Working Paper # 027

CPEC WORKING PAPER SERIES

# CPEC as Driver of Foriegn Direct Investment (FDI) in Pakistan: An Opportunity to Reshape the Economy

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# CPEC AS DRIVER OF FOREIGN DIRECT INVESTMENT (FDI) IN PAKISTAN: AN OPPORTUNITY TO RESHAPE THE ECONOMY

By

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**ABSTRACT**

*In macroeconomics literature foreign direct investment (FDI) is thought as a significant determinant of economic development, especially in the developing countries like Pakistan. FDI is not just considered as the source of capital formation but it also triggers the technological transformation, value addition and innovation to improve the managerial skills and market access. These all are critically important for higher growth trajectory. The joint project of China Pakistan Economic Corridor (CPEC), which is worth around US$ 59 billion as of now, would give a new turn to the FDI inflows to Pakistan from all over the world especially from the People Republic of China (PRC) through evolution in the development of large-scale manufacturing and conducive business environment. The aim of this study is to investigate and to identify the key determinants and barriers of FDI inflows to Pakistan. Moreover, this study evaluates the potential impacts of CPEC project on charm of FDI to Pakistan through different sectorial contributions and provides brief policy recommendation. It is concluded that FDI inflows are the need of the hour for Pakistan to capitalize the potential impact of CPEC and to overcome the domestic savings-investment gap with the uplift of business conduce infrastructure development. Historically, the fundamental factors behind the low FDI pattern of Pakistan, is the lack of hard infrastructure such as national connectivity, energy etc. while the development and availability of such infrastructural facility, itself required a massive FDI, in case of Pakistan due to high fiscal deficit and other macroeconomic issues. This vital role is being played by CPEC, while enlargement*

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*of large-scale infrastructure. Moreover, the long-term plan of CPEC is to explore further venues for attraction of FDI in Pakistan.*

**Keywords:** CPEC, FDI, Pakistan Economy, Energy, Infrastructure, Special Economic Zone. CPEC Long Term Plan (LTP).

# 1. INTRODUCTION

It is well evaluated in the macroeconomic literature that savings and investment are the essential factors for economic development, high savings rate led to excessive domestic investment, which is fast-track the capital accumulation and fixed capital formations and accelerate the country growth path. However, in developing economies such as Pakistan the level of domestic saving prevails below the desired level (Khan, 2007). In Pakistan, domestic saving accounts around 9 percent of GDP while domestic investment dregs 12 percent to GDP in FY 2016[4]. This fragmentation and gap between savings and investment could be fulfilled by the foreign capital inflows or FDI. FDI may be defined as "private capital inflow from a parent firm to a location outside of the parent's firm home nation". These investments comprise of equity capital, inter-company debt, and reinvestment incomes. An investment is take as FDI, as opposed to portfolio investment (PTO), it should be large enough to give some control over the management of the company, usually more than 10 percent (Jensen, 2003, p. 588). The intentions of FDI are vary across various sorts of FDI. The main purposes are clustered under market-seeking, resource-seeking and efficiency seeking reasons (Akhtar, 2000).

The volume of Pakistan financial market is too narrower, and its foreign exchange and debt situation is uncertain. During the last year, foreign exchange reserves in Pakistan are sharply declining from US$ 22.2 to 18.7 billion in FY 2016-17, and this downward trend would persist for the FY 2017-18 (See figure 01). Similarly, foreign debt has also

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[4] World Development Indicators (WDI), World Bank Group. https://datacatalog.worldbank.org/search/type/dataset

raised significantly. These growths upturn the prerequisite for attracting FDI into Pakistan. However, concessional long-term development assistance, both multilateral and bilateral, will become increasingly rare due to domestic financial constraints in main donors, such as Pakistan's increased competition with other developing countries like Bangladesh, India, Sri Lanka, and Viet Nam etc. International financial donors including the Asian Development Bank (ADB) will emphasis on soft sectors such as advancement and upgradation of agriculture sector, rural development, health and education, environment, poverty alleviation, eradication of inequalities and pro-poor growth, while the hard sectors such as manufacturing and large-scale physical infrastructure ( Road and Railways, Energy etc) are expected to be capitalized and financed by the private sector investors and foreign investors through FDI as well as the Government of Pakistan (GOP).

**Figure 01: PAKISTAN FOREIGN EXCHANGE RESERVE** (US$ Million)


To attract FDI in the country like Pakistan, liberalization of trade and investment regime by relaxing duties and offering special incentives to foreign investors, such as tax concessions, tariff reductions or exemptions and subsidization of large-scale infrastructure is required (Zaidi, 2004). This policy have been potential impact in fasttracking FDI inflows to least develop economies. The policies sections by the host-countries have a significant influence on the FDI inflows. To attract high FDI inflows, the host economy may adopt solid and investor friendly policies and supportive infrastructure such as availability of cost-effective inputs, mandatory skills-set to build and restore the confidence of foreign investors (Khan, 2007). This factor paly key role in the decision making of any foreign investors in term of sections of destinations for investment.

Pakistan is a resource-rich and labour abundant country, but relatively poor infrastructure base, acute energy shortfall, low FDI and narrow large-scale manufacturing base have created barriers for integration with global economic arena, technological spillover and export promotion and import substitutions. These bottlenecks have restrained total factors productivity-TFP over the last decades. In such situations, the investment of US$46 billion under the project of China Pakistan Economic Corridor (CPEC) is a blessing in disguise that is supposed to revive the economy of Pakistan. When market forces fail to bring convergence in the economy, government intervention to overcome the situation becomes necessary. For Pakistan, this vital role of savior is being played by CPEC, which aims to fulfil the investment savings gap, improve the industrial base and shape the manufacturing sector.

CPEC is framework of various plans and strategies entailing solution for major problems and bottlenecks of Pakistan economy. The key features of the program are: institutional collaboration in both countries, to overcome domestic energy crises, advance the transport infrastructure through the construction and rehabilitations of roads and railways, and promote cooperation in different sectors such as trade and industrial, agriculture, tourism and regional connectivity.

Concerns associated to energy and infrastructure are capitalized and around 13000 MW of energy would be added in the national grid by 2018. More than 3000 Km of upgradation and construction of roads and motorways are carried-out to strengthen the national and trans-national connectivity. Upgradation and renewal of railways are dedicated to advance the passenger and cargo transformation inside the country. About 820 km optical-fiber venture is close to completion.

Under the pillar of Industrial cooperation between China and Pakistan are consider the signification component of cooperation under the CPEC framework and would be consider the starting point of the new ear of FDI inflows in Pakistan. Which will developed grounds of well utilization of newly generated energy, infrastructure and Gwadar port. In this respect, nine Special Economic Zones (SEZs) are established between China and Pakistan targeting at the expansion and enlargement of the manufacturing sector while attracting the domestic, and foreign investors particularly the China investors under their initiative of industrial relocation. The key infrastructural and capacity bottlenecked are going be remove due to CPEC, which are historically consider the barriers for FDI inflows in Pakistan. Thus, the overall aim behind FDI attracting is to boost-up exports, substitute imports, and capitalize technological transformation and to promote the Pakistani products in the international market.

The central intentions of this study are to investigate the key determinates and barriers of FDI inflows to Pakistan. Moreover, to evaluate the potential impacts of CPEC project on charm of FDI to Pakistan through different sectorial contribution and finally provide brief policy recommendation. The rest of the paper is organized as follows. A review of related literatures is given in the next Section. The role of FDI in Pakistan is given in section 3. In Section 4 is the discussions about the contributions and impactions of CPEC. Section 5 is consisting of land term plan of CPEC in Section 6 is the final section contain conclusion and policy recommendations.

## 2. LITERATURE REVIEW

Numerous studies bring supportive evidence that FDI applies significantly positive effect on economic growth through technology spillovers in the country, human resource development and form access to the new markets via sectorial diversifications and import substitutions. FDI considered sustainable investment as compare to portfolio and making countries less vulnerable and less uncertain to abrupt capital outflows (SBP, 2009 and Kose, et al., 2003). Farkas (2012) examine the role of FDI on economic performance determination in any economy, applying the regression analysis and reported that FDI has affirmative association with GDP and its impact depend upon the capacity of the host country, trade and business policies and expansion of the fiscal markets. Hameed and Bashir (2012) evaluate the impact of FDI on economic growth for MENA stats, using econometric model. As per their finding and results of the study that FDI leads to Economic Growth but differs across the region and over time because of the regional difference and variation in the country competitiveness in different sectors. They also explored that FDI is affected by change in domestic investment pattern and liberalization in international trade.

Key elements of FDI inflows have incorporated the extent of the host markets, in term of GDP. The extent of the market has been extensively observed to be a critical impetus for FDI, and now and again it has ended up being to be the most imperative inspiration for capital inflows in the economy. A bigger market gets higher rates of profitability by permitting a more effective use of assets and the abuse of economies of scale (Moore 1993, Wang and Swain 1995, Raggazi 1973). Chakrabarti (2001) have ordered a moderately far reaching rundown of studies which have distinguished the measure of an economy as a significant determinant of FDI inflow for created and creating economies. The measure of the market, be that as it may, may be less compelling, or even unimportant, when FDI is contributed to misuse the host nation exclusively as a creation base; that is, to procure benefits from the cost favorable position of the host economy by sending out the generation, all the more intensely, to business sectors at home or in third nations (Agarwal 1980).

Onakoya (2012) looks for the effect of FDI on GDP in various divisions and presumed that the impacts of Imports substitution and fares situated economies is unique and bolster the Bhagwati's theory which implies FDI's overflow impact in significantly more prominent in the last economy than the previous economy. Tueanh and et al. (2010) do the investigation in the Vietnam to see the overflow impacts of FDI in its economy. Endogenous development demonstrate is utilized and get the outcomes that there is little proof of overflow impacts of FDI at miniaturized scale level.

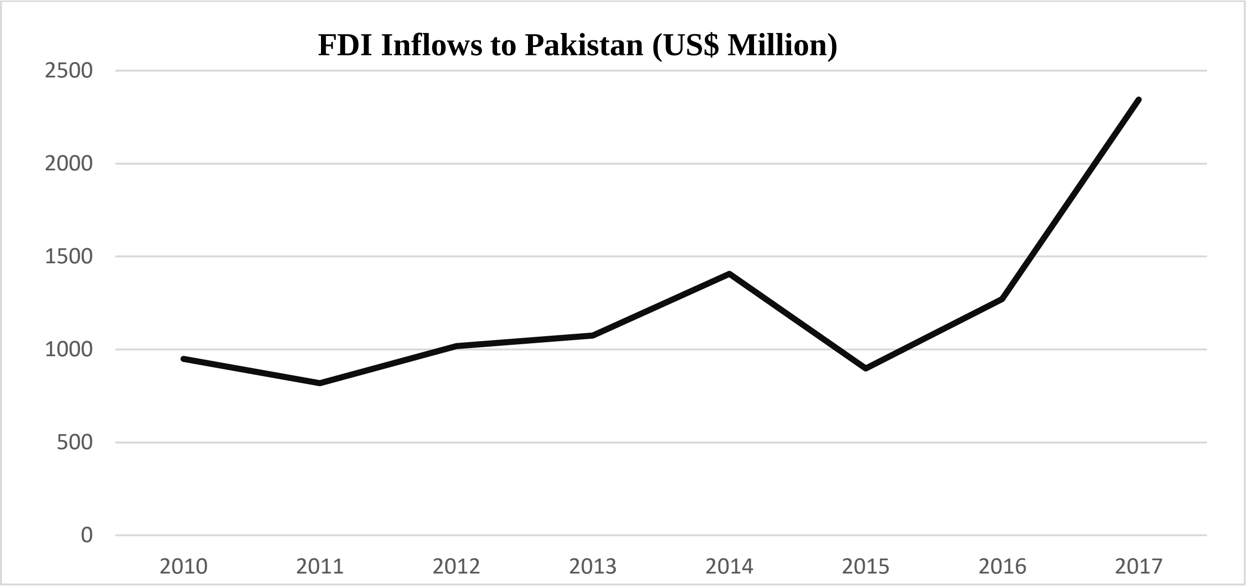
The instability of the host nation currency has a tendency to decrease FDI inflow by discouraging the repatriation of investment returns. Actually, a positive connection between FDI inflows and exchange rate volatility may be found if investment in the domestic market is utilized as a substitute to exports. At the point when change is judged as too high, one approach to get away from the ideas of the currency markets is to coordinate FDI into the domestic market. In the short run, unpredictability and volatility will prompt more FDI inflows. Over the long, however, the negative impacts of instability in attracting FDI will exceed the constructive outcomes because of the instruments depicted above (Harvey 1990). Dunning (1993) presented an Ownership-Location-Internalization (OLI) worldview to clarify FDI by Multinational Enterprises. Dunning's location position hypothesis gives a structure to distinguish imperative factors that impact FDI utilizing three primary classifications: monetary, social or social components, and the political condition. Generally, Dunning presumes that nations that pull in investment by multinational firms have a substantial and developing growing market, a high GDP, low cost of production, and political strength.

As an emerging economy, Pakistan adopts liberalized investment policies for FDI, offering complete return on capital and benefits, 100 percent profit repatriation. MNEs are covered with Foreign Private investment Promotion act of 1976 and Protection of Economic Reforms act of 1992. Pakistan centers on limiting procedure of doing business, arrangement of business infrastructure and tax and duty freedoms for MNEs (KPMG, 2013). The current literature about the role of FDI in Pakistan for the mostly targets trade (Dutta and Ahmed, 2004; Iqbal et al., 2010). Additionally, the literature demonstrates a long run correlation between of FDI inflows and GDP grwoth of Pakistan (Ahmad et al., 2003, Mughal, 2008, Khan and Khan, 2011, Zeb et al., 2013, Aqeel and Nishat, 2004, Rahman, 2014, Younus et al. (2014), Abdullah et al., 2015 and Dar et al., 2015). FDI inflows moreover improve local investment spending and exports. (Ahmad et al., 2012; Ghazali, 2010). The overflow of FDI alongside monetary expansion further advances economic growth (Shahbaz and Rahman, 2012). Likewise, FDI works together with local venture to promote economic development (Dar et al., 2015). The current literature on Pakistan are of time series measurement, focusing on a general effect of FDI on domestic investment, trade and economic development. This study tends to center another measurement of FDI-economic growth nexus. This research focuses on the FDI led development theory by sector wise study of Pakistan.

## 3. ROLE OF FDI IN ECONOMIC PROSPERITY OF PAKISTAN

Since the inception in 1947, Pakistan has had an FDI history. "SIEMENS" was the first German origin MNEs, comes in the telecom business in Pakistan. The second organization was the British firm ICI in chemical and pharmaceutical manufacturing sector. After that the Lever brothers at present Unilever, the Imperial tobacco organization, the Shell and the Burma oil added to building up their business in early years of Pakistan. In the 1960s, a critical development in Pakistan's economy was watched. In the meantime, the nation took after a policy of limiting the trade and investment, because of which the inflow of FDI to Pakistan was debilitated. As indicated by Sahoo (2006), at the beginning policy for FDI was that the greater part of stakes stayed with the local firms. Mughal (2008) portrayed that the savings rate in Pakistan dipped under 15 percent and the investment rate demonstrated around 17 percent. Because of this reality, there existed a gap between the savings and domestic investment which crowd the nation depended on the FDI to fill this gap. Furthermore, in the times of 1970s, Pakistan sought after an approach of confidence by gloating import substitution merchandise in the nation and depended just on the foreign assistance to fill this gap.

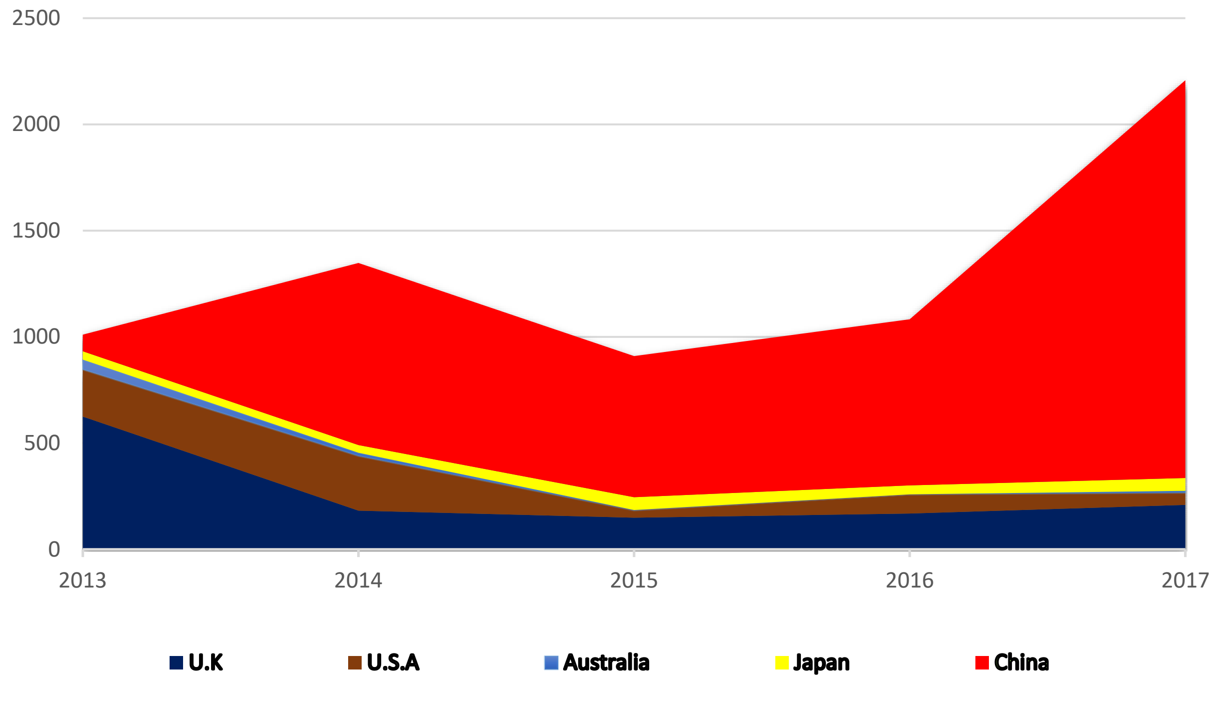
As indicated by Khan and Khilji (1997), in the 1960s, the GOP adopted more open policies for industrialization and FDI inflows by opening twenty-four key sectors for private financial investment. In 1960s was altogether ruled by the private sector, however FDI was not taking an interest in the banking and service sectors, so these sectors stayed held just for the local investors (Zakaria, 2008). In the 1970s, the administration changed over from the liberalized and open policies of 1960s to the approach of nationalization because of which the FDI inflow into Pakistan was incredibly demoralized (Khan and Khilji, 1997, Zakaria, 2008). The foreign investment act of 1976 was affirmed with a specific end goal to advance FDI, the MNEs were ensured by this demonstration to transfer their capital and profits whenever. In 1980, the government presented Public Private Partnerships (PPP) model for sharing in some institutions. Similarly, they made its framework more liberal to bring FDI. A fixed exchange rate regime ware removed and lunched the Export Processing Zones (EPZs) with a comprehensive tax incentive package (Zakaria, 2008). Anwar (2002) specified that in the 1990s the GOP additionally attempted some administrative measures to pull in FDI. The limitations on the capital mobility were lifted. The investors from abroad were permitted to keep 100 percent value of the business without an earlier endorsement. The exchange of shares to nonresidents, the transfer of dividend earnings, and the disinvestment were permitted without the earlier endorsement of the State Bank of Pakistan. (Khan, 2008). In 1997 they likewise permitted investment the agriculture and services sector which were previously banned for (Sahoo, 2006). In earlier 2000s, the center motivating force of the government for charming FDI was deregulation and privatization of the economy (Zakaria, 2008). Khan (2007) likewise depicted that the legislature has opened up all sector for FDI along the service sector which was banned for foreigners. The GOP additionally safeguarded and give insurance to the foreigner investors, while possessed associations completely, nor be municipalized and not be taken under control by any methods.



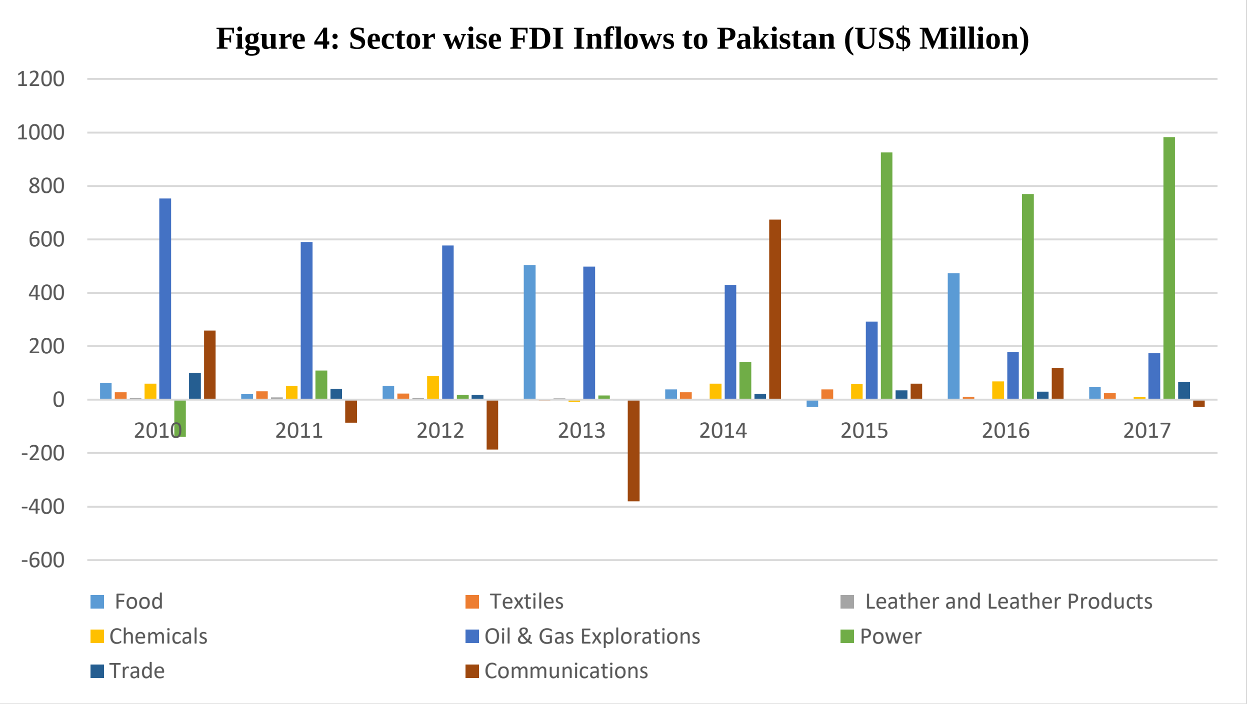
Source: State Bank of Pakistan

They also remove the necessities of acquiring No Objection Certificate (NOC) from the local administration and authorities, now anyone can begin an undertaking at anyplace in the country. The approach picks specified above taken by the GOP at the most recent three decades were imagined enhancing FDI in every part of the economy. In any case, the impact of FDI inflow stayed held up because of different factors, for example, rent seeking, low property right and contract enforcement etc. figure 2 shows the FDI inflows in Pakistan from various nations for FY- 2010 to 2017. The FDI data in figure 3 characterizes the PRC, the United Kingdom and the USA were at the highest priority on the rundown amid this time. In the monetary years 2015 to onwards, a reliably rise in FDI inflow is recorded from PRC because of CPEC project. Most of the FDI comes in the power sector under CPEC (see figure 4) and second priority sector for FDI investment is food processing while the oil and gas exploration sector are also getting momentum in Pakistan in term of FDI attraction. Moreover, after the capitalization of CPEC framework, it is expected that such FDI inflows attract to the industrial sector as well, the key logic as that the basic barriers for industrial sector are going to be tackle under CPEC.

**Figure 3: Country wise FDI Inflows to Pakistan (US$ Million)**




Source: State Bank of Pakistan

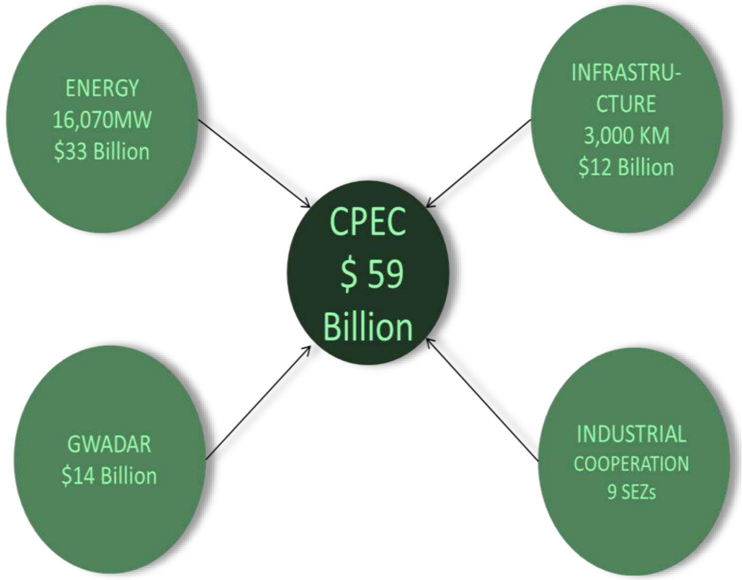



Source: State Bank of Pakistan

## 4. EARLY-HARVEST CONTRIBUTIONS AND IMPLICATION OF CPEC.

China Pakistan Economic Corridor (CPEC) is an energy drawn infrastructure development project of Pak-China, worth around US$ 59 Billion as of now, to draw Roads/Railways and provide connectivity between the Western Chinese city of Kashgar (Xinjiang) to the Southern coast-city of Pakistan, Gwadar (Balochistan), into the Arabian Sea. CPEC includes, projects related to regional connectivity through infrastructure development, power generation and industrial cooperation. This has not only offered great opportunities for the economic prosperity of China, as well as, it is considered a game changer and a fate changer for Pakistan economy. It has the potential to give a tremendous boost to the socio-economic development and strategic significance of Pakistan. CPEC is a flagship project of the “Belt and Road Initiative” (BRI) of China, which will link the Pak-economy to markets in Asia, Europe and beyond, through development of large-scale infrastructure, fulfillment of energy demand and transformation and diversification of manufacturing sector through establishment of SEZs. The CPEC framework consist on four dimensions such as Infrastructure, Energy, Gwadar and Special Economic Zone (SEZs), combine it is terms as 1+4 portfolio of CPEC, which is as follows:

**Figure 05: 1+4 Portfolio of CPEC**




Source: [www.cpec.gov.pk](http://www.cpec.gov.pk)

### 4.1. Energy Projects under CPEC

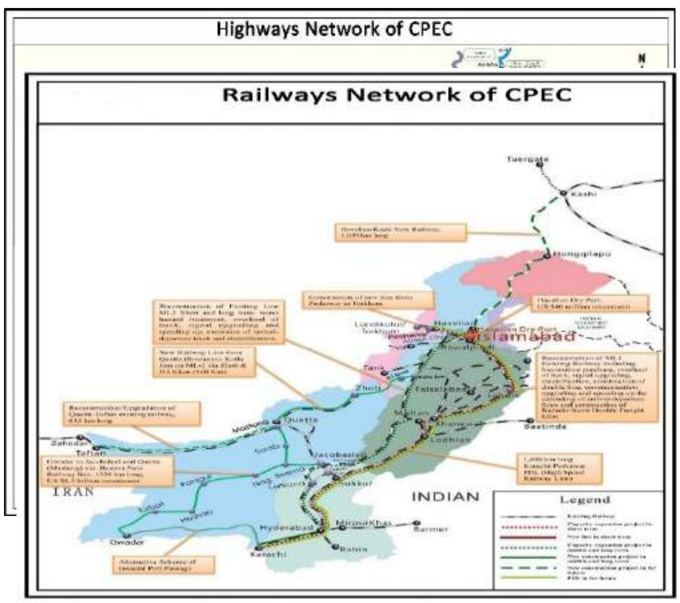
Pakistan facing extreme energy crisis in the country. To be economically stabile, conducive for businesses and foreign investments or FDI inflows, the energy requirement should be strengthened on priority basis. In 2008 and onward the energy supply and demand gap ware widen enough, due to that the period of power cut reached more than 18 hours a day across the country. The geographical location and natural resources abundant further make it essential of us to ensure the energy security. But, unfortunately to fulfil the energy demand in such a short time period, we were required huge investment and latest technology, to add around 8000 megawatts (MW) in the system to overcome the crisis in short run. The current fiscal deficit and foreign debt account wasn't allowed the government to bring any public investment in the energy sector, only opt left was IPP policy for private investment in the power sector. This is was the only policy variable ware left behind, for attraction of FDI in the power sector.

So, with inception of CPEC project energy is considered the priority of agenda in the framework and planed around US$ 34 billion, investment in 19 projects with a capacity of around 13000 MW. The timeline for the projects were set just 3 year, to add the power in the national grade (see. AI from Appendix).

It is expected that Pakistan would get energy security, due the incorporation of this 13000 MW by the end of 2019 at the national grade through CPEC project and other hand eliminate the one the key bottlenecked for FDI inflows.

### 4.2. Infrastructure projects (Road, Railways and Optical fibre)

For a greater economic impact, improved road and railway connectivity is the ultimate necessity condition for Pakistan, to reduce the cost of production through cheap and easy excess to the raw marital, explore the new site of minerals and market capacity development, accelerate urbanization and improve the national and transnational connectivity. This is because economic return to investments in physical transport infrastructure is dependent upon the corresponding progress with transit and trade persistence. The existing road and railway network in Pakistan is in a critical condition. Due to the problem of



infrastructure, there has been a lack of bilateral trade between Pakistan and its neighbouring countries. Unfortunately, the road and railway network in Pakistan has not been able to renovate itself. The system at present is substandard and not able to sustain the volume of the new load and it does not provide links to the remote areas of Pakistan. CPEC portfolio offers a carefully coordinated and sequenced network of roads and railways. This network will increase the effective movement of containers and cargo to and from the various cities across the country.

**4.3. Port City in Gwadar.**

Gwadar is actually the tail of the PRC initiative of “Belt and Road Initiative”-BRI, which will associate Kashgar through various correspondence systems. Gwadar holds focal place in the investment of the CPEC on the grounds that without making the Gwadar Port completely functional, it is hard to see the expected route as a strength that shows up as one of its fundamental goals behind the development of the CPEC. Situated close to the Strait of Hormuz, which channels around 33% of the world's oil exchange, Gwadar could play a enter part in guaranteeing China's energy security as it gives a substantially shorter route than the current 12,900 km course from the Persian Gulf through the Strait of Malacca to China's eastern coastline.

This project not even offer the opportunities for China but huge potential for FDI inflows to Pakistan not just from PRC but from all over the globe.

**4.4. Special Economic Zone (SEZs) under CPEC.**

Under CPEC framework both side agreed on the establishment SEZs in the 6$^{th}$ JCC (Joint Cooperation Committee) meeting. GOP proposed development of nine SEZs, situated across the country in various locations, including Punjab, Sindh, Balochistan, Khyber Pakhtunkhwa (KPK), Azad Jammu and Kashmir (AJK), Federal Administrative Tribal Area (FATA) and Gilgit Baltistan (GB). In CPEC portfolio, the system of modern participation means to move Chinese enterprises to the previously mentioned Pakistani SEZs through various plans of action, for example, joint endeavors, and others. Therefore, to contribute up-review and progression of the modern division and partaking in the mechanical change, advancement and esteem expansion to the Pakistani assembling area, various joint endeavors and open private associations for zone improvement are required. Aggarwal (2010) likewise brings up that in the creating scene; very nearly 65% of the zones are produced and worked by the private division. To draw in the speculator and especially the privet segment and FDI the BOI offer a complete bundle of budgetary motivator to the financial specialists' over the world (see informative supplement 02). Through Pakistani SEZs improvement by 2018-19, turnover of PKR 1 trillion is normal with the formation of 2,000,000 employments (Dawn, 2016). The following is the rundown of nine proposed SEZs under CPEC (Table 1).

**Table 1: Special Economic Zones under CPEC**

| S.No | Name of Zone | Location |
|---|---|---|
| 1 | ICT Model Industrial Zone | Islamabad-Federal Government |
| 2 | Industrial Park- Port Qasim | Karachi- Federal Government |
| 3 | Mohmand Marble City | Federal Administrative Tribal Area (FATA) |
| 4 | M-3 Industrial City, Faisalabad | Faisalabad City-District Faisalabad-Punjab |
| 5 | Rashakai, Economic Zone (REZ) | M-1-Khyber Pakhtunkhwa (KPK) |
| 6 | China Special Economic Zone | Dhabeji-Thatta-Sindh |
| 7 | Boston Industrial Zone | Boston- Baluchistan |

| | | |
|---|---|---|
| 8 | Moqpondass Special Economic Zone | Gilgit Baltistan (GB) |
| 9 | Mirpure Industrial Zone | Azad-Jammu and Kashmir (AJK) |

Sources: Ministry of Planning, Development and Reform

## 5. LONG TERM PLAN OF CPEC AND IMPLICATION FOR FDI INFLOWS

Long Term Plan of CPEC gives us a theoretical structure for CPEC. It is a national plan that has received the approval of both Chinese and Pakistani Government. National plans of China as well as Pakistan vision 2025 will be efficiently matched by it. This plan is in effect till 2030 and it will provide guidance on macro level regarding the implementation of CPEC. The relations of China and Pakistan have been constantly strengthening and progressing. Chinese and Pakistani governments have realized the utmost significance of CPEC. CPEC is a project that is capable of bringing economic and developmental reforms within this region.

Since the visit of President Xi Jinping to Pakistan in April 2015, there has been introduced new connotations such as “1+4” cooperation mode. It means CPEC will be the core priority and simultaneously Gwadar Port, Energy, Transport Infrastructure and Industrial co-operation are also prioritized. Both countries have developed a mechanism of cooperation for the coordination of CPEC’s development and have jointly formulated this plan.

CPEC is a project which is the axis of mutual advantages, collaboration and mutual progress. It is primarily based on collaborative projects for the construction of infrastructure, industrial growth, betterment of economy and security in regions. Marvelous progress has been made by China-Pakistan cooperation in sphere of economic and social development. China-Pakistan trade has continued to increase rapidly with the annual growth rate of 18.8% on average in last five years. Based on complementary sources, there is a significant potential for China and Pakistan to make their cooperation strong. China possesses advantages in infrastructure construction, equipment and investment. On the other hand, Pakistan has rich human and natural resources as well as significant capability for economic growth. In fact, Pakistan has the potential to transform itself into "Tiger of Asia" as it has been blessed with several natural endowments and a vast domestic market. Furthermore, Industrialization and Urbanization is very likely to be increased at a great speed in Pakistan.

The recovery of world economy and the better external environment is a significant opportunity. The environment of industrial cooperation between China and Pakistan has ameliorated. By means of the Belt and Road initiative, connectivity to other countries will be improved to a great extent. There has been stability in the economy of Pakistan. Economic growth has been boosted and level of inflation is low. Nevertheless, with opportunities there come challenges. There is uncertainty in the geopolitical atmosphere in South Asia. South of Xinjiang of China is weak industrially and has a limited scale of economy. Owing to geographical constraints present in China-Pakistan border area the construction of infrastructure projects is costly. The momentum of Pakistan's economic growth must be sustained.

There are multiple aspects of vision. This contains promotion of economic and social development in western China and the formation of new open economic system. Moreover, it also contains the optimum utilization of the demographic and natural sources by boosting the industrial capacity of Pakistan. Formation of new industrial clusters and enhancing people's wellbeing and stability. The formation of new international logistics network and industrial layout on the basis of infrastructure of transportation is also a part of this vision. Beside this, the betterment of the South Asian and Central Asian countries is also included in this vision. By 2020, to take initiative of addressing major bottlenecks of Pakistan's economic and social development and to take initiative of addressing major bottlenecks of Pakistan's economic and social development. By 2025, to improve the livelihood of people, balancing of regional economic development, completion of industrial system and to accomplish all the goals of Vision 2025. By 2030, to achieve a mechanism for sustainable economic growth in place. To make South Asia able to grow into an international economic zone with global influence. By means of collaboration, Pakistan and China shall share the responsibilities and fruits with the aid of “1+4” collaboration pattern in the following area of energy, infrastructure, port and industry. Jointly developed Principles of Collaboration as:

- There shall be spirit of partnership toward prosperity.
- International community shall be invited to provide intellectual support to the CPEC.
- There shall be improvement in livelihood and sustainable development.
- There shall be orderly development with priorities highlighted.
- There shall be government guidance and market-oriented operation.

### 5.1. Key Cooperation Areas

#### 5.1.1. Regional Connectivity

Transport infrastructure is a field of prime significance which is the basic requirement for the construction of the CPEC. By means of collaboration, amelioration in the infrastructure has become possible as there is can be formed highways, railways, ports etc.

#### 5.1.2. Information network infrastructure

It is of utmost significance for China and Pakistan to enhance information connectivity and do promotion of pragmatic cooperation by means of various communication networks. There should be construction of optical fiber cable between China and Pakistan across the border. The facilities of Pakistan’s network should be upgraded.

Pakistan should adopt the China's Digital Terrestrial Multimedia Broadcasting Standard. Information industry of Pakistan must be ameliorated.

### 5.1.3. Energy Related Fields

There is need to strengthen the cooperation of China and Pakistan in Energy sector. Major projects of energy such as thermal, hydropower must be under focus. Utilization of coal must be made optimum. Renewable energy channels must be established like wind energy channels and solar energy channels etc.

### 5.1.4. Trade and Industrial Parks

The bond of cooperation between China and Pakistan needs to be made strong and strong in case of trade and industrial areas. Value addition is to be promoted. Textile industry should be extended. Special Economic Zones must be promoted in all provinces. Currently three special economic zones are under progress that are: Model ICT Economic Zone, Islamabad, Allama Iqbal Economic Zone, Faisalabad and Dhabeji Economic Zone, Karachi.

### 5.1.5. Agricultural Development and Poverty Alleviation

Agriculture sector of Pakistan needs to be strengthened by means of China and Pakistan Cooperation. It must be upgraded and revolutionized. In accomplishing this, both China and Pakistan must play their roles in this context. Water-saving agricultural zones based on modern technology must be constructed. Water efficient technologies should be introduced. Production of horticulture products must be boosted.

### 5.1.6. Tourism

There is need to further utilize potential aspects by China and Pakistan especially across the border areas. Coastal tourism can be boosted by means of CPEC. Around 800 kilometers of coastal areas are untapped. There should be improvement in the qualities of tourism services. CPEC actively considered to building a tour route connecting coastal cities of Pakistan and themed on coastal leisure and vacationing, and the initial suggested is Keti Bandr-Karachi-Sonmiani-Ormara-Jhal Jhao-Gawadar-Jiwani. This way there can be a significant socio-economic development in both countries.

### 5.1.7. Investment and Financing Mechanism

As per Market-oriented principle, both Pakistan and China should create required commercial condition for the enterprises so that projects may then be carried out. It is incumbent upon the government of both countries to invest and finance projects for the welfare of masses. Both countries should strengthen, and devise means for policy banks and for the development of finance institutions. There must be devised various ways to support Silk Road Fund. There shall be encouragement by both countries for Chinese enterprises, private sectors and funds for other entities of economy. Financing for the projects under CPEC must also be supported via international loans by welcoming World Bank, Asian Development Bank, Bank of China and EXIM Bank.

## 6. CONCLUSION AND POLICY RECOMMENDATIONS

According to standard macroeconomic theories, foreign direct investment is very essential to fill the saving investment gap in a country and take the economy to high growth trajectory. FDI then contributes to the economic growth of the recipient countries in turn this hypothesis is called FDI led growth hypothesis. Pakistan has been facing the potential gap in GDP growth. Contributing factor to low realized GDP and potential GDP are the slow rate of capital formation which could in turn, be attributed to high saving-investment gap. This gap could be filled through two major sources, one, public investment, and two, foreign direct investment. Application of the first is limited due to huge public debt burden while low size of the later could be attributed to the perennial bottlenecks of energy, and connectivity on the hard side of infrastructure and ease of doing business as well various incentives on the other side.

On the soft side, which involves the ease of doing business, law and order situation, incentivizing the business sector and others have been focused in recent past but lack of good connectivity and energy infrastructure, Pakistan could not significantly capitalize on the various industrial policies and SEZ acts. But, CPEC has proved to be the game changer in growth dynamics of Pakistan as it has addressed the core problems related infrastructure and energy bottlenecks, which are the necessary conditions for economic growth and FDI inflows. Approximately US$ 11 billion investment in infrastructure projects such as roads, motorways and fiber optics and $ 35 billion investment in the energy projects will address the issues related to backwardness in infrastructure. In this scenario, CPEC early harvest projects, has provided the necessary conditions for FDI attractions and CPEC-LTP are provided the sufficient conditions as an opening new seniors for investments and FDI.

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# Appendix

## A1: CPEC-ENERGY PRIORITY PROJECTS.

| # | Project Name | Estimated Cost US$ Millions | Capacity in MW | Financing Company/ Sponsors Coordinating Ministry/ Supervising Agency | Type of Energy /Technology |
|---|---|---|---|---|---|
| 1 | 2×660MW Coal-Fired Power Plants at Port Qasim Karachi | 1,980 | 1320 | Port Qasim Electric Power Company (Private) Limited/ Mo Water and Power/ Private Power and Infrastructure Board (PPIB) | Coal (Imported )/Super Critical |
| 2 | Suki Kinari Hydro power Station, Naran, KPK | 1,802 | 870 | Suki Kinari Hydro (Pvt) Ltd /Mo Water and Power/ Private Power and Infrastructure Board (PPIB) | Hydel |
| 3 | Sahiwal 2x660MW Coal-fired Power Plant, Punjab | 1,600 | 1320 | Huaneng Shandong Rui Group, China /Mo Water and Power/ Punjab Power Development Board (PPDB) | Coal (Imported ) |
| 4 | Engro Thar Block ll 2*330 MW Coal-Fired Power Plant,TEL 1*330 MW Mine Mouth Lignite Fird Power Project at Thar Block ll, Sindh, ThalNova 1*330 MW Mine Mouth Lignite Fired Power Project at Thar Block-ll, Sindh. | 2,000 | 1320 | Engro Power Gen Thar LTd. / China Machinery Engineering Corporation (CMEC) /Mo Water and Power/ Private Power and Infrastructure Board (PPIB) | Coal (Local)/ Sub Critical |
| | Surface Mine In Block II Of Thar Coal Field, 6.5 Metric Ton Per Annum (Mtpa), Thar Sindh | 1,470 | | China Machinery Engineering Corporation (CMEC) / Sindh Engro Coal Mining Company (SECMC) /Mo Water and Power / Mo Petroleum and Natural Resources/ Thar Coal Energy Board (TCEB) | Coal/Open Pit Mining |
| 5 | Hydro China Dawood 50 MW Wind Farm (Gharo, Thatta) | 125 | 50 | Hydro China /Mo Water and Power/ Alternative Energy Development Board (AEDB) | Wind/ Wind Turbine |

| | | | | | |
|---|---|---|---|---|---|
| 6 | 300 MW Imported Coal Based Power Project at Gwadar. | 600 | 300 | China Communications Construction Company (CCCC)/<br><br>Gwadar Port Authority (GPA) / Gwadar Development Authority (GDA) | Coal (Imported ) |
| 7 | Quaid-e-Azam 1000 MW Solar Park (Bahawalpur) | 1,215 | 1000 | Zonergy /Mo Water and Power/ Punjab Power Development Board (PPDB) / Alternative Energy Development Board (AEDB) | Solar |
| 8 | UEP 100MW Wind Farm, Jhimpir,Thatta | 250 | 100 | Hydro China (EPC) Gold Wind China (Supplier) / United Energy Pakistan (Pvt.) Ltd/ Mo Water and Power/ Alternative Energy Development Board (AEDB) | Wind/ Wind Turbine |
| 9 | Sachal 50MW Wind Farm, Jhimpir, Thatta, Sindh | 134 | 50 | Hydro China / Arif Habib Corporation Limited/ Mo Water and Power/ Alternative Energy Development Board (AEDB) | Wind/ Wind Turbine |
| 10 | SSRL Thar Coal Block-l, 7.8 mtpa & SEC Mine Mouth Power Plant (2×660 MW ) | 2,000 | 1320 | Sino-Sindh Resources Limited/ Mo Water and Power/ Private Power and Infrastructure Board (PPIB) | Coal (Local) |
| 11 | Karot Hydropower Station, AJK & Punjab | 1,420 | 720 | Karot Power Company Ltd. (KPCL)/ Mo Water and Power/ Private Power and Infrastructure Board (PPIB) | Hydel |
| 12 | Three Gorges Second Wind Power Project Three Gorges Third Wind Power Project (2*50 MW) | 150 | 100 | | Wind/Wind Turbine |
| 13 | CPHGC 1320 MW Coal-Fired Power Plant , Hub, Balochistan | 1,940 | 1320 | China Power Hub Generation Company (Private) Limited/ Mo Water and Power/ Private Power and Infrastructure Board (PPIB) | Coal |
| 14 | Matiari to Lahore +Kv HVDC Transmission line Project. | 1,500 | 2000 MW with 10% overloaded capability for 2 hours | China Electric Power Equipment and Technology Co.Ltd.(CET) / State Grid Corporation of China (SGCC)/ Mo Water and Power/ National Transmission & Despatch Company (NTDC) | ±660 KW Bipole HCDC with Converter / Grounding Electrode Stations |

| | | | | | |
|---|---|---|---|---|---|
| | Matiari (Port Qasim) To Faisalabad Transmission Line Project. | 1,500 | | China Electric Power Equipment and Technology Co.Ltd.(CET) / State Grid Corporation of China (SGCC)/ Mo Water and Power/ National Transmission & Despatch Company (NTDC) | ±660 KW Bipole HCDC with Converter / Grounding Electrode Stations |
| 15 | ThalMine Mouth Oracle & Surface Mine, Thar Sindh | 1,300 | 1320 | | Coal |