Impact of China-Pakistan Economic Corridor (CPEC) on the Economic Growth of Pakistan

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Abstract

The main purpose of this paper is to analyse the economic impact of the CPEC on the economic growth and development of Pakistan. It is shown that an investment of $46 billion by China will have a multifaceted positive impact not only on the economies of Pakistan and China but also on other countries of the region. It will be a game changer and incubator of economic growth. It will improve and expand infrastructure in all provinces of Pakistan, enhance regional cooperation, reduce political tension between the countries and increase acculturation as well as providing an opportunity for trade creation and trade diversion. It will enable the countries to achieve the macroeconomic gains. And improve the standard of living. It will be beneficial for the region in general and for the land locked countries like Afghanistan, Tajikistan, Kyrgyzstan, Kazakhstan and Uzbekistan in particular.
Key words: Economic growth, standard of living, infrastructure, regional development
JEL classification: O4**,** F13, O53, R11

Introduction

It can't be overstated that economic integration is considered to be one of the most important causes of regional change in the 1990. The European community's progress towards the unprecedented elimination of borders would have been unimaginable barely three decades ago (Suarez-Villa 1993). Regional economic integration leads to trade augmenting effects on member countries. Aitken (1973) and Balassa (1967) showed that the formation of the European Economic Community (EEC) and European Free Trade Association (EFTA) significantly increased inter-member trade. Similarly, the CPEC is intended to play its role in improving economic, social, geopolitical and military relations amongst the countries involved.

This investment by China in its flagship project of **One Road, One Belt** viz., the **'China Pakistan Economic Corridor'**, an elaborate series of roads, railways and pipelines that will cut lengthwise through Pakistan and give China convenient access to ports on the Arabian Sea. Along the entire way, several energy projects are to be built. The entire 2,000-mile corridor, expected to take 15 years to complete, should cost approximately $46 billion, making it one of the '*most expensive infrastructure projects in human history*'.

The CPEC is a development megaproject which aims to connect Gwadar Port in southwestern Pakistan to Kashgar in China's north-western autonomous region of Xinjiang, via a network of highways, railways and pipelines to transport oil and gas. The economic corridor is considered central to the China– Pakistan relationship. China is investing $46 billion out of which $35 billion are for energy projects.

The CPEC is not just a road project. It is a framework with energy, infrastructure, port, and industry projects. Gwadar will be connected to Khunjrab through multiple routes as the port will serve different markets and destinations. Route # 1 Gawadar- Quetta- Zhob-DIKhan- Islamabad to Khunjrab, Route # 2 Gawadar-Sukkur- Indus Highway to Khunjrab, Route # 3 Gawadar-Sukkur- Karachi Peshawar Motorway to Khunjrab. Work on Route #1

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started by the Frontier Works Organization (FWO) last year to complete the 650 km missing link between Gwadar- Sorab. Route #1 will be first to be operational by December 2016. The accompanied maps show the proposed highway network with exact location of energy projects along its entire length, railway network and fibre optic network of the CPEC.

The Proposed $46-Billion China Pakistan Economic Corridor

Source: Wall Street Journal, U.S. Global Investors

Railways Network of CPEC

Highways Network of CPEC
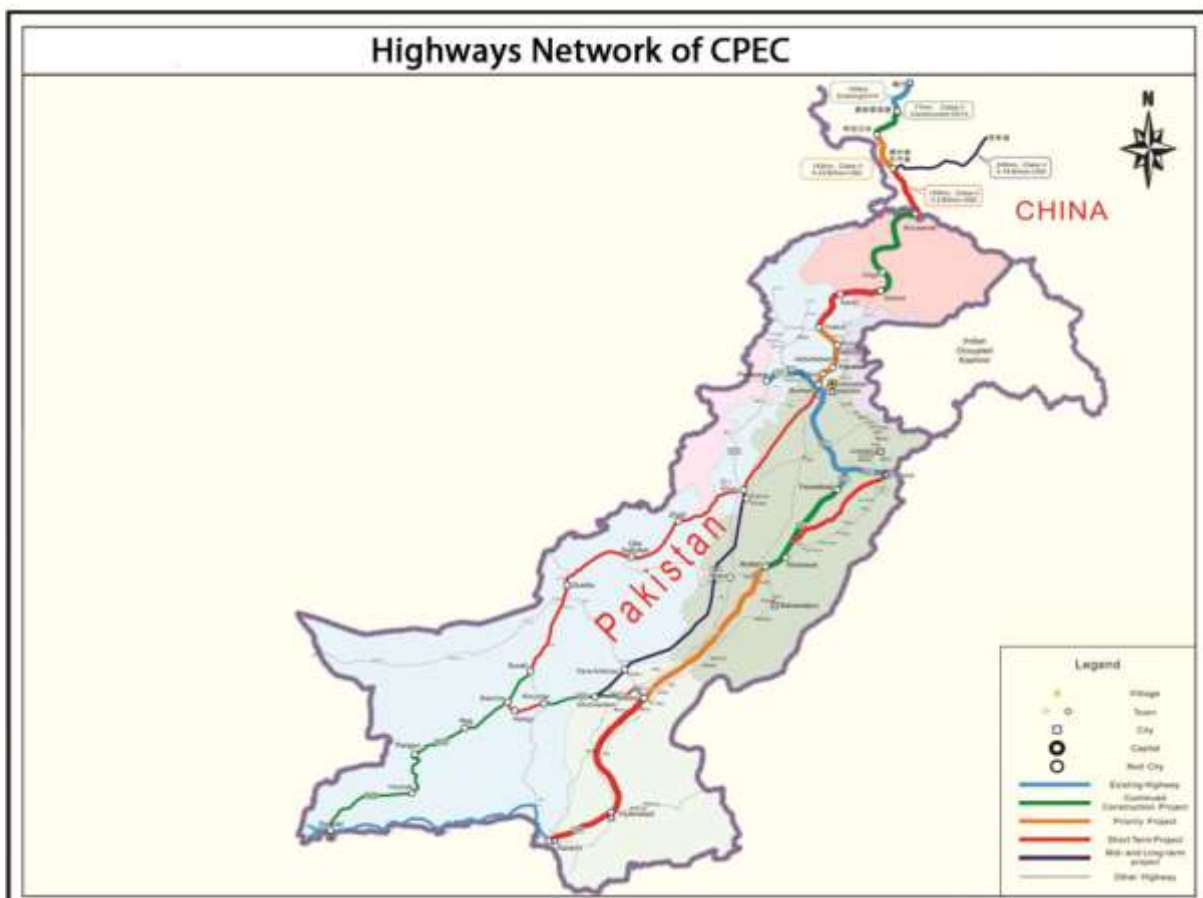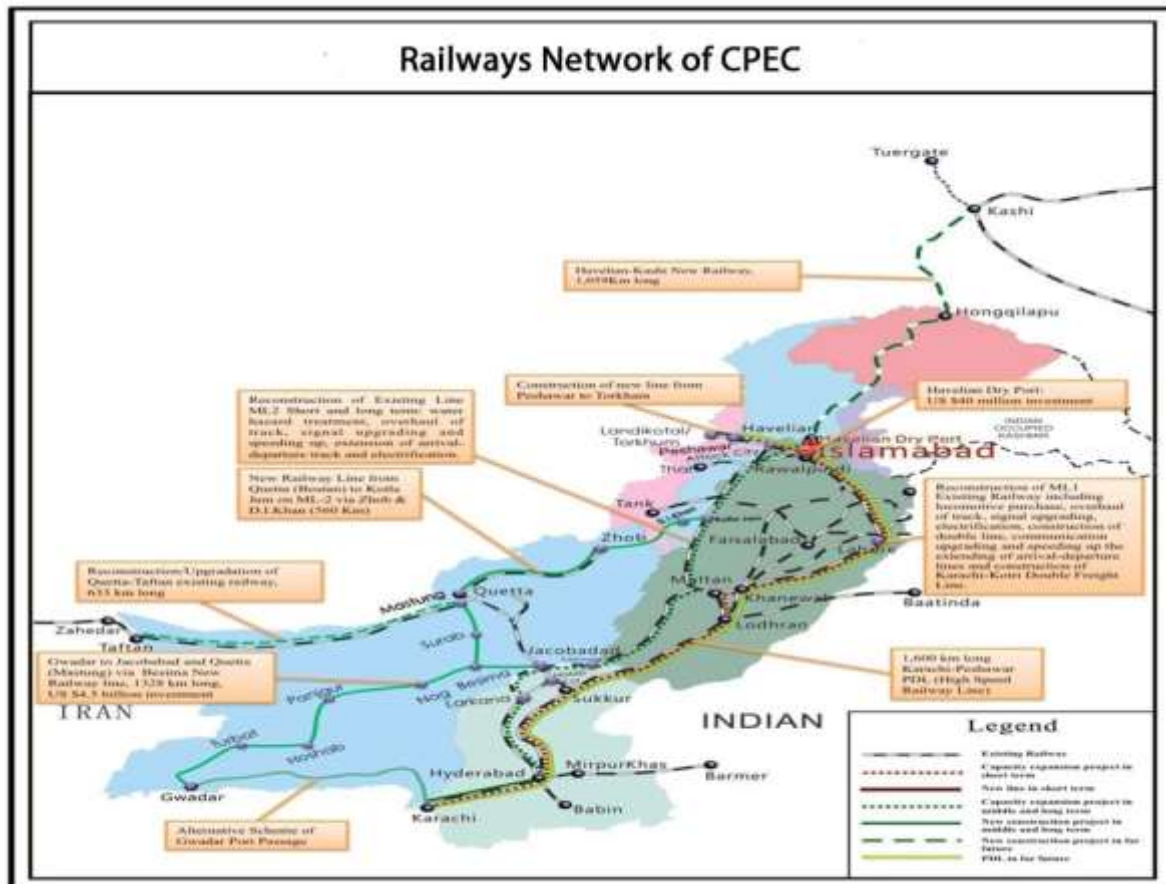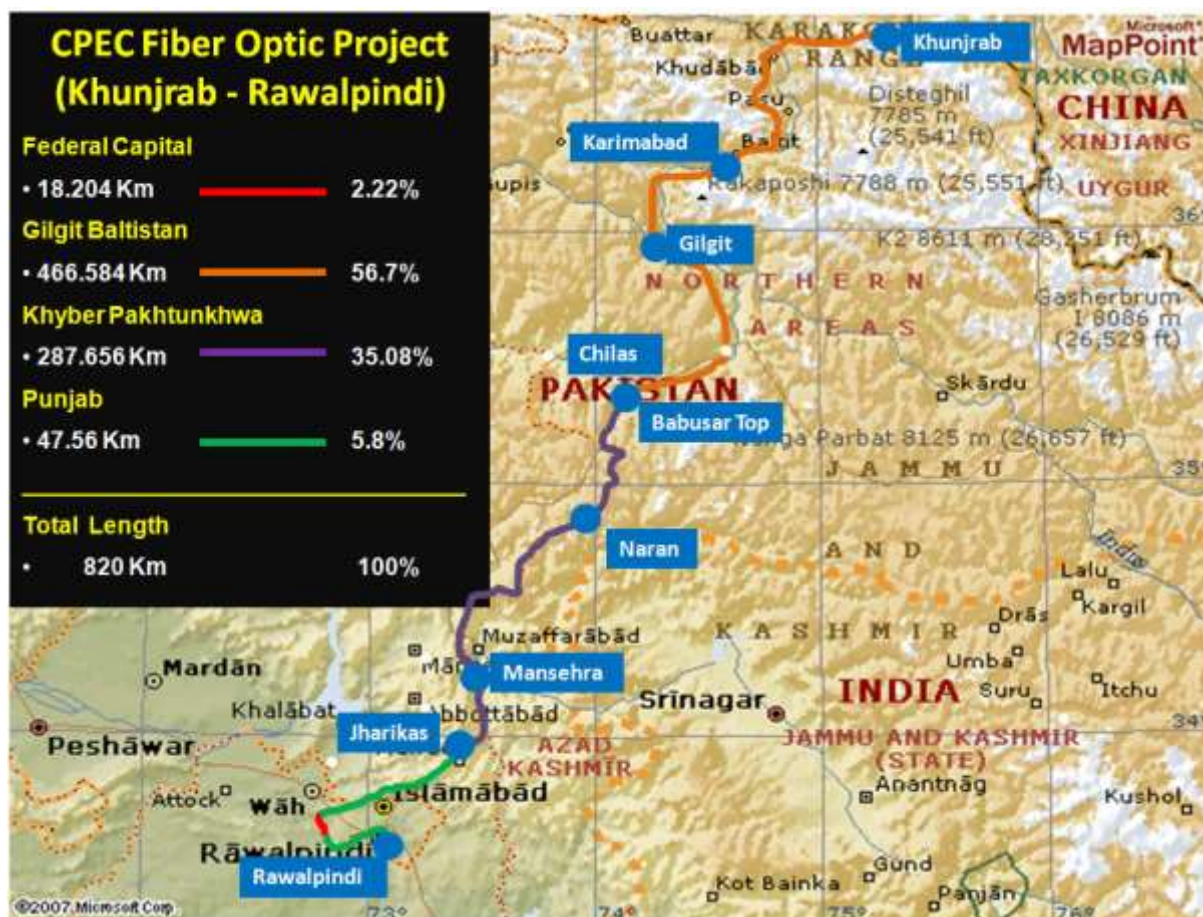
Source: cpec.gov.pk

The duration of the whole CPEC project is from 2014 to 2030 in phases. The short term projects will be completed by 2020, mid-term programs would be completed by 2025 and long term projects will be completed by 2030. Gwadar will be converted in to a model port city like Dubai, Hong Kong and Singapore. The infrastructure of all four provinces and Gilgit Baltistan would be improved. Under CPEC project, industrial zones would be set up in all the provinces. It is a national project for both China and Pakistan. Owing to this project, China's access to Gulf region would be reduced from 12,900 kilometres to 2500 kilometres and the journey time would be reduced from 45 days to less than 10 days. It is also estimated that the volume of trade through CPEC would be at $2.5 trillion and new jobs will be created to the tune of about 0.7 million. China's $16.3-billion infrastructure initiative intended to revive trading routes along the centuries-old Silk Road, thousands of miles of railways, roads and pipelines will link Beijing to major markets all over Asia, Africa and Europe. Foreign Trade of China through CPEC will be bypassing the Strait of Malacca in Southeast Asia. China is importing 80% of its oil from the Gulf states. This route is about 15000 miles (from the Gulf States, Iran and Iraq to Shanghai port in China) and it takes almost 45 days for oil and gas to reach China, while trade via CPEC will take less than 10 days. The driving distance to cover is just 2076 miles from Gwadar to Kashgar in Western China. Trade through the strait is highly time consuming, expensive because of shipping charges and unsafe because of territorial dispute of the South China Sea. Strait of Malacca is one of the most important shipping lanes on the planet, carrying about 40 percent of the world trade. More than 50000 merchant ships ply the waterway every year. It is vulnerable to piracy, terrorist attack and potentially, to international brinkmanship. It is also a choke point because it narrows to only 2.8 km (1-5 nautical miles) wide at the Phillips Channel (close to the south of Singapore). It is a narrow 850 Km long stretch of water between the Malay Peninsula and the Indonesian

island of Sumatra. This route could be choked off if a war were to break out between the USA and China. For this strategic reason, China is extremely keen to have other trade routes like CPEC, Silk route and Maritime Silk Route.

China's interest in Gwadar is not only economically driven but it also has huge strategic and geopolitical advantages. The USA is encircling China- in response to that, China is pursuing its maritime strategy to have as much expansion as possible in the Indian Ocean and South China Sea. This port will also develop into a well equipped military naval base both for Pakistan and China. Currently, Pakistan is suffering from the worst kind of terrorism, extremism and rampant corruption. This project is intended to benefit not only economically, but also to improve Pakistan's international image.

This investment by China will save millions of dollars every year by shortening its route for energy imports from the Middle East by 12000 km and will also get greater access to the Indian Ocean. Pakistan, in return will get improvement of infrastructure and elimination of energy crisis. China is investing \$46 billion in this mega project, of which \$35 billion are for energy projects such as hydro, solar, thermal and wind-driven power plants. Such projects will provide 11000MW by the end of 2018. Ten solar projects of 6,600 MW will be developed in the Thar desert. The people and political circles of Pakistan are of the opinion that over-reliance on the USA, IMF and the world bank for strategic and financial purpose has not been of any benefit. Therefore, CPEC will provide an opportunity to work closely with China which is more reliable than others. Owing to these investments and job opportunities, many people from other provinces of Pakistan would move to Baluchistan and settle there. India has openly opposed CPEC and is conspiring to disrupt the project by fuelling the Baloch insurgency. Unhealthy Indo-Pak relations must be improved for peaceful and stable South Asia.

It will boost employment rate and decrease the dependency ratio in Pakistan. This ratio is a measure of the age structure of the population. It relates the number of individuals that are likely to be dependent on the support of others for their daily living-youth and elderly (people younger than 15 and older than 65) to those individuals (population aged 16-65) who are capable of providing such support. Put it differently, it is the ratio of economically active workers to economically inactive population. More employment opportunities at home means less emigration of labour and may lead to reversal of the brain drain. More employment opportunities will decrease the gap between the haves and have nots.

Figures 1 to 6 depict the expected changes brought about by this huge investment by China in Pakistan in the macroeconomic variables in Pakistan's economy. All dotted lines in these figures show the shifting of the curves due to this investment in the respective markets in Pakistan.

Impact on the Production Level (output) in Pakistan

Figure 1 shows a rise in injection J through injection elements investment (I) and exports (X) from J_0 to J_1 shown by a dotted line. Rise in injection means increasing of finance in the economy. There would also be a rise in withdrawals (W) through its elements, savings (S), taxes (T) and imports (M). The new intersection point of W_1 and J_1 gives us a rise in the output level from Y_0 to Y_1. Thus, this investment is expected to increase output level, to produce more, more labour will be needed; implying reduction in unemployment level in the country.
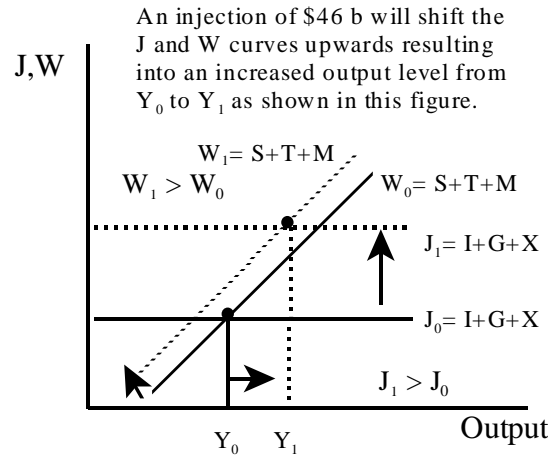
An injection of $46 b will shift the J and W curves upwards resulting into an increased output level from Y_0 to Y_1 as shown in this figure.

J,W

$W_1 = S+T+M$

$W_1 > W_0$

$W_0 = S+T+M$

$J_1 = I+G+X$

$J_0 = I+G+X$

$J_1 > J_0$

Output

Y_0 Y_1

Figure 1 Goods market

Impact on the interest rate in Pakistan

Figure 2 shows the shifting of the LM curve to the right because of a rise in money supply and fall in prices. When prices fall due to appreciation of our currency the real supply of money (M/P) increases which is shown by the rightwards shifting of the LM curve. The IS curve will also shift to the right due to a rise in investment (I). The new intersection of LM_1 and IS_1 curves gives us a lower interest rate (r_1). This in turn will make borrowing from banks cheaper, thus causing a rise in investment in the economy. More investment will increase the national income by a multiplier factor. It may also lure foreigners to invest in the country even more. More investment will lead to more job opportunities. It is also to be noted that in general, inflation and interest rates move in tandem and are mutually dependent on each other as shown in Figures 2.
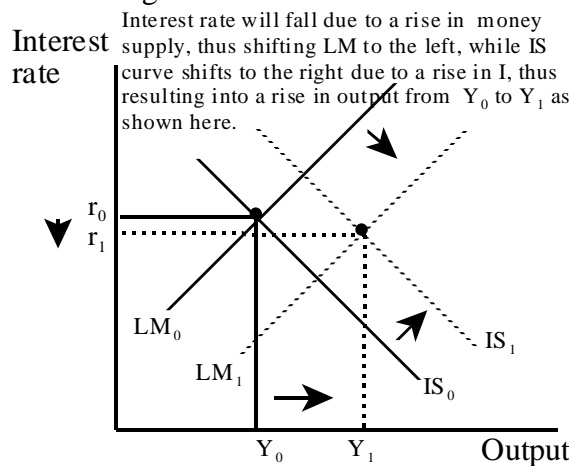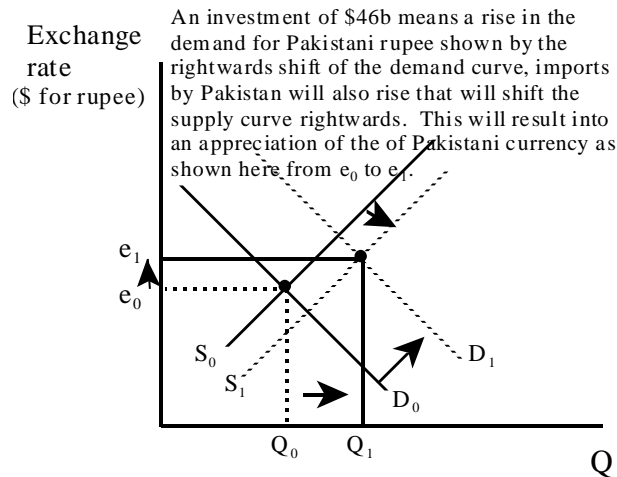
Interest rate

Interest rate will fall due to a rise in money supply, thus shifting LM to the left, while IS curve shifts to the right due to a rise in I, thus resulting into a rise in output from Y_0 to Y_1 as shown here.

r_0
r_1

LM_0

LM_1

IS_1

IS_0

Y_0 Y_1

Output

Figure 2 Money market

Impact on the exchange rate of the Pakistani rupee

Figure 3 depicts the appreciation of the exchange rate of the Pakistani rupee due to a huge investment of $46 billion by China. This investment and a rise in the exports of Pakistan will shift the demand curve for Pakistan rupee to the right from D_0 to D_1. The supply curve will also shift to the right because of increased imports. More imports by a country means more supply of its currency in the international market. Thus, the supply curve also shift from S_0 to S_1. The new intersection point gives us a rise in the exchange rate from e_0 to e_1.

Exchange rate ($ for rupee)

An investment of $46b means a rise in the demand for Pakistani rupee shown by the rightwards shift of the demand curve, imports by Pakistan will also rise that will shift the supply curve rightwards. This will result into an appreciation of the of Pakistani currency as shown here from e_0 to e_1.

e_1
e_0
S_0
S_1
D_1
D_0
Q_0 Q_1
Q

Figure 3 Exchange rate of Pakistani rupee

How the exchange rate affects inflation

An appreciation of the currency causes inflation to decrease. According to the Fisher equation $E_R (P_W) = P_{Pak}$, E_R represents the exchange rate of Pakistani rupee against major foreign currencies of trading partners of Pakistan. P_W stands for the price of a certain good X in the world and P_{Pak} stands for price of the same good in Pakistan. If the exchange rate (E_R) rises, the price of imported goods (P_W) decreases. An appreciation of the currency means that the currency buys more foreign exchange, therefore, exports of Pakistan will become relatively expensive for foreigner and imports will become cheaper for Pakistan. The composite impact of a reduction in exports and a rise in imports may cause deterioration in the balance of trade component of the balance of payments of Pakistan. The price of imported goods will decrease because they are relatively cheaper now to buy from abroad. Expensive Pakistani exports will have decreased demand by foreigners. Therefore, there would be an increase in domestic aggregate demand (AD) as shown in Figure 4 by the dotted line AD_1, which creates demand pull inflation shown by a rise in the price level from P_0 to P_1 (Figure 4). At higher prices less goods and services are demanded because real income and wages decrease. At higher prices interest rates rise causing reduced spending.

Price level

AS
P_1
P_0
S_0
AD_1
AD_0
Q_1 Q_0
Output

Figure 4 Goods market
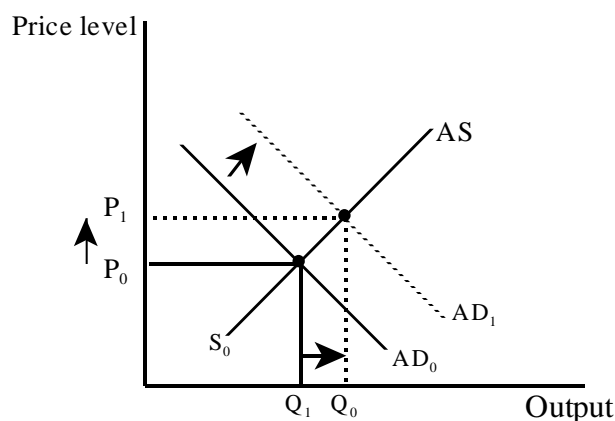
It is to be noted that appreciation of a currency (Figure 3) exerts downward pressure on prices, while a rise in aggregate demand (Figure 4) exerts an upward pressure on prices, therefore, the exact impact of these two opposing forces on the final price level is uncertain. It depends on which one outweighs the other. Higher prices make our exports less competitive than imports. When exports decrease, demand for our currency decreases which in turn will cause depreciation of the Pakistani rupee.

In the wake of appreciation of the currency, there would be more incentive to cut costs of production to make our exports cheaper. It is argued by some that there would be no incentive to cut costs, and therefore, there would be higher inflation in the long run. Therefore, appreciation of the currency will adversely affect exports of Pakistan because of increased competitiveness, which will cause reduction in the demand of other countries for our currency, which may consequently cause depreciation of the rupee.

Impact on the wage rate and employment level in Pakistan

Figure 5 pertains to the wage rate and employment level in Pakistan due to CPEC. As discussed above and shown in Figure 1, production will increase. To produce more, more labour will be needed. This will increase the nominal wage rate (W). Whether the real wage rate will increase or decrease is uncertain. This depends on whether the price changes will outweigh the nominal rise in wage rate or not (w=W/P). However, it can safely be concluded that the wage rate will rise owing to increase in employment level by 0.7 to 1 million. More jobs will decrease the dependency ratio and increase the overall standard of living of Pakistan and China. A rise in the demand for labour is shown by the rightward shifting of the dotted demand curve of labour. The new intersection gives us a higher wage rate from w_0 to w_1 and more employment level from Q_0 to Q_1 (Figure 5).
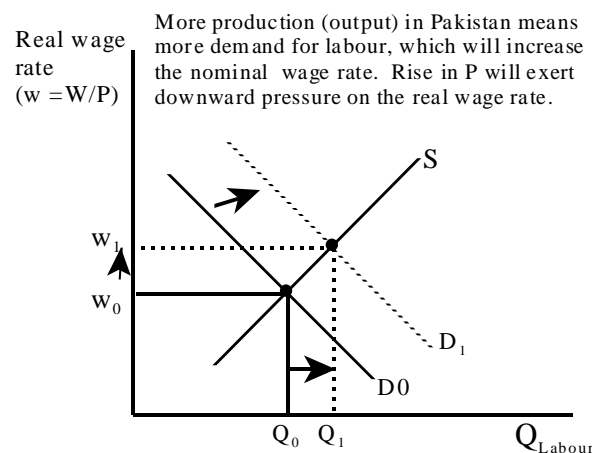

Figure 5 Labour market

Impact on the net exports (X-M) of Pakistan

Figure 6 depicts the negative impact of the investment on the net exports of Pakistan. Since rise in imports will be more than the rise in exports, the reverse multiplier will be in action which will have negative effect on national income (from Y to Y_1) as shown in Figure 6.
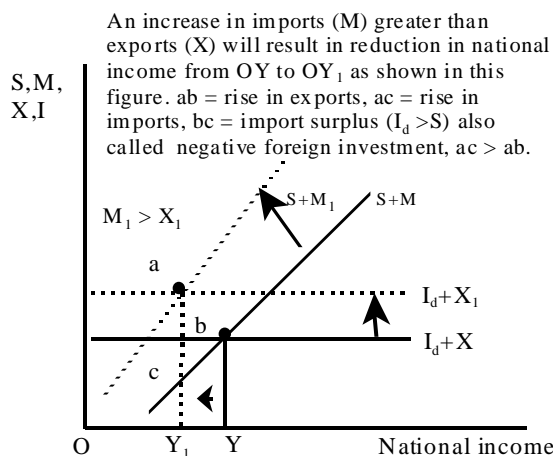
Figure 6 Reverse net export multiplier

Data and Methodology

The data were obtained from various websites. A simple approach of investment multiplier, employment multiplier and export multiplier is used to calculate the impact on various macroeconomic variables of Pakistan economy.

Table 1 Data on selected Pakistan economy indicators (in billions of $)

Year	GDP	Consumption	Imports	Tax Revenue	Govt. spending	Exports
2010	177	145	35.2	17.5	18.3	23.98
2014	244	199	47.4	27.2	26.3	29.91
Change	$\Delta Y = 67$	$\Delta C = 54$	$\Delta M = 12.2$	$\Delta T = 9.7$	$\Delta G = 8.0$	$\Delta X = 5.93$
Marginal propensities		MPC= 0.8	MPM= 0.18	MPT= 0.14	MPG= 0.12	MPX= 0.088

Source: www.tradingeconomics.com/Pakistan, and the author's own calculations, www.atlas.media.mit.edu/en/profile/country/Pakistan/#imports , www.theglobaleconomy.com/Palkistan/Tax_revenue, www.theglobaleconomy.com/Palkistan/government_spending_dollars/ www.theglobaleconomy.com/Palkistan/exports_dollars
Note: Consumption is household final consumption pattern. The figures have been rounded off.

The marginal propensity to consume (MPC) in the economy is 0.8; the MPS is 0.2. A marginal propensity to import (MPI) is 0.18 and a marginal propensity to pay taxes is 0.14. This gives us the numerical value of the multiplier K =2 as shown below.

$$K = \frac{1}{MPS + MPM + MPT} = \frac{1}{0.2 + 0.18 + 0.14} = 1.92 \approx 2,0 \quad where,$$

$MPC \; is \; marginal \; propensity \; to \; consume = 0.8$

$MPS \; is \; marginal \; propensity \; to \; save = 1 - MPC = 0.2$

$MPM \; is \; marginal \; propensity \; to \; import = 0.18$

$MPT \; is \; marginal \; propensity \; to \; tax = 0.14$

$With \; K = 2, \; \Delta I = \$46 \; billion$

$The \; Keynasian \; multiplier \; formula \; is \quad K = \dfrac{\Delta Y}{\Delta I}$

$K \Delta I = \Delta Y \; \Rightarrow \; \Delta Y = 2(46) = \$92 \, billion$

Thus, an injection of $46 billion in the economy will increase the national income by a multiplier factor of 2 to $92 billion. Owing to this increased income the consumption spending will increase by $73.6 billion (= 0.8x92), income induced imports will increase by $16.56 billion (0.18x92), income induced tax revenue will increase by $12.88 billion (= 0.14x92), income induced exports will increase by $8.09 billion (0.088x92), and income induced savings will increase by $ 18.4 billion (= 0.2x92). This rise in imports will exert a downward pressure on the exchange rate; because more imports means a rise in the supply of the Pakistani rupee in the global market. When supply increases the currency depreciates. Thus, depreciation will increase our exports – assuming that both the elasticities of export and imports are elastic- because our goods will become cheaper for foreigners. The marginal propensity to spend by the government (MPG) is 0.12, therefore, income induced spending by the government will increase by $11.04 billion (= 0.12x92) and income induced exports will increase by $8.09 billion (= 0.088x92). Since imports will be increasing at twice the rate of exports, the balance of trade will deteriorate. For that, effective economic policies must be formulated and implemented to bridge the ever growing gap between exports and imports. New industries must be established and the capacity of the existing ones must be used to the maximum to enhance our exports to improve the balance of trade component of the balance of payments. A caveat is in order, corruption in the country must be eradicated or reduced to the minimum if the benefits are to be fairly and equitably distributed amongst the provinces and masses.

Furthermore, according to the accelerator principle, an increase in income will lead to an increase in investment of which capital stocks is part of it. It is also important to mention that when investment increases the multiplier and accelerator will play their role to enhance the aggregate demand and income by an even larger amount.

The Export Multiplier (K_T)

The export multiplier is also known as the foreign trade multiplier. This multiplier shows an increase in exports which act as injections tends to raise domestic income, but the increased income also encourages imports which act as 'leakages'. These tend to reduce the full employment multiplier effect. If imports are greater than exports, there would be reverse multiplier effect on the national income of a country. This holds true in the case of Pakistan because imports are always in excess of exports. The multiplier coefficient is calculated as shown below. The marginal propensity to save MPS is 0.2 whereas a marginal propensity to import (MPI) is 0.18. This gives us the numerical value of the multiplier $K_T = 2.63$ as shown below.

$$K_T = \frac{1}{MPS + MPM} = \frac{1}{Leakage} = \frac{1}{0.2 + 0.18} = 2.63 \quad where,$$

$K_T = 2.63$ *means that one unit increase in aggregate expenditure will have*

2.63 *unit of change in GDP of Pakis* tan.

MPS is marginal propensity to save $= 0.2$

MPM is marginal propensity to import $= 0.18$

With $K_T = 2.63,$ $\Box T (net\ exports) = \Box X - \Box M = \$5.93 - \$12.2 = -\$6.27\ billion$

(negative net exports), $K_T \Box T = \Box Y \Rightarrow \Box Y = 2.63(-6.27) = -\$16.49\ billion$

Since the imports of Pakistan outweigh the exports, there would be a reverse export multiplier effect, that is, a decrease in net exports (X-M < 0) will decrease our GDP by $16.49 billion. Therefore, there would be a contraction effect not expansion effect. As more imports are consumed, there are smaller amounts to be consumed of domestic goods. Thus,

an injection of $46 billion in the economy will increase the national income by a multiplier factor of 2 by $92 billion. This rise in exports will exert an upward pressure on the exchange rate; while a rise in imports will exert a downward pressure on the exchange rate. Since a rise in demand for the Pakistani currency will be less than its supply in the global market, consequently, the exchange rate will depreciate. In the second round, depreciation will increase our exports –provided that both the elasticities of export and imports are elastic- because our goods will become cheaper for foreigners.

Graphical Exposition

As demonstrated above, an injection of $46 billion in the economy will increase the national income by a multiplier factor of 2 by $92 billion. Owing to this increased income, the income induced imports will increase by $16.56 billion (0.18x92) and income induced exports will increase by $8.09 billion (0.088x92) which is less than 50 percent of the imports.

An increase in exports will have expansionary effect on the national income while the increase in imports will have contractionary effect on national income. Since the rise in imports of Pakistan is more than the rise in exports, the net impact on national income will be adverse as shown in Figure 6 .

Figure 6 shows the composite impact of the rise in exports and imports on the national income of Pakistan. When exports increase, (I_d+X) curve shifts upward to (I_d+X_1), since imports rise also, $(S+M)$ curve shifts to $(S+M_1)$ as shown in Figure 6. Since in Pakistan imports have always been more than exports i.e. $(X-M) < 0$ so $(S-I_d) < 0$ giving us $I_{d > }S$ (= bc) as shown in Figure 6. The level of national income reduces from OY to OY_1, this is called the reverse operation of the export multiplier.
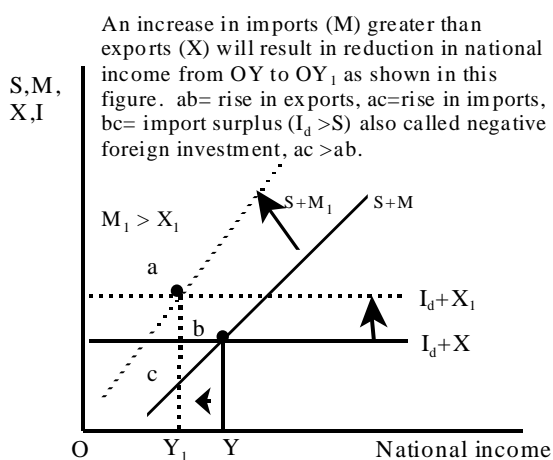
An increase in imports (M) greater than exports (X) will result in reduction in national income from OY to OY_1 as shown in this figure. ab= rise in exports, ac=rise in imports, bc= import surplus (I_d >S) also called negative foreign investment, ac >ab.

Figure 6 Reverse export multiplier

The Employment Multiplier (E)

The employment multiplier measures job creation or destruction in a particular industry which in turn leads to wider employment changes throughout the economy. An employment multiplier is used to measure the impact a particular industry will have upon a municipality when it arrives. The amount of direct, indirect and induced jobs created in the area. Direct jobs are related to the specific industry, while indirect jobs are those that support the industry. Induced jobs are those that are a result of direct/indirect employee's spending money in the community. Generally, industries with a higher multiplier are more desirable.

According to the U.S. Bureau of Economic Analysis Industry employment multiplier data, coal mining has an employment multiplier of 4.4 – meaning that for every mining job, 4.4 other jobs are created. Oil and gas extraction have a multiplier of 6.9. As one can see, these industries can be viewed as a boon to communities.

An employment multiplier (Kahn, R.F. 1931) is a coefficient relating to an increment of primary employment on public works to the resulting increment of total employment, primary and secondary combined. To illustrate, suppose 500000 additional men are employed in public works so that the (secondary) employment is increased by 800000. The total employment is increased by 1300000 (=500000 primary + 800000 secondary). The employment multiplier would be 1300000/ 500000=2.6. Mathematically, it is a ratio between the total increase in employment and primary employment,

i.e. $E = \dfrac{\Delta N}{\Delta N_P} \implies \Delta N = E \Delta N_P$ where E stands for the employment multiplier, ΔN for the

increase in total employment and ΔN_P for the increase in primary employment. It is to be noted that the employment multiplier value will be different for different industries. For example, in the USA, every 100 jobs in durable manufacturing support 372 jobs in other industries (both in supplier industries and in respending employment where steel workers spend their money), while every 100 jobs in business services support 164 jobs elsewhere in the economy. It shows that job loss in durable manufacturing would have larger ripple effects throughout the larger economy than similar job loss in business services. More investment should be done in industry with higher employment multiplier coefficient if the objective is to increase the employment level in a country. The indirect employment associated with jobs in any given industry results from three effects: supplier effects, re-spending effects, and government employment effects. All these effects will play their role in jobs creation in Pakistan due to this investment. It is also crystal from the gravity model that reduction in the distance between two trading partners and volume of their GDPs play an important role in the volume of trade between them as explained below.

The gravity model of international trade predicts bilateral trade flows based on the economic sizes (often using GDP measurements) and distance between two countries. The basic model for trade between two countries, in our case China and Pakistan takes the form of

$$V_{cP} = K \frac{M_C^{\alpha_1} M_P^{\alpha_2}}{D_{CP}^{\alpha_3}}$$

where V_{cP} is the volume of trade flow between China and Pakistan and M_C and M_P are GDPs of China and Pakistan, respectively. D_{CP} is the distance between China and Pakistan, K is a constant of proportionality, and α_1, α_2 and α_3 are coefficients of elasticities of volume of trade with respect to M_C, M_P and D_{CP}, respectively. It is obvious that the volume of trade varies directly with the product of their masses and inversely with the distance between them. Construction of CPEC will definitely reduce the distance which will boost the volume of trade. The product of their masses will also have a positive impact on the volume of trade.

Countries involved in trade will benefit from reduction in shipping costs and time, better factors mobility, better access to education, health care and finance and diffusion of ideas and technologies. Easy access to markets will affect industrial location choice. Production of exportable and substitutes of importable goods will increase. After opening up of trade the trading price level – owing to the theory of comparative advantage and absolute advantage - will be such that producer surplus in exporting countries and consumer surplus in importing countries will increase and thus, the overall global economic welfare will increase. Because of the spill over and trickledown effects, per capita income will also increase. Certain areas

and regions which are currently not accessible or not so politically or economically important will become accessible and important. Regional unemployment and income inequality will decrease. Trend of urbanization might increase which would promote suburbanization. There would be less chances of war between trading partners-like Pakistan and India- so the money which currently is being spent on weapons will be available to be spent on developmental projects instead. The investment will give boost to primary, secondary, tertiary and quaternary jobs.

Transportation infrastructure will give rise to more cities and industrial zones which would turn into "engines" of growth for the country as a whole. Increased access to local and foreign markets will benefit all countries. Proximity to the transportation network will have a positive causal effect on GDP. People will be able to have more variety of goods available to them which were not available before. CPEC will increase connectivity between many countries which will increase tourism and acculturation. The terminal point of CPEC is Gwadar port in Pakistan, while Chabahar port is in Iran which is intended to compete with Gwadar port. Last but by no means least, CPEC will increase China's and Pakistan's integration into world markets.

Reasons Gwadar Port of Pakistan and Chabahar Port of Iran

India is helping Iran to develop Chabahar port to belittle the importance of Gwadar port and trade through this port with Afghanistan and central asian countries. The *Chabahar* port in Iran is only about 100 miles west of *Gwadar* port in Pakistan. It is important to compare these two ports with each other regarding their capacity and efficiency. It could be concluded that Gwadar port is having an edge on Chabahar port due to the following seven reasons.

1. **Depth of the ports**
   Gwadar is more suitable to handle the world's largest crude oil tankers and vessels because its depth is 18 meters while Chabahar is just 10 meters deep.

2. **Capacity of the ports**
   The maximum planned capacity of the Chabahar port is 10-12 million tons of cargo per annum, *Gwadar* port's planned *capacity* when it is completed will be 300 to 400 million tons of cargo annually. It is comparable to the *capacity* of all of India's ports combined which have annual *capacity* of 500 million tons of cargo today.

3. **Lack of experience**
   China has a wealth of experience in overseas infrastructure and ports development which India lacks. Indian vessels will be transporting oil and goods to and from Chabahar, but it will be actively monitored by the Pakistan Navy and China, because the government of Pakistan has handed over the control of Gwadar port to China.

4. **Security**
   In Iranian port of Chabahar India would be a guest state whose borders and territorial waters are at a much greater distance. Besides, Taliban, the major insurgent group in Afghanistan have no love for India because India supported the anti-Talban Northern Alliance. Gwadar too is subject to low- scale belligerency, but the extent of separatist brawls in the area have considerably decreased. Chabahar could easily be choked off if a war breaks out between India and its rivals.

5. **Sanctions on Iran**
   Despite a deal of the USA with Iran regarding expansion of its nuclear programme, the deal has not lived up to its expectation. Iran has vowed that it will not cooperate with America over the regional crisis. In the light of this, the prospects of lifting all sanctions on Iran is again in doubt. The uncertainty regarding the lifting of the ban and sanctions on Iran could have negative consequences for the India-Iran Chabahar

deal. There are no such restrictions on China's investment in Pakistan subject to any kind of UN sanctions.

6.   **Relationship with Afghanistan**

Despite the enhanced India-Afghanistan diplomatic, political and economic relationship, Pakistan's influence in Afghanistan is still present. Though the central government of Afghanistan leans more towards India, but Pakistan's relationship with several ethnic groups who represent a major portion of Afghan society can't be ignored. Furthermore, the $46 billion investment by China in CPEC will not go waste. China knows how to protect its investment and would not allow India-Iran covert partnership to dysfunction in Gwadar.

7.   **Cooperation vs competition**

There is no economic competition between China and Pakistan. China's investment in Pakistan is aimed at boosting trade with Central Asian countries, Arab states and Africa. Pakistan will not be an obstacle to that. This mega project will also help Pakistan to improve its feeble economic structure. However, the Indian-Iran deal is different. Iran will not allow India to gain benefit at the cost of Iranian interest. Also, Iran will not play in India's hands to create unrest or create disturbance on its eastern border with Pakistan. Strategic location and utility of Gwadar port surpasses that of Chabahar, but the development of both ports will play a major role in uplifting the standard of living of the countries involved. For that, Iran, Pakistan and India must cooperate with each other to resolve all outstanding issues amicably for the overall welfare and stability of the region.

Conclusion

Chinese investment of $46 billion on CPEC *Inter alia*, will increase GDP of Pakistan to 92 billion, which in turn will increase consumption spending by $73.6 billion. The imports will rise by $16.56 billion and exports will increase by $8.09 billion. Since the rise in imports is more than exports, the net balance of trade (X-M) will be -$3.96 billion. Tax revenue will increase by $12.88 billion, income induced saving will increase by $1.4 billion. The exchange rate of the Pakistan rupee will increase, which might have adverse effect on exports of Pakistan. Employment level will increase which in turn will reduce the dependency ratio. It is estimated that there would be a rise in direct (about 0.7 to 1 million), indirect and induced jobs in various industries and regions. The overall standard of living will also improve. Depending on the nature of industry- wait gaining, wait losing or foot-loose industry, their location choice will be affected which will give birth to new urban areas and suburbs. Since labour is cheaper in Pakistan than China, textile industry will shift from China to Pakistan. Real estate prices in Gwadar have already gone up by more than 200 percent. It is said that the 'Chinese revolution' has already swept through Pakistan. It is to be emphasised that corruption in the country must be eradicated or reduced to the minimum if the benefits are to be fairly and equitably distributed amongst the provinces and masses. Political unrest adversely affects economic growth and therefore, consensus on all important national issues must be sought by the central government from all provinces.

CPEC is a framework of regional connectivity. It will not only benefit China and Pakistan but will have positive impact on Iran, Afghanistan, India, Central Asian Republic and the region. as whole. The enhancement of geographical linkages having improved road, rail and air transportation system with frequent and free exchanges of goods and services and people to people contact will lead to acculturation and assimilation. It will enhance understanding through academic, cultural and regional knowledge and culture. As per the

gravity model, there would be activity of higher volume of flow of trade and businesses, producing and moving energy to have more optimal utilization of resources for the overall improvement of the standard of living of the countries connected with each other of shared destiny.

Development of infrastructure affects rural development through many channels, such as improved agricultural productivity, increased rural nonfarm employment, rural migration into urban sectors and education. It also affects location choice of industry. Weight gaining industry will locate closer to the buyers while weight losing industries will tend to locate closer to the source of raw materials, whereas footloose industry may locate anywhere in between buyers and the source of raw materials.

The standard of living will rise in both China and Pakistan because of a rise in the real gross domestic product (GDP) per person. Investment in infrastructure will boost economic growth and employment level by a multiplier effect in various sectors of the economy. Besides, many social projects such as hospitals and schools will be constructed. India is deadly against CPEC because it is considered a big threat to its national security as China has already built such commercial ports in Myanmar, Bangladesh, Sri Lanka, Maldives, Somalia and now in Pakistan at Gwadar. India considers it as tightening of noose around India by China. Around 33% of the world's oil passes through the strait of Hurmuz which at its narrowest is just 39 Km wide. India's entire oil imports pass through this strait. China's presence with its naval ships in this commercial port will diminish India's monopoly on Indian ocean. Should a war break out, it will be very easy for China to choke off India's imports and even attack Gujrat and Mumbai ports in India. Pakistan security will also be assured by big investors such as China, Russia, Iran and Saudi Arabia in this mega project. Baluchistan is the largest province of Pakistan, it is 43 percent of the total area of the country and have just 5 percent of the total population of the country. It is the least developed also. This investment is expected to benefit this province the most in particular and the country as a whole in general. This is without doubt a strategic initiative to increase investment and foster collaboration across the countries in this region. It should also be mentioned that when two cultures come into prolonged contact, assimilation or acculturation will start to happen. There will be transfer of values and customs from one nation to another. Owing to this, a new composite culture will emerge. In case of China and Pakistan, Chinese culture will dominate Pakistani culture because majority culture dominates minority culture. In fact both culture will change and be affected by each other.

Hopefully, this project will deliver significant macroeconomic gains. It is baseless as commented by some western analysts that India needs to be appeased by Pakistan and China to make this project successful. India has already been invited both by China and Pakistan to join this project to avail this opportunity to increase its trade and improve its relations with its neighbour.

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