chatta (3 oct,2019) <http://cpecinfo.com/financing-structure-of-cpec/>
- Shahbaz Rana (26 Dec, 2018) <https://tribune.com.pk/story/1874661/2-pakistan-pay-china-40-billion-20-years/>
- <http://country.eiu.com/article.aspx?articleid=1137844497&Country=Pakistan&topic=Economy> Adnan Aamir <https://www.chinausfocus.com/finance-economy/the-cpec-and-pakistans-foreign-debt-problem>
- Ministry of Finance <https://nation.com.pk/30-Dec-2018/-6b-concessional-loans-for-5-cpec-projects-govt>
- Emaad Durrani <https://app.flourish.studio/visualisation/1337763/> PROJECT FLOURISH DEBT ANALYSIS TILL 2030
- Ritzinger, "The China-Pakistan Economic Corridor,"
- Nazir, "Macro and Micro Dividends of CPEC."
- Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 1. Nazir, "Macro and Micro Dividends of CPEC."
- Abid and Ashfaq, "CPEC: Challenges and Opportunities for Pakistan,"
- Hussain Ahmad Siddiqui, "CPEC Projects: Status, Cost and Benefits," *Daily Dawn*, last modified July 13, 2015, <http://www.dawn.com/news/1194014>.

- “China’s New Silk Road: What’s In It for Pakistan?” *Dawn News*, April 20, 2015
- Aziz, “Pakistan’s Power Crisis - The Way Forward,”
- Bhattacharjee, “China Pakistan Economic Corridor (CPEC),”
- Hussain Ahmad Siddiqui, “CPEC Projects: Status, Cost and Benefits,” *Daily Dawn*, last modified July 13, 2015,
- Planning and Development Department, Government of Balochistan, Quetta. IUCN-The World Conservation Union, 2000. *The Balochistan Conservation Strategy*. Quetta, Pakistan.
- Pakistan Poverty Alleviation Fund, Government of Pakistan, 2013. Balochistan Strategy, a roadmap to inclusive socio-economic development of the province. Islamabad, Pakistan.
- Ahmed, Mansoor. 2017. New Great Game and the CPEC in Balochistan: Opportunities and Challenges: *Pakistan Journal of History and Culture*, Vol. XXXVIII, No. 1, p 83-108
- Monetary Policy State bank of Pakistan, 2017. STATE BANK OF PAKISTAN

