China-Pakistan Economic Corridor (CPEC): Fostering the Trade, Investment and Economic Globalization

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Abstract  
Though the 21st century was considered hallmark economic globalization and trade partnership but recent developments of Brexit and President Trump’s protective and anti-multilateral trading have challenged the established liberal consensus on economic globalization. This paper would argue that on the contrary the case of CPEC is the recent initiative from China and Pakistan which is giving boost to the new wave of economic Globalization as the economic corridor China projected the Belt and Road as a road to prosperity whereas isolation brings backwardness, will be more true with regard to CPEC. For Pakistan it is a game-changer as it is a framework of regional connectivity. CPEC will not only benefit China and Pakistan but will have positive impact on Iran, Afghanistan, India, Central Asian Republic, and the region. The enhancement of geographical linkages will further the economic globalization as against the anti-globalization moves.

Key Words  
CPEC, Trade, Economic Development, Foreign Direct Investment, Globalization

Introduction  
With the recent vote in European Union for existing of Britain and the election pledges of Donald Trump as President of United States of America for building wall and being proponent of anti-globalization drive, and these events are being termed end to globalization, and can be seen as reversal of the globalization process. This can be seen as first wave of de-globalization of this world due to inward-looking economic policies. However keeping this international development in view; this paper considers this move a flawed and would discuss the outward-looking economic policy as well as economic integration of Pakistan in the context of China Pakistan Economic Corridor between China and Pakistan. The original investment volume was $42 (billion) however it was increased firstly to 55 and now to $62 (billion) by 2017.

The paper will address the questions as under:

1) What is the economic and geostrategic consequence of Pakistan China Economic Corridor?
2) How Gwadar phenomenon and Economic Zone develop regional Economic integration?
3) What are the economic potentials of CPEC to further the new wave of globalization through Foreign Investment and multilateral trade between Pakistan, China and other regions especially Central Asian and EU?

This paper will discuss the Pakistan and China economic integration and trade partnership which generates the multi-lateral trade as cooperation between two countries economically results in a spill-over effect on other states. Though CPEC has not yet reached the conclusion, however it is speedy moving towards its completion and other countries are interested to become stakeholders of this economic integration.
What is the China Pakistan Economic Corridor?

In pursuit of China’s objectives, it gave new directions to its outward-looking policy with constructive engagement. “President Li aggressively persuaded this idea through the Silk Route, which comprises roads, rail networks and maritime routes. It is also known as “One Belt One Road”. Silk Route has been as a trade and financial initiative and economic integration with Pakistan. “China is building its leading role in Asia and beyond for economic and political cooperation through ‘One Belt One Road’” (Wang, 2015). China has effectively found ways for regional economic connectivity. To have more investment-led growth, China is moving toward integration of the region with shoreline. President Xi Jinping has launched One Belt & One Road (OBOR). The CPEC is a pivot of OBOR with multi-sectoral development program.

CPEC will steer a lot more economic and geostrategic gains for Pakistan and China. The business and trade interest of both China and Pakistan will be followed and Pakistan will be assertive in fulfillment of its geo-strategic interests. According to the Government of Pakistan, “about 51 countries including Turkey, China, Malaysia, and Russia are going to join the China-Pakistan Economic Corridor Project (CPEC) which will make Gwadar the busiest port of the region” (Federal Minister for Defense Production and Science and Technology, 2017). Through the CPEC project, “all parts of the country will be connected through networks of roads which will enhance economic activities across the country” (Siddiqi, 2017).

CPEC is envisioned by Chinese authorities under the vision OBOR initiative. It intends to employ soft power through trade and investment through the convergence of regional variances. The trade route through Gwadar will reduce the trade distance for China; from the Indian Ocean to 3000 Km. Since this port is strategically placed at the tail of the corridors and converges with the world oil-producing countries. It has envisaged an international airport, crude oil refineries and the ability to dock larger ships, turning it into a robust trade and transportation hub of the region. (Sabina Khan, 2016).

Pakistan and China signed many contracts, including two major agreements worth around $ 333 (m) for an airport in Gwadar a deep water port to provide a passage to the Arabian Sea from the Chinese province Xingjiang. Another one is worth $ 160(m) for the construction of the Havelian dry port in Pakistan, linking Gwadar to Pakistan highway network.

“The CPEC through its connectivity with Central Asia, the African Region, and the Middle East will reshape the existing economic and political relationship between the regions. Largely, the CPEC project has four stages:

a. Early Harvest 2015-2019, most of the projects related to the Energy Sector, which will be completed in 2019 adding approximately 7000MW electricity to national grid and thus easing the energy shortages and load shedding that had crippled the industry and exports.
b. Short term projects up to 2022, it includes mainly Roads, Gwadar Development, Optic fiber network and the Hydel, Coal mining and other Power projects.
c. Medium projects up to 2025, includes Railway and Industrial Zones
d. Long-term projects up to 2030 include completion of Industrial Zones, Agriculture development, and Tourism” (CPEC –Ministry of Planning and Development, Government of Pakistan).

Silk Route as a Game Changer Initiative

There have been many Silk Route initiatives historically, from the United States Silk Route Initiative to European and to the Turkish Silk Route Initiative. However China has approached the Silk route development with much enthusiasm silk route. This initiative is the answer to the question that why China could be at the core of the current wave of globalization? As mentioned above that “protectionist policies of US President Donald Trump taking the world towards de-globalization, through his promises of 45% import tax on Chinese products, the cancellation of the Paris climate agreement and efforts to end of the Trans-Pacific Partnership trade deal, China is going to take lead in the next wave of globalization for which the multilateral institutions would be a greater support” (The Economist, 2011). Since Trump does not apt with global and international affairs and its role is fading in the world trade affair, so it is giving room to other nations to play their role in shaping globalization and opening of economy and trade. Therefore, China is trying to take a prominent role in the world trade relations as the following chart illustrates the forecast that China can “overtake the US as the world’s dominant economic power by 2030, based on share of global GDP, trade and exports”.

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This reflects that China is furthering economic globalization through its One Road and One belt and also CPEC. This economic partnership of China will eventually heighten the economic alliances with not only South Asian countries but Australia, New Zealand, Japan, Central Asia, South Korea, and ASEAN as region.

China at the same time is lending billions of dollars in transportation as part of the OBOR in the African region. There is also the development of deepwater ports in cities such as Djibouti, Dakar, Dar-es-salaam. They will likely emerge industrial hubs like they are investing in Pakistan economic corridor.

CEPC is one part of the OBOR or the New Silk Road, the investment is critically important for Pakistan and equally it has significant for noncoastal Central Asia, through this trade and route connectivity it will bring prosperity, progress and economic growth in these states also Central Asia which remained as closed economy, now through CPEC will be connected to the world economy, and they will get this opportunity through the China initiative of investment and making more stakeholders. The Silk Route is expanding the concept of the “Global Village”.

Regional Connectivity and Multilateral Trade in CPEC
This project which is part of One Belt One Road (OBOR) initiative is underway with the focus of the Chinese on the creation of economic corridors for connecting mainland China with the Central, Western and Southern parts of Asia and Africa. The government of Pakistan has focused mainly on six areas for the expansion of CPEC which includes: Industrial Development, Trade, and Market Access, Agriculture Modernization, Blue Economy, Regional Connectivity, Gawader city, and Poverty Alleviation. These areas would determine the CPEC economic direction in coming five years. The outcome of these projects will bridge the gap between economic development and higher development. From the Chinese perspective, CPEC will enable a significant reduction in the existing trade and oil transportation channels of China through Gwadar deep seaport. For Pakistan it is anticipated that CPEC will contribute towards an additional 2-2.5 % gross annual economic growth of the country and will also create direct and indirect job opportunities from 2015 to 2030 (W Bhagat, 2017).

Pakistan’s trade is currently not much diversified in terms of commodities and trading partners as Pakistan trade mostly limited to the United States and Europe. The regions like Central Asia, East Asia which have resources have not explored by Pakistan Foreign and Economic Policies. Pakistan’s regional trade base widening is critically important, which will be made easy in the development of CPEC as it has regional connectivity for trade and commerce and it will add in the Pakistani merchandise in the global trade volume. This will be a greater contribution to economic globalization.

Key Pillars of CPEC Investment and Trade
There are following four pillars of the CPEC investment in Pakistan:

Investment in building the Gawadar Port and Strategic Importance of Gwadar Sea Port
“Gwadar is a natural doorway for China to build trade route via Pakistan, Afghanistan to Central Asia, projecting Pakistan as a South Asian GateKeeper for Southern, Central, and Eastern Asia” (Munir, 2015). “This way China will reduce its heavy reliance on Malacca Strait chokepoint. The emerging energy politics of the world has made the Gwadar port geo-strategically more significant. The existing sea route being used by China passes through the risky South China Sea, the Strait of Malacca and Sri Lanka. The Gwadar Port will reduce the sea distance to 2500 Km and land distance from Kashgar to 2, 800 Km because Kashgar is 4,500 Km from the main Chinese port. It will reduce distance along with millions of dollars saving for China” (Fawad Yousafzai, 2016).
These routes will be combined with different infrastructure development such as communication and Economic Zones. On the one side it will respond to the vision of the economic development of China and Pakistan, on the other the emerging regional countries from South Asia and Central, Africa region and Middle East, by converging into the development over three billion people. There will be increasing inflow and outflow of goods and services due to improved road infrastructure and facilitation Gwadar port. Since Pakistan has 200 million populations with major of its population consists of youth, therefore, the human capital can be a major source of to exploit. The Karachi city of Pakistan will be port city, will be getting benefit of having access to Gwadar port, which will bring huge investment and trade opportunities for the people of Karachi especially. Since this is already a financial hub Pakistan therefore, Karachi has the energetic private sector and business community in fishing and shipping and alonewith industries to take benefit of the Gwadar development.

**Investment in Energy Projects**

Given the Pakistan’s geography, being located at the crossroads of South Asia, China, Middle East and Central Asia it has incredible potential of strategic development, therefore, it can assist as the pivot for a regional market with a big number of population, huge natural endowment, and untapped potential for investment and trade. The major impediment is coming from energy crises with combination of terrorism which led to industrial losses and low foreign investment. The demand and supply are electricity sector are 7000 megawatts which cost Pakistan loss of 7 % GDP and being managed by many hours of load shedding in summer and winter also. Due to the excessive load shedding business and industrial production is severally affected downwards. With the rising demand for energy of Pakistan, and to bridge the gap between existing demand and supply, CPEC project has distributed a major part of the funding to energy generation plants and transmission infrastructure. A total of 21 energy projects have been planned under CPEC, which produces 16,400 Megawatt, which is sufficient for the current need and capacity of Pakistan. Some of them are early harvest projects which will start working in current year. The following are the project (Khaleeq (2017. included in CPEC, will contribute to Pakistan’s sustainable economic development.

**Investment in Infrastructure Development**

CPEC projects will invest in road and railways for connecting and developing the economic zones alongside the economic corridor i.e. Gwadar-Hosab, Khuzdar-Bisma, Karachi-Lahore Motorway, and the Karakorum Highway. This connectivity intends to boost inland trade and investment and will allow good access to market and consumer. Rail track will also be upgraded from Karachi to Peshawar to enhance connectivity and improve transportation facilities (CPEC (2017e). Nine Special Economic Zones are identified as nine, are also being established with the enhanced infrastructure input in its medium- and long-term projects, and with the combination of energy projects is focused on industrial growth of Pakistan, which will provide Pakistan with diversification of Pakistan export to international market. This will lead to the growth of business-related transportation, logistics and value-added export from Pakistan. Therefore, CPEC component of the industrial and infrastructural development is becoming an important instrument of reducing debt burden on Pakistan, generating revenue for repayment of CPEC loans also.

“CPEC projects created a strategic opening for Central Asian States to transport their goods and market them more competitive on the regional and global market while creating the trading interdependence. Pakistan desires to access Central Asia via Afghanistan to meet its energy needs and transport goods to the region. Moreover, CPEC has been portrayed as an opportunity to reshape the economic and political order in Central Asia by promoting a network of trade routes, political cooperation and cultural exchange” (Fuad Shahbazov, (2017).
Industrial Development Projects and Trade development

“Pakistan trade deficit is the core problem of Pakistan, the cooperation projects under CPEC will potentially allow for import substitution and export-led production. This makes the industrial cooperation component of CPEC an important tool for improving Pakistan’s trade deficit and, more importantly, generating revenue for repayment of CPEC loans and other debts”. At a micro-level, “Industrial investment under CPEC will bring massive industrial units clusters to the economy through Economic Zones. They will create jobs for skilled youth of Pakistan as government is trying to establish vocational center to exploit the benefit of CPEC employment opportunities”. The speed of the communication ways through road and rails will change at a fast pace so as the business interest ad opportunities through the CPEC investment. “According to a report (A discussion at Pakistan Defense Forum) as many as 700,000 new job opportunities for local people are estimated to be created by 2030 under the mega project of China Pakistan Economic Corridor (CPEC)”. “So far various CPEC projects have provided direct job opportunities to around 75,000 people across the country”, according to documents from China Embassy. “A recent study conducted by CPEC Centre of Excellence, Ministry of Planning, Development, and Reform of Pakistan showed that indirectly, CPEC could help create even 1.2 million jobs under its presently agreed project. Initially the project was for $ 46 billion then it was enhanced up to $ 55 billion, however, China has approved additional financing for infrastructure projects in Pakistan under the China-Pakistan Economic Corridor (CPEC), taking the investment volume to $62 billion from $55 billion. New investment has been approved for projects in various sectors including establishment of industrial zones” (Khan, 2017).

CPEC and Trade Sector Performance of Pakistan

“CPEC will alter the existing role of Pakistan by strengthening its domestic and foreign abilities capabilities including, infrastructure energy, communication, and economic zones. Therefore, its three years output would achieve a lot for both the Iron brothers, Pakistan and China” (Khan, H. U., & Khalid, I. (2018).

“Pakistan has recently witnessed a significant increase in exports as a result of rapid improvement in international trade and so as the trade deficit of Pakistan. As of 2015, Pakistan’s exports persisted at US$ 25.4 (b) which constitute of 9.44% of GDP, whereas, imports ended up at US $ (b), constituting 16.29% of GDP in the same year” (Khan, H. U., & Khalid, I. (2018). That reflects the huge gap between imports and exports. “If we look at the Pakistan share of imports from China in the year 2015 accounted at US$ 11.08 (b) which constitute 25.18% of Pakistan total import while Pakistan share of exports to China accounts’ US $ 1.93 (b) which was 7.56 of total exports of Pakistan to the world in the same year. (Irshad & Xin, 2015a). Trade policy has to play a critical role in giving boost to the trade in a country. The following chart shows over the years from 1992 to 2015 Pakistan trade share” (Hafizullah Khan, & Khalid, 2018).

Table 1. Pakistan total imports and exports to world and China (million US$)

| Year | Pak export to China | Pak import From China | Pak export to World | Pak import from World | Total trade deficit | (% Pak import share China) | (% Pak export share in China) |
|------|---------------------|-----------------------|---------------------|-----------------------|--------------------|--------------------------|-----------------------------|
| 1992 | 540                 | 420                   | 7,351               | 9,423                 | -2,072             | 4.46                     | 7.35                        |
| 1993 | 599                 | 436                   | 6,720               | 9,545                 | -2,825             | 4.57                     | 3.91                        |
| 1994 | 340                 | 475                   | 7,400               | 8,931                 | -1,531             | 5.32                     | 4.59                        |
| 1995 | 121                 | 515                   | 8,029               | 11,515                | -3,486             | 4.47                     | 1.51                        |
| 1996 | 118                 | 574                   | 9,365               | 12,189                | -2,824             | 4.71                     | 1.26                        |
| 1997 | 158                 | 584                   | 8,758               | 11,650                | -2,892             | 5.01                     | 1.80                        |
| 1998 | 422                 | 154                   | 8,514               | 9,333                 | -819               | 1.65                     | 4.96                        |
| 1999 | 446                 | 180                   | 8,424               | 10,207                | -1,783             | 1.76                     | 5.29                        |
| 2000 | 550                 | 244                   | 9,028               | 10,864                | -1,836             | 2.25                     | 6.09                        |
| 2001 | 487                 | 289                   | 9,238               | 10,191                | -953               | 2.84                     | 5.27                        |
| 2002 | 693                 | 236                   | 9,913               | 11,233                | -1,320             | 2.10                     | 7.04                        |
| 2003 | 259                 | 957.33                | 11,930              | 13,038                | -1,108             | 7.34                     | 2.17                        |
| 2004 | 300                 | 1,488.8               | 13,379              | 17,949                | -4,570             | 3.29                     | 2.24                        |
| 2005 | 435                 | 2,349.4               | 16,051              | 25,357                | -9,306             | 9.27                     | 2.71                        |
| 2006 | 506                 | 2,914.9               | 16,930              | 29,825                | -12,895            | 9.77                     | 2.99                        |
| 2007 | 613                 | 4,164.3               | 17,829              | 32,590                | -14,761            | 12.78                    | 3.44                        |
| 2008 | 726                 | 4,738                 | 20,323              | 42,329                | -22,006            | 11.19                    | 3.57                        |
| 2009 | 997                 | 3,780                 | 17,523              | 31,668                | -14,145            | 11.94                    | 5.69                        |
| 2010 | 1,435               | 5,247.7               | 21,410              | 37,807                | -16,397            | 13.88                    | 6.70                        |
| 2011 | 1,678               | 6,470.6               | 25,383              | 44,012                | -18,629            | 14.70                    | 6.61                        |
| 2012 | 2,619               | 6,678.7               | 24,567              | 44,105                | -19,538            | 15.16                    | 10.66                       |
| 2013 | 2,652               | 6,626.3               | 25,121              | 44,647                | -19,526            | 14.84                    | 10.36                       |
| 2014 | 2,252               | 9,584.8               | 24,706              | 47,434                | -22,728            | 20.21                    | 9.12                        |
| 2015 | 1,934               | 11,079                | 22,188              | 44,219                | -22,031            | 25.05                    | 8.72                        |

Source: US COMTRADE Statistics, cited in Irshad et al., Cogent Economics & Finance (2018).
Exports sector work as an engine of growth of globalization in present-day world. A large part of the revenue comes from the trade of Pakistan. Intriguingly, the financial aspect of CPEC has now entered another avenue as authorities from both countries have recently agreed on settling the trade in local currency, Pak rupees or Chinese Yuan (D. T. Miller, 2017). Trade volume has a direct impact of current account deficit of Pakistan and trade history shows that Pakistan remained helpless in balance of payment crises due to weak macroeconomic framework. The most recent period of 2018 current account deficit reached the highest level to US$ 18.09 (b). The major contributor in deficit was trade deficit and according to the data extracted from statistic Division, the import increased from US $ 43.8 (b) in 2012 to US $ 57.4 (b) in 2017. This deficit of US$ 35 (b) Pakistan's international economic ranking is badly affecting. Lack of exports is turning Pakistan into one of the closest economies whereas Pakistan was the first country to open its border for international trade. Exports of goods and services as a percentage of GDP for Pakistan had declined from 12.4 to 8.2 % in 2017 which is lowest even in the region (Aadil Nakhoda, 2018).

Therefore, Pakistan has lost in Pakistan Foreign Trade and Payment Risks score 57 of the Economist Intelligence Unit i.e. 75 out of 100 (highest risk) as compared to India at 50 and Bangladesh at 57 (Economist Intelligence Unit). Since Pakistan’s economic growth and export are mainly dependent on Agriculture products, there the trade policy encouraging Pakistan manufacture investment is badly required for developing an industrial base and boost export. The following chart shows the value of Pakistan's overall import and export to the world in general and Pakistan to China. However, in first round of China and Pakistan Free Trade Agreement in 2015, there was some mounting tendency in two-sided trade and there were more imports up to US$ 11 (b) as compared to around a decade ago in 2006 was 2.91 %. China was able to create a win-win situation targeted by providing common benefits of market to its counterpart’s (M. S. Irshad, & Xin, Q. (2015b).

The backlash of globalization on the one side and increasing economic integration through CPEC is a lesson that signified that CPEC can work as promoter of trade relations, market expansion to the different regions and resultantly socio-economic uplift of Pakistan.

Pakistan will secure its advantages out of increased integration and improved trade routes and railways through CPEC, diversifying trading partners with other Belt and Road Initiatives of China. Special Economic Zones will provide greater economic and enterprising opportunities to business communities in Pakistan. However, the caution should be that the exports can be boosted only by ensuring value addition in the traditional and conventional manufactures process of Pakistan. China and Pakistan can bridge Pakistan’s current trade deficit by lowering the trade, tariff and non-tariff barriers. At policy level amicable directed policy measures are required to utilize CPEC for future macroeconomic stability. Despite the growth of other sectors, agriculture sector still has to be treated as a vital component of the country’s economy.

Physical development and reduction in transport costs have to be complemented by CPEC and Export Performance of Pakistan January 04, 2017 reduction in production costs and trade barriers so that the share of local products in global trade increases and the economist also expecting a positive impact of CPEC on FDI (S. Kumar, 2007). Further as per a study, CPEC has up to 6 % growth in GDP which ultimately results in FDI in the form of CPEC and it will be largest FDI in Pakistan. It is important to note that Pakistan has major bilateral trade with China in 2014 is 11. 85 (including import, 9.6 and export 2.25) US $ Billion and Pakistan total trade with rest of world is 72.26 (47.54 import and 24.772 is export) US $ Billion (Irshad, Xin, Q., & Arshad, H. (2015). The CPEC will ultimately support Pakistan to overcome the problem of energy problems and lead to higher export than imports in future. Pakistan’s foreign direct investment (FDI) is continuously declining from $ 5.2 U.S billion, from 2007-08 to 2761.1 million U.S $ in 2016 as reported by State Bank of Pakistan15. As shown in figure 4 the historical data of Pakistan’s trade from 2010 to 2016, reflects a declining trend mainly due to political instability and worst security situation in Pakistan. Fortunately after 2016 start of CPEC kicked off the FDI to 30 million US $ (Bahoo, 2018). According to an assessment CPEC can boost the GDP growth up to 6% through the projected FDI. “It will give the companies an opportunity for competition. Pakistan has to take the cognizant of the fact that competitiveness shall be the key. CPEC shall push corporate sector to think about innovation and work to be competitive” (Kalbe Ali, 2016).

Conclusion
CPEC is a joint endeavor of Pakistan and China. An ambitious initiative is taken for regional economic integration and prosperity through trade routes and railways and Ports. The people of Pakistan feel secure with this investment in a way that China has a long and sustainable history of reliable relations with Pakistan and there was no move against the national integrity of Pakistan. “CPEC’s spillover effect from South Asia to Central Asia, the Middle East and to Europe, moreover, gives a boost to new wave to globalization and another power which is termed by Joseph Nye’s soft power. Particularly when more than two regional actors like Pakistan and China including 42 countries who are beneficiaries of OBOR initiative back CPEC. The actor who is week will seek economic interdependence.
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for political interests Russia, Iran, Afghanistan, Turkey, and the Central Asian states also want to become stakeholders in CPEC” (Rasool, et al., 2018).

However, “the reality of CPEC in Pakistan is also different from illusion. If completed as planned, CPEC’s productivity would be equivalent to 17 percent of Pakistan’s 2015 gross GDP, and as many as 700,000 jobs would be created. Pakistan's economy during last 5 years has gone into negative, whereas as a result of CPEC Pakistan could witness economic growth again to 3.5 percent. Moreover, a new wave of economic opportunities can emerge. Local entrepreneurship is also going to increase in Pakistan. China–Pakistan Economic Corridor (CPEC) is a collection of arrangement of different projects including infrastructure that are being built in Pakistan throughout Pakistan. The volume of investment in Pakistan initially was US $ 46 (b) but the later the investment amount has been enhanced by the Chinese government and the value of CPEC projects is worth US $ 62 billion as of 2017” (CPEC, 2017). Though CPEC is understood mostly a Pakistan-China centric, however CPEC through its trade routes, infrastructure development, and regional integration is intended to strengthen economies, which will further the economic globalization of the present millennia. Pakistan’s strategic location has translated into the economic opportunities through CPEC and contributing in the regional stability. It will shift Pakistan trade dependency on a north-south trading corridor. Pakistan is following the principle of distributional economics, and intends to take an inclusive approach towards growth and distribute the dividends of the CPEC to the different countries as stakeholders this region will change into a new economic hub in the world.
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