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Socio-Economic Significance of CPEC Prospects of Intra and Inter-Region Coop and Challenges



Abstract *The development of the China Pakistan Economic Corridor is one of the most important developments for the economy and as well as for the development of the infrastructure. In the last four decades, Sustainable growth and development in China have assigned her a special status in the world's economy. The financial crisis of the year 2007-08, adversely affect the world, but these crises helped to strengthen the Chinese economy and also increase the importance of China in global. CPEC is considered as a game-changer in the continent. The scholars and analyst play a significant role in analyzing the effect of its social and economic prospects. In this paper, the effect of CPEC is studied on the changing financial conditions by collecting primary data through questionnaire.*

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Introduction

One of the most vital parts of economic development is the transport sector. This is the main component that put a nation on the route of economic growth. The goal of economic growth can be achieved through different methods. One of the important methods is to achieve this goal of economic development is by seaports. These seaports are considered as a bridge between the land and the sea transports. Seaports play an important role where they are located because they are significant in societal segments.

The length of the economic corridor is 3000 kilometres, and it runs from Gwadar to Kashgar. Gwadar plays a very important role in the connectivity of both regions. It is estimated that over \$45.6 billion is its cost, and it is thought that the project will be completed in 2030. These facts were published in the Nihon Keizai daily newspaper of Japan.

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Source: *Pakistan economic survey*

This economic pathway will also provide create linkages between the economic nodes and hubs. The centre of this economic corridor is the urban landscape. These areas are loaded with a large number of economic resources. This pathway will link the demand and supply markets.

The Silk Road Fund

The Silk Road Fund was established for the purpose of facilitating investment in the countries, ensuring medium to long term financial sustainability, under OBOR. The government of China allocated \$40 billion for the establishment of this fund on 29th December 2014. The \$40 Billion was pooling in of resources of the State Administration of Foreign Exchange, China Investment Corporation, Export-Import Bank of China and China Development Bank (Ingram, 2015).

The Karot Hydropower Project will be financed on an equity basis, through the Silk Road Fund; the fund has signed an MOU with the China Three Gorges Corp and PPIB for the finance of the project. The Silk Road Fund will ensure the provision of capital and be one of the main shareholders in the \$1.65 billion project (spec info, n.d.).

Literature Review

The Socio-Economic Effect of CPEC

The China-Pakistan Economic Corridor (CPEC) is considered as a game-changer. An alert and a very effective cost-effect relation are required to estimate the economic corridor and its impact on different areas of Pakistan and China.

The China-Pakistan Economic Corridor (CPEC) is offering equal opportunities to all the provinces of China and Pakistan, which are included in CPEC in terms of social and economic growth.

Baluchistan is the largest province of the country. This province is truthfully unnoticed for a number of reasons, which include complicit thought of the primitive tribal nobility, dishonesty and exploitation, lack of education, etc. The Central Government also neglect Baluchistan and never took the construction and development of the district seriously.

Baluchistan has the world's fifth major assets of gold and copper which also includes easy access to the Tethyan belt. This belt leads to the gold and copper reserves. The Tethyan belt is spread from Hungary to Indonesia across Eurasia. China-Pakistan Economic Corridor (CPEC) plan also contains highways and railway tracks. These tracks will pass from all over Pakistan.

Economic Interdependence

The theory of economic interdependence is quite significant, whereby it has espoused that the economic relations between countries reduce the potential of conflict since they are tied by trade, assets, and mutual economic benefits. A relationship tied in with development is not bound to result in conflict as quickly as one that sees two countries or an entire region having no obligation to another (Awad, 2013).

With the theory, however, other factors pertaining to the realist theory need to be seen in conjunction with the interdependence. Basically, the longer trend sees increased trade inflows and outflows prior to a war or conflict per se, while in the shorter term before a war, trade decreases the chances of the said event. Thus, military interstate conflicts and trade relations are correlated; the liberal theory points towards trade diminishing the chances of conflict, while the realist theory sees the diminishing factor being contingent on various other factors, not just trade (Awad, 2013).

Anne O. Krueger's address on Asia's economy and mutual interdependence reiterated the belief that an open economy and flow of trade helped revive the economy of China, Japan and Korea (IMF, 2005).

With reference to CPEC, this theory can help Pakistan build its economic and trading partners and reduce the risk of future conflict. This has been in play already, perhaps. The invitation to India, Iran and Afghanistan to join the venture can be seen in this light. With countries being tied to CPEC, and subsequently, to Pakistan's economy, the chances of conflict and severing of ties between them will significantly abate. Much like how the European Union remains within its bubble of economic cooperation, CPEC has the ability to transform the country and the entire South Asian region into a hub of regional connectivity, as well as an area not as prone to conflict and volatility, as it is at present. That being said, it is pertinent to mention that even for the European Union, economic interdependence is not the only reason for sustainable peace and prosperity. Effective and democratic institutions are also a requirement for such a system to work (Ette, 2014).

Rizvi argued that inter-state collaborations could come to light once the political leadership realizes the economic benefits of increased regional integration and cooperation. Such cooperation could only be successful if all parties involved see the positive spillover effect. The cooperation will come to a halt if one area only seeks out to establish hegemony over the other (Rizvi, 2015).

According to Rizvi, the CPEC has lined with the 21st-century ideals of internal political harmony and economic resilience. More so, it has set the stage for a need-based

cooperation vis-à-vis development in all sectors, be it economy, trade, industry, or energy. This cooperation, much like Mr Manzoor Elahi pointed out, could expand to the Central Asian States, as well as West Asia, the Middle East, and beyond. In line with this, CPEC has called for a change in Pakistan's foreign policy that prioritized closer relations with faraway nations, as opposed to the neighbouring states – something it needs to do now (Rizvi, 2015).

Exogenous Growth Theory

Contrary to the International Dependence Theory, the Exogenous Growth Theory argues that stunted economic growth in developing countries is not a result of the oppressive activities of developed countries and international organizations. Instead, national issues ranging from lack of prudent economic policies, poor resource allocation, to government inefficiencies and corruption act as impediments to growth (Dang & Pheng, 2015). Developed by Robert Solow and Trevor Swan in 1956, the Exogenous Growth Theory is based on the concepts of neoclassical economics, whereby it propagates that long-run economic growth can be analyzed and forecasted with the help of studying factors such as capital accumulation, labour or population growth, and increases in productivity, commonly referred to as technological progress (Solow, 1956).

The Exogenous Growth Theory is based on the belief that factors beyond the realm of local economies and economic structures of individual countries tend to influence economic growth. Hence, the economic growth of a country is tied to external influences rather than internal factors. Since developing countries suffer at the hands of limited technology and fixed skilled labour, economic growth becomes static as market equilibrium is reached, after which a decline in economic growth is witnessed, followed by diminishing returns on capital (Dawkins, 2003). As per this theory, the growth of a country is dependent on three factors, namely: Labor force growth, Capital accumulation, and Technical/Technological progress.

Neoclassical economists Roy F. Harrod (1939) and Evsey D. Domar (1946) made their contributions to the existing literature on national economic growth by introducing the concept of supply-side models of investment in regional productive capacity as determinants of regional growth (Harris, 2008). Since the process of technological change is exogenously driven, the rate of economic growth tends to converge across countries and regions, thereby enabling developing countries to garner FDI by providing access to national markets. Resultantly, capital is accumulated, and returns are earned, making the economy stronger (Dang & Pheng, 2015). This essentially means that, over a period of time, due to economic cooperation, economic indicators of different countries in the region start to improve and eventually growth rates of various economies, within a region are equalized. Therefore, this theory and associated models dominate theories of Regional Economic Convergence (Dawkins, 2003).

Though this theory advocates international convergence, it is argued is that interregional convergence is more likely, provided that there is a net exogenous inflow of labour and capital. In this case, a region can also be perceived or defined as a hierarchal system of cities. Since the mobility of factors of production between across regions within a country is ideally more efficient, convergence is likely to occur (Bal & Nijkamp, 1998).

However, convergence, whether international or inter-regional often occurs during the later stages of a country's economic development. This can be attributed to four factors:

- Labor migration rates – In developing economies, the rate of labor migrations is unequal due to varying costs of migration along with the perceptions that are formulated with regards to migrant workers.
- Impediments to equal capital flow - Initial endowments or constraints, external economies of scale, and immature capital markets in some regions may barricade the equalized flow of capital.
- Federal government biases – Policies formulated by the central government are likely to be directed towards regions which are politically active and where there are opportunities for investment due to positive economic indicators and growth.
- Inter-regional linkages - Development of interregional linkages in the early stages of national development might impede growth (Dawkins, 2003).

Conceptualizing the role of various factors in enhancing or suppressing growth has complicated due to the lack of attention laid on causality issues. This, in turn, bars legislators and governments from considering factors for relevant policy interventions. Additionally, little emphasis has laid on analyzing the reasons behind the differences in technologies across countries and regions within a country that determine the capacity of local leadership and administrative machinery to undertake development (Harris, 2008). The weak and inadequate administrative and regulatory framework, along with limited institutional and operational capacity of developing countries pose several challenges to economic development (Dang & Pheng, 2015).

China's development strategy has captured the attention of many. It is now clear that China has been able to realize the fact that countries cannot develop in complete isolation. In order to develop economically, socially and politically countries need to develop linkages with countries around the world, especially neighbouring countries. If all countries in a region are on the path of development, then an enabling environment is created that fosters growth. It is due to these very reasons that China constantly looks for avenues of economic cooperation and CPEC, under the wider umbrella is one such initiative (Ghiyasi & Zhou, 2017).

Economic Development that is expected to occur in Pakistan because of CPEC will be driven by exogenous factors, whereby, capital, technology and to quite a large extent, human resource will be provided by China. Financial capital for CPEC is being channelled into Pakistan in the form of FDI, grants and commercial loan via the Chinese government, companies and international organizations such as the Asian Development Bank. Moreover, the technology that is being used to develop infrastructure and to set up energy projects has been endowed upon us by Chinese companies. Additionally, Chinese labourers, engineers and officers will be working on the projects being set up in Pakistan. Thus, we can safely say that economic growth in Pakistan for future years to come will be a function of external factors (Rafi et al., 2016).

However, in order for countries to develop sustainably, it is essential that the host country, in this case, Pakistan invests heavily in building the capacity of its human resource and institution by providing training and education. Furthermore, the principles of research and development should be inculcated in all organizations with the underlying motive of creating knowledge as propagated by the Endogenous Growth Theory. According to this theory, development requires governments to undertake policy interventions to mobilize resources, build up human capital, foster growth and to regulate the various spheres of the economy. Thus, it is the need of the hour that the

government of Pakistan focuses on the establishment of a concrete policy framework, enabling the country to capture the perks of CPEC (Dang & Pheng, 2015).

Results and Analysis

Other Major Effects

Effect on Transportations

The CPEC route will restrain the distance. The Chinese products which are designed for Europe and Africa will travel 2000 miles less as compare to the previous route. This trade by CPEC reduce many miles and bring many countries closer. The Gwadar port will provide cheaper and quicker business to all the countries connected through this corridor.

Table 1. Highways and Train Routes for CPEC Beneficial for Gwadar

Particulars	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	50	100.0	100.0	100.0

Source: Questionnaire

The above table is drawn after collecting the data from the local people of the Gwadar. The table shows that all the people were satisfied with the highways and roads track constructed for CPEC will be beneficial for all the people.

Industrial Effects

The real panorama of China-Pakistan Economic Corridor lies in the industrial sector. Pakistan and China can work on communal projects in manufacturing division to produce feasible products for global markets. Replacement of Chinese industries to Pakistan mentions economic excess to both nations because efficient labour is accessible in Pakistan.

The primary stage of CPEC is interconnected to Chinese investment in energy, road map and railway network in Gwadar. China is massively investing in the industrial sector of Pakistan. Both countries are working on time. Chinese are usually involved in key structure development of the projects, which requires a lot of steel. Therefore, for the infrastructure of the projects, Pakistan will need a few million tons of steel bars, and this quantity may be exported from China. China is one of the major steel producers. Pakistan is among the lowermost per capita consumers of steel almost 70% of it is brought from China mainly because of its low-priced prices.

Table 2. Expansion of Gwadar Port Limits the Opportunities of Local Fishermen.

Particulars	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	20	40.0	40.0	40.0
No	18	36.0	36.0	76.0
I Don't Know	11	22.0	22.0	98.0
No Comment	1	2.0	2.0	100.0
Total	50	100.0	100.0	

Source: Questionnaire

This table shows the details of that extension of the Gwadar port bounds the

opportunities of native fishermen. 40% of the respondents gave a positive, whereas 36% respondent gave a negative response.

Effects on Masses' Earning

The China Pakistan Economic Corridor will increase the revenue of the native this will uplift the economic situations, and livelihood of the people of Gwadar and neighboring areas 80% of the respondents gave a positive response whereas 20% of the respondents gave a negative response.

Table 3. How will CPEC Affect you Earning?

Particulars	Frequency	Percent	Valid Percent	Cumulative Percent
Earning will Increase	40	80.0	80.0	80.0
It will Remain Same	10	20.0	20.0	100.0
Total	50	100.0	100.0	

Impacts

Economic Impact

While small business owners have raised concerns over the Chinese domination of the local market, there is a contrasting view as well (Dawn, 2016). The Baltistan region has gained a reputation for its fresh fruit exports, and the corridor will provide ample opportunities to the local traders in this regard. Not only will new avenues to export to open up, but the cost of transport will be cut. The transportation by road via Xinjiang will be less costly than the current air-cargo via Dubai (Deloitte, 2015).

Research on the agricultural sector points toward CPEC, directly and indirectly, stimulating the sector, by way of backward and forward linkages' development. Ahmed and Mustafa's paper on the impact of CPEC and its subsequent infrastructure on agricultural output projects that the development of infrastructure under CPEC – including that pertaining to the energy sector - will help boost the sector (Ahmed & Mustafa, 2015).

Conclusion

The CPEC will assist in supporting the economies of both countries. This pathway opens new opportunities and routes to the resourceful Middle Eastern region from the Arabian Sea. For this, Islamabad has stretched an offer to Tehran for joining the CPEC.

If Iran approved, the agreement would strengthen inter-regional links. In addition, it will form a geo-strategic lookout, and this will increase the possibility of the decade's extended idea of Pakistan-Iran gas pipeline.

The economic corridor will appear as a statement of the century, which will advantage billions of people in both regions. These plans do not belong to any group or party. Such projects serve the whole nation. It will strengthen the resident of Gwadar not only socially but also economically. This project is vital for China, if the larger Silk Road Economic Belt, with its resultant revenues for the local economy of China, geopolitical impact, and district stability, is to advance the ground. Pakistan is China's "iron brother," and will be Beijing's most passionate friend alongside the strategic Silk Road.

Most significantly, this corridor will help Pakistan to work as a magnetic body for the overseas direct venture in Pakistan. If the world realizes China –a growing economic power- the financing in this portion of the world, they will inevitably come out of opposition with China which will finally help in the growth of Pakistan. This corridor is not only significant for the economic development of the country, but also for the harmony and stability of the region. It is more important for growing China to increase quickly and cost-efficiently.

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- The Tethyan Metallogenic Belt (TMB), extending from Europe through Anatolia to Iran, is one of the world's major metal producing belts. It stretches all the way from Turkey and Iran into Pakistan.
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