READERS Insight

Journal of Management Info (JMI)
ISSN:2313-3376
www.readersinsight.net/jmi

Role of China-Pak Economic Corridor (CPEC) in Logistic System of Pakistan's and China's

Ikramuddin Junejo[1], Abdul Subhan Kazi[2], Annam Inyat[3]

[1]*Lecturer, Department of Management Sciences, SZABIST Hyderabad campus, Pakistan*
[2]*Dean, Faculty of Commerce, Economics & Management Sciences, ISRA University Hyderabad, Pakistan*
[3]*Lecturer, Management Science Department, ISRA University Hyderabad, Pakistan*

* *Corresponding author:* ikramuddin24@yahoo.com

Abstract

This study will explain the impact of China-Pak Economic Corridor (CPEC) on logistic system of China and Pakistan. This project is estimated investment of US $90 billion, CPEC project is consists of various sub-projects including energy, road, railway and fiber optic cable but major portion will be spent on energy. This project will start from Kashgar port of china to Gwadar port of Pakistan. Transportation is sub-function of logistic that consists of 44% total cost of logistic system and 20% total cost of production of manufacturing and mainly shipping cost and transit/delivery time are critical for logistic system. According to OEC (The Observing Economic Complexity) currently, china is importing crude oil which 13.4% from Persian Gulf. CPEC will china for lead time that will be reduced from 45 days to 10 days and distance from 2500km to 1300km. This new route will help to china for less transit/deliver time and shipping cost in terms of logistic of china. Pakistan's transportation will also improve through road, railway and fiber optic cabal projects from Karachi-Peshawar it will have speed 160km per hour and with help of pipeline between Gwadar to Nawabshah gas will be transported from Iran. According to (www.cpec.inf.com) Pakistan logistic industry will grow by US $30.77 billion in the end of 2020.

ARTICLE INFORMATION

Received: 10 Dec 2018
Revised: 10 Jan 2019
Accepted: 31 Jan 2019

DOI: 10.31580/jmi.v6i1.469

Keywords: *China-Pak Economic Corridor, Logistic System, Lead Time*

INTRODUCTION

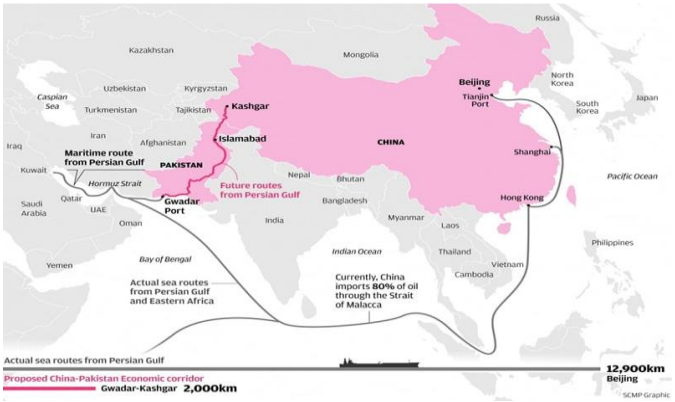
A brief History of Pak-China Relationship

Pakistan and china friendship was started in 1949. In the initial phase of friendship Pak-china relationship faced number of problems due to difference between capitalist and communist, both countries were also not familiar to each other in many aspects. The relationship between two countries was strengthened in 1950 when Indian currency was devaluated. Pakistan started to import coal for industrial production and at that time Pakistan entered into an agreement with china for coal trade. Pakistan always works for better friendship with china, it can be understood that Pakistan helped to china for the permanent seat at United Nations Security Council (UNO) (Arif, 1984). The signing of two agreements between both countries SEATO and CENTO in 1954 enhanced friendship between Pakistan and china. But, in 1959 President Ayub Khan's controversial statement about Tibet create problems for both countries (Jain, 1981), the situation was worsted but it was controlled by Foreign Minister Zulfiqar Ali Bhutto and foreign secretary S.K Dehlavi, an agreement for border separation by Mr. Bhutto in 1963. Furthermore, china also helped to Pakistan during the war of 1965 that brought both countries very close to each other. From 1970s' the partnership between both countries Pakistan and china enhanced in almost all sector of economy. China supported to Pakistan in various ways such as nuclear programs, missiles, economic sector and military etc. But, other countries likewise US and India always develop pressure for stopping cooperation and friendship between Pakistan and china especially US imposed sanctions on Pakistan. With, all these problems Pakistan has been continuing relationship on the mutual benefits basis and in the end such friendship will be prosperity for both countries Pakistan and china.

Introduction of CPEC (China-Pak Economic Corridor)

Chines diplomatic Mr. Zhao Ligian gave a presentation on introduction of CPEC at Institute of Strategic Studies in Islamabad on 14th July. He tried to clarify and justify doubts, confusions, and misperceptions about the CPEC project. CPEC was officially declared in May, 2013 during the visit of Chinese official Mr. Premier Likequing at the time of caretaker government in Pakistan. After formation of Government by N. League Prime Minister Mr. Muhammad Nawaz Sharef visited china to discuss about the mega project CPEC. His visit was in July 2013 and he formed a committee by name Joint corporation committee (JCC) for further serious dialogue on CPEC and more projects for Pakistan. JCC conducted meetings five times and discussed and prepared long term planning for energy, transport, and Gawadar port projects. Pakistan's Prime Minister again visited china in Nov 2013 to discuss about the CPEC. President Mr. Xi Jing visited Pakistan in April 2015 and officially announced that China is interested to offer US $46 million and to address the energy crises in Pakistan. These projects are expected to be completed during 2018-2020.

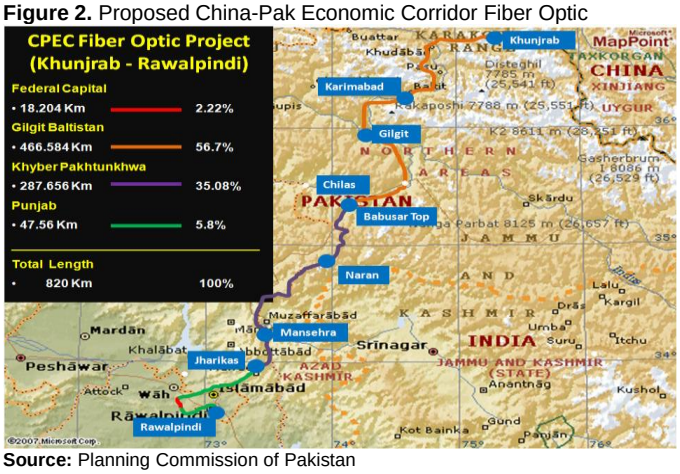
Figure 1. PROPOSED CHINA-PAK ECONOMIC CORRIDOR



Source: Planning commission of Pakistan

There is no straight road but with multiple passenger network to be developed including roads and railway, step by step by keeping in mind importance of each project. The government of Pakistan declared to build western route on the urgent bases for socio-economic change. All the projects would not be started at once due to security, political, corruption, and financial projection consideration. Not only Pakistani and Chinese companies are allowed to invest for the completion of these projects under the umbrella of CPEC but international biddings from other countries to be encouraged such as South Korean's, Japanese, Singaporean, Malaysian, Arabian, Russian, Iranian, and American companies are asked to invest in these projects for better return. The Gawadar project is consists of various sub-projects including Primary school to international airport and industrial zone will change the Baluchistan's local economy. The Gawadar project will also solve the problem of water by installing sewerage plants and distillations plants. The CPEC projects are to be considered the game changing or transforming Pakistan's economy. In the history of Pakistan a big project to be started with highest FDI (Foreign direct investment) since 1950, it is consists of 10% Pakistan's total GDP. Pakistan and china is commonly considered as "all weather" friends, and this friendship is not new but from decades Pakistan and china have friendly relation with each other regardless of different religion, culture, and media news. China is the second largest economy of the world (Bank, 2016). This friendship is taking new step with signing bilateral trade contract named China Pakistan Economic Corridor this agreement will not only beneficial for Pakistan and china but it will be benevolent for other region of Asia such as Iran, India, Afghanistan, and the Central Asian Republic with key role in improving strategic and economic conditions.

Figure 2. Proposed China-Pak Economic Corridor Fiber Optic



Source: Planning Commission of Pakistan

This project will cover the Federal capital 18.204 Km, Giligit Balistan 466.584 Km, 287.656Km Khyber Pakhtunkhwa and 47.56 Km in Punjab province i-e 2.22% for Federal Capital, 56.75 in Giligit Balistan, 35.08% Khyber Pakhtunkhwa and only 5.8% in Punjab province.

Importance of physical Infrastructure

Developed economies give preference to physical infrastructure and they consider it as a pay requisite for better industrialization and overall economic development. Physical infrastructure has two parts, first economic infrastructure which includes roads, irrigation, telecommunication, and electricity and second known as social infrastructure such as hospitals, school facilities, water supply, and savage system (Murphy, 1989). It has been practically observed that physical infrastructure used to improve income level and production level in long run (Barro, 1990), (Futagami, 1993). Furthermore micro study also talks about importance of developed infrastructure. According to the micro study it helps poverty reduction (Lokshin, 2005), (M, 2003) and (Gibsion, 2003). On the other hands empirical studies and macroeconomics theories also well define the impact of infrastructure on overall economy. However, there are two issues need to be addressed the first proper identification of cause and effect of infrastructure with respect to poverty and second issue the role of infrastructure does not exist individually. The micro study revealed that infrastructure leads to poverty reduction in terms of health, education, income and social economic outcomes.

LITERATURE REVIEW

Importance of Logistic in Economy

The word logistic can be defined as "planning, implementing and controlling of the physical movement of goods and services from point production to point of consumption "Phillip Kotler". The logistic perform number of functions including transportation, warehousing, inventory planning and management, order processing and packing. According to (Shan, 2011), logistic efficiency mostly be subject to on infrastructure and based on this research results we can conclude that the efficiency of logistic can be improved through reducing route's length. In today's competitive business environment logistic seems important for survival and to be leading firm in their respective industries (Bowersox, 2000). The logistic also play vital role for the both production and distribution process (Sreeniva, 2015). Logistic has two parts, first vehicles truck, van and bus etc and second part is the infrastructure on which vehicle run smoothly.

Shipping Cost in Logistic

Transportation is well-thought-out the major activity of logistic system, according to (Chang, 2015), estimated 44% transportation cost is associated with overall logistic system. Scheduling and planning activities are very important because both impact on total cost and maximum profit in long run. According to research conducted by (Russel, 2015), manufacturing's firm transportation is critical rather than service oriented firms and around 20% transportation cost is total cost of production.

Transit/Delivery Time in Logistic

Pervious literature revealed that transit time is the main factor for gaining competitive advantage in logistic (Jayaram, 2008). The reliability on supply chain management's performance and logistic performance has positive and significant relationship vice versa, (Christoper, 1998). Time between placing of order to delivering is known as lead time in supply chain and on time delivery indicate the quality of overall supply chain network.

Now day's markets are saturated and intensive competition can't be ignored. There is positive strong relationship between convenience and customer satisfaction (Selders, 2007) and this act help to companies for gaining competitive advantage.

DISCUSSIONS

Impact of CPEC on China's Logistic

China is the largest export economy of the world, according to "The Observatory of Economic Complexity (OEC)" in 2014 china exported estimated US $2.37 trillion and imported estimated $1.53 trillion and as a result positive trade balance US $834 billion. The CPEC (China-Pak Economic corridor) will connect Kasghar port of china to Gwadar port of Pakistan, this distance between Kasghar Xinjing province of china and Beijing is around 5,513km and Persian gulf around 2500km. The distance between Beijing and Persian Gulf (for crude oil) according to OEC estimated total import of china 13.4% is crude oil and distance will be reduced from 2500km to 1300km and lead time from 45 days to 10 days. New route will help to china for importing the crude oil within 10 days with less shipping and transit/deliver time.

3.2 Impact of CPEC on Pakistan's logistic

Pakistan has been facing the serious problems such as bad governance, mismanagement and low socio-economic infrastructure but Pakistan is the country that is gifted with strategic location Muhammad Daim fazail (2015). Project of CPEC is the network including road, railway, and highway that connect from Kasghar port to Gawadar port. China has own port that is away from own seaport 5,513km. The CPEC approximately covers 1,100km motorway to be constructed between Karachi and Lahore and Karakorum highway will connect to Rawalpindi to chine's border. The Karachi-Peshawar railway will be upgraded that will increase the speed of train and it will be able to cover distance 160km per hour. A network pipeline between Gawdar and Nawabshah an investment US $2.5m will transport gas from Iran. Gawdar project will boost up the economic development for central Asia including Sir lanka, Uzbekistan, Iran and Afghanistan etc. Pakistan's one of region the Baltistan is too famous for exporting fruit, this will provide an opportunity for local trader for increasing exporting level by saving cost of transportation. Currently, local traders are exporting to air cargo via Dubai. According to (www.cpec.inf.com) Pakistan logistic industry will grow up to US $30.77 billion in the end of 2020 and logistic system in Pakistan seems to efficient and integrated transportation system in future. Goods are transported estimated 90% by land of total goods transported in Pakistan. CPEC project is consists of three routes western route (different cities of Baluchistan), central route (Gawdar to Dera Ismail Khan) and Eastern route (Gawdar to Islamabad). The CPEC official website (www.cpec.inf.com) revealed that the main targets of logistic system in Pakistan are reduction in transportation cost, high speed connectivity and an effective connectivity between urban and rural areas throughout the Pakistan.

CONCLUSION

Pakistan and china friendship started in 1950 and both countries supported to each other in various difficult time periods. China supported to Pakistan in economic and social transformation in various ways but china helped to Pakistan in war of 1965 and 1971. Similarly, Pakistan also contributed to China and its economy by importing largest ratio of manufactured goods especially Pakistan's support to china for permanent seat in United Nations Security council (UNSC).

The CPEC China-Pak Economic corridor is a strategic partnership between Pakistan and China, the CPEC total investment is estimated US $46 million. It covers various projects including energy, road, railway and fiber optics, the major portion of CEPC will be spent on energy that will improve overall industrial production of Pakistan. Pakistan has been facing problem of energy crises and infrastructure improvement will lead better connectivity with both national and international level. CPEC investment has direct and indirect impact on overall economy of Pakistan. It is the largest FDI foreign direct investment ever in the history of Pakistan and it is consists of 10% overall GDP of Pakistan.

Logistic system creates better opportunities for growth of overall GDP; the secondary sector cost to be paid by manufacturing companies is estimated 40% to total cost of production. The cost of shipping and transit/delivery time are considered as the better performance of overall supply chain management. CPEC project will help both countries China and Pakistan, china is importing crude oil estimated 13.4% of total import from Persian gulf, this project will help to china for reducing distance from 2500km to 1300km and lead time from 45 days to 10 days. Furthermore, currently china is importing oil from Indian Ocean Sea but future conflicts may stop supply of oil to china through this route so, CPEC may serve the best alternative for china and it would reduce the risk in future. Pakistan's growth in logistic industry is to be expected US $30.77 billion by end of 2020, this development of infrastructure will not only support to logistic industry of Pakistan but also, it will boost up industrial productions, export level, better stock prices for financial markets and better connectivity with national (rural and urban transportation system) and international level (Central Asia).

References:

Arif, K. (1984). *Documents on China-Pakistan Relations.* Lahore: Vangurad.

Bank, W. (2016). *World Bank Report* . World Bank .

Barro, R. (1990). Government Spending in a Simple Model of Exogenous Growth. *Jounral of Political Economy*, 103-125.

Bowersox, D. C. (2000). Ten-mega trends that will revolutionize supply chain logistics . *Journal of Business Logistics*, 1-15.

Chang, Y. (2015). Logistical Managment . *Role of Transportion in logistics*.

Christoper, M. (1998). Logistic and Supply Chain Management . *Financial Times Professional Limited London*.

Futagami, K. Y. (1993). Dynamic Analysis of an Endogenous Growth Model with Public Capital. *Scandinavian Journal of Economics*, 95:607-625.

Gibsion, J. a. (2003). Poverty and Access to Roads in Papua New Guinea. *Economic Development and Cultural Change*, 159-185.

Jain, R. (1981). *China South Asian relations.* Radiant: New Delhi.

Jayaram, J. V. (2008). The effects of information system architecture and process improvements on supply-chain time performance. *Internation-al Journal of Physical Distribution & Logistics Management,*.

Lokshin, M. a. (2005). *Has Rural Infrastructure Rehabilitation in Gerogia helped the Poor?* World Bank Economic Review.

M, J. J. (2003). Does Piped Water Reduce Diarrhea for childern in Rural India? *Journal of Ecoomertics*, 153-173.

Murphy, K. A. (1989). Industrializtion and Big Push. *Journal of Political Economy*, 1003-1026.

Russel, R. a. (2015). *Operation Management.* Prentice-Hall.

Selders, K. G. (2007). Development and Validation of a Multdimensional Service Convenience Scale . *Journal of the Academy of Marketing Science*, 144-156.

Shan, L. Z. (2011). Integration of logistics resources based on logistics network. *Contemporary Logistics*, 51-56.

Sreeniva, D. T. (2015). The role of transportation in logistics chain. *www.slam.org/journals*, 1814.

Website, O. (2017, Jan). *CPEC Government of Pakistan* . Retrieved from China Pakistan Economic corridor : http://cpec.gov.pk/

Web References Quotations

http://www.pakistantoday.com.pk/2016/07/26/an-introduction-to-cpec/

http://cpec.gov.pk/maps

http://www.dawn.com/news/1229616

http://www.mappk.com/cpec-railway-line-route-map-between-pakistan-and-china/

https://www.linkedin.com/pulse/role-logistics-economy-new-silk-road-cpec-adil-ahsan

http://atlas.media.mit.edu/en/profile/country/chn/

http://www.cpecinfo.com/cpec-news-detail.php?id=NTk5

http://www.sbp.org.pk/