



Munich Personal RePEc Archive

# **Global Perspective of CPEC Regarding Economic Integration and Trade Openness**

Rabbi, Muhammad Ahsan

University of Management and Technology

15 May 2017

Online at <https://mpra.ub.uni-muenchen.de/79273/>

MPRA Paper No. 79273, posted 23 May 2017 06:12 UTC

# GLOBAL PERSPECTIVE OF CPEC REGARDING ECONOMIC INTEGRATION & TRADE OPENNESS

*Muhammad Ahsan Rabbi*

Department of School of Business and Economics

University of Management and Technology

Lahore, Pakistan

[f2016060004@umt.edu.pk](mailto:f2016060004@umt.edu.pk)

ahsanrabbi@gmail.com

**Abstract\_ There is a misconception about CPEC that this mega project is only going to benefit China and Pakistan. However, this corridor is going to restructure and transform not only South and Central Asia, but also Middle East and Europe. Unlike EU, this project is planned to link different regions for economic integration and trade. This study is to analyse the importance of CPEC for its participants and its role in enhancing the economic integration and trade openness among Asian, European and African states. Not only this, challenges and opportunities associated with this project are also been discussed in this paper.**

**Keywords— CPEC, Economic Integration, Trade Openness**

## **I. Introduction**

### **i. Economic Integration**

The whole world has been interconnected in this era of globalisation. Development of international markets have increased the economic activities and competition in all over the world. Markets are so much interlinked that any change in an economy somehow affects the other economies which are directly or indirectly attached with it. Here, the concept of economic integration comes into play. Economic integration is an economic arrangement between two or more than two economies, sometimes a region, to reduce the trade barriers and increase the bilateral trade (Baldwin et al. 2006). The aim of this integration is to reduce the taxes and duties on the tradable products and services and to increase the trade for the betterment of all players. There are various levels of economic integration, including free trade areas, preferential trade agreements, customs unions, common markets, and political and economic unions. Policy makers are of the view that economic integration leads to significant benefits for the whole community. The result of economic integration is shown in the good performance of the major micro and macro-economic indicators (Balassa 2013).

CPEC is projected to not only a game changer for Pakistan and China but also for the whole region. This project is aimed to connect the economies for commerce, trade, agricultural and industrial development, socio-economic development and sharing of knowledge. China is objected to increase the economic activities of Pakistan to make a giant market for the rest of the world (Ashraf 2017). Besides being the shortest possible trade route to South Asia, Middle East and Europe, this project has the capacity to increase the

economic activities of this whole region (Abid and Ashfaq 2015). Economic integration will be developed and the same will be used to increase the economic prosperity and growth in this region.

### **ii. Trade Openness**

Trade openness is a determinant of calculating the ratio of country's total trade (exports plus imports) to the GDP. More the ratio more will be a country open for trade. According to Huchet-Bourdon, Le Mouël, & Vijil (2011), from the last one decade, it is debated that trade liberalisation or openness has positive and strong relationship with economic growth, development and income distribution. Baldwin (2004) conducted the empirical study and explained the positive relationship between trade openness and economic growth. According to various empirical evidences, it has been inferred that developed economies have retained consistent and sustainable economic growth and development by adopting trade openness or liberalisation (Freund and Bolaky 2008; Chang et al. 2009).

The project of CPEC is aimed to enhance the trade volume of not only Pakistan and China but of this whole region. This project is not merely a route that connect Gawadar and Kashgar but the opportunity for its players to enjoy the fruits of trade openness with Europe, Middle East, and South and Central Asia (Abid and Ashfaq 2015).

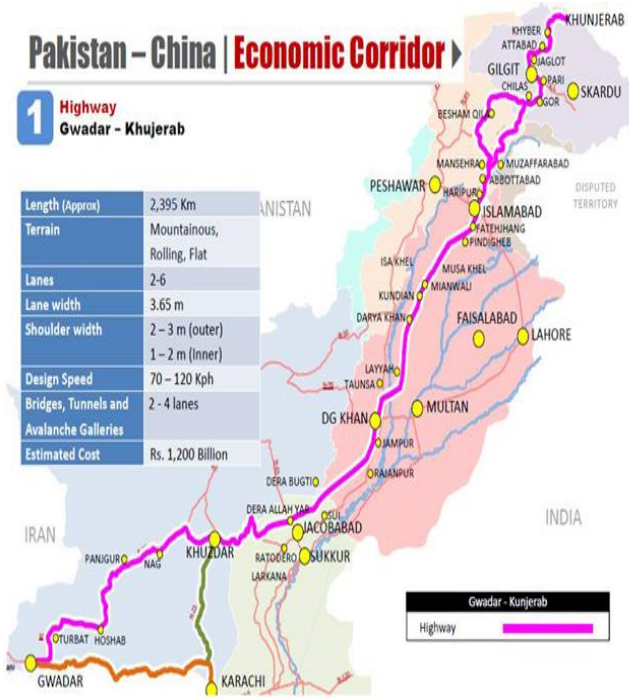
### **iii. Pak-China Friendship**

Pakistan makes good relationship strategy with other countries to promote businesses and trade in countries. However, Pak-China friendship has its own meanings, worth and strength. Both, Pakistan and China, give importance to international relations and affairs which have many benefits to increase their trade and businesses. Pakistan and China friendship began in 1950 when Pakistan was the first one to accept People's Republic of China and end diplomatic relations with Taiwan. Since then, both countries have very strong, bilateral and supportive relationship. Therefore, both governments have signed various agreements to support each other in having economic and political prosperity and growth (Kataria and Naveed 2014).

This mega project shows the strength of friendship between Pakistan and China. There is no doubt the both countries have self-interest in this mega project. China wants to make shortest trade route through Pakistan to Middle East and Europe Particularly.

#### iv. Pakistan's Interest in CPEC

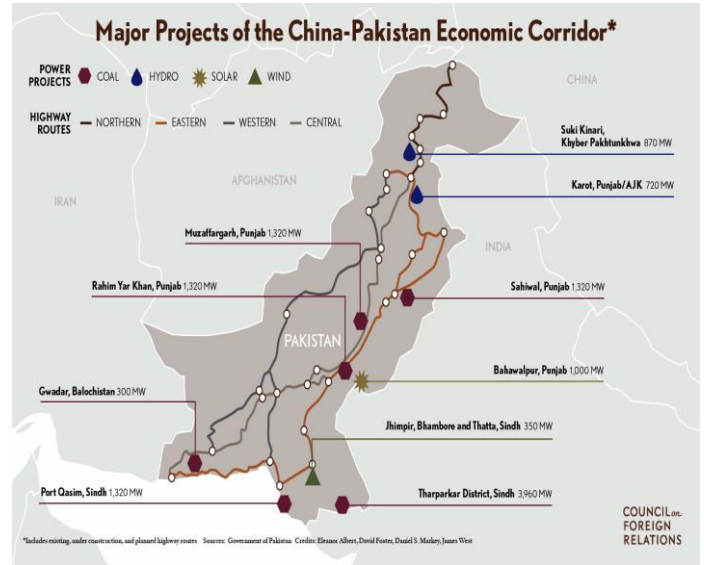
Pakistan is a developing country with almost exceeding 200 million population. Pakistan is 36th largest country in the world in term of area. However, it is facing political disturbances, social and cultural unacceptability, local and foreign security constraints, economic unsustainability and donors' pressure in developing economic strategies for over a decade. These issues never let the democratic government to make long-term planning and sustainable growth. Many developing economies including Pakistan need to make economic strategies to get sustainable and long-term business and economic growth (Khan et al. 2005). But, the dilemma for such economy is the current economic, political and security issues. Such constraints never let the government to utilize its scarce natural and financial resources for sustainable economic projects or schemes. Therefore, a sensible economic planning is lacking in the government policies and strategies (Zaidi 2005). China and Pakistan have made agreement to establish China Pakistan Economic Corridor (CPEC) a game changing project of not only them but for the whole region. This corridor is aimed to serve as a driver for connectivity, trade openness, and economic integration in the world. This project is expected to reshape the bilateral trade agreements between Pakistan and China (Wolf 2016).



Above graph shows that the CPEC route will pass through major cities of Pakistan. This will not only increase the trade volume of China with Middle East and Europe but also within the Pakistan. The total length of highway is about 2,395 km that will pass through Gilgit, Mianwali, Layyah, DG Khan, Khuzdar and Gwadar. This project will bring prosperity in these under developed and remote areas of Pakistan. Employment opportunities will increase and businesses will flourish (Aslam 2016).

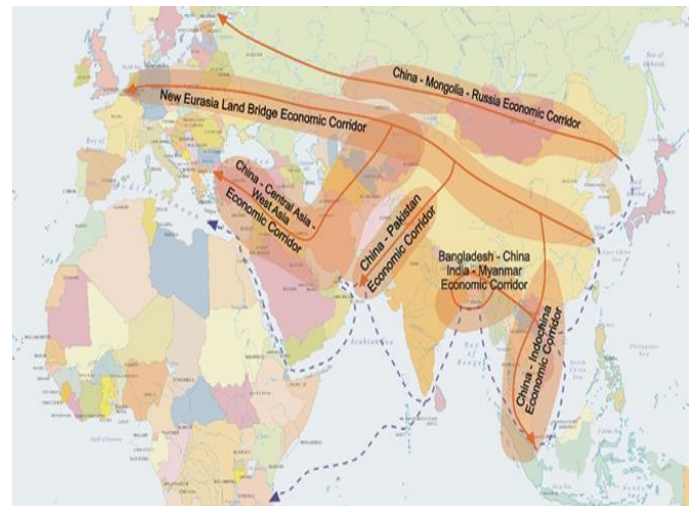
Furthermore, CPEC is also bringing some energy projects to meet the increasing demand of the country. With the assistance of China,

various power projects will be installed in different areas to increase the energy sources in the Pakistan. Below graph shows different power projects in different cities of Punjab, Sindh, Baluchistan and KPK. This will increase the capacity of energy generation in provinces. In these projects, wind, hydro, solar and coal power projects will be installed. These projects will reshape the industrial and services sectors of Pakistan and strengthen its economic activities (Abbas 2015).



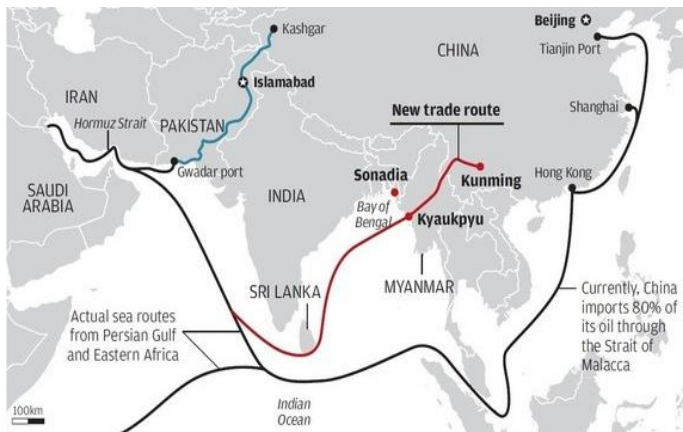
#### v. China's Interest in CPEC

During the last four decades, the defensible development and continuous growth of China has brought the state at the competitive level of the world's economy. The Chinese economy not only reinforced but also upgraded its role in global governance after the financial catastrophe of 2007-08. Back in 1990s, the whole world was fighting with financial calamity, China had started attempt to enhance its trade, international acknowledgement and returned to old relations along with new friendships and partnerships (Morrison 2014). Even, for the first time, Chinese president Xi Jinping elevated the constructive engagements slogan all across the world.



Above graph shows different economic corridors from China to target various regions for expanding trade and business. This corridor is not a new concept for China to expand business and trade. In fact, it has created a web of highways and railways to target Central Asia, South Asia, East Asia, Russia and Europe. However, this CPEC is going to target Middle East, Europe and Africa (Raychaudhuri and De 2014).

Being an active player of South Asia, China has a vital role for expanding the scheme of constructive engagements in the whole region. Its leadership is very concerned about making vast investment and trade agreements with other major players of the region to make this region a financial and business hub of the world. Therefore, it is leaving no stone unturned to bring peace and prosperity in Afghanistan (Scobell et al. 2014).



It is shown in above diagram that more than 80 percent of the oil imports of China is through Strait of Malacca which is a very long route for trade. After the implementation of CPEC, the trade route will pass through Pakistan and link up to the Middle East. In this way, China will save cost and time for importation of oil and other traded goods and services.

It is observed in new business and trade strategies of China that Pakistan is in focus for new investments and long-term business relations. Moreover, a joint statement in this concern was the result of a meeting between Presidents of both countries Hu Jintao and Gen. Pervez Musharraf in 2003 at Beijing. In this meeting, they underlined the areas for future collaborations. Furthermore, in 2006, the declaration was more supported during the visit of President Hu Jintao in Islamabad for Free Trade Agreement (FTA). The trade volume progressively extended between China and Pakistan from \$1 billion in 1998 to \$15.15 billion in 2015. It boosted the cooperation and placed China-Pak Economic Corridor (CPEC) (Wolf 2016; Kataria and Naveed 2014).

## II. Introduction to CPEC

CPEC has become a burning issue in these days and one of the most debatable topics in Pakistan. This is not only important for Pakistan and China but the rest of the world. However, the interesting part is that different countries are taking this giant project differently. Some counts it as opportunity for economic integration and trade openness, while others relate it as rival of their interests. Keeping in view all these mixed opinions and perceptions, this section is to clarify the

misconceptions and confusions and presents the facts related to CPEC (Hussain 2016).

China Pakistan Economic Corridor generally known as CPEC, shows the outcomes of investment of \$45 billion US dollars in Pakistan from Chinese side to permit international relations between these two countries. Wolf (2016) highlighted different aspects of CPEC on the subject of its positive and negative regional influences as well as the foundations. However, he is certain about the structural change in economic outlook and business in both countries.

### i. Inception of CPEC

Chinese President Xi Jinping and Premier Li Keqiang made the inception of CPEC in 2013. It was appeared as the most significant project in terms of scope, volume and feasibility. Behind this notion, there was a purpose to provide direct link between Kashgar (a city in Xinjiang Uyghur, China) and Gwadar with a road of about 3000 kilometer (Bhattacharjee 2015). The plan is considered as most profitable for Pakistan and China as it may fulfil the economic infrastructural requirements and to pull down the power generation crisis in both countries.

China's decision to inject a healthy funds in CPEC with Pakistan's support seems to be positive gesture of friendship. The size of Chinese investment in Pakistan to finalise the CPEC is more than the total US aid that came in about 14 years. Therefore, this investment is symbolic and prove to change the economic infrastructure of these two countries significantly. The prime motive is to attain the global targets of increasingly populated country i.e. China and to induce energetic religion association among countries. However, the implementation of this project is being argued, debated and discussed in different countries. Besides this, many of the geopolitical factors are challenging the existence of this corridor. In spite of all these things, experts are busy in investigating and highlighting the problems generating as the result of this mega project (Bhattacharjee 2015).

### ii. CPEC – A Mega Project

There are many reasons to admit the fact that the CPEC is the largest inflow of foreign direct investment in Pakistan from China. First of all, the projects associated to CPEC are to install energy and eminence infrastructure in Pakistan to support its economic progress as energy crisis is one of the major reasons behind unsustainable economic growth of this developing country. Regarding the power generation projects, by the end of 2021, Pakistan would be able to generate more than 17,000 MW electricity because of CPEC, if all things remain according to plan. It is because of the reason that this is the largest foreign direct investment ever in Pakistan. Second reason is that Gwadar would be connected through three routes under CPEC. From Khanjerab to Gwadar, there would be three main routes. These routes are Eastern, Western and Central. Western route will pass through Sust, Gilgit, Batagram, Mansehra, Abbotabad, KalaBagh, Hassn Abdal, D.I.Khan, Zhob, Qilla Saifullah, Quetta, Sorab, Bisma, Hosab, Turbat and Gwadar. Eastern route will likely to pass through Sust, Gilgit, Bataagram, Mansehra, Abbotabad, M2 to Hassan Abdal, Faisalabad, Multan, Sukkar, Shadad Kot, Khuzdar, Basima, Hosab, Turbat, and Gwadar. Last but not least, Central Route may find its way from Sust, Gilgit, Batagram, Mansehra, Abbotabad, Hassan



Abdal, Mianwali, Layyah, D G Khan, Jacob Abad, Ratho dero, Khuzdar, Basima, Hosab and Turbat to Gwadar. This web of routes is expected to connect more than 3 billion of population of this region (Boyce 2017; Irshad 2015). Below map shows web of routes in Pakistan planned to be completed in CPEC project. This web has interlinked all major cities of Pakistan to make this project successful for this economy.



CPEC has been defended as the largest foreign direct investment ever made in Pakistan. In 2015, for instance, the Federal Minister for Planning, Development and Reforms Mr. Ahsan Iqbal, exchanged his words related to CPEC and sum up it as this will strengthen the friendship between China and Pakistan both politically and economically. Ahsan Iqbal, in a conference, held by Punjab Board of Investment and Trade (PBIT) said that China was at 16<sup>th</sup> position in terms of foreign direct investment in Pakistan before the finalisation of the deal of CPEC. It was also said in the conference that

*“A container which usually takes 50 days to reach Heimburg from Beijing with \$3,000 will now arrive in only 15 days saving \$1,800 after completion of the CPEC.”* (Anonymous 2015b)

Such a significant difference in amount and time will definitely transform these two countries to Asian Tigers.

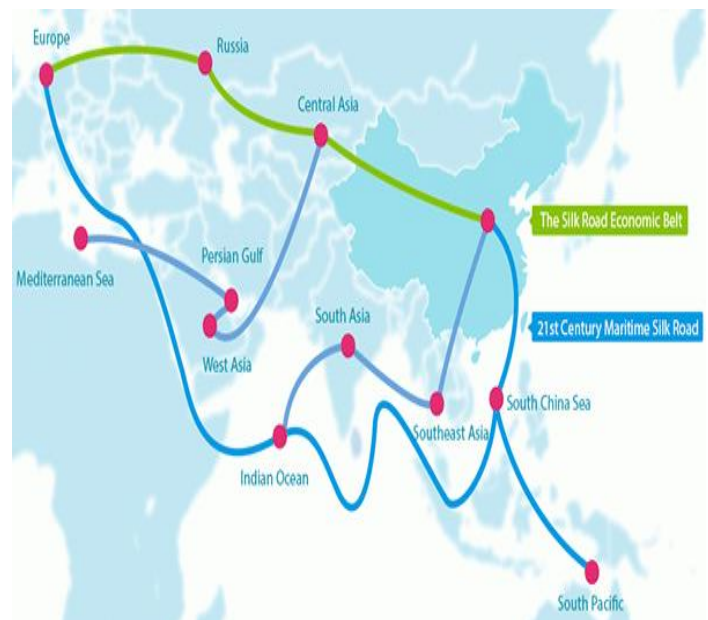
By the end of 2025, government is aimed to make Pakistan one of the top 25 economies and it can be possible by successful completion and operation of CPEC. Pakistani Ambassador in UAE, Mr. Asif Ali Khan Durrani, also viewed the fruitful results of CPEC and stated it a game changer for Pakistan, China and Middle East. As this project will lower the cost and time for trade between Middle East and China, Pakistan would be benefitted out of this mega project (Anonymous 2015b; Hussain 2016).

### iii. One Belt One Road

One Belt One Road (OBOR) is a project proposed by Chinese President Jinxing to connect the landmasses of Europe, Asia and

waters of Indian Ocean (Kennedy and Parker 2015). This idea was already been proposed and applied on old “Silk road”. OBOR was so important that it became the top priority for the Chinese leaders, government officials and administrators because it could transform the economic and political landscape of this whole region (Irshad 2015).

Old Silk Road had linked Asia with Europe and played pivotal role for the global trade, merchants and intellectuals. It marked many areas of China, India, Central Asia, Iran and Mediterranean while sea routes linked ports of Northeast, Southeast and South Asia with Arabian Peninsula and then it goes to Persian Gulf, Red sea to Egypt, Greece and Rome (Humpert 2013). So before the OBOR, Silk Road has already been linking the Asian countries for their economic integration and development. Below map shows the Silk Road Economic Belt and Maritime Silk Road to connect the China with South pacific, Central Asia, Russia, Europe and Middle East.

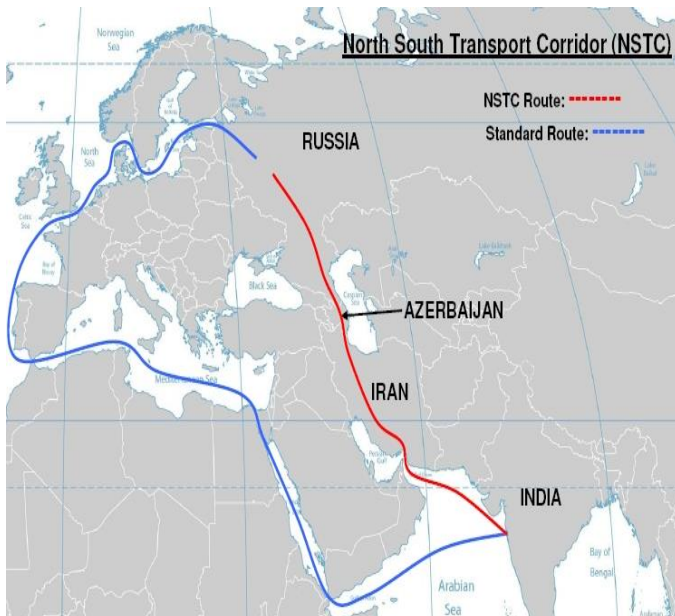


OBOR has two routes that will converge in Moscow and then it further goes to European countries. Sea route is called “Maritime Silk Road”. According to Korean researcher, OBOR will include 60 countries and is called the most significant and far-reaching trade route this economy has ever put forward. Since the first announcement of the project, Chinese officials have sorted out many loose ends and convinced many countries to invest in this mega project. China will support main expenses of the project i.e. Railways and highways. Every province of China has ensured their cooperation till the completion of this project. This project will not only benefit china but also this whole region (Minnick 2015).

Main concern to India is China Pakistan Economic Corridor. CPEC consists of various projects of highways, railways and most importantly Gawadar port. These projects will give 700,000 jobs in Pakistan and add about 2.5 percent GDP growth. These projects are mainly energy based i.e. gas pipelines, oil pipelines and electricity (Anonymous 2016). This huge investment in Pakistan is ales being called a gambit because of the security concerns. India's response to OBOR is relatively muted its main concern is CPEC because it

cannot allow the CPEC'S projects to move around in Indian occupied Kashmir (Abid and Ashfaq 2015).

Connectivity of India in OBOR is mainly the trade corridor through Afghanistan. It already provides economic development of India and Iran but OBOR route provides more than that. It provides way through relatively peaceful Northern part of Afghanistan. India is part of many connectivity projects which includes International North-South Transit Corridor which connects India, Iran, Russia, Turkey and other central Asian countries, Ashgabat agreement between India, Iran, Oman and central Asian countries. India is capable of leading many connectivity projects because of its economic and geopolitical benefits. Below map shows the NSTC that goes from India and connect Iran, Azerbaijan, Russian, Europe and Middle East (Spector 2002).



#### iv. Importance of CPEC

CPEC is planned because of many reasons that counts the sufficient support to China-Pakistan Trade. First, it is going to reshape the mode of trade between these two countries to meet the increasing demands and needs of the people. This thing will certainly help both economies to expand their trade routes. The main purpose of China's investment in white paper reflects the aspects of South Asian countries for development of themselves. Furthermore, this project is not only covers the economic development and growth of the countries but also to improve the living standards of the people. Second, the diversification of trade routes will be beneficial for Middle East to export their oil to China easily after the successful implementation of this mega project. Hence, these factors are two of the major reasons for CPEC to be successful, result-oriented and efficient for all of its players. Therefore, China wants the relief from South China Sea and Indian Ocean on which it depends for its imports and use Gawadar Port for trade (Nakhoda 2017). Third, through this investment, China could attain global importance, as it is able to support Pakistan economically for a long period and build a strategic hedge on it. However, this will also cause the possibilities of making relations with Western economies and on the next step

through which China would have the chance to expand its reliable inspiration with rest of the world. Conversely, other rationale of China's interest in CPEC is the position of extensive officials to be ill-framed, separatism, poor law and order situation, high corruption and political uncertainty in Pakistan (Bhattacharjee 2015). Though this investment, it will make the trust of the people of Pakistan on China and they may not consider them as terrorists as happened in 2004 by some Baluchi rebels and Taliban in 2008 and 2014. This is one of the core reasons for China's interest to invest in CPEC as it worries about vulnerable situation of rebellion and terrorism in Pakistan (Abid and Ashfaq 2015).

Pakistan's new army chief, General Qamar Javed Bajwa, also descended upon Khuzdar (Baluchistan), to evaluate the benefits of CPEC for the Southwestern province of Baluchistan. However, there is a hot debate on this project that Chinese banks and companies will gain more out of this mega project which includes installation of energy projects, constructing roads and building a deep-water port linking Western China with Pakistan's Southwestern coast, than the ordinary Pakistanis.

CPEC is the biggest and profitable project in Pakistan history. Through this project, Pakistan wants to make a healthy GDP expansion and reshaping the structure of its industries. In Pakistan, Gwadar Port linking the China's North-western region of Xinxiang, through highways, oil and gas pipe lines, railways and an optical fiber link. India has major concerns about CPEC; however, many considers such fear baseless. India is making agreements with Iran to extend the silk road to meet energy crisis (Talmiz 2016). Some authors have defined the advantages of CPEC in their paper such as:

*"India, Afghanistan and Iran signed a deal for the port in Iran to satisfy the energy hunger of India. India is concerned about CPEC but it doesn't need to as they are part of the multi polar Asia architecture. Signing of the new port in tri-country pact by president Modi opened discussion about status of Chinese sponsored project One Belt One Road (OBOR)." (Agencies 2016)*

### III. CPEC and Regional Integration

#### i. Transformation of South and Central Asia

CPEC is going to impact the whole region rather than only Gwadar. This will impact on Gwadar in the way that it will provide an alternative way of exit to and from Central and South Asia. This mega project interconnects the domestic traffic network and overcome the harsh and complex terrain blocking trade system (Scobell et al. 2014). In perspective of Geopolitically, the South Central Asian Region is all set to become one of the most happening places in the world in the near future. It is already in the focus of the major powers of the world (Shambaugh 2006).

China and Pakistan's multidimensional interests continue to converge and the CPEC is an example of continuously growing friendship of the both countries. In fact, CPEC is going to rewrite the economic integrity and regional openness of the South Asia. Russia is also starting to engage with Pakistan at economic, strategic and political

levels. Its historical interest in the perennial warm waters of the Arabian Sea is getting revived by the inception of the CPEC project (Boyce 2017). On the other side, Iran, Saudi Arabia and Turkey are amongst others that have shown interest in getting involved with the CPEC in quest of getting easy access to Europe and central Asia.

There is no doubt that most of the world's population live in the northern hemisphere and trade has tended to seek a route to the south via sea to target and explore new markets. So this route will going to transformed not only Pakistan and China but also the whole region. This trade route came down from Central Asia to modern Pakistan and linked this region to Middle East and Europe. Russia and other land-locked countries of Central Asia are interested to get the trade routes that is going to linked the south to north (Pomfret 2014).

CPEC is not only going to replace the trade dependency of Pakistan on a north-south trade corridor with east-west corridor. Central and South Asian countries are going to use this corridor to link with the West. This trade route is unprecedented and is an expression of a new economic integration and strategic openness that both Pakistan and China want to define for this whole region (Adnan and Fatima 2016). In fact, this is going to be the corridor for economic prosperity, development and sustainable growth of this whole region. International trade of the central Asia is also going to be increased with the South Asia because of this project.

This project will affect the shipping traffic of Middle East; however, Saudi Arabia and some other states are interesting in collaborating with China and Pakistan on arrangements in oil and gas sectors. This is increasing the interest and confidence of the investors on Pakistan. According to Abid & Ashfaq (2015), it is in the favour of both Pakistan and China, to expedite the sequence of development projects to establish a complete shipyard and transshipment trade for this whole region.

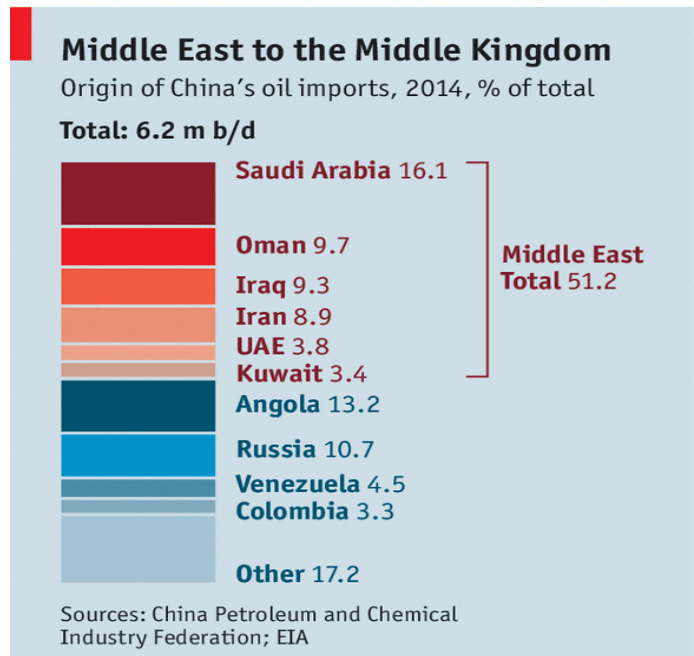
China and Pakistan have also invited the Russia to participate in the CPEC, including the use of the Gwadar Port for trading. It will aimed to boost to Sino-Russian cooperation and be a demonstration project of One Belt and One Road (OBOR) that will enhance economic integration and trade openness in the region. This step will cover the whole Central Asia for trade openness and economic development (Ahmed 2017).

**ii. Economic Integration with Middle East**

Trade between China and the Middle East has been increased abruptly in the last one decade that is about 600 percent increase in the end of 2014 with the figure of \$230 billion. Bahrain, Iran and Saudi Arabia import more from China than from any other country in the world. China is one of the top destination for exports from Middle East. In 2015, Qatar opened the Middle East's first clearing bank in China to handle this huge volume of international trade in yuan (Anonymous 2015a).

The volume of import of crude oil driven by China from the Middle East account for world's biggest trade which is more than 3 million barrels per day. In the below diagram, it is shown that more than 51 percent of the total imports of oil comes from Middle East. It is expected that by the end of 2035, China's imports of oil will double

again, far exceeding that of any other country in the world (Anonymous 2015a).



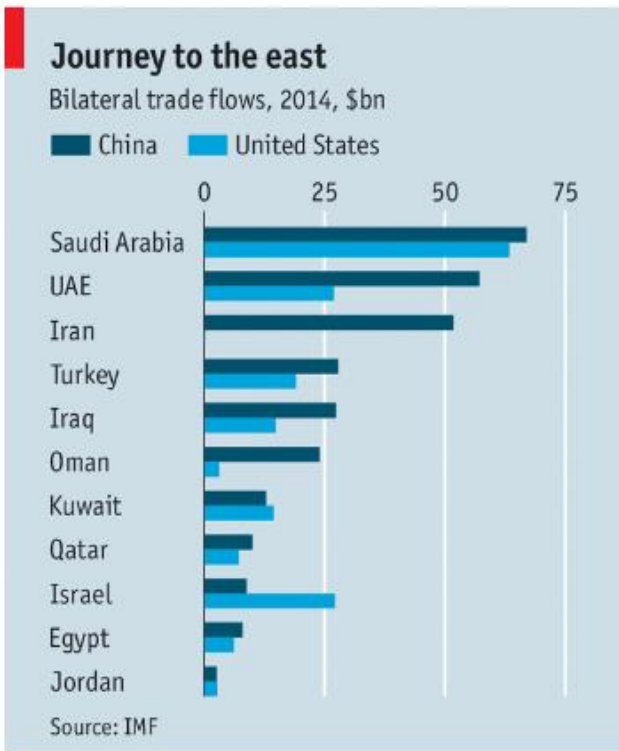
Source: <http://www.economist.com/news/middle-east-and-africa/21654655-oil-bringing-china-and-arab-world-closer-economically-politics-will>

Above table shows that the volume of imports of oil to china from different countries. This is evident that more than imports of oil comes from Middle East. Therefore, CPEC will affect this trade business which will be in favour of China as well as Middle East.

Furthermore, Gwadar is chosen for it is a place of great strategic importance, enhancing Pakistan's value in the Central and South Asian region, extending from the Persian Gulf through the Indian Ocean to Southeast Asia (Javed and Ahmed 2016). According to Asian Development Bank, Gwadar is for whole Central Asia rather than for only Pakistan. Furthermore, Gwadar may turn into a pivotal harbour city like Singapore, Hong Kong, Colombo or Dubai. Oil reaching Gwadar by tanker or pipelines would flow to Kashgar, Xinjiang Uyghur Autonomous Region (XUAR), therewith cut thousands of kilometers off the distance to ship oil from Middle East and Africa to China. In this way, trade would be easier and more time efficient than ever before. It can be say that CPEC will increase the trade volume among Pakistan, China and Middle East.

Below table shows the volume of overall trade with major economies of Middle East and Southwest corner of Asia. This shows that China has more bilateral trade flow in Middle East compared to United States. This shows the importance of investing in CPEC by China to promote its trade with Middle East (Anonymous 2015a).





Source: <http://www.economist.com/news/middle-east-and-africa/21654655-oil-bringing-china-and-arab-world-closer-economically-politics-will>

High volume of trade shows the interest and benefit of not only China and Pakistan, but also the Middle East. After the establishment of this project, bilateral trade will become easy between China and Middle East. As a result, the economic activity of this whole region will increase.

### iii. CPEC and Europe

The CPEC is apparently becoming a new association like BRICS, as many developed and developing economies are showing interest in being part of the CPEC. With ambitions to become a part of this new union unlike, European Union that is only limited to Europe, U.K., Turkey and France are showing their interest in CPEC. They are pretty assertive and vocal about joining the CPEC. After the Brexit, UK is looking for trade partnership to a giant union. Not only this, European countries are also negotiating with Pakistan and China to start projects at their region to link the routes of CPEC. After the exit of EU, UK is looking to invest in non-EU projects and CPEC could become its opportunity (Daojiong 2016; Sonwalkar 2017).

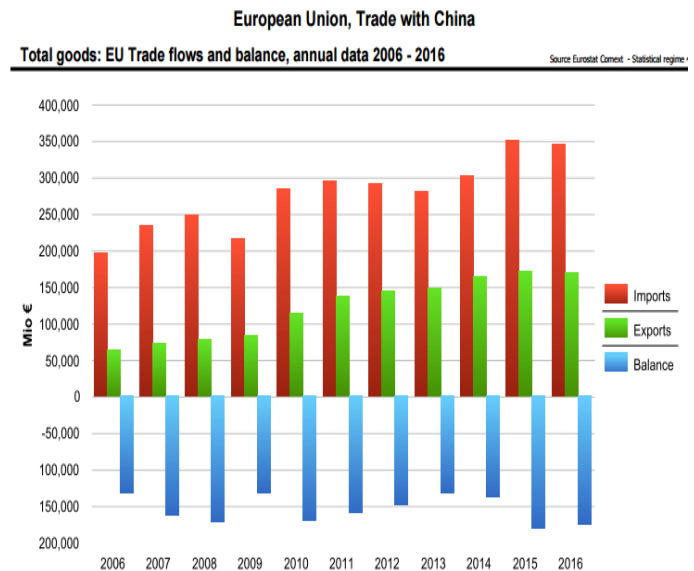
France is also showing its interest to invest in this mega project. After this step, it is expected that other major players of EU like Germany, Italy, Spain and others will follow and get a piece of this lucrative CPEC-pie. Thierry Pflimlin, president of Pakistan France Business Council stated that

*“French companies are interested in investing in infrastructure, energy, agriculture, defence, and digital technology sectors. Everyone wants to benefit from new business opportunities being*

*offered under the CPEC framework.”(The News International, 2017)*

In terms of trade volume with Pakistan, the trade is surging ever since the award of generalised scheme of preferences plus status by EU. Pakistan’s exports to EU increased to 6.01 billion Euros in 2015 from 4.53 billion Euros in 2013, an increase of 3%. Whereas, its export to France rose to 423.9 million Euros in 2015 from 375.9 million Euros in 2013, up 12% (Anonymous 2017).

Below graph shows the volume of trade of European Union with the China. Volume of trade is increasing since 2006 and overall in favour of China. China’s interest in this project is to get easy access to the market of Europe and increase the bilateral trade with them. Not only this, European Union is also eager to get products at lower cost and as soon as possible.



Source: European Union, Trade in goods with China

After the completion of CPEC, not only Pakistan and India, but Central Asia, Middle East and Europe are going to be directly benefitted for this (Commission 2016).

## IV. Challenges in CPEC

China faces many challenges for the success of OBOR because of the political and security concerns. Any change in government will affect the approval of certain projects as in silence or local activist group could question projects. Therefore, unity among participating countries is very important and this can only be possible if they work on "designing together, working together and sharing benefits together" principal. Therefore, CPEC is no longer be a Chinese or Pakistani project but an Asian enterprise.

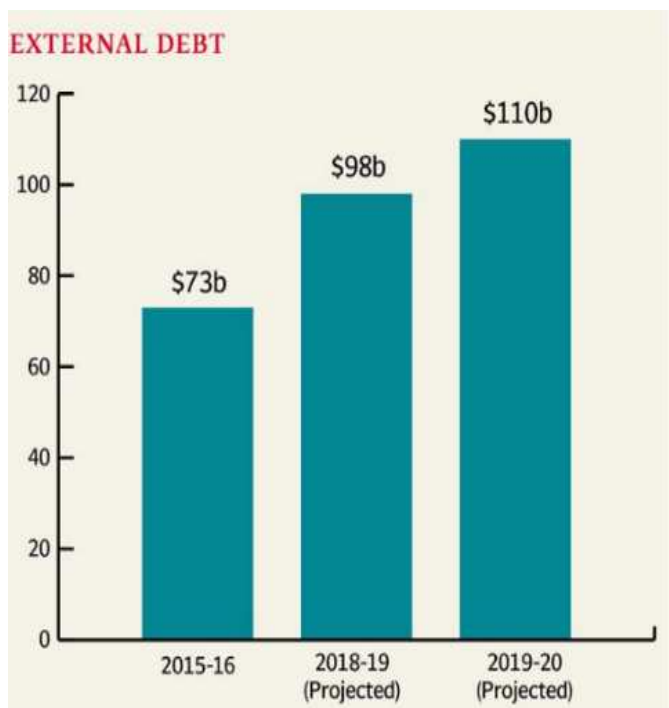
### i. Short-sighted Planning of CPEC

Purpose of any economic corridor is to gain economic consistency, development and growth over a period in a specific region. There is no doubt that the concept of CPEC is to redesign the economic outlook of both China and Pakistan to transform this region an Asian economic hub (Wolf 2016). Therefore, both economies are expecting



the outlay of this project to be more than 56 billion dollars (Ashraf 2017).

There is no doubt that this “One Belt One Road” project is beneficiary for both economies, but lack of sensible and long sighted approach of the Pakistan’s government is making this another East India Company. Various questions are arising on the long term effects of this project on the economy of this developing economy. For instance, how this project is going to disturb the local industries of the Pakistan, how FBR and Customs are going to increase their revenue by allowing the Chinese companies to use this route, and what this project has overall cost to the economy of Pakistan. Utilisation of foreign funds to finance this project is increasing the debt burden on the economy of Pakistan. China and ADB agreed to lend 8 billion dollars to just upgrade the railway line from Karachi to Peshawar (Kiani 2016). Here, Pakistani economists are giving warnings of adverse external debt problem that will destabilise the economy in the near future (Nabi 2016). Such loans will hinder the economic growth and development in the future. It is projected that this external debt will increase to 110 billion dollars in 2020.



Source: <https://tribune.com.pk/story/1229155/independent-study-pakistans-external-debt-likely-swell-110b-four-years/>

Although this project will generate employment opportunities for Pakistanis which will reduce the poverty and strengthen the economy but local industries will suffer when its products could not compete well against the Chinese companies. Another challenge is to retain the cost of the energy that is planned under this project, low in the long run. Traditional mode of power projects are being installed in the Pakistan. Renewable energy technologies are reducing the cost of the energy. Therefore, these traditional power projects are not going to pay off good in the long run (Ashraf 2017).

## REFERENCES

- Abbas, M.N. (2015). Energy crisis in Pakistan.
- Abid, M. and Ashfaq, A. (2015). CPEC: Challenges and opportunities for Pakistan. *Journal of Pakistan Vision*, 16(2), pp.142–169.
- Adnan, M. and Fatima, B. (2016). China-Pakistan Economic Corridor: A Road to Development and its Challenges. *South Asian Studies*, 31(2), p.225.
- Agencies. (2016). Iran, India, Afghanistan sign transit accord on Chabahar Port. *DAWN News*. [online]. Available from: <http://www.dawn.com/news/1260176>.
- Ahmed, A. (2017). Pak-Russia Relations and Future Prospects. *Defence Journal*, 20(7), p.14.
- Anonymous. (2015a). China and the Arab world The great well of China. *The Economist*.
- Anonymous. (2015b). China top foreign investor in Pakistan. *DAWN News*. [online]. Available from: <https://www.dawn.com/news/1220219>.
- Anonymous. (2016). CPEC to boost Pakistan GDP growth to 7.5%. *The Nation*. [online]. Available from: <http://nation.com.pk/business/08-Oct-2016/cpec-to-boost-pakistan-gdp-growth-to-7-5>.
- Anonymous. (2017). France eyes business opportunities offered under CPEC. *The News International*. [online]. Available from: <https://www.thenews.com.pk/print/196490-France-eyes-business-opportunities-offered-under-CPEC>.
- Ashraf, M. (2017). CPEC – the trade dimension. *DAWN News*. [online]. Available from: <http://www.dawn.com/news/1311532>.
- Aslam, S. (2016). CPEC: Pakistan’s Way to Success.
- Balassa, B. (2013). *The Theory of Economic Integration (Routledge Revivals)*. Routledge.
- Baldwin, R.E. (2004). Openness and growth: What’s the empirical relationship? In *Challenges to globalization: Analyzing the economics*. University of Chicago Press, pp. 499–526.
- Baldwin, R.E., Wyplosz, C. and Wyplosz, C. (2006). *The economics of European integration*. McGraw-Hill London.
- Bhattacharjee, D. (2015). China Pakistan Economic Corridor.
- Boyce, T. (2017). *China-Pakistan Economic Corridor*. Sandia National Laboratories (SNL-NM), Albuquerque, NM (United States).
- Chang, R., Kaltani, L. and Loayza, N. V. (2009). Openness can be good for growth: The role of policy complementarities. *Journal of development economics*, 90(1), pp.33–49.
- Commission, E. (2016). *European Union, Trade in Goods with China*. [online]. Available from: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113366.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113366.pdf).
- Daojiong, Z. (2016). Energy Security in EU-China Relations: Framing Further Efforts of Collaboration. In *EU Leadership in Energy and Environmental Governance*. Springer, pp. 113–133.

- Freund, C. and Bolaky, B. (2008). Trade, regulations, and income. *Journal of development economics*, 87(2), pp.309–321.
- Huchet-Bourdon, M., Le Mouél, C.L.M. and Vijil, M. (2011). The relationship between trade openness and economic growth: some new insights on the openness measurement issue. In *XIIIème Congrès de l'Association Européenne des Economistes Agricoles (EAAE)*.
- Humpert, M. (2013). The future of Arctic shipping: A new silk road for China. *The Arctic Institute*, 20.
- Hussain, J. (2016). China Pakistan Economic Corridor. *Defence Journal*, 19(6), p.13.
- Irshad, M.S. (2015). One Belt and One Road: Dose China-Pakistan Economic Corridor Benefit for Pakistan's Economy?
- Javed, F. and Ahmed, A. (2016). Gwadar Port: Regional Strategic and Economic Interests. *Defence Journal*, 19(7), p.13.
- Kataria, J.R. and Naveed, A. (2014). Pakistan-China Social and Economic Relations. *South Asian Studies*, 29(2), p.395.
- Kennedy, S. and Parker, D.A. (2015). Building China's 'One Belt, One Road'. *Center for Strategic and International Studies*, pp.3–9.
- Kiani, K. (2016). With a new Chinese loan, CPEC is now worth \$51.5bn. *DAWN News*. [online]. Available from: <http://www.dawn.com/news/1287040>.
- Minnick, W. (2015). China's 'One Belt, One Road' Strategy. *Defense News*.
- Morrison, W.M. (2014). China's economic rise: history, trends, challenges, and implications for the United States. *Current Politics and Economics of Northern and Western Asia*, 23(4), p.493.
- Nabi, I. (2016). Is Pakistan heading towards a serious debt problem? *Herald Dawn News*. [online]. Available from: <http://herald.dawn.com/news/1153618>.
- Nakhoda, A. (2017). CPEC offers vast opportunities to tap into the Chinese economy. *Tribune - The Express*. [online]. Available from: <https://tribune.com.pk/story/1303768/cpec-offers-vast-opportunities-tap-chinese-economy/>.
- Pomfret, R. (2014). *The economies of central Asia*. Princeton University Press.
- Raychaudhuri, A. and De, P. (2014). Economic corridors, trade costs, and regional production networks in South Asia. *ECONOMIC CORRIDORS IN SOUTH ASIA*, p.63.
- Scobell, A., Ratner, E. and Beckley, M. (2014). *China's Strategy Toward South and Central Asia*. Rand Corporation.
- Shambaugh, D. (2006). China engages Asia: reshaping the regional order.
- Sonwalkar, P. (2017). UK eyeing projects in China-Pakistan Economic Corridor. *Hindustan Times*.
- Spector, R.A. (2002). The North–South Transport Corridor. *The Analyst*, 3.
- Talmiz, A. (2016). Silk Road to (Economic) Heaven. *Herald Dawn News*. [online]. Available from: <http://herald.dawn.com/news/1153432>.
- Wolf, S.O. (2016). The China-Pakistan Economic Corridor: An Assessment of its Feasibility and Impact on Regional Cooperation.