



中國傳媒大學
COMMUNICATION UNIVERSITY OF CHINA



Institute for a Community
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Research Paper

China-Pakistan Economic Corridor



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Published on 19th February 2025



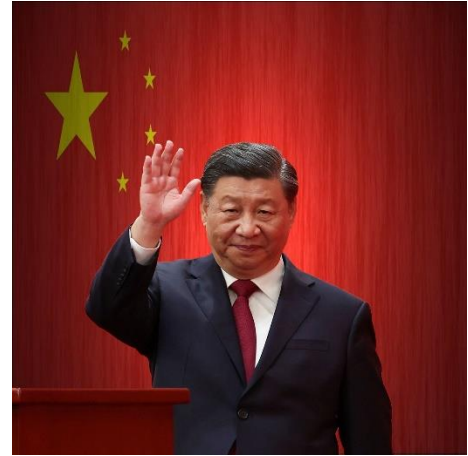
Table of Contents

INTRODUCTION.....	2
<i>Goals</i>	3
<i>Position Statement:</i>	4
ADVOCATING FOR CPEC USING ECONOMIC PRINCIPLES	4
<i>Cost-Benefit Analysis of CPEC</i>	4
<i>Opportunity Cost: The Trade-Offs of CPEC</i>	6
<i>Economic Gains from CPEC: Demand, Supply, and Surplus</i>	10
ADVOCATING FOR CPEC USING A BROADER LENS	12
<i>CPEC and HealthCare</i>	12
<i>CPEC and Fixing Terrorism</i>	12
WORKS CITED	14

Introduction

Signed on **April 20, 2015**, during Chinese President Xi Jinping's visit to Pakistan, the

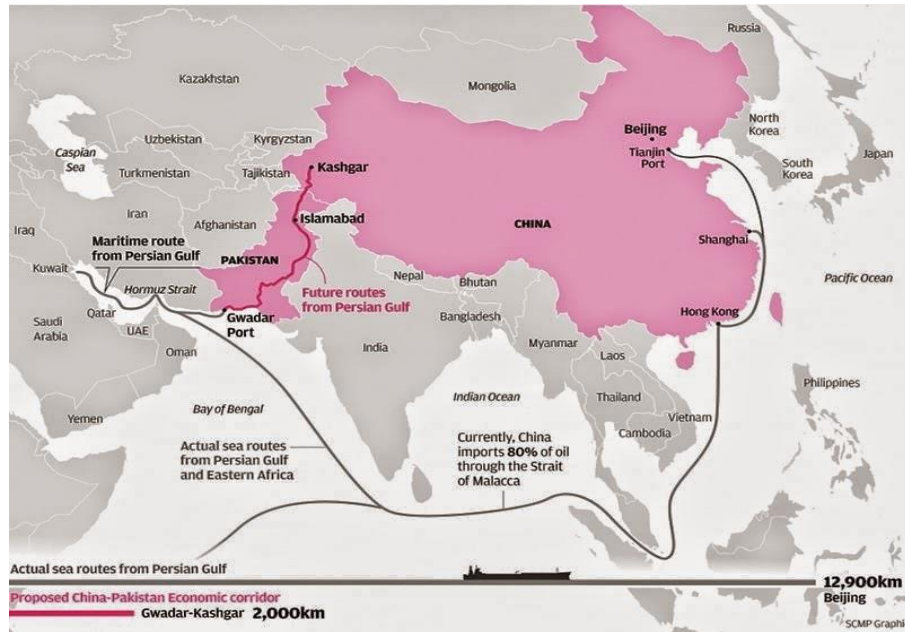
China-Pakistan Economic Corridor (CPEC) is a large-scale two-sided initiative between Pakistan and China aimed to improve regional connectivity, promote economic growth, and enhance trade relations (Stevens, 2015) . CPEC is an important project of China's **Belt and Road Initiative (BRI)**, and it focuses on building



a network of roads, railways, pipelines, and energy projects, linking China's Xinjiang region to Pakistan's Gwadar Port on the Arabian Sea. Beyond economics, it plays a vital role in **geopolitical stability** in South Asia. For China, CPEC serves as a crucial alternative trade route, which reduces its dependency on the Strait of Malacca for imports and exports (Choudhary, 2023). While for Pakistan, it positions the country as a critical hub for regional trade, boosting its geopolitical leverage. This partnership is also designed



to bridge regional inequalities within Pakistan in underdeveloped regions such as Balochistan and Gilgit-Baltistan (Kumar & Stazel, 2016).



Map 1: The Strait of Malacca route compared to the CPEC route to China¹

Goals

The main goals of this initiative are:

- **Infrastructure Development:** To enhance logistics and transportation efficiency through the construction of modern transportation networks.
- **Energy Projects:** To solve Pakistan's energy shortages by implementing diversified energy projects, thereby increasing the country's electricity generation capacity.
- **Special Economic Zones (SEZs):** To establish SEZs in order to promote industrialization and create job opportunities, increasing economic growth and development.

¹ IMPACT OF CPEC ENERGY PROJECTS ON SOCIO-ECONOMIC DEVELOPMENT OF PAKISTAN - Scientific Figure on ResearchGate. Available from: [here](#) [accessed 2 Dec 2024].

Position Statement:

This policy paper advocates that the Government of Pakistan should not only continue supporting CPEC but also implement policies that maximize its economic and social benefits while addressing the associated challenges. This policy paper will also apply **microeconomic concepts** for instance cost-benefit model, to support CPEC and critically address the major challenges.

Advocating for CPEC Using Economic Principles

Cost-Benefit Analysis of CPEC

The **Cost-Benefit Analysis model** is a simple way to decide if an economic action is worth doing. It compares all the costs (money, time, resources) with all the benefits (profits, savings, improvements). If the benefits are bigger than the costs, the action is considered a good choice. It is valid only when the **benefit** is greater than or equal to the **cost**.

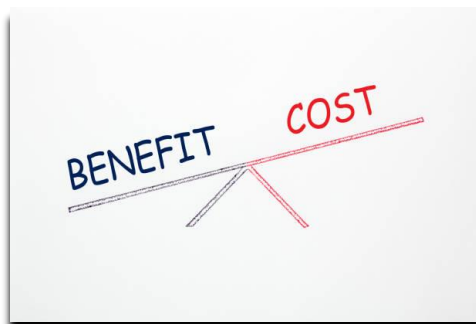


Figure 1 illustration of Cost-Benefit Model, Source: iStock



Case 1: Reduced Distance

The **China-Pakistan Economic Corridor (CPEC)** gives China a much shorter and cheaper trade route compared to the 12,000-kilometer journey through the **Strait of Malacca** as shown in Map 1. The 2,395-kilometer route from **Gwadar Port** to **Kashgar** in Xinjiang cuts the distance by about 80.04%, saving China a lot on fuel and other costs. Reports estimate that China could save up to **\$6 billion annually** (Ali Isran, 2017) and saving approximately \$2,000 per trade when trading with Middle East and Europe (Khalid Mehmood Alam, 2023). This shows that CPEC is better option.

Case 2: Long-Term Economic Gains

Before the **China-Pakistan Economic Corridor (CPEC)**, Pakistan depended heavily on **International Monetary Fund (IMF)** programs, which focused on fixing short-term financial problems but didn't create infrastructure or jobs (Saghir, 2023). In contrast, CPEC has initiated extensive infrastructure projects, including highways, and energy facilities, directly contributing to economic growth and employment opportunities (Hashmi, 2024). These benefits show that CPEC's long-term gains are greater than its costs, offering more tangible development compared to IMF programs.

Case 3: Future Access for Landlocked Nations

CPEC holds the potential to transform Central Asian countries that are landlocked like Kazakhstan, Uzbekistan, Tajikistan, and Afghanistan, which currently lack direct access to seaports. By using CPEC's infrastructure, these nations could connect to **Gwadar Port**, by gaining access to international markets through the Arabian Sea and conduct their trade.

Afghanistan stands to benefit significantly as a war-torn country with a new government, being rebuilt from scratch after decades of conflict. Pakistan could generate revenue/economic surplus by charging transit fees for the use of its roads and infrastructure, making it a mutually beneficial arrangement. CPEC's benefits outweigh its costs by promoting regional peace and boosting trade through better physical and diplomatic connections.



Map 2: Central Asia, Source: Wikimedia commons

Opportunity Cost: The Trade-Offs of CPEC

The opportunity cost is the cost of not doing the next most attractive thing and is forgone when a decision is made.



Case 1: Powering Pakistan's Future

The opportunity cost for Pakistan for choosing to invest in CPEC energy projects, is the loss of potential gains that could have been achieved by keeping on relying on Independent Power Producers (IPPs) or directing resources to other sectors like healthcare or education. While IPPs provided an established energy platform, they were mostly private sector controlled, which meant the government did not have direct managerial authority or control over operations of electricity production. IPPs came with significant drawbacks, like high electricity tariffs, which are the rates consumers pay for electricity. These tariffs were inflated due to reliance on imported fuel and inefficiencies in the system. (On a broader scope, tariffs are taxes imposed on imported goods, which increase production costs when electricity production depends on imported fuel.) For example, in 2016, Pakistan had a shortage of electricity with production over 120 TWh. After signing CPEC energy projects, the government gained more control over energy production and increased production to 152 TWh by 2021, which reduced load-shedding and lowered production costs through local resources like coal and hydropower.

This cheaper energy reduces the costs of production for goods and services, that leads to lower prices for consumers and increases the consumer surplus. Consumer surplus is the difference between what consumers are willing to pay for a product and the actual price they pay. The money saved by consumers can be used for other essential needs i.e., healthcare and education, which indirectly address the initially sacrificed sectors. CPEC's

long-term benefits i.e., cheaper energy, increased consumer surplus, and industrial growth outweigh the opportunity cost.

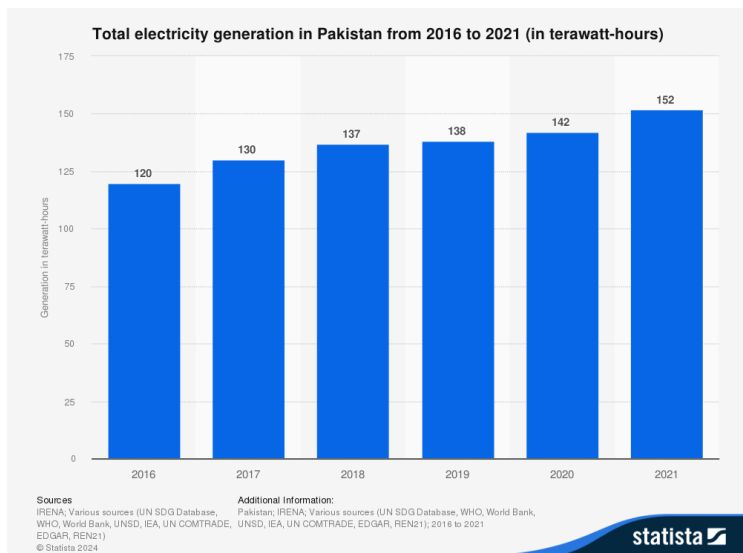


Figure 2 Electricity Generated by Pakistan (2016-2021)²

Case 2: Opening Doors to Global Investors

The opportunity cost of prioritizing CPEC's Special Economic Zones (SEZs) is the investment Pakistan could have made in the project that develops the tourism sector like the KITE Project. Khyber Pakhtunkhwa Integrated Tourism Development (KITE) Project is funded by the World Bank, which aims to promote tourism-enabling infrastructure, develop Integrated Tourism Zones (ITZs). In 2022, the travel and tourism sector in Pakistan contributed to 5.9% of the GDP and created 4.2 million jobs (Kiran Afzal, 2023).

² IRENA. (August 8, 2023). Total electricity generation in Pakistan from 2016 to 2021 (in terawatt-hours) [Graph]. In *Statista*. Retrieved December 03, 2024, from <https://www.statista.com/statistics/1417313/electricity-production-pakistan/>

These Special Economic Zones (SEZs) are attracting foreign investment, which is indirectly boosting tourism by bringing in foreign managers, workers, and firms like China Gezhouba Group, which invested in the Rashakai Special Economic Zone (SEZ) (Global Times, 2021).



These foreign visitors will create more global awareness about Pakistan and its economic potential. By the passage of time, CPEC will improve Pakistan's economy and bring stability to the region. The country will become known as a safer and more attractive tourism destination. Moreover, under CPEC, road infrastructure is also being created, which has improved access to remote areas like Gilgit-Baltistan and Balochistan, which were previously hard to reach. This shows that CPEC's long-term benefits outweigh the opportunity cost

Case 3: The Shortcut to Progress

China is redefining its global trade strategy by shifting its attention from the Strait of Malacca to CPEC. The Strait of Malacca is responsible for China's 80% oil imports (McCartney, 2024). It acts as a vital trade route between the South China Sea and the Indian Ocean. In the past, this region has been essential for China to exert its naval power to defend its trade routes.

The opportunity cost for China to rely on CPEC is that it might reduce China's military investments and influence in the Malacca region. As the dependence and use of CPEC routes increases, resources allocated toward maintaining a dominant presence, such as naval fleets, bases, and patrols in the Malacca region, will decrease. This shift may result in a power vacuum in the region, which will allow other states such as India or the United States to increase their influence in the region, threatening China's dominance. It also faces risks like congestion and blockades (Myers, 2023) . However, CPEC, being a shorter route (refer to Map1), can help China save money, which could then be used toward its geostrategic initiatives in the Strait of Malacca. This way CPEC's benefits outweigh the opportunity cost comes with it.

Economic Gains from CPEC: Demand, Supply, and Surplus

This section of the policy paper examines how CPEC impacts the market by analyzing its effects on **demand, supply, and economic surplus**.



Case 1: Market Expansion

Improved infrastructure, such as roads and transportation networks, enables sellers to access previously unreachable markets, thereby increasing supply and quantity supplied. This initially leads to lower prices (*Figure 3*) and, in the long run, boosts the quantity demanded as people's willingness will increase due to the jobs provided by CPEC. As a result, economic surplus grows, making a direct contribution to Pakistan's GDP (*Figure 4*).

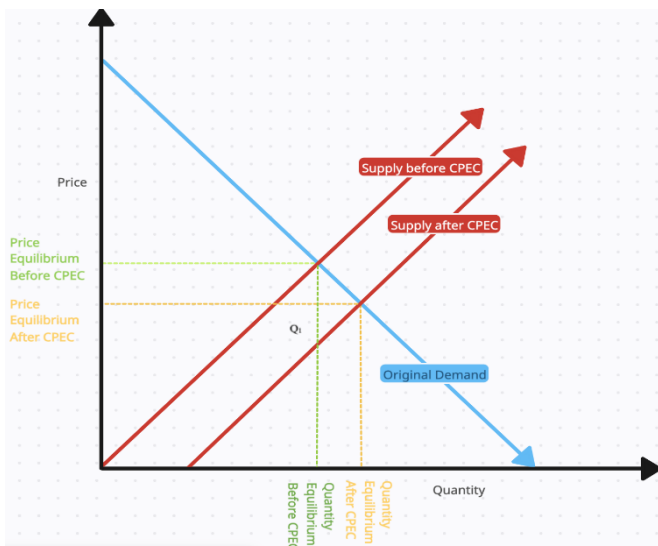


Figure 3 Effect of CPEC on the market

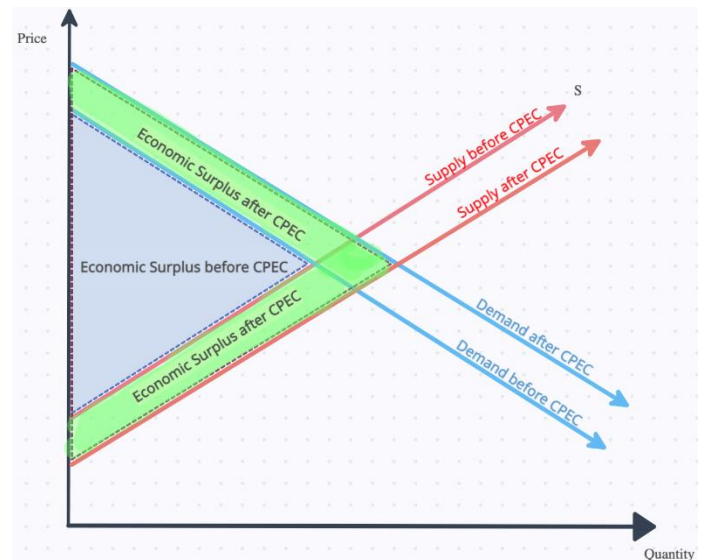


Figure 4 Gain in economic Surplus because of CPEC New economic Surplus = Purple Area + Green Area

Case 2: The Journey from Profitable Markets to Perfect Competition

CPEC is reshaping the market by making it perfectly competitive, as it significantly enhances **producer surplus** by reducing transportation costs, benefiting producers in both China and Pakistan. A Chinese producer can save money by sending products through



Pakistan at a much lower rate via CPEC's shorter route (*Map 1*). At the same time, Pakistani sellers can import goods from China more cheaply, lowering production costs. These savings allow producers to maximize their profits, invest in scaling up production, and compete more effectively in the market, increasing producer/seller surplus on both sides. As profits grow, the market becomes more attractive to new firms, leading to increased competition and pushing the market toward perfect competition. This helps stabilize prices and ensures resources are used more effectively, which leads to greater surplus.

Advocating for CPEC using a broader lens

CPEC and HealthCare

CPEC is not only helping Pakistan financially but also making a significant impact on its healthcare system. China is already running an operational emergency hospital by the Chinese Red Cross Society; this facility was initially built to provide medical care to the workers in CPEC, but it's also treating the locals. China is now creating a \$100 million hospital called the "Pak-China Friendship Hospital" in Gwadar. Moreover, China's healthcare system, which includes 3 million doctors, 800,000 surgeons, and 6 million nurses working in 27,600 hospitals, shows that China has the potential to help Pakistan improve its own healthcare system, as it has helped Pakistan in other sectors (Irshad, 2024).

CPEC and Fixing Terrorism

CPEC can play a revolutionary role in addressing terrorism in Pakistan, especially in the Balochistan region, by tackling the root causes of socioeconomic inequality. An example



is the Balochistan Liberation Army (BLA), a terrorist organization in Balochistan that opposes the state of Pakistan. The BLA has an anti-state narrative because the people of Balochistan feel ignored and left behind. Despite being rich in natural resources, it is the least developed province in the country. By creating jobs in Balochistan through projects like the Gwadar Port and Special Economic Zones (SEZs), CPEC can help bridge this gap. This could become an opportunity to invite the BLA for peace by exterminating terrorist activities and to work together on addressing socioeconomic inequalities.



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