



NUST Business School

‘CPEC- The New Economic Corridor for South Asia:
Potential and Problems’

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Master of Business Administration

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Acknowledgement

I am thankful to Allah Almighty who brought me at a stage where I am finally working on my Thesis and moving toward my Degree closure, Allah has been kind and its HE who has guided me with Perfection. Nothing would have been possible without the support and prayers of my parents who have always been there for me.

I am indebted to my Supervisor – ***Muhammad Kamran Khalid*** who had been an excellent guiding light, I find this an appropriate opportunity to thank him for allowing me to work with him. His encouragement, guidance and support enabled me to complete this paper.

Lastly, I offer my regards and extend my gratitude to all of those who supported me during the completion of the project, Especially Employees of PILDAT and all the Interviewees for providing key insights for my thesis.

Abstract

China and Pakistan have long developed strong bilateral trade, cooperation and economic ties over the past years. CPEC is one feat of such initiative between Pakistan and china. CPEC is expected to strengthen the trade and economic cooperation between the two participating countries. CEPC will connect Gwadar with Kashgar, city of Xinxiang province in China, through rail and road network.

Besides meeting China's energy needs and developing its north western region, China Pakistan Economic Corridor will upgrade Pakistan's existing rail and road infrastructure while opening up new investment/ economic opportunities in the country. CPEC is expected to benefit the people of countries in South Asia. In turn it will contribute in maintaining stability in the region and economically integrating the region.

The research paper assesses threats and risks that could hinder CPEC's implementation. Alongside it also views new opportunities that it may provide to Pakistan. For this purpose we studied existing corridors to have a better idea of which pitfalls to avoid and what areas to exploit in order to make CPEC a success .Political social environmental aspects were explored with the aim of gauging the success of the project.

Key words: CPEC, Economic corridor, trade, economic cooperation, trade corridor, corridor framework, Infrastructure, regional cooperation

CHAPTER # 1:

Introduction

Pak-China economic corridor is a mega project between the two countries that connect Gwadar to Chinese region Xinjiang. The project will not just help in strengthening the ties between the two states but also benefit them economically and strategically. The corridor will serve as a mean that will be used to transport oil and gas for China. Pak-China's strategic relations will strengthen with Gwadar corridor. The corridor will save billions of dollars shipment cost for China and in return revive the economic state of Pakistan by generating employment, investment in infrastructure, mega energy/electricity projects and bring stability in the country. Strategically it will provide an access point for Indian Ocean to China and decrease its dependence on Malacca for transit of trade.

Pakistan enjoys a special geographical advantage, as it connects Indian Ocean and Persian Gulf. Because of inadequate infrastructure and political instability, the Pakistan's economy is unable to explore its full potential. CPEC was initiated to promote strategic ties between the two states. It was initiated for mutual development projects and to enhance the bilateral exchanges and cooperation in sectors like transportation, marine and energy sector.

CPEC connects Kashgar in China to Gwadar Port in Pakistan. The corridor will not just provide support and funds in construction and connectivity but also promote bilateral cooperation in different areas and projects. Under this corridor China agreed to invest heavily in mega electricity projects. It will invest in thermal, solar and wind power generation projects and help in addressing the infrastructure problems of Pakistan. The corridor will also serve as a mean to generate employment for the people of Pakistan.

It will perform as a trade bridge between China, Middle East and Europe through Pakistan. The corridor will help to reduce the shipment costs for China and also decrease the number of working days it takes to ship oil and gas. That is from 45 days to 10 days via Gwadar Port.

It is believed that the corridor will serve as trade route similar to US highway and German Autobahn Systems (Zahid, 2015), the highway fixes every area it passes through. Similarly it is believed that the corridor will fix the remote and underdeveloped areas of Pakistan and encourage small towns to develop

The Scope of the research is to identify the issues and challenges that could affect the successful implementation of CPEC and to see whether the policy makers and implementers are aware of it. These potential problems fall into several categories as mentioned below. Economic, Environmental, Political, Strategic & Social impacts. Identifying problems while being the first step, is logically followed by finding solutions, However the researcher, owing to the logistical, financial and linguistic limitations has decided to limit the thesis on identifying the problems using literature and interviews. The researcher has also focused on the awareness level of these problems among the CPEC decision makers. Awareness being the first step towards problem solving cannot be ignored. Also due to limitations of time and scope the free trade agreements (NAFTA /SAFTA) perspective has been left out. Based on the findings and difficulty in getting interviews proved this to be a good initial decision to avoid getting into finding solutions to these problems, it can be safely said that the finding solutions cannot be underestimated and should be explored in later studies and research papers.

Research objectives are:

- To perceive the benefits and challenges of CPEC.
- To examine the importance of CPEC.
- To investigate the potential and opportunities brought forward by CPEC.
- To determine and promote faster exchange among institutes/research institutes in both participating countries, China and Pakistan in order to establish strong and durable linkages.
- Provide recommendations and concluding remarks for CPEC.

The research methodology has been formulated by keeping in mind the research objectives. The research is divided into sections; primary research, interviews and CPEC seminar held at NUST Business School on 25th- 26th may 2016. The interviews are a part of probe and exploratory research, on the basis of which we will be able to analyze the threats and potential of CPEC. Interviews were conducted from thirty nine individuals with political, research, academic and social background that complements study. The interview transcripts and questions are attached as Appendix. The interviews provided insight regarding the potential and pros and cons of CPEC and provide a direction for the thesis, however the seminar provided real insight regarding how the project will be executed, steps taken to ensure successful implementation of CPEC provided an in depth analysis of China Pakistan Economic Corridor.

1.1 Structure of the Thesis

Chapter 2 is the literature review for the chosen topic. It explores the pros and cons of China Pakistan economic corridor. Its strengths, weakness opportunities and threats. Chapter 3 presents the research design, explaining the methodology that will be carried out to collect information. The analysis of the information collected and the observations as well as patterns drawn are presented in chapter 4. Conclusion and recommendations are presented in chapter 5.

CHAPTER# 2:

LITERATURE REVIEW

a) Economic Corridor – The Definition

Prabir De, defines economic corridors as collection of routes that integrate and connect the economic centers across various countries. (Iyengar, Making Case for Economic Corridors in South Asia, 2012). An economic corridor is not confined to trade only, but it has many economic activity centers;

- It connects rural Areas with urban centers with in (Sub regional Corridors) and across borders (Regional Corridors).
- Up gradation of transport and energy infrastructure along the corridor. This attracts investment as well as potential for additional projects.
- Enhanced Infrastructure and logistics.

The economic corridor approach aims towards integration and development of various regions. It provides an opportunity for trade, investment and development, and it also addresses the social efforts and other related outcomes of increased connectivity.

Economic corridors are ‘culture of trade agreements and Treaties, statutes, delegated legislation, and customs that govern and guide trading relationships, Institutions and structures’ (D.Baker, 1989). Economic corridors in different parts of the world has provided a backbone for economic growth. In Africa it served as an economic engine that activated trade, generated employment opportunities, accelerated prosperity, and changed the overall economic scenario.

b) Characteristics & Stages of Economic Corridors

According to a report by Asian Development Bank economic corridor possess certain characteristics:

- It should cover certain geographical space and such consist of roads, rails or canal through which transportation can be made possible
- It should be bilateral and made with mutual interests. It should focus on strategic nodes connecting the countries
- And it should benefit and generate developmental and economic growth (Planning, Infrastructure etc)

According to Srivastav (2011) economic corridor consists of five stages

- Transport corridor
- Transport and Trade Facilitation
- Logistic corridor
- Urban Development corridor &
- Economic development

c) Framework for Economic Corridor Formation

Research (Iyengar, Case of Economic Corridors in S. Asia, 2015) also suggested that the development of such Economic Corridor must sequentially pass through or overlap regional zone in order to become a fully integrated regional Corridor such as the CPEC. The national to regional corridor development is required to facilitate trade and movement of goods with in regions. The boom and development of logistic companies are supported at regional level and procedures are standardized at regional level which ultimately impacts the overall national economic corridors.

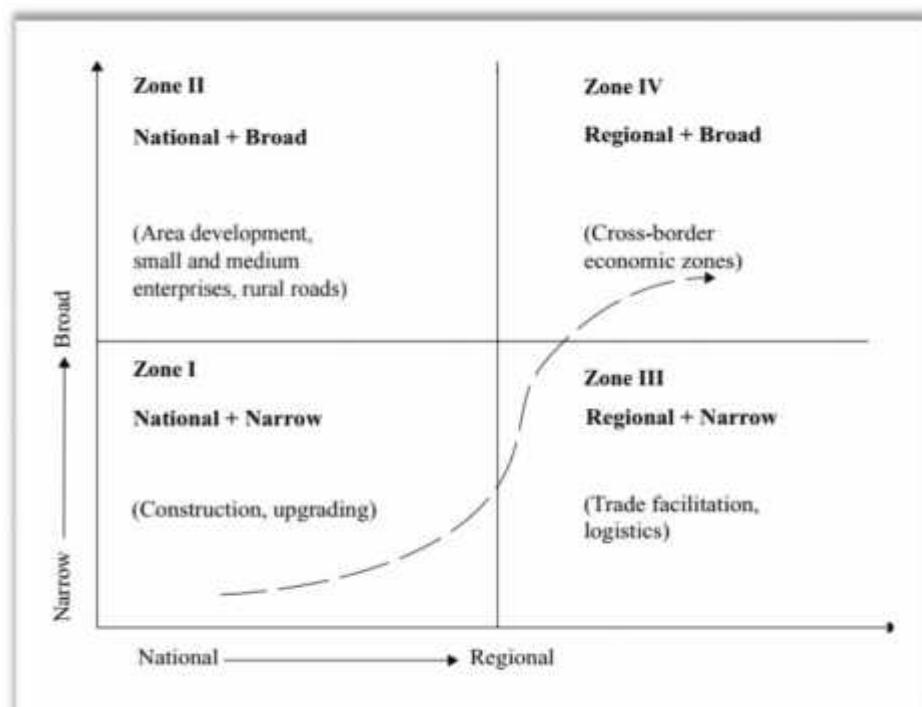


Figure 1: Regional Corridors Development Framework (Breadth vs Regionality) Source: ADB

Zone-1 is the National and Narrow phase where there is constant construction and up gradation. In order to upgrade and construct a corridor cooperation is required and national barriers must be reduced to enable the successful construction of economic corridor.

Zone-2 Once upgrading and construction starts taking place the corridor enters into zone-2 where areas start developing. Regions that link to the corridor are encouraged to develop.

Zone-3 is cross border economic support and development. This is extremely crucial zone where ties between the two countries strengthen. In this zone the corridor links the national boundaries and is open for trade and logistic movements.

Zone-4 Once the corridor passes from first three zones it is set for cooperation and regional plans. It facilitates trade and logistics.

Currently CPEC is in its initiation stage and can be seen to be much fitted in Zone 1 right now but eventually move to Zone 4 after its completion in 2030. Like asserted in the research CPEC will sequentially move from zone 1 to zone 2; once upgradation and development of areas along the CPEC route starts. It will then move from zone 2 to zone 3; once CPEC route is finalized and formally connected with the Chinese province of Kashgar and trade/logistic movements can commence. Zone 4 is a farfetched idea once CPEC become fully integrated in the regional plan and will function beyond just trade and logistics movement.

d) One Belt One Road (OBOR) – The Concept

The *One Belt One Road* is a cooperative and regional developmental methodology suggested by China that emphasizes on the integration, connectivity and collaboration between neighboring countries through trade, cultural exchanges and infrastructural development in the region. The One belt One Road has two components, one is the on land economic corridor and other is the ocean or sea based economic route. The *OBOR* initiative is China ideology of going global through trade, infrastructural development and cultural exchange. Whilst going global has its benefits but it's also has its risks. (Belander, 2015)

At the middle of OBOR initiative is based on development of land based economic route/belt that will include countries originally on the Silk Road through Central/West Asia, Europe and Middle East and as well as an ocean based link to China's port facilities with the African coast, and forward on to the Mediterranean through the Suez Canal (CLSA, 2013). The OBOR comprises of several big projects including:

- **CPEC**

The CPEC itself is an extension of the One Belt One Road project.

- **China Russia Europe corridor**

When Chinese President visited Asia in 2013, he proposed the idea of jointly developing the Silk Road Economic Corridor. Ideally, the plan is for countries situated on the original Silk Road through Central/West Asia, Europe and the Middle East. The initiative aims at integrating the region into an incorporated and inter-connected economic zone by infrastructural development and trade.

The Northern belt of the proposed corridor passes through Russia and Central Asia and up to Europe. The Southern course consists of the maritime silk route.

- **Maritime Silk Road**

Maritime Silk Route Economic Belt is a Chinese ingenuity to invest and foster collaboration along countries situated on the Silk Road. The CPEC is an extension to proposed Silk Road.

- **China India Bangladesh corridor**

The Bangladesh-China-India-Myanmar (BCIM) Economic Corridor is a closely related project to the “One Belt One Road Initiative”. The proposed corridor will encompass an area of 1.65 million square kilometers, and through a combination of rail, road, water and air linkages will cater for an estimated 440 million people in the region that includes major provinces of China, Bangladesh, Myanmar, and Northern India.

- **African corridor**

The East African region of the continent, particularly Kenya, will eventually become part of the Maritime Silk Road after up gradation of infrastructure such as ports and high speed rail network forming a link between Nairobi and Mombasa.

e) China Pakistan Economic Corridor

Multibillion dollar China Pakistan or CPEC. Geographically the corridor refers to the 2000 km road and rail link connecting Kashgar, in the west Chinas Xinjian Province autonomous region, to the Pakistan's south western port of Gwadar. But the project is not really confined to transportation. It also includes cooperation and financing investment as well as cooperation in the energy sector in Pakistan; which includes coal power plants, hydroelectric and wind power systems, solar power stations and coal provisions to Pakistan. (Iyengar, Case of Economic Corridors in S. Asia, 2015)

The corridor is also expected to address some of the most concerning and underdeveloped areas of Pakistan by reducing poverty and generating employment opportunities for nearly a million individuals. For china the Corridor reduces the transportation time of goods and energy. Currently the exports from China to Middle East and Africa wide the Strait of Malacca takes about 45 days. This can be reduced to less than 10 days by going through Gwadar. In a broader view the corridor will integrate and connect Central/West Asia and Gulf States through energy and economic cooperation. (Sial, Pakistan today, 2015)

The CPEC has been a game changer for both the countries. China's daily spending is approximately \$18 billion on shipment cost on 6.3 million barrels of oil imported from Middle East. With CPEC, the corridor will allow easy transfer of goods/trade from Kashgar to Gwadar ultimately decreasing distance, shipment costs and saving millions of dollars daily. China contribute greatly to enlarge trade deficit of Pakistan. As the corridor is helping China save cost, it is also helping in bringing about investment in Pakistan. China is investing in power sector and infrastructure projects. (Salman, 2013)

Pakistan-China ties can be a threat for Indian government. CPEC is being built over a territory over which India has legal claim. The project pass through Pakistan occupied Kashmir therefore undermining India's Sovereignty. India has always been concerned about growing axis of china in that region. Also China has already declared Pakistan as its strategic partner which can impact the ties of China with India. Whereas for Pakistan the ties are brining development and stability. Economically it will benefit both the countries (Pakistan & China), strategically it will provide an access point for Indian Ocean therefore decreasing the dependence of China on Malacca for transit of trade. Diplomatically China-Pakistan ties will be more concrete as compared to Pakistan-Usa. CPEC will also change the balance of power between South Asia and Afghanistan. (Ajulkumar, 2015)

f) CPEC Routes and Linkages

In 2015, Pakistan and China constricted deep knots with 51 agreements and 13 projects. China has introduced three corridor routes:

Route One begins from Guangzhou, and it connects with Pakistan at Khunjarab. Guangzhou is the third largest city of China and it is situated in south central China. This is the area where China will connect to the Gwadar Port.

Second route is the Corridor that connects Tashkent, Tehran and Iran from the Persian Gulf and starts from Shanghai. It also goes up towards Europe. If Pakistan will not be able to complete its road and rail network to become a recipient of the NSREB (New Silk Road Economic Belt) then this route could become an option, beside the fact that this the longer one.

Third route is the Northern Corridor; passes through Russia, it starts from Beijing, and then links it to European cities. (Rana, Express Tribune, 2015)

g) Strategic Need for CPEC for China

China's dependence on Energy imports

China's energy demand is reshaping the world economy. Resilient economic activity in China has surged the need for oil and energy resources. China's imports cache is primarily consisted of energy and oil imports through its sea lines of communications (SLOCs) (Storey, 2013). In the recent years vulnerability and safety of its SLOCs are now a major concern for the Chinese government. Any disruption in its SLOCs and transportation of energy resources to China could pose an imminent threat to its booming economy.

Currently, almost 80% of China's oil imports initiate from Middle East. The route that these energy imports take is through the ***Strait of Malacca***. The Strait of Malacca is the waterway between Malaysia and Indonesia with Singapore at its far end. The Malaccan strait is of immense strategic importance to China, as it's the shortest seaway route to China for all imports originating from South Asian and Middle East. Provided the strategic importance of the strait, there are still security vulnerabilities to it. The Malaccan Strait has been the contention of all trading countries, predominantly China, due to due to piracy and transnational threats.

For China the Strait is the only viable sea route for its energy imports from the Middle East. It takes roughly 45 days for imports to reach China through the Strait of Malacca. Any delays in deliveries could derail or at least hamper economic development in PRC (Peoples Republic of China)

The answer to China's "Malaccan Dilemma" is CPEC. The Corridor would provide an alternate path for its energy imports into China through the Gwadar port, bypassing the Malaccan Strait. Alternately it will also shorten the transit time from 45 days to approximately 10 days, reducing probability of delays and sea borne vulnerabilities.

Apart from the trade and energy benefits to China, as argued by some analysts, Gwadar port could eventually become China's new naval base and its eyes and ears in the south Pacific and Indian Region. (Ebrahim, 2015)

Besides meeting the needs of China (energy needs), the corridor will also serve as a mean to boost the economy of both participating countries. The CPEC will be advantageous to the people of both the countries and contribute in economic growth, stability, development and integration. (China-daily, 2013).

As explained earlier, CPEC is a developmental program for both the countries. It strategically links Gwadar Port with China's Xinjiang through highways, roads, railways and canals. This will be a major infrastructure project that will include 2700 KM highway linking regions of Pakistan with that of China. It will connect Afghanistan, Iran, India and Karachi-Lahore motorway. Besides physically linking the two countries it will also establish an economic zone along the corridor. Mega energy projects will be launched. Approximately 21,690 MW power production will be commenced as per the CPEC Plan. (Pakistan-Today, 2014)

h) Benefits of CPEC corridor

High shipment costs and low connectivity directly impacts the country's development and growth and at present many landlocked countries face this challenge. By establishing and promoting corridors transit agreements take place between the landlocked countries. Ties between countries and their neighbors improve. The corridor reduces trade costs which will enhance investment and comparative advantage will be explored. Regional trade is increased and hence it further reinforces cross border infrastructure, economic growth, development etc. (Aron-J, 2000)

By building an economic corridor between countries, infrastructure and development is given a boost that ultimately lead to enhanced and better facilities. Ultimately leads to development and growth. (CPEC News , 2014)

Since Pakistan has an Agro based economy the corridor will facilitate and accelerate agricultural growth. This is clearly seen in the (*Greater Mekong Sub Region*) GMS corridor; the corridor was setup with the main vision to accelerate agricultural boom coupled with infrastructural developments in the Greater Mekong Sub Region. This was achieved by attracting and making strategic alliances/partnerships in the private sector and by forming linkages across border. In a year agricultural growth increased by 20% in the region. (Nogales, 2014)

i) CPEC, what's in it for Pakistan?

Energy poor Pakistan has certainly met its savior. According to CPEC pact China will develop Pakistan's electricity, rail and road infrastructure. No to mention Gwadar port that has been barren front for Pakistan, will also be developed under the CPEC pact. Gwadar port if developed will have strategic importance for Pakistan. Gwadar port geographically is the world largest deep sea port along the border of Baluchistan and the Arabian Sea. Developing and commercializing the port will open new avenues of trade and strategic alliances. (Rana, 2014)

According to CPEC pact Pakistan will lease Gwadar Port to Chinese authorities for a period of 40 years under which they will also develop it and commercialize it in the process. This commercialization of Gwadar port will lead to increased trade activity and could become the new global docking point surpassing UAE.

CPEC will also help Pakistan in the electricity front. Under the terms and conditions of this project approximately \$15.5 billion will be spent on mega projects like wind energy and water that should yield approximately 10500 Megawatts of energy to the current national grid center. (CPEC News , 2014). Such projects will roughly double the Pakistan's existing electricity capacity to feed its electricity stricken population. This could also revive Pakistan's industrial sector that have been severely affected by electricity outages and in turn would help to improve Pakistan's standing

The economic corridor can turn the situation for Pakistan and mend its broken economic situation. It will serve as a revival for Pakistan. CPEC connects areas of Pakistan and China thereby helping in the development of underdeveloped areas of both the countries. Pak-China

Corridor acts in favor of Pakistan by close proximity with Hormuz and its direct land route connection with Central Asian states, which India and Iran don't have (Xinjiang, 2013)

CPEC will serve as a strategic tool for Chinese Government where it will help in keeping a close surveillance over American-Indian military moves in the Indian Ocean. The corridor will also provide an efficient time and distance route for China and Persian Gulf. The corridor will also promote regional trade. China can benefit from all economic zones connected to Indian Ocean that is Afghanistan and Turkmenistan, Uzbekistan and Tajikistan via Afghanistan. Corridor has the potential to attract international and national supply chain up to 25 per cent by 2020. (APP, 2013)

Where CPEC is beneficial for both the countries threats and challenges cannot be ignored. Pakistan has been known for its political instability, which has impacted a lot of projects in the Past. In sept 2014, Chinese president visit to Pakistan was cancelled due to Dharma by PTI, thereby impacting the Pak-China ties. The corridor connects different areas of Pakistan and therefore requires negotiations with different influential political parties, who can halt the CPEC. USA has shown its concern regarding Pak-China corridor and hence it was impact PAK-USA ties. (Falak, 2016).

j) Economics

Corridor impact the vital integration of economies across regions. For developed regions it is required to have an economic corridor that is optimum functioning and efficient, as it reduces the over al logistics costs, provide access to internal markets, increases the incomes levels and ultimately reduces the poverty levels.

Regional infrastructure has a direct and indirect relationship with welfare. Relationship directly via circulation and indirectly via stimulating an economic activity. Therefore economic corridor serves as a mean for economic integration (Vickerman, 2002). It is not just a mean to increase the intra-regional trade and investment but also serves as a mean to integrate the economies across regions (Venables, 2007) . Most literature supports that regional amalgamation will ultimately slow the integrating economies, if the linkages are not via proper & efficient transport and communication linkages however literature also states that economic corridor possess features that play a vital role in regional economic integration in today's globalized world. (Kuroda, 2007)

k) Economic Corridors its Governance & Growth (Empirical Linkages)

Corridors are vital indicators of income, growth and development in economies. Level. It not just indicates but also impacts the overall growth and income levels. For instance the overall transaction costs (Aron, 2002). Transaction costs become high and less competitive if the economic actors don't trust the rule of law (Property law), or function on a very minimal scale and use technologies that are less resourceful. As a result of this lack of trust, the urge to retreat towards black market arises as a result of which corruption increases in order to facilitate the operations. (Busse et al. 2007). The income level is impacted via three channels

- a) Information asymmetries; where the institutions will channel information regarding the market and its conditions and decide which goods and participants will be a part of it.
- b) Reduced risk; As a lot of risk at every step of the economic corridor remains, therefore the institutions will define and enforce the rule of law
- c) Restriction on the interest of politicians and focus groups (Rodrik et al. 2002; WTO 2004).

The income levels sometimes have an opposite reaction as well. For instance institutions and governance since the citizens who belong from richer countries/ backgrounds will have a strong preference for good governance.

As institutions and governance positively impact the income levels, trade also play a role in impacting income levels due to comparative advantage in particular goods, available efficient technology and economies of scale in production. It also depends on how the country is amalgamated with the other parts of the world. Trade boost and expand welfare and ultimately serves as an outcome of increased productivity levels, market attractiveness and competitiveness of a nation.

Trade influence the quality of institutions and its governance. There are three different networks to form these linkages, first economic agents in open economies may learn from their experiences and adapt successful learnings. Secondly international competition force countries to bring about improvements in their own regulatory systems and processes. Also the biggest use is that dishonesty arises that makes it harder to survive in open economies. (Rajan and Zingales 2003).

With improved foundations of regions, improvements take place in investments and FDI inflow.(Buisse e.t. al. 2007). At times geography also play a role in impacting the income levels through its climate, resources and agriculture. Moreover it also plays an important role on income levels as it influences the trade, distance from major markets and the integration with other countries. Researches also suggest that via geography, regions/ countries can influence its infrastructure by effectively utilizing trade, its natural resources. Scholars like Bulte. & Damania (2005) argue that when a country is rich in resources it can impact the institutions in developing countries as it enriches the ruling class. With strong institutional coordination and enhanced structure the global trade costs can be decreased (Francois and Manchin 2007).

Rodrik et al. 2002 states that trade can serve as a mean to reduce the overall costs. That is is the labor cost, the cost of resources, the capital cost and even the costs from importing to exporting. If incase the overall structure of economy is rigid and are not willing to provide flexibility than an economy may find itself in a situation where the trade is no longer beneficial.(Economic Corridors and Regional Economic Integration 23)

Ideally countries of Asia are expected to gain from exchange and specialization of trade. However factors like poor infrastructure and inadequate governance of institutions hinder these gains (Kohsaka 2007). Similarly economies that are smaller will most likely attain the well-being gains from the liberalizations of trade as increased market access provide them no benefit in short and medium term. Mostly poor quality of institutions play a major role in disappointing export performance of smaller economies. Growth & Infrastructure have a positive correlation as in the long run the quality of an institution and overall politics economics mater.

1) Regional Co-operation and Infrastructure Development along the Economic Corridors

As research earlier suggests that economic corridors serve as a catalyts as they boost the overall grown and development of regions and its surroundings. It leads to economic integration that benefits all the stakeholders involved in the agreement. Overall transportation costs are decreased and with better facilities and infrastructure, trade attains a boost.

In the figure mentioned below a clear correlation can be seen between infrastructure and regions. It is quite evident that with better and improved infrastructure, trade costs decrease because better and efficient transportation system is utilized which ultimately increase the trade flow and strengthens the regional cooperation and integration. For sustaining regional integration strong cooperation & infrastructure is a dire need of economic corridor.

According to a research by Kimura & Kobayashi (2009), the key to attract fragmented production is by bringing about improvements in local advantage.

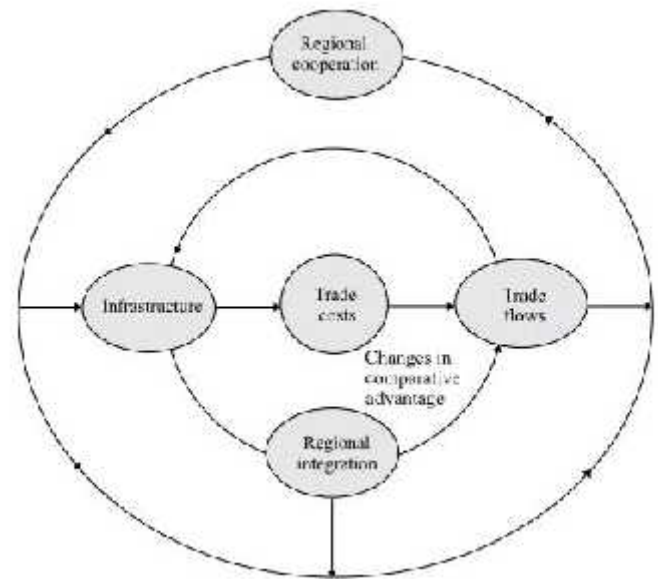


Figure: Infrastructure and Regional Co-operation Linkage
 Source: Brooks and Memon, 2008 , Infrastructure and Trade in Asia.

For instance in order to develop social economic zones, local investment is required that will reduce the service costs that will link the production. Hence reduction in services costs will improve the trade and transportation facilities.

m) Logistics and Transport

High transport and logistic costs impact development of a country and it challenges the landlocked countries. By establishing corridors and bilateral and regional transit agreements, the land lock countries gets a mean or passage to overcome the obstacles and challenges. With regional cooperation for cross order infrastructure, East Asian countries can easily reinforce the regions competitiveness. Regional connectivity through cross border structure provides an edge as it supports the region’s production and it goes beyond the national boundaries. Other parts of Asia has less cross border infrastructure as compared to East Asia. Hence by reducing transportation and operation costs by connections with regions and countries to form a cluster with their markets. This a challenge for many developing countries till date and will remain a challenging in coming future. (Kuroda K. a., 2007). One of the major challenges involved in establishing an economic corridor is closely dependence on policy reforms and capacity development of institutions involved.

n) Infrastructure and Development along the Economic Corridors

In South Asia, economic corridor serves as a catalyst for region's economic integration. As the development takes places across the regions, the transportation system becomes efficient and linked and energy pipeline is underway and is expected to contribute in thee economic growth of country/region.

In coming years South Asian's trade due to the economic corridor and bilateral trade is expected to surge by many folds. With this increase, demand for national and international infrastructure services will increase as well. For example production demand for SAFTA, India-Srilanka FTA, Srilanka-Pakistan FTA, India- Nepal etc.

Developing an economic corridor is a need and disappointed responses towards demand will slow down and hamper the region's trade. Infrastructure challenges is a major obstacle which require an adequate understanding and support along with a comprehensive policy.

The comprehensive policy must aim the objectives like: moving from an open to a free market that is integrated across borders for transport services, exploiting synergies in the transportation system, reducing transportation costs, improving economic efficiencies, improving links with other regions and sub regions. With the completion of South Asian networks (Transport) and improved linkages with neighboring regions/sub regions, encourage using different ode of transportations and finding ways the current transportation costs can be decreased. The challenges can be viewed into two segments. One being the hardware aspect whereas other the software aspect. The hardware aspect will incorporate the physical infrastructure, logistic network and its maintenance to ensure that the goods can be easily flown within and across the South Asia & beyond. However the other aspect will deal with trade facilitation, standards customers and the cost and time spent at borders, any dispute that may arise and its settlement. The basic purpose will be to provide support to its first segment that is the hardware aspect. Both these segments require drastic support and intervention by Government and policy makers in order to make it work efficiently.

Regional connectivity is critical as it support the complementary production across the regions and it also goes beyond the national boundaries. Other parts of Asia have less infrastructure than the East Asia and hence a need arises to reduce the transport cost, integrate the markets, connect regions ad form cluster will definitely be a challenge developing countries not just in coming years but in near futrue. (Kuroda K. a., 2007)

o) Environment and Economic Sustainability

Pakistan together with Chinese partners are working together to build an economic corridor which is environmentally and economically sustainable. With \$46 billion construction projects, environment damage is unavoidable. The corridor/project involves cutting of trees and wiping away the forest areas. Many environmentalists have argued that the mega projects are shrinking the green belt and shrinking masses of glaciers in the northern areas of Pakistan. As a result of serious concerns from (IUNC) International Union for Conservation of Nature, Mr. Xinsheng stressed to mitigate environmental impact during the construction of mega projects. Senator's are seeking help from IUNC to help in conserving the environment of Pakistan. (GOV - Ministry of Climate Change, 2015)

Federal minister for climate change also vowed to work with Chinese counterparts to conserve the environment from adverse impacts of major construction projects. Where Pakistan view Chinas investment as a gift and a game changer, it ignores the fact that potential hazard exists with a 3000 km long corridor. The construction will impact the rivers, mountains, forest and even glaciers. Where the corridor bring economic prosperity, it also invites ecological damages. (Aron-J, 2000)

p) Financing and Transparency

Literature states that projects as huge as development of economic corridors require great deal of transparency and a robust good governance mechanism. In the past major projects have failed as it lacked good governance. Arthur states that worst way to kill a project is to deprive it of transparency. Transparency here is not limited to financial metrics but also to other greys areas that are usually neglected in a project: compliance, policy adherence, resource management, funds management, etc. (Kent, 2010)

CHAPTER# 3:

Research Methodology

The thesis study was carried out by conducting detailed interviews and surveys In order to attain the study goal. Semi-structured interviews were also carried out for primary data collection. Thirty nine respondents were selected for the study which included both Pakistani and Chinese individuals that were actively involved. Each interview took on average 15 min to complete. The research method includes semi structured interviews and document analysis.

The main purpose of the interviews was to explore different aspects of economic corridor and identify potential threats and opportunities provided by CPEC. Interviews guided the research in right direction, all interviews were recorded and transcribed. While conducting analysis of interview, different themes were identified which were later used to reach research objective.

3.1 Interview Guide

Primary Questionnaire

Q1. China is investing greatly in Pakistan, is it an effort to help Pakistan in improving its economy or a reason to expand Chinese's influence? Who is in charge of designing the CPEC in Pakistan and China?

Q2. Do you see CPEC as a viable in terms of benefits, financials and environmental perspective?

Q3. Who in charge in Pakistan?

Q4. Mechanism of coordination between the two participating counties?

Q5. When the last meeting of the CPEC body and what was discussed in it?

Q6. What are you views regarding CPEC implementation and what problems do you foresee in implementing it?

Q7. Why is there no consensus on the Alignment issue of the route?

Q8. What is the probability of CPEC as a success in the long and short term?

Q9. What factors / problems can you identify based on the facts present at hand?

Q10. What suggestions or recommendations do you give for the above mentioned issues?

Secondary – Probe Questionnaire

1. China is investing greatly in Pakistan, is it an effort to help Pakistan in improving its economy or a reason to expand Chinese's influence?
2. How is the money being discussed in Pakistan?
3. In the past, from 2001-2011, 66 billion dollars were pledged in Pakistan and only 6% percent came through what is your view regarding this?
4. China is pushing away competition what are your reviews regarding this statement?
5. How is china going to make sure that the money is pledged through and is actually utilized?
6. What do u make of this political and economic move?
7. Is China reshaping the political and economic order in South Asia?
8. How much is this about containing India? China will be providing 8 submarines to Pakistan do you think this will further tense Pak- India relations?
9. Why the Government wants to work only with china have they thought about alternatives?
10. What Pakistan gets out of it because Chinese workers and Chinese companies will benefit the most, what's in it for Pakistan?
11. Last time when Pakistan needed money for IMF, china didn't step up to help Pakistan Why Now?
12. CPEC is a danger because of India Iran Chabahar port what is your view?
13. Natural trade will be sacrificed and artificial trade will be focused, don't you think this will hinder our natural trade?
14. In your review what are the interests and perceptions regarding CPEC in both the countries?
15. What are expected pros and cons of this economic corridor?
16. Will it full fil its function as an economic corridor?
17. How realistic do you think is the implementation of such a mega project in Pakistan?
18. What can CPEC achieve regarding the regional economic cooperation and integration beyond the Pak-China nexuses?
19. Many Scholars claim that China may not be a reliable partner this is a proposition , what does one make of an alternative scenario should china fail as a development partner. In case it happens, will Pakistan will have other options and If yes what are they?

20. Is there a danger of china militiazing Pakistan, for the purpose of protecting Chinese strategic interest?
21. Most of the points in the CPEC points towards development of Baluchistan and other tribal areas, what will be its impact on Punjab sector?

In the interview guide, CPEC different opportunities and threats were covered. Question about economic and political challenges were addressed. Also the questions also touched upon the fact that major mega projects were launched in the past, but as the Government changed the projects were either halted or the funds vanished. Therefore questions regarding how monetary management will take place were also addressed. The project itself seemed more in favor of China than Pakistan, therefore questions addressing who will benefit more and how were also addressed. The main moto of asking questions were to analyze and identify if the project is full of potential opportunities for both the countries or it is a strategic move on part of China. Similarly majority of questions tested different aspects of CPEC.

The themes identified from CPEC primary research and literature review was used to build the questionnaire. Total number of interviews conducted were thirty nine, however audio recording of seminar held at NUST Business School was also used to back methodology. The seminar was specifically on CPEC, held on 24-25 may, 2016. Data collected from respondents included telephonic interviews, face to face interviews, email questionnaires, skype interviews, informal meetings and document analysis. Also respondents to the interview questionnaire were selected on the basis of their background and involvement in CPEC, in order to bring about diversity and wider perspective to the research. Respondents included scholars, economists, subject matter experts, project employees and politicians

Interviews were conducted from PILDAT employees as well. PILDAT is think tank that doesn't operate on profit. Its basic purpose is to provide research that will support the legislation of Pakistan. As an organization its core mission and aim is to strengthen democracy and democratic institutions in Pakistan. PILDAT is a research organization that focuses on democracy, governance policies and politics. The organization is known to carry out various researches and surveys on topic/issues like finance, economic stability, existing poverty of state, trade, foreign relations, regional relations and its governance, women empowerment, youth and a lot more.

CHAPTER#4

Analysis

4.1 Qualitative Analysis

After conducting a series of interviews and with the direction of an interview guide, below mentioned aspects were taken into account:

- Economical boost or expansion of Chinese Influence
- Potential of economic growth
- Management of Monetary funds for CPEC
- Potential and Strategic strength
- Foreign policy
- Addressing energy concerns of Pakistan
- Political Constraints
- Security and terrorism issues
- Financial constraint and commitment fulfilment
- Opportunities
- Threats and risks involved in execution of mega projects

Although Pakistan and china have strong friendly ties, with china it will be fairly easy to conclude bilateral issues, yet it is vital that we evaluate and understand the variables that may impede the successful implementation of CPEC. Such variables are not just related to the risks and obstacles that may hinder the progress of CPEC it also includes tapping in to opportunities that may come along the way.

Variables that could put CPEC into jeopardy are as follows:

i. Economic Boost or Expansion of Chinese's influence

Interviewers/ Scholars/ Researchers were asked about the economic growth that will prevail once the CPEC starts its operations. Some of the respondents were in favor of the upcoming projects and appreciated the fact that with this mega projects new developments will take place and develop the remote areas of South, however few feared that this mega project was a strategic move on part of Chinese Government to increase their influence. 'If we look at

foundations and Pakistan – China ties, China has its own interests now to help Pakistan. China's investment is very specific.'

Many questions emerge that why china is interested in helping Pakistan only why not other countries, interviewers were of the review that 'China's interest in Pakistan is specific, wider broader silk route project Pakistan is a part of it CPEC is going to give access to Arabian sea and oil routes transportation is a major motivator for this mega project investment'.

'If u draw a matrix there is not much overlap in the two areas Chinese strategic interest is getting axis to the sea, 22 years back I has a meeting with then prime minister of china, and he asked me to see the Chinese map, he said we are the only large country that is land locked in three side Russia, India and US. All countries are opened at least on two sides. The only way we can get access is through Pakistan. This was not something accidental they have been thinking about this for quite some time now'.

'Chinese President announced to invest 46 Billion dollars in Pakistan. Everything comes with a price and definitely there must be some vested interests. By investing heavily in Pakistan, Chinese will have access to Indian Ocean. It will strengthen ties but it definitely points towards declining the American influence on Pakistan. The size of investment they are willing to put in will transform parts of Pakistan. Trade route is 3000 KM direct access to Indian Ocean. Prior to this Chinese transferred oil within 12 days, after implementation of CPEC, the number of days will decrease from 12 days to 3 days. So ultimately it is definitely Chinese interest more than that of Pakistan' or 'For Pakistan money is coming but for china it's a tool to increase power'.

Chinese is a smart and hardworking country, the reason it was willing to invest so much in Pakistan was not just out of friendship but to generate employment for its own people. All the projects and constructions will be executed by Chinese industries and companies. 'It actually plays into the larger Chinese agenda of influencing the world and region. It's not just about great love with Pakistan China is putting in a lot of money in Bangladesh and Nepal and relations between India and china are warming up mainly for bi lateral trade purposes. So china is trying to secure its future. China is going through an economic transformation so if china is striking deals with countries, it needs market for its investment and expertise'.

Scholars were also of the view that 'Pakistan is plagued with problems and China is a reliable friend of Pakistan and this economic corridor will revive silk route and develop new industries.

Increased Chinese investment will create an environment for investment will improve for other countries. It provides more opportunities for a country to grow.’

ii. Potential of Economic Growth (Economic Benefits)

Interviews were of the view that mega projects like these, when ever launched lead to development. It generated employment for the People of Pakistan and served as a mean of economic growth. ‘I know from my experience projects such as these are extremely difficult to evaluate in case of benefits. Major investment’s return is usually uncertain until and unless it is actually executed properly. Since CPEC is a very complicated and large investment. It is tricky to begin with. Because what it will produce in terms of rate of return. \$45-50 billion dollars are being invested, in my own estimate is it will add 1.5-2% GDP growth rate.’

‘This will be a major boost to our economy. This is the only large foreign funded project where the relation is between two entities. Chinese work is going to be done by state owned enterprises and they will collaborate with Pakistani enterprises to ensure smooth execution hence an opportunity for the people of Pakistan to be employed. These days the unemployment rate is at peak and if the People of Pakistan get an opportunity to work and get employed I believe nothing can be better than this. The project will one way or the other bring prosperity’

‘Another structure change that took place, is that the wages of Chinese increased and it lacks land so they wanted to restructure their industry in such a way that utilizes use of land and they want to move out of their industries, so Pakistan they have identified as one of the countries. They tried to do this in Cambodia but it was relatively small and same goes for Vietnam it didn’t go well. Chinese are looking at conflicts between China & Us. So energy and raw material will be served via this corridor. The cost of moving goods will be one half as compared to previously done. so finally the corridor will serve other countries as well along with Pakistan-China. As we know Afghanistan has one of the richest mineral resource. So Chinese will be hungry to have access to those resources. And would like to exploit them and use this particular corridor to utilize these resources.

‘As most of the involvement of China stems from economic interest, the motive behind regional hegemony and influence lies under the resource rich Caspian Sea – the world’s biggest reserve of untapped fossil fuel. I believe the new game centers around Russia bent upon keeping control over Central Asian States and the flow of Caspian Sea oil through various Russian owned pipelines and the USA trying to undermine such attempts by laying down their own network

of pipelines through the region. Likewise, Iran, Turkey and Pakistan too are building their infrastructure of communication links within the region so as to become the preferred route through which resources run.’ Hence this shows that in future via this route Pakistan will pursue more economic stability and growth.

iii. Management of Monetary Funds for CPEC

‘Chinese contribution in Pakistan tend to be spend through Chinese contractors and firms so this money will be managed more by the Chinese Government as compared to Pakistani Government. For Pakistan, this project is a huge deal as keeping the safety and security situation of the state in mind, it is hard to get foreign direct investment interested in Pakistan. So Chinese investment for solves the problem of FDI and stability’.

‘China is investing in different part of the world and so it has experience in dealing with project across the globe. So they are good with dealing with such mega projects. No doubt there are challenged like safety and security in Pakistan, but they will proceed the projects in collaboration with Pakistani government. As Chinese will be ensuring that the major part of development and execution is done via their own industries therefore, funds will be properly managed and their record will be kept properly as compared to managed prior in Pakistan’.

In the past (2001-2011) many projects were launched and approximately \$66 Billion were pledged in Pakistan, but as the Government changed and political instability emerged only 6% investment came through rest of the investment sort of vanished, respondents agreed with this past trend. ‘True in the past a lot of these investments and projects have failed to materialize but that’s something Pakistani government need to come together and realize the feasibility of investment will depend on the execution. A lot of burden rests with Pakistan’.

iv. Political and Strategic implications

Although china has been an obvious beneficiary of CPEC. As per the CPEC agreement Pakistan will purchase submarines which will create serious tensions between India and Pakistan. Where the relations strengthen with China, it becomes strained with neighbors. As a retaliation India is trying to strengthen its relations with USA which can incur consequences on Pakistan-USA-India ties.

‘Yes it strengthen china in so many ways, china seeks to establish road, sea and railway connectivity through to Europe and Africa, so yes this plays into that. China is trying to secure

its future. China is going through an economic transformation so if china is striking deals with countries, it needs market for its investment and expertise. China will have a better environment for the country, greater stability in its periphery. So Chinas inclination is not just Trade via CPEC, it also has strategic implication.’

v. Foreign Policy

Pakistan’s foreign inconsistent policy has been always put to question. Changing government regimes and inflexibility in foreign policy has feared foreign investors. Inadequate reforms in this matter has also retracted foreign investors leading to closure of businesses. The Pakistani government will have to strengthen its ties with its neighbours and show a little leniency towards foreign investors. This will give Pakistan’s economy the much needed boost.

‘The centrality of foreign policy and the diplomacy in international relations encompassing covert wars are essential if one is to understand the agenda that the “New Great Game” presents. Pursuits in foreign policy revolve around the notion of national interest, economic wealth, security and global and regional power. The realization of such pursuits, in order to ensure geographical integrity and national interests, cannot be derived from explicit philosophical and moral premises. Rather, it relies on the game of strategizing and self-interested co-operation in the world of Real Politik. The New Great Game encompasses these ideas in a three-dimensional construct which includes geo-political, geo-economic and geo-strategic alignments amongst its different players. The term geo-politics will be excessively used in this essay as it refers to the relationship between the geographical location of the Central Asian Republics and the politics revolving around them. It is crucial to understand this term in order to study the effects on the behavior of all the players in this “Great Game” in conducting relations with each other and the directions they will adopt as players in world affairs. Other than the great powers, namely the US, Russia and China, developing nations including China, India, Turkey, and Pakistan are vital components of this new game; all hinged on the energy resources of the Central Asian and the Caspian Basin region.’

vi. Addressing Energy Concerns of Pakistan

Pakistan is presently facing its largest energy shortages as its gas reserves are rapidly diminishing; hence during the megaproject; the pipelines are fundamental for the country. Although, the statement entails a very poor perception of Pakistan, however, there is much truth in the fact that the “energy corridor” that Gwadar port provides would most definitely

bolster Pakistan's economy and improve trade relations with the landlocked Central Asian states.

vii. Political constraints

Friendly ties with China indicated that there will be no political impairment in the construction of CPEC. Though CPEC has the governments support, there does exist a probability that minor segments of secessionist parties in Baluchistan may create some trouble. Another area of focus shift is that Pakistan has been in constant political shifts. 'Only one party in the history of Pakistani politics has successfully complete its political tenure. Constant change in political regimes or instability of the current government can pose direct threat to the economic corridor.'

Recent shifts in alignment of the CPEC from the western wing has also raised concerns for the government. The criticism presented by both KPK and Baluchistan is seen as valid by some analysts. According to analysts the 'shift in route alignment of CPEC from the western wing to eastern wing is seen as an attempt to leave KPK and Baluchistan devoid from reaping full benefits of CPEC. Though government's constant reassurances that the western route will be completed in the later stages of the project and that this decision of developing the eastern route of CPEC first is based on financial and security reasons, has received wide spread criticism from various effected stakeholders.'

viii. Security and terrorism issues

Security and terrorism insecurities are certainly one of the major concerns. This threat is not only originating from Pakistan but also Chinese province of Xinxiang. The Xinxiang province is constantly facing security threats from Uighur militants and the East Turkestan Islamic Movement (ETM). On the other hand Pakistani forces have fought with the militants in the North Waziristan Agency, the Uighurs and at some point with ETM forces. 'Such operations including "Zarb e Azab" has weakened the operational capacity of militia but retaliatory surgency can be expected from the militant forces. Such pressures pose a direct threat to CPEC construction.'

Also Baloch guerillas represent the key risk in Gwadar and the beach front belt; 'the Taliban and insurgent activists have least presence in this area'. Baloch guerillas can indulge in power assaults focusing on the CPEC connected establishments, infrastructure and workers other than vague attempts at kidnappings. The level of danger is moderate for now due to Pak army's

country wide operation against the militants but needs stringent efforts to establish safety and success of CPEC.

ix. Financial constraint and commitment fulfilment

‘There is general skepticism about administrative, technical and operational capacity of Pakistani workforce employed in CPEC that it may not match the efficiency and commitment of the Chinese, and may fail to absorb the huge investment productively. Consequently due to mismanagement by Pakistani public sector organizations involved, there may be cost overruns and delays to the projects’.

x. Competition – Gwadar Ports Viability in Question

Kazakhstan has initiated a new passage railway linking Europe with China. It aims at beating rival routes by providing reduced journey time and also flawlessly handling an ever growing flow of goods along the route of the primeval Silk Road. Europe destined trains from China enter into Russia from Kazakhstan. They then go through Belarus and Poland before reaching Duisburg. It only takes 15 days for trains carrying cargo to cover the 10,900 km (6,800 miles) route from Chongqing in southwest China to Duisburg in Germany's industrial Ruhr region (Nurshayeva, 2013). Kazakhstan has also concluded the construction of 293-km (183-mile) long railway network from Zhetygen to Korgas near the Chinese border, and integrated it in to its existing national rail network, opening the second China Euro land link across its territory.

To justify its interests, India has recently established close relational ties with Iran and Afghanistan and as a result India-Iran Chabahar Port has risen as a threat to CPEC. India as a counter strategy has signed an MOU, backed by Russia, with Iran to invest and develop the Chabahar Port. The Chabahar port has its own strategic advantage. It will give India and Russia easy and vital access to the Central Asian Countries. Meanwhile both Pakistan and India are striving for Afghani influence in the wake of the US's exit. Moreover, in the longrun the US may join the Indo-Iranian nexus to tie China.

xi. Opportunities for Other Countries

The corridor opens new routes to resource rich Middle east through Arabian Seas. It has extended an invitation to Tehran to join the CPEC initiative. Decade long Iran-Pakistan gas pipeline can finally take place between the two countries. This will reduce the dependence of Pakistan on West. To conclude, if effectively managed CPEC, it cannot just strengthen Pak-China ties but it will also create opportunities for other countries to participate and benefit from the corridor.

xii. Social impacts of this trade route

The Afghan Transit trade is a prime example of black economy and smuggling using legal channels. Similarly CPEC, if not managed properly, may result in same unwanted results. The movement of foreign workers, drivers and traders through the conservative regions of Pakistan may give rise to social, religious and cultural tensions that might become difficult to manage, if not controlled proactively.

xiii. Opportunities in CPEC

According to the interviewers, opportunities were associated with CPEC which are mentioned below:

a) Hub of Global Trade

CPEC will, if completed timely, will put Pakistan at the hub of global trade. Gwadar port due to its strategic position will open new trade avenues and routes. Which in turn will mean that more tariff payments and taxes at the port making Gwadar port sustainable in the long term. Construction of CPEC will also give Pakistan the platform it needs to thrive. Routing more sea traffic through Gwadar will mean economic activity which in turn will provide employment opportunities to locals.

b) Access to European markets

In the longer term CPEC will provide an interjection to connect with Kazakhstan Corridor and help enter the European market through rail and road network. Thus CPEC is part of a bigger plan that will provide a route to enter European market through Gwadar and connecting the South Asian states.

c) Foreign Investments

CPEC will attract foreign investments in to the region whilst supporting social and developmental projects. This will provide employment opportunities to thousands of individuals, both locally and internationally.

d) Opportunities for Central Asian States:

The recently charted 1,400km Trans-Afghan Gas Pipeline (TAPI) will transport natural gas Via Turkmenistan to PK. Pipeline is planned to connect with Gwadar Port. After the completion of the Gwadar Port (which is on the priority list of projects), it will help in tapping the export potential of proven reserves in Central Asia.

e) Opportunities for China:

CPEC helps in building China's underdeveloped region of west and bring it at par with the rest of the country. The area, is subjected to have immense cheap labor, large markets for trade and abundant resources, can be commercialized and also industrialized.

Beyond the economics the corridor serve as a strategic advantages. A major Chinese concern that arise is that plenty of its trade is dependent solely on the narrow sea channel of the Strait of Malacca. If incase a war arises in Asia, Malacca can be blocked by U.S. Navy or any other competing power. With CPEC a safe haven is provided to China.

f) Opportunities for Neighboring Countries:

It has long been speculated that the land locked country has abundant natural resources. If they are properly explored, it can serve as a mean of an economic boom which requires sufficient sea lines of communication, for which a dire need of accesses via Gwadar port emerges. Similarly with economic corridor, new prospects for Iran will open. Iran's entrance into the business world will be made easier with CPEC. With Iran in the loop, china can double its accesses to oil reserves. More over Iran-Pakistan-China ties will strengthen.

g) Opportunities for Pakistan

CPEC is already showing benefits for Pakistan. It is providing key opportunities to grow. Different projects are launched to improve the state of Pakistan. Apart from obvious benefits, power, infrastructure, transportation, communication and other doors will be open for trade.

h) Major Challenges and impediments

CPEC is full of challenges, mainly because for it to be implemented with full zeal in Pk, stability and security system is required for its successful execution. In the past decade the environment has become insecure and violent and has ultimately created a lot of unrest in the country. Most of the work in the CPEC construction will be dealt by the Chinese workers and their technicians, hence an unrest in the environment and security concerns will create difficulties in its execution. Also China is investing in mega projects, Islamabad needs to meet the demands and deadlines for constructing roads, power stations, railways and infrastructure. Incase of failure to meet deadline Beijing will seek out other options. Many officials are against the Pakistan China Economic Corridor and they will try to sabotage its execution. CPEC is aimed to bring foreign investments and development in the country. Corruption and inefficiencies in the state are major hindrances in the successful implementation of such projects in Pakistan. Islamabad or Pakistan needs to minimize its negative factors which are

discouraged that impact Foreign investments. CPEC needs to be secure from political wrangling in order to avail the life time opportunity that will transform its vision as an emerging economical stable state.

In order to provide security Director General ISPR issues a statement on April 22, 2015 “ *Special forces are in the process of being raised for Pak-China economic grand projects, the name of newly formed force is special security division, which will consist 9 army battalions & 6 wings of para military*”. Hence the Government is taking into account the current security situation of the state and is aware of the security concerns that may take place during the execution of CPEC.

A famous Pakistani writer argued that another challenge of local financing exists beyond government capacity. CPEC requires external and local finances which will create problems in execution as the governance of government is insufficient to provide the required tax base and funds. It also highlights the issue that government will borrow the available credit from banks and leave little room for private infrac projects to flourish.

On the other hand government is trying to find mean ground and is having different brain storm sessions with political parties like ANP (Awami National Party), Chied Asfandtar wali has expressed his concerns regarding exclusion of KPK from the original route of this project. As initially it was decided in the map that the route will pass from KPK, however the new map didn't include the province making it a similar controversy as was for Klabagh Dam.

Reviewing the CPEC in detail, it is argued that massive investment will be an issue for Pakistan as most of the investment is not absorbed properly and is filtered out. In order to maximize its short and long term gains, Pakistan should also work on its absorption capacity by focusing on its education sector. Further supporting Pakistan in generating semi skilled workers who can assist and support the Chinese contractors. This will ultimately generate employment for the people of Pakistan and in future generate economic prosperity. **Irfan A. Qureshi, “Challenges Posed by Pak-China Corridor,” *The Express Tribune (Karachi)*, May 8, 2015.**

Perception, that security is not sufficient for foreign investment exists because of repeated acts of terrorism in different parts of Pakistan. In order to peacefully carry out operations government must first create a suitable environment that will support enormous projects like CPEC. A separate security plan has been laid down to ensure smooth completion of economic corridor. With better planning for CPEC, the project is expected to provide a win win situation for both the countries & its stakeholders.

CHAPTER# 5: Conclusion & Recommendations

Conclusion

Despite having received severe criticism from international and national fronts, CPEC will eventually be successful in the long and short term. It will give Pakistan's Economy the much needed boost. However making rapid and significant progress in CPEC developmental progress, it may also expose Pakistan to economic, socio- political and security vulnerabilities.

The well-established relationship since 1950s of two nations taking into account mutual trust and interests, shared border, further encouraged by geo-strategic prominence of Pakistan is surely advantageous for both Pakistan and China. The CPEC can facilitate trade and boost economic ties which will intern lead to peace, stability and economic prosperity not only in both participating counties but also in the entire region. Gwadar's strategic position puts Pakistan at the inter-junction of global trade and projects like CPEC will enable both countries to develop the deprived and troubled areas of Baluchistan (Pakistan) and Xingjian (China) whilst bringing in regional stability.

Though CPEC has its merits but there are serious challenges in implementing the project, both internally and externally. Internal forces that may hinder the process is primarily the law and order situation in Baluchistan triggered due to the perceived neglect in the past and externally the situation in the Xinjiang Province of China can snail down the progress of CPEC.

In territorial and regional context India and global powers might likewise obstruct the development of the project. At first Chahbahar might outpace Gwadar port; however it is trusted that after both ports are operational, the expanded business and trade would be beneficial for both ports. But it can safely be said that in the longer run Gwadar port will outrun Chahbahar in terms of trade due to its Geo-Strategic position on the map.

The analysis of the literature review and interviews/discussions with subject matter experts has uncovered some highly critical findings. The findings of the study has validated most of the concerns of the subject matter experts:

- **Lack of awareness amongst Policy makers and implementers**

It was quite appalling to uncover that there was little or no awareness between policy makers and implementers. Though as simple it may seem the higher ups when asked about generic

questions couldn't justify their standing and blamed it all on the policy. When enquired about in which zone, under the economic corridor formation Framework, would they place CPEC was answered by profound cluelessness.

- **Lack of Proper hierarchy and signs of Nepotism**

During our conversation with subject matter experts one of serious concerns raised was that the project may and will suffer due to nepotism amongst the hierarchy. Appointment of such individuals at high critical positions can negatively affect CPEC.

- **Transparency issues**

This would come as no surprise that this project also suffers from transparency issues. The debt financing and information on project contracts should be provided as transparently and as soon as possible so that it could be factored in by the IMF. Experts felt that this area has been far too long ignored and if this stay this way will lead to disastrous outcomes

- **No proper risk management mechanism**

One unique finding was that implementers of the policy themselves thought there was inadequate risk management mechanism out in place for a project as huge as CPEC. This does not fall short to amuse us that this would not be the first instance of such bad planning.

- **Planning Issue on Alignment of Corridor**

Issue of alignment of CPEC needs to be handled carefully. Since the decision to drop the western alignment of CPEC, for now, from the CPEC project plan has received wide spread criticism from the analyst. Reason being that the western alignment which was the main focus and highlight of CPEC was recently dropped from the project plan owing to financial and threat issues. This sounds absurd, since security issues were dominant in the western alignment passing through KPK since the beginning.

- **Failure to involve all Stakeholders**

Stakeholders for a project as huge and as complicated as CPEC requires involved all stakeholders in its planning. Primarily the local and the provincial governments need to be brought on board and their concerns be addressed in order to eradicate the perceived negligence felt by KPK and Baluchistan in the past. Such stakeholders are not limited to the internal influences

but also pertains to the external influences such as our neighbours. So far no agreements or collaboration has been done, nor is there any indication of such trade and strategic alliances.

- **Misalignment of Vision**

Another rather interesting finding is the misalignment or detract from the vision of CPEC. This is evident in both participating countries different execution strategies.

Recommendations:

- ✓ For CPEC to be successful, it will need close monitoring and control on finance as well as on the project. Success of the project will be gauged on the integrity and ethicality of practices.
- ✓ Awarding contracts to local companies, where possible, in order to reduce anti cultural sentiments by such extremists.
- ✓ Pakistan should become the member of Shanghai Cooperation organization and Central Asian Cooperation to be able to engage and compete with the CARs and a more effective prospect for the corridor.
- ✓ Proper provision of security and safety measures in and around the corridor will strengthen hope in the project as well as become the reason for foreign investment.
- ✓ Indulging in joint trade promotions and exhibition to strengthen industrial linkages and to explore more common areas for trade.
- ✓ Constant reassurance of Governments support and consistency in meeting its commitments pertaining to CPEC. Timelines should be meet as per the terms and conditions to ensure the projects are completed on time.
- ✓ It is imperative to pay close attention to the challenges posed to this project in terms of national and international opposition to CPEC through proxy wars, to counter them through policy matter which will integrate the interests envisioned. Foreign policies should be flexible enough to incorporate the Pak-China relationship and its smooth sailing.
- ✓ Success will lie in Pakistani government's ability to take along the most important stakeholders in this project including local governments and neighbors. As the corridor will be built across different regions of the Pakistan and connects different regions

therefore it is mandatory to keep all stakeholders on board to prevent any bickering in future.

- ✓ Formulating a sustainable investor friendly foreign policy for local and foreign investors to boost developmental projects along the CPEC / Gwadar. For foreign investors right now the main concern is security for their investments, return on investment will follow once the CPEC goes operational.

- ✓ Developmental projects should not be focusing on just one province rather it should promote growth and stability across Pakistan. Also Social projects along the CPEC will promote investments and provide employment to the locals and break the feeling of perceived negligence towards them.

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Appendixes

Primary Questionnaire

Q1. China is investing greatly in Pakistan, is it an effort to help Pakistan in improving its economy or a reason to expand Chinese's influence? Who is in charge of designing the CPEC in Pakistan and China?

Q2. Do you see CPEC as a viable in terms of benefits, financials and environmental perspective?

Q3. Who in charge in Pakistan?

Q4. Mechanism of coordination between the two participating countries?

Q5. When the last meeting of the CPEC body and what was discussed in it?

Q6. What are your views regarding CPEC implementation and what problems do you foresee in implementing it?

Q7. Why is there no consensus on the Alignment issue of the route?

Q8. Do you see CPEC as a success in the long and short term?

Q9. What factors / problems can you identify based on the facts present at hand?

Q10. What suggestions or recommendations do you give for the above mentioned issues?

Secondary – Probe Questionnaire

1. China is investing greatly in Pakistan, is it an effort to help Pakistan in improving its economy or a reason to expand Chinese's influence?
2. How is the money being discussed in Pakistan?
3. In the past, from 2001-2011, 66 billion dollars were pledged in Pakistan and only 6% percent came through what is your view regarding this?
4. China is pushing away competition what are your reviews regarding this statement?
5. How is china going to make sure that the money is pledged through and is actually utilized?
6. What do you make of this political and economic move?
7. Is China reshaping the political and economic order in South Asia?

8. How much is this about containing India? China will be providing 8 submarines to Pakistan do you think this will further tense Pak- India relations?
9. Why the Government wants to work only with china have they thought about alternatives?
10. What Pakistan gets out of it because Chinese workers and Chinese companies will benefit the most, what's in it for Pakistan?
11. Last time when Pakistan needed money for IMF, china didn't step up to help Pakistan Why Now?
12. CPEC is a danger because of India Iran Chabahar port what is your view?
13. Natural trade will be sacrificed and artificial trade will be focused, don't you think this will hinder our natural trade?
14. In your review what are the interests and perceptions regarding CPEC in both the countries?
15. What are expected pros and cons of this economic corridor?
16. Will it full fil its function as an economic corridor?
17. How realistic is the implementation of such a mega project in Pakistan?
18. What can CPEC achieve regarding the regional economic cooperation and integration beyond the Pak-China nexuses?
19. Many Scholars claim that China may not be a reliable partner this is a proposition , what does one make of an alternative scenario should china fail as a development partner. In case it happens, will Pakistan will have other options and If yes what are they?
20. Is there a danger of china militiazing Pakistan, for the purpose of protecting Chinese strategic interest?
21. Most of the points in the CPEC points towards development of Baluchistan and other tribal areas, what will be its impact on Punjab sector?