

PRAGMATIC REALITY OF CHINA PAKISTAN ECONOMIC CORRIDOR: IMPACTS ON ECONOMY AND LOGISTICS INDUSTRY OF PAKISTAN

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ABSTRACT: *CPEC is the abbreviation of China Pakistan Economic Corridor which is a potential gateway for China towards many countries including Gulf region and Eastern Europe. China and Pakistan are the only two main parties on this CPEC project. Right from its starting point, CPEC has been given extensive attention by the international media and local media in both countries Pakistan and China. However, speculations and estimates are being made continuously regarding its potential impact on the economy and logistics industry of both countries. Despite of a larger consensus between the two countries regarding the progression and completion of this project, there has been negative reporting and estimates regarding the impacts of CPEC for Pakistan. Therefore, this paper has intended to provide a rather clear picture regarding the impacts of CPEC on economy and logistics industry of Pakistan because there are many different aspects of this project which have not been discussed and portrayed appropriately. This paper has found that even though CPEC is offering potential and practical benefits for the economy and logistics industry of Pakistan such as by creating jobs, enhanced participation of private sector, improvement in GDP and development of infrastructure, however at the same time Pakistan needs to consider some important factors which can hamper the extraction of these benefits such as cultural differences between the two countries and attitude towards corruption and transparency.*

Keywords: *CPEC, Logistics, China, Pakistan, Investment, Economy*

INTRODUCTION:

China Pakistan Economic Corridor which is popularly known as CPEC is under the notice and debate of modern economists, traders and industrialists especially within the Asian region [1]. This CPEC project is based on a long time frame which shows its long term plan i.e. from 2014 to 2030. China has committed to invest on this project approximately 46 billion US Dollars. CPEC project is to be developed over the period of next several years and will consist of 3,218 kilometre long route including pipelines, railways and highways [2]. The project will become operation by the year 2020 as partial investment of 45 million US Dollars will be completed by that time and the rest of 30 million US Dollars investment will be spent on infrastructure development and energy generation. CPEC is being referred as a game changer project for Pakistan and China due to its massive scope and implications on the economic prosperity of both countries. CPEC in actual is a bilateral and ambitious treaty of investment between China and Pakistan and for several good reasons it has turned into an unfathomable ethos [3]. This research paper has undertaken CPEC as a research area because of its embedded dynamics which includes communal, political, practical and academic aspects. Even though it is being considered and viewed as an economic investment but in reality it also embeds extensive political milestones. A lot is being said and written about CPEC from the side of industry experts, trade analysts and political experts due to which a clear and concise picture is not being achieved. The given current scenario demands the investigation of CPEC by undertaking each of its components from a detailed lens so that a clear picture can be developed and understood. Therefore, it is quite clear that there are several important dimensions and paradigms attached with CPEC project and each dimension in itself represents a potential research area with wider scope. This research study is intended to explore and investigate two particular dimensions of CPEC i.e. the impact of CPEC on economic and logistics industry of Pakistan because both these aspects are interlinked with each other. This research study will also shed light on the factors that need to be considered

and be aware of while expecting the desired outcomes from CPEC i.e. in the context of its impact on Pakistan.

STUDY BACKGROUND:

It is of utmost importance to first understand the brief background of this research area and study before going into its details and comprehensive examination. This section will provide a brief description of the study background so that basic understanding is developed about the research area which will help in understanding the viewpoints and arguments being presented in next sections. CPEC has not been regarded positively by the Western countries and international institutions which was a key reason that CPEC project faced delays in its incorporation [4]. Not to forget, the official report of World Bank last year gave a clear statement that they do not want CPEC to prosper and complete because it majorly puts China in a commanding position on the map of this world. However, Pakistan has its own benefits and positives to be drawn from this project i.e. to uplift the deprived areas of the country and strengthening the logistics industry of the country. This project is also being referred as harmonizer or balance achiever among the provinces of Pakistan by providing equal economic benefits and opportunities [5]. Pakistan needs to ensure that economic benefits are achieved from CPEC and for this purpose it is important to develop or formulate a clear picture based on realistic figures, facts and information. Pakistan is certainly the centre of gravity when it comes to the implementation of CPEC project. CPEC can make Pakistan a crucial part of the new world order and in this context it is highly important to extract its positive impacts on the economic and logistics industry of Pakistan. This CPEC project and its positive impacts can reunite the whole Pakistani nation as nationwide economic benefits are expected from this project. Different experts have weighed this project differently due to which its impacts are also not clearly defined at this moment. However, a tentative and conscious estimate weighs it above 50 million US Dollars and it will cost approximately 4.5% per year given the over 30 year period of repayment [6]. This evaluation has received

larger consensus and it also reflects that Pakistan will be expected to repay approximately 3.5 billion US Dollars per year. Therefore, it becomes important that Pakistan extracts maximum benefits and positive impacts not only on the economy overall, but also specifically on the logistics industry because this industry will play a key role in the long run for sustaining the economy of Pakistan. It is also important to mention here the example of Sri Lanka in where China made large investment which generated insufficient revenues and income for the country for being able to service the debt adequately. Therefore, as a result Sri Lanka had to lose some of their valuable assets which also dented their sovereignty. This background therefore suggests that identifying, discussing and analysing key prospects of CPEC for economic prosperity and progression of the logistics industry in Pakistan is very important for managing the long term issues effectively.

RATIONALE OF THE STUDY:

China on one hand is aspiring to enrich their impoverished area and this big project will not only close the window of insurgence but also will remove indigence from the deprived area. This project is expected to enhance the economy of China by decreasing the commuting costs of exports and imports. From the political and business perspective, this project is expected to raise the influence of China in the world and engulf the economy of several countries. These aspects make it important to investigate and understand the potential and practical impact of CPEC on Pakistan's economy and logistics industry. Another side of the picture is that the Pakistani Government unfortunately has not been able to comprehend with the insight of CPEC project and this opportunity of CPEC can be misunderstood or wasted largely if a clear understanding of its implications and long term impacts is not obtained. Moreover, the priorities of Pakistan are nebulous or undefined which is unlike the partner country China due to which it gets important to analyse the impacts of this project and draw a concise inference or picture. Another strong rationale behind this research study is that for Pakistan the current insurgency being faced is stemming majorly from internal factors instead of external factors. Therefore, achieving consensus and a common ground on CPEC become essential for extracting its desired and potentially positive results.

RESEARCH QUESTIONS:

What are the projected impacts of CPEC project on the logistics industry of Pakistan and on the overall economy of Pakistan?

What are the factors that need to be considered by Pakistan for making sure that positive impacts of CPEC are received properly?

ECONOMIC IMPACT OF CPEC:

Infrastructure Development and Job Opportunities:

There are diverse facets of the economic impact of CPEC project for Pakistan, which will come under consideration in this section such as energy sector of Pakistan, infrastructure development, increase in trade and generation of job opportunities. This reflects that several

factors and aspects included in this project will have an indirect or direct impact on the economy of Pakistan. Before the initiation of CPEC project the volume of trade between China and Pakistan was already increasing gradually and with the introduction of CPEC project this volume is expected to rise rather significantly [7]. This rise represents a key impact on the economy of Pakistan and many experts have affirmed that CPEC will transform the economy of Pakistan. The completion of Gwadar International Airport is a major factor which will portray positive impacts on the economy of Pakistan and it will be completed by the end of year 2017. The magnitude and scope of this project is such that its value is highly expected to surpass the entire foreign direct investment made in Pakistan. Another significant economic impact of CPEC will be in the form of generating job opportunities i.e. CPEC will be producing more than 600,000 direct jobs within the time frame of 2015 and 2030 which will drive the growth rate of the country in an effective manner [8].



Figure 1: Five Economic Impacts of CPEC

TRANSPORTATION FEE AND COST REDUCTION:

Another important and immediate economic impact of CPEC will be in the form of fee that Pakistan will charge from the transportation of goods through the route of CPEC across Pakistan which is called trade corridor as well. This is quite similar economic impact which Egypt gained from the Suez Canal and Panama gained from Panama Canal. At the same time if Pakistan is able to facilitate a useful and acceptable environment for China in terms of relocating its industries that are labour intensive then the economic benefit will further be enhanced for Pakistan [9]. In the context of long term economic benefits, CPEC will allow Pakistan in improving the skilled labour ratio and in paving the way for huge investments across the technology related industries in Pakistan. CPEC will be an attractive option for traders and exporters across the world because it will take considerably less time and cost in transporting the goods as compared to the current available routes which will provide a sustainable economic impact for Pakistan. Especially shipments to and from the United Arab Emirates and Middle East region will find CPEC route highly attractive due to drastic reduction in the distance travelled for trading. CPEC project will also play a key role in making Afghanistan a transit route for energy starved South Asia and energy rich Central Asia [10]. This will provide long term economic benefits for Pakistan.

GDP AND ENERGY SECTOR GROWTH:

A key indirect economic impact of CPEC will be in the form of increase in GDP potential as enhance investment in private sector will come i.e. both international and domestic. Confident estimates are exhibiting that in the medium term the overall GDP increase of Pakistan will be around 7% which is laudable (Salman, 2016). CPEC project has also proposed the development of special industrial zones in parallel with the route of CPEC and due to this factor energy production will also be undertaken as 16,000 Mega Watts will be required for adding in the national grid. This energy requirement will be immediate and gradual due to which side by side working will allow the growth and stability of energy sector in Pakistan. Dr. Wheeler also stated that the energy crisis of Pakistan can now be managed as the working on CPEC project has started and calculated statistic is indicating that CPEC will solve Pakistan's energy crisis by 80%. Dr. Wheeler also mentioned that CPEC will give a considerable boost to the economic situation of Pakistan and will help Pakistan to achieve its economic potential [11].

IMPACT OF CPEC ON LOGISTICS INDUSTRY OF PAKISTAN:

Private Sector Participation and Road Network Development:

Significant growth opportunities for the logistics industry of Pakistan are visible with the initiation of CPEC project and different aspects are involved in this immensely positive impact of CPEC on logistics industry of Pakistan. It is important to note that, the Government of Pakistan had already developed Vision 2025 for enhancing the national infrastructure of transportation by developing an integrated and efficient logistics and transportation system [12]. Pakistan was already working on its progression and now the development of Special Economic Zones SEZs and industrial parks as part of the CPEC project will add greater value in strengthening the logistics infrastructure and transportation network for Pakistan. Road network development is now being given high priority as majority of goods are transported by road freight transportation which will benefit China as well [13]. Due to this reason of CEPC initiation, the participation of private sector is also likely to gain momentum in terms of logistics infrastructure development, and warehousing and transportation is most likely to lead the growth of logistics industry during the period of 2016 and 2020. It has also been estimated that potential opportunities in this industry will cross 50 billion US Dollars during 2018 [14]. For the growth of logistics factor a valuable impact will come from the CPEC related investments being made in SEZs and industrial centers i.e. it will exhibit an important and basic micro driver for this industry in Pakistan. Projects initiated under the banner of CPEC are directed towards modernizing and upgrading road transport in Pakistan and the infrastructure of logistics which will portray significant positive impacts on the overall logistics industry [15]. For example, development of cargo villages across main airports and establishment of Logistics Park are few prominent milestones which will drive the positive impact of CPEC on logistics industry of Pakistan. Therefore, it is evident that road network development will be given high priority as the CPEC project will progress. All these factors will give rise to another important and value adding factor i.e. the active and continuous participation of private sector in the development of logistics infrastructure development.

Participation and interest of private sector holds crucial importance when it comes to the strengthening and sustainability of any business sector, therefore in this case CPEC can be considered as a key driving factor for the inclusion of private sector [16]. In addition to this, warehousing and storage demand as part of the CPEC related projects will also derive the raised warehousing and storage requirements such as development of Cargo Villages Ports and cold chain logistics will provide healthy traffic to countries of Central Asia due to which logistics industry of Pakistan will take a consistent boom.

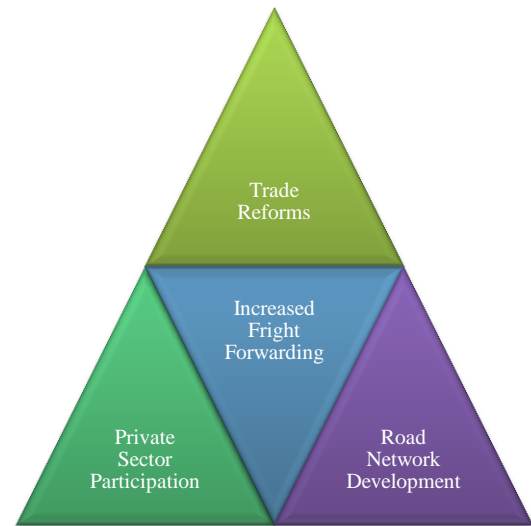


Figure 2: Four Impacts on Logistics Industry of Pakistan

Increased Freight Forwarding and Trade Reforms:

Another significant impact of CPEC on logistics industry of Pakistan will be in the form of increased opportunities of freight forwarding as a consistent increase in trade activities will occur via Port Qasim and Karachi for being integral part of CPEC project. Along with this impact, trade reforms are also expected to be undertaken for enhancing the trade volume because the intra- regional and inter- regional trade will rise rapidly i.e. much needed reforms will strengthen the operationalization of logistics industry of Pakistan [17]. In a nutshell, CPEC project has started to impact on the logistics industry of Pakistan in a twofold manner i.e. increased demand is being generated and in parallel demand for enhanced infrastructure is also being undertaken and fulfilled which indicates a win- win situation for the logistics industry of Pakistan. Gwadar port is a prominent example in this regard as this port is expected to emerge as a vital hub for transshipment within this region and will ensure the presence and development of new warehousing. Therefore, an increased amount of investment will be implemented between the year 2016 and 2020 as part of CPEC project for National Transportation Plans as a result of which warehousing and transportation segments will grow dramatically [18].

The reaction and actions from the side of Government of Pakistan towards CPEC project has also enhanced and extended the benefits or positive impacts to be generated on the logistics industry of Pakistan. For example, Ex- Federal Minister for Planning and Development for Pakistan stated about the development of a formal logistics master plan so that benefits from CPEC project can be extracted in an optimal manner [19]. He further asserted that the impact of

CPEC will be huge for transportation industry of Pakistan and for this purpose planning holds crucial importance i.e. short, long and medium term. This active interest at the Federal level also signifies that maximum benefits will be availed from CPEC for the logistics industry of Pakistan i.e. the competitiveness of Pakistan's logistics industry is likely to increase along with the implementation of CPEC project. Private sector SME' Small and Medium Enterprises operating in the logistics industry will also cite CPEC as a lucrative opportunity for their growth and for drawing attention for foreign direct investments i.e. be it in improving the technology intervention within supply chain firms or improving the performance/ efficiency of the firms for better strategies [20]. Another important impact will be the uplifting of quality and safety standards that are currently regulating the trucking sector of Pakistan i.e. reforms are likely to be undertaken for fulfilling the requirements of CPEC project. This way the quality of service, safety and efficiency of services being provided by the logistics industry of Pakistan will improve significantly. Apart from the formulation of a trucking policy, the likely rise of transport and logistics industry of Pakistan on the global Logistics Performance Index is a unique impact that CPEC will ensure. All six indicators evaluated by this global index such as ability to track timelines and shipments, efficiency of clearance procedures, quality of service providers, transport related infrastructure and trade will be gradually uplifted in Pakistan due to the progression of CPEC [21]. This will then result in the integration of Pakistan's logistics industry with global value chains. Therefore, it is clear that the impact of CPEC will be on the policymakers for devising concrete policy frameworks, infrastructure development of Pakistan's logistics industry as well as on the softer side of competitiveness which involves regulatory environment, service quality and trade facilitation. This discussion shows that overall impact of CPEC on logistics industry of Pakistan will be long term, trend setter and multi- dimensional.

Factors in Need of Consideration by Pakistan:

On one end economic experts, notable speakers, business professionals, policymakers and pundits have talked and written a lot about the impact of CPEC project on the economy of Pakistan and on the logistics industry of Pakistan. At the same time, voices have been raised regarding the factors that Pakistan needs to consider and take care of during the implementation phase of CPEC project for the purpose of ensuring fruitful intended benefits and impacts of CPEC. Economists and researchers have indicated that the positive impacts of CPEC can face resistance from few factors embedded within the political and socio- economic system of Pakistan [22]. The Government of Pakistan and private sector cannot simply ignore such factors and much understanding about these factors is required for effectively managing them because the success of CPEC project is depending on several factors. Different viewpoints and arguments given by different responsible and worthy individuals or institutions are necessary to be considered in this context. For example, Dr. Wheeler mentioned about the lack of transparency which has frequently been observed in terms of the project finances in Pakistan and any such thing occurring in CPEC can deter the exhibition of its positive impacts mentioned earlier. Therefore, it has been suggested by Dr. Wheeler

that statistical details about the expected completion time, interest rates and loans involved in CPEC should be made public [11]. Another important risk factor attached with the initiation of CPEC is that this project will result in increasing competition in terms of laborers and local markets as China will be partnering actively. A key suggestion in this regard has been the re- socializing of Pakistan towards China and the role of provincial governments will be more crucial in this regard as compared to federal government.

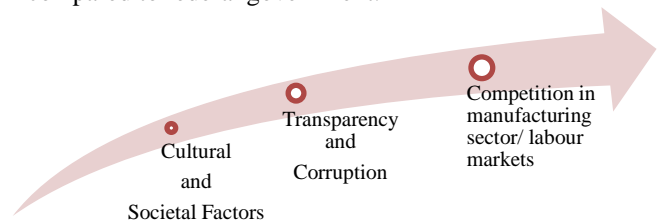


Figure 3: Factors or Challenges to be considered by Pakistan

Experts have stressed that while examining and understanding the prospects of CPEC for better economic conditions of Pakistan, it is important to consider public relations and cultural factors as these factors can negatively implicate on the extent or degree of positive impacts to be generated by CPEC. Ordinary citizens in Pakistan and China are not much familiar with the norms, values and ethics of each other which can be a hindrance in this context as frequent interaction is expected as part of CPEC project [23]. However, the leaders of both countries have maintained a positive and close political relationship, and an all- weather friendship over the years but when it comes to the societies of two countries at large, this aspect is missing. The cooperation between Pakistan and China will increase with the passage of time as part of CPEC project due to which a significant rise will occur in the ratio of China firms making investments in Pakistan. Therefore, misunderstandings can be caused due to huge differences in ways of thinking and cultural practices which are essence of business management approaches. This means that negative implications can be exhibited on CPEC project if these cultural and societal factors are not well understood and managed [24]. Understanding of local rules, norms and cultures will be an integral factor for making CPEC a success story and for extracting positive impacts on the economy of Pakistan. For Chinese organizations it will be of crucial important to possess information about these aspects and services for doing business in Pakistan. Geert Hofstede effectively and comprehensively elaborated the different cultural dimensions which distinct once country from another and in this instance the understanding of Geert Hofstede's five cultural dimensions can assist a great deal in managing and avoiding the issue. Individualism/collectivism, masculinity/ feminism, long term orientation/ short term orientation and power distance are five cultural dimensions used by Hofstede for differentiating countries based on their cultures [25]. Apart from this, an increasingly intense competition is to be faced by the manufacturing sector of Pakistan as due to CPEC project Chinese manufacturing firms will showcase their strength and Pakistani market will start to receive products of Chinese brands gradually. Along with this competition factor which needs to be considered a positive factor is that economic activity will consistently improve in Pakistan

which will ensure availability of jobs. For example, a consistent rise in demand will enhance the labor costs across Pakistan [26]. In addition, due to high electricity and labor cost, the local production will gradually become costly. Moreover, non- competitiveness in the international market will occur in the context of the exports of Pakistan. Cultural rigidity and acceptance of corruption across the country is a big challenge and factor to be considered because these attributes can hamper the completion of CPEC project and extraction of its optimal benefits. The reaction of Chinese towards corruption is extreme as they punish the people involved in corruption with death [27]. Therefore, friction among cultures and attitude towards corruption are two vital factors that will need consideration from Pakistan's side.

CONCLUSION:

It has been concluded that CPEC is certainly an ambitious project for Pakistan and China given its potential benefits and uses for both countries. Pakistan and China have taken productive and positive measures for initiating this huge project and its success. The impact of CPEC project on the economy of Pakistan and on the logistics industry of Pakistan are immensely positive and valuable due to which this project has gained much global attention as well. However, there are some factors which can damage or deter the smooth progression and the extraction of positive impacts from CPEC project such as, the political situation of Pakistan, the differences between the cultures of both countries, the attitude of both countries towards corruption and labour market competition. The positive impacts of CPEC projects are depending on these and some other factors, due to which it has become imperative to understand, foresee and address these factors for making CPEC a success story.

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