



## The China-Pakistan Economic Corridor: A Review of Strategies and Policies for the Economic and Trade Development of Pakistan

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### Abstract

*The aim of this study was to examine the Pakistan's economic growth and regional trade strategies and policies in the CPEC's perspective, a regional integrated trade and industrial plan, is the aim of this study. It is necessary to manage resources properly, which the policies alone can guarantee. The primary tool for manipulation in the use of these resources is policy. The objective of this research project is to examine the competence and inadequacy of relevant government institutions in designing policies, considering their appropriate implications and impact on exports, as well as their direct involvement in the trade flow process. For a long time, Pakistan has been pursuing sustainable development and trade. Different policies may exist in different nations and areas. The government is heavily involved in the formulation and execution of trade policies, which is why trade organizations also have an impact on them. Pakistan has the chance to embrace a new development paradigm thanks to the flagship project of the One Belt One Road initiative, CPEC. Only when society and the economy are freed via gradual changes in policy can CPEC be fully realized. In this study, the qualitative research method was used. Interviews with industrialists, exporters, and trade experts located in Karachi, Pakistan were conducted in order to collect the information. Cross-analysis of government agencies and organizations was made possible by the availability of television interviews with industrialists and trade association representatives. This study examines the policies and initiatives that the Pakistani government has chosen. The results obtained indicate that the policy makers in Pakistan have taken inconsistent, random, and misguided actions.*

**Key Words:** *Strategies and Policies, Economic and Trade, Exports and Development.*



## **Introduction**

Even though the concept of free trade is being adopted by an increasing number of nations, protectionism has returned in the wake of the 1929 economic crisis and is still a reality today. Over time, other justifications for the use of protectionism have been put forth, such as the "learning by doing" principle, national security, or unfair competition. Two key tools that governments use to regulate international trade are protectionism and liberalization, or free trade policy and protectionism, respectively, which are two distinct approaches to foreign trade policy. Free trade policy, which is derived from the forces of supply and demand in a free market, involves the least amount of state intervention in international trade, whereas protectionism uses tariffs and non-tariff barriers to shield domestic markets from foreign competition. Nicita et al. (2013) define protectionism as the steps taken by the government to support domestic industry in the face of global competition. Any public or private policy that results in the allocation of resources toward the production of internationally traded goods and services, or their trade, in a way that diminishes potential real-world income is what Baldwin (1970) defines. The degree of government intervention in international trade is reflected in these two categories of trade policies, which are unique to each nation.

The influence of these policies on global trade has attracted the interest of numerous researchers. The impact of trade agreements (TAs) with and without intellectual property rights (IPRs) on bilateral trade flows is examined by Campi and Dueñas (2019). The effect of China's trade liberalization on the greenhouse gas emissions of WTO members is investigated by Levitt et al. (2018). Pakistan has been the subject of attention for other researchers. The Effects of Trade Policy on Domestic Relative Prices in Pakistan is the subject of Lewis and Guisinger's 1968 study. Pakistan's trading policies are explained by Baysan (1992).

Prosperous policymaking can have a positive impact on both finance and human advancement. Modifying regulations and administrative procedures, reducing restrictions on funds, capital, and labor mobility, obtaining standard guidelines for financial and money-related matters, promoting nonviolent conflict resolution and peace, and employing speculative tactics in bilateral trade to establish a basis for transportation, influence, and exchanges are further arrangements for provincial integration. Countries that participate in regional mutual agreements control and regulate the installment payment system and trade equalization. People can also agree to broad



strategies regarding human services, education, training, and pre- and post-trade agreements (UNDP, 2011).

Pakistan will have a great chance to revitalize its industry and further its economic goals thanks to the China-Pakistan Economic Corridor, which will also assist in the development of a strong and stable Pakistani economy. Additionally, it will assist in getting through the psychological obstacles that other sources of foreign investment face. Over 150 domestic and international private equity funds are operating in India despite the country's restrictive economic policies. The role of trade in the global economy has grown significantly over the last fifty years. Trade has increased significantly faster than production in this era, and the majority of the fastest-growing nations have done so by quickly increasing their share of global trade. Similar to Pakistan's skillfully executed industrial policy, policymakers in emerging economies shifted to more open trade establishment policies in the 1980s. By the end of the 1980s, almost all of the centrally planned economies that had previously rejected market-based trade had either fallen or undergone radical changes that prioritized foreign investment and trade in their development plans (Martin, 2001). Political stability and the consistency of commercial endeavors are closely associated with trade, exports, and industrial escalation. Inconsistent policy will be linked to the turbulent political climate. It might result in a decline in trade growth and investment. More information about how shaky trade and industry performance can cause inflation, unemployment, political unrest, and in certain situations, the collapse of governments, is provided by Chawdhury (2016). Political public unrest played a significant role in the subcontinent's anti-colonial struggles as well as later in bolstering South Asia's democratic progress, according to historical accounts. Political instability remains an unpalatable aspect of the political culture of the South Asian region, despite a protracted period of post-colonial rule and the restoration of democracy. In addition to Bangladesh, India, Nepal, and Pakistan, they continue to experience an alarmingly high frequency of political incidents, which have been getting worse due to inflation and hardship. The review reveals that RI and FDI approval create opportunities for additional financial development.

### **Research Questions**

1. What is the impact of Pakistan's trade policies on trade and industries?



2. How does the agreement on regional integration (CPEC) reward trade and industry in Pakistan?
3. What elements are hindering trade and industry in Pakistan?
4. Why is Pakistan failing to meet its targets for Trade and Industrial Development?

### **Research Hypothesis**

1. Pakistan's trade policy is fostering local manufacturers and exporters while also opening up new avenues for investment in a number of sectors.
2. Trade and regional integration policies, such as the CPEC Agreement, are advantageous for the growth of regional industries, exports, and production as well as for obtaining reciprocal market access.
3. Government-designed policies are compelling given the demands and difficulties Pakistan's trade faces today.

### **Literature Review**

The general perception of policy design is that it is an expression of government intent, with the goals being usage and fundamental comprehension. The word "strategy" is frequently used to describe the actions of experts, officials, and players as well as the choice of the game plan and how it is functionally used in the approach process. Trade Guidelines Academic research is seen as an opportunity to observe, describe, dissect, and evaluate the strategic process. It is a component of political action and adaptation.

The strategy of designing public policies is not new, even though it was only formally used in the twentieth century. By the end of the 1960s, open governmental issues and various countries were recognizing the importance of policy making approach, strategies, and methodology. The streamlined movement's structure proved to be incredibly liberated. Political scientists who study political rationality in history typically acknowledge that the government has the authority to enact laws, shape public policy, and influence society for the better. *Politica*, Aristotle's term for strategy, had to do with the citizens and the capacities and organization of the city-state government. A few of the idea's creators emphasize the importance of profound quality, capacity, training, production costs, and other factors when analyzing the content of public policy (Raipa, 2002).



The CPEC is a crucial component of the Belt and Road Initiative (BRI), and the strategic significance of the Gwadar Port in particular stems from its ability to give China a backup route that can maintain its trading capabilities in the event of a blockade in the South China Sea at the Strait of Malacca (Wen & Saleem, 2021). It presents itself as a convincing goal that advances the true objective of the Belt and Road Initiative (BRI) and has the potential to become a model corridor in interregional connectivity. The China-European Economic Corridor (CPEC) trade route reduces the time and cost of transportation from Chinese factories to markets in Europe, Africa, and the Middle East. While the 1970s saw the establishment of the first trade diplomatic missions. China is the CPEC's financier and seeks to use the project not only to expand its influence outside of Pakistan but also to explore new markets. The project's crown jewel, Gwadar Port, is seen more from a strategic perspective than economically, and it has faced fierce domestic and international opposition (Hillman, McCalpin, & Brock, 2020).

Even though government offices and discretion seem to be a part of our global exchange and government issues, they seem to be as old as time. Generally speaking, the exchange discretion has its own status, consisting of established structures and individuals, as well as crucial political conversations taking place out of sight. From that point of view, what exactly does the term "financial discretion" mean? How does this fit with the appeasing world that is concerned about high status and acknowledgment of national intrigue, given that financial aspects are usually more concerned with business and are kenneled as an important straightforward rationality? Does the financial impediment of strategy contradict the free market standards, which are the fundamental standards of financial matters? Zuidema (2016).

Following the opening of trade relations, Pakistan strengthened its position with China by agreeing to the Early Harvest Program (EHP), which went into effect on January 1, 2006. With respect to matters of vital commercial interest, the two countries granted improved advertisers access to one another through this understanding, which was the first step towards creating a facilitated commercial territory. As of right now, Pakistan, China, and the entire region view the China-Pakistan Economic Cooperation (CPEC) as a clear benefit. In fact, this is a well-planned network of roads, railroads, and energy projects designed to link China's Xinjiang region with Pakistan's Gwadar port while also assisting Pakistan in meeting its supply-side needs. This short route can also serve as an alternative to the ocean route that crosses the Straits of Malacca for



China. Thus, through this new path, both countries are focusing on improving trade communication with the rest of the world (Kamal & Malik, 2017).

Common market implementation and environmental policy are two examples of universally beneficial policies. In developed nations, policymaking does not require democratic legitimacy in the same manner as it does in national legislatures, at least not until the large economies cease to produce redistributive policies that adversely impact particular groups. It is possible to see that the fundamental questions raised in the deficit debate go beyond the question of how the country should be perceived as an actor or entity. According to those who maintain that democratic legitimacy in the west is lacking, accountability is crucial for achieving effective policy outcomes. They also see arguments in favor of subjugating policy to supranational authorities as a justification for restricting policy to conform to neoliberal values. Conversely, those who oppose the democratic deficit appear to view this as a dispute over the need to limit the ability of special interests to sway policymakers in order to achieve both legitimate and effective policies that serve the long-term interests of society. This disagreement over the apparent trade-off between achieving effective policy results and upholding democratic legitimacy is frequently brought up in relation to trade policy decisions (Uhlin, 2014).

Developing nations have made significant progress in changing their export trends; however, it is possible that some of these nations will fall behind and remain reliant on traditional commodity exports. Examining the developments within specific countries and groups is helpful in determining whether significant sub-groups within developing countries have been excluded from the process. Appendix Table 1 provides data on the percentage of manufacturers in developing country exports for the 65 countries found in the GTAP 5 database for the year 1997, serving as an indication of this trend.

Emerging economies are much more likely to engage in exports. Many struggling countries, including those with generally lower economic standing like Bangladesh, Sri Lanka, and China, have export shares that exceed the global average of 81 percent. The shares of other countries, such as Turkey, Morocco, Indonesia, India, and Turkey, are roughly equal to the global average. Countries and economies with low manufacturing quotas include transitional states like Chile, Brazil, and Uganda as well as many Middle Eastern and North African countries that have not been as successful in integrating into the global economy. It is obvious that a remarkable



arrangement depends on the synthesis of fares within these ware groups. In the unlikely event that countries have been expanding their markets and product prices, as Chile has done, then a heavy reliance on item prices may be consistent with rapid price growth (Martin, 2001).

### **Research Methodology**

#### **Study Design**

Both qualitative and quantitative research methods used for this study. This thesis is primarily theoretical in nature. In terms of the research methodology, written and archival documents from a variety of books, articles published in various journals, and publicly accessible materials are used to generate the primary data. This comprises proclamations, action research plans, speeches, websites, newspapers, figures, official statistics, TV interviews, speeches, and charters. In a phenomenological study, researchers frequently perform a large number of unstructured interviews—between five and thirty for general research studies—in order to gather sufficient data to grasp emerging issues and use participant counter-narrative to support conclusions. In order to comprehend the subject knowledge and how it might affect command over the object, a phenomenological research method is employed.

#### **Population and Sampling**

In this study, using an explanatory research approach, selected policy factors like trade policy initiatives, public policy structure, taxation systems, commercial law, foreign direct investment (FDI), reforms, and regional integration (R.I.) to analyze qualitative phenomenological aspects and quantitatively. Also used unstructured interviews and published responses from well-known manufacturers and exporting agencies in Karachi City, Pakistan's financial center, to collect targeted questions and compare government attitudes toward trade policies and the impact of the China-Pakistan Economic Corridor (CPEC) on trade outflow. In order to gather feedback on official trade policy initiatives and counter narratives, randomly selecting major industries, manufacturers, and trading agencies for my research. The researcher has also reached out to public organizations' websites and policy reports.

#### **Data Collection Process**

The informants' level of expertise determined the mode of approach in this case. In that instance, the researcher relied on the qualitative approach for the primary data analysis because they were deemed ineligible. The interview schedule method was also employed in the study, with



telephone and recorded interviews serving as supplements. This was motivated by the target population's size and geographic dispersion, as well as the research's time constraints.

Accordingly, data were also gathered from official websites of the Pakistani government, the World Bank, the International Trade Center (ITC), the World Trade Organization (WTO), and other trade and economics websites, in addition to published data and policy statements.

### **Findings and Result**

The study findings illustrate and advocate following initiatives that may influence on trade are corruption, strict check and balance of taxation, refund and Kickbacks, free trade agreements (FTA) and free ports, good will development, exports promotion plans, infrastructure development, privatization, building up skillful workforce, economic reforms, regional/global integration, education and training, appropriate up-gradation, innovation and modification in the contract process system.

Pakistan ranks up to 59th out of 135 export rivals, which is not too bad considering the circumstances. b. Pakistan ranks 46th out of 134 countries on the Importers Rank chart, which is not very good; higher scores are better. c. Pakistan's trade balance placed it 126th out of 134 countries. A good score is one that shows Pakistan's inability to close the deficit gap to zero, whereas a higher score between BOT indicates a small export market. d. According to Michigan State University (2017), Pakistan's exports of goods and services contributed 8.24% of its GDP in 2017, while imports of the same goods and services accounted for 17.55 percent. This means that the GDP deficit was 17.55-8.24, or 9.31%.

Using annual data for the years 2006 to 2018, this research study analysis over the previous 12 years showed that Pakistan's trade policy is stable, but that changes in the political landscape or instability in policy have an impact on the country's manufacturing, production, exports, and industries. Events such as terror attacks, elections, changes in regimes, and strikes have an external influence on policy. In the previously reviewed literature, foreign direct investment (FDI) was a common indicator of a nation's industrial and export growth. As a result, by promoting political stability, the current study promotes the effectiveness of policies in attracting foreign direct investment.





During this investigation, the literature review indicated that the country's system's FDI input does not guarantee exports, industrial production, or development; rather, trade development is enhanced by political stability or policy coherence.

The main causes of low investment and poor trade performance have been political instability, corruption, frequent regime changes, the energy crisis, and disputes between political parties and institutions. These elements create doubt and a drowning fear of investment. Owing to the risk and volatility, local investors have moved their money out of Pakistan and are now more interested in stable neighboring nations. The low rate of trade growth in Pakistan is now attributed to the political immaturity of the stakeholders.

Even though corruption has been viewed in some writing reviews as having a negative impact on financial development, the results of the investigation show that corruption has little to no effect on trade growth. According to this study, policy reforms in developing nations do not ensure the overall prosperity of a nation or region. However, growth processes can be sustained by taking initiative and bringing about political stability (Kandhari, 2011).

## **Discussion and conclusion**

### **Discussion**

It has been noted that the Pakistani government typically creates policies without getting the approval of the intended stakeholders until a conflict arises. The government formulates, defends, and implements policies. After that, issues are discussed and negotiations between the relevant parties and governments begin, usually with the goal of negotiating for the governments' respective local, regional, and public interests. In this study, I will go into further detail about the answers provided by exporters, importers, and manufacturers who are also exporters in relation to the questionnaire and the trade measures the Pakistani government has implemented in response to the CPEC phenomenon.

As was previously noted, research indicates that the Pakistani market is driven by oil, or that the price of crude oil determines the market. The country's other consumable goods also experience inflation as a result of the impact of global crude oil price inflation on petroleum commodity prices.

The United States of America, China, the United Kingdom, Afghanistan, Germany, Spain, the United Arab Emirates, Italy, Bangladesh, and the Netherlands are Pakistan's top export



destinations. China, United Arab Emirates, Indonesia, United States, Japan, Saudi Arabia, India, Kuwait, Germany, and Malaysia are the top ten countries from which Pakistan imports goods. Goods and Products Textile articles, cotton, knit and non-knit apparel, cereals, leather goods, natural minerals, marbles and stones, fruits and nuts, metal, hides and skins, and precision instruments are the top exports from Pakistan.

Pakistan imports soil and mineral fuels, industrial machinery, iron and steel, electrical machinery, motor vehicles and parts, organic chemicals, plastics, fats and oils, oil seeds, and vegetables, among other goods with a negative balance of trade (Global Edge, 2018).

### **Conclusion**

Regarding the question of whether the government has the sovereign legislative authority and the commitment to establish key strategy, there is no room for doubt or contradiction. It possesses the ability, and it is its actions that give the administrative organization legitimacy, plausibility, and legal expertise. It is true that, in the rare circumstance where administrative specialists receive a clear narrative from the constitution, controllers and regulators only possess the authority expressly delegated to them by the government.

The incapacity of policy makers to effectively articulate basic arrangements will inevitably lead to instability, susceptibility, and a clouded vision. Buyers and financial experts won't put up with an administration without a key figure for very long. The real question about the legislative basis of strategy concerns the degree of specificity provided by Pakistani government strategists, the stability of the developed framework, and the means of communicating and articulating the strategy.

For Pakistan to attract capital and foreign direct investment (FDI), it is imperative that the arrangement be adequately explained in terms of policy in order to provide a level of stability and consistent satisfaction. The overarching principles of the street and the boundaries of caution assigned to controllers ought to be sufficiently articulated to enable a broad understanding of the administration's philosophy. It is undeniably not a minor matter that the government is providing this degree of detail. Indeed, the distinction between large- and small-scale arrangements is best characterized by the way in which they articulate the essential approaches. The entire scale arrangement consists of everything the administration clarifies in law or principle. Any



agreements that controllers make in order to fulfill their responsibilities and implement the large-scale approach establish the miniaturized scale strategy.

The other possibility for formulating strategic policy, even within the legal authority granted, is the nature of the government department. This process considers the public scrutiny of fundamental methods via the political process, but it does so in a broad context without placing specific cases or discussions at the top of the list of priorities. The pitch for developing a small-scale approach is, of course, the last one to be discussed. It needs to be finished with freedom, objectivity, and clarity. In actuality, there are two types of interests: one is for resolving specific cases in question, and the other is for resolving strategic issues on an impending, forward-looking basis.

### **Recommendations**

Politicians, investors, policy makers, and financial and monetary-related establishments can use the strategy recommendations provided by this analysis to set goals and develop plans while taking political fragility into consideration.

Greater trade and investment liberalization with third countries, especially those in South and Central Asia, may amplify the modest improvement in Pakistan's trade performance that resulted from increased trade and investment with China.

In line with the Ease of Doing Business measures, it is advised Pakistani authorities to concentrate their short-term efforts on measures that will enhance the business environment. Lastly, it is discovered that increased focus on trade and investment promotion initiatives is required by both Chinese and Pakistani authorities.

In summary, this analysis proposes to analyze the administration's consumption plan, efficiency, and speculative choices in a critical structure that will specifically benefit Pakistan's trade and industrial growth.

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