

# Logistics Demand Analysis of China - Pakistan Economic Corridor

Aimin Deng , Bo Yu

**Abstract**— China-Pakistan Economic Corridor (CBA) was first announced by China and Pakistan in July 2013. It is a model project and flagship project of the strategic Belt and Road initiative launched by China. From the north of Gwadar Harbor to Kashgar in China's Xinjiang Uygur Autonomous Region It is a trade corridor including roads, railways, oil and gas pipelines and communications optical cables. The construction of this economic corridor aims at further enhancing the interconnection between China and Pakistan and promoting the common development of both countries. This article analyzes the status quo of the trade between China and Pakistan and the economic corridor between China and Pakistan and studies the factors that affect the logistics demand of the economic corridor between China and Pakistan from the aspects of international trade, total economy and transportation resources, and gives some policy recommendations.

**Index Terms**— Belt and Road CMB Economic Corridor Logistics Demand.

## I. INTRODUCTION

In May 2013, Premier Li Keqiang visited Pakistan and put forward the establishment of an economic corridor between China and Pakistan with the original intention of strengthening exchanges and cooperation in transport, energy and oceans between China and Pakistan, strengthening interconnection and promoting common development between the two countries. In July 2013, Pakistani Prime Minister Sherif paid a visit to China and the two governments issued a joint statement entitled "A Common Prospect for Deepening China-Brazil Strategic and Cooperative Partnership in the New Era". "In Article 17, he said:" In order to promote the development of a long-term plan for the economic corridor in China and Pakistan, the two sides agreed to set up a joint cooperation committee for the long-term economic planning between China and Pakistan. In September 2013, a delegation of China's National Development and Reform Commission visited Pakistan to hold consultations with Pakistani officials on the long-term planning of the construction of the CAB. At this point, the construction of the economic corridor in China and Pakistan has started to enter a state of actual promotion. In April 2015, Chinese State President Xi Jinping's state visit to Pakistan made a significant contribution to the development of the China-Pakistan Economic Corridor. The two sides decided to

take the CAB Economic Corridor as the lead and focus on the Gwadar Port, energy, transport infrastructure and industrial cooperation to form the "1 + 4" economic cooperation layout and further strengthen the interconnection and mutual cooperation between China and Pakistan and promote the common development of the two countries .

## II. SINO-PAKISTANI TRADE AND THE CURRENT SITUATION OF CHINA-PAKISTAN ECONOMIC CORRIDOR CONSTRUCTION

### 2.1 China-Pakistan trade status quo and problems

China and Pakistan established diplomatic relations in 1951, and in 1963 they signed the first bilateral trade agreement. Now Pakistan has become an all-weather strategic partner of China and the relations between China and Pakistan have become successful examples of friendly relations between developing countries and countries of different cultures. However, the exchanges between China and Pakistan are mainly concentrated among military, political and government officials, with less exchange at the economic and cultural levels, and political "hotness" and economic "coldness". In recent years, despite the rapid development of trade between China and Pakistan, the long-term strategic partnership between China and Pakistan is not commensurate with the trade volume and proportion as a whole. Moreover, the rapid development of Sino-Pakistani trade is mainly due to the rapid growth of Pakistan's imports from China, the relatively slow growth of its exports to China and the increase of Pakistan's trade deficit with China.

Before the proposal of "One Belt and One Road" was put forward, there were limitations in the trade area between China and Pakistan. The trade between China and Pakistan mainly exists in the military field and fails to address the comprehensive field of promoting Pakistan's economic development and social progress. First of all, Pakistan's main products imported from China are machinery and equipment and their accessories. These products are mainly weapons, followed by chemical products and textile raw materials. Due to the industrial system in Pakistan, Pakistan's exports to China mainly include cotton yarns, textile industry-related products, and agricultural and fishery products. It can be seen that apart from the trade in weapons and equipment, the trade between China and Pakistan remains basically at the lower end of the commodity market. Relatively few trade-friendly products, such as traders promoting deep-level cooperation between the two parties, household appliances that improve the quality of life of the Pakistani people and improve their

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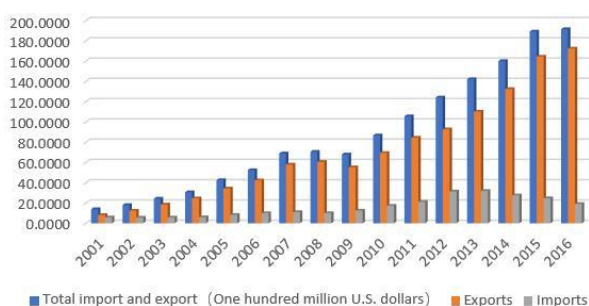
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quality of life, and energy products that enhance the country's basic industries.

At the same time, China's investment in Pakistan is limited. China's investment in Pakistan lags far behind that in the United States, Britain and other western countries, even lower than the Middle East countries such as the United Arab Emirates. Most of them are from state-owned enterprises. Investments are mainly related to military cooperation and related fields, lacking To improve Pakistan's basic industrial level, such as electrical and electronic energy and other fields of investment. This status quo reflects not only the distance between the two countries in establishing a comprehensive trading partnership but also the inconsistency with the long-term all-weather strategic partnership between the two countries.

First, the scale of trade has expanded and China's exports to Pakistan have grown rapidly. According to the Pakistan Statistical Institute, in the 2015-16 fiscal year, the bilateral trade between China and Pakistan was 19.1706 trillion U.S. dollars, an increase of 1.2% over the previous financial year. Among them, Pakistan imported 17.234446 trillion U.S. dollars from China, an increase of 4.8%, and exported 1.19259 trillion U.S. dollars to China, down 22% on a year-on-year basis. Figure 1.

Figure 1 : China-Pakistan Trade in 2001-2016



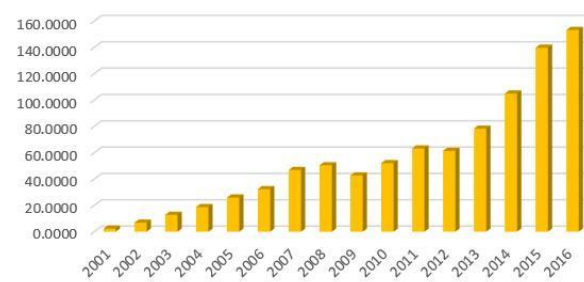
The scale of bilateral trade between China and Pakistan is small relative to the total volume of China's trade and accounts for less than 0.5% of China's total foreign trade. However, the trade between China and Pakistan occupies a very important position in Pakistan's foreign trade. At present, China is the largest trading partner of Pakistan and China-Pakistan trade accounts for 17.5% of its total foreign trade. At the same time, China is still the number one source of imports and the second largest destination for exports, accounting for 23% of the total imports of Pakistan and 9% of the exports respectively.

Second, the trade structure is highly complementary and the value-added products exported by Pakistan are lower. China and Pakistan are in different stages of industrial development with strong complementary trade products. Pakistan exports to China are mainly raw materials and primary products such as cotton yarn, rice, fur, ore and fish products. According to the Pakistani side, in 2014, the five most exported products by Pakistan to China were cotton and cotton products (1.5 billion U.S. dollars or 68%), cereals (137 million U.S. dollars or 6%), and ore (92 million U.S. dollars) USD, accounting for 4%), animal feed (USD 65 million, accounting for 3%) and fur (USD 55 million, accounting for 2%). According to the Pakistan Business Council (PBC) data, in 2013, the top

exports to Pakistan from China were electrical and electronic equipment, machinery and equipment, organic chemicals, synthetic fibers, Steel and iron and steel products, plastics, fertilizers and more.

Third, there is a trade deficit between China and Pakistan and it is expanding. In FY16, Pakistan exported 1.91759 billion U.S. dollars to China, 17.2344.6 billion U.S. dollars from China, and a trade deficit of 15.32187 billion U.S. dollars. It is noteworthy that although the trade deficit with China has always existed, the expansion of the FTA of China and Pakistan will be further expanded. The agreement on trade in goods between China and Pakistan was signed on November 24, 2006 and implemented on July 1, 2007. After the implementation of the FTA, the bilateral trade between China and Pakistan increased from US \$ 5,246.58 million (2006-2007) to US \$ 19.147706 billion (FY 2015-2016), but the trade deficit with China also increased from US \$ 32.3216 billion 153.2187 billion US dollars, an increase of 374%. Figure 2.

2001-2000 China's trade surplus with Pakistan (One hundred million U.S. dollars)



## 2.2 Brief Introduction to the Construction of China-Pakistan Economic Corridor

In May 2013, during his visit to Pakistan, Premier Li Keqiang had an in-depth exchange of views with Pakistani leaders on further strengthening the all-weather strategic cooperative partnership between China and Pakistan. Premier Li Keqiang proposed to build an economic artery connecting Kashgar in the north and Gwadar in Pakistan to the south and promote interconnection and interoperability. He said it is necessary to strengthen strategic and long-term planning, open up new areas of cooperation such as connectivity and ocean. The starting point of the economic corridor in Pakistan is Kashgar. The destination is in Gwadar Port of Pakistan. It is 3,000 kilometers in length. It connects the "Silk Road Economic Belt to the north." And the "21st Century Maritime Silk Road" to the south. It is the key hub linking North and South Silk Road and is A trade corridor comprising roads, railways, oil and gas and fiber-optic cables is also an important part of the "One Belt and One Road". The two governments initially formulated the long-term plan for the construction of "four in one" corridors for the construction of highways, railways, oil and gas pipelines and optical fiber cables in the port of Gwadar, Xinjiang's Kashgar City, southwest of the Pakistani side. The entire project includes: energy projects, port construction, roads, railway construction, agriculture and so on.

Among them, the energy projects include 1320 MW thermal power project in Qasim Port, Pakistan, 29 November 2017, the first on-site energy project of the "CMB Economic

Corridor" - Qasimu Port Coal-fired Power Plant Unit 1 was officially put into operation, The project includes power station project, supporting unloading wharf and waterway project. The construction of the port is mainly for the construction and operation of the Gwadar Port. The port of Gwadar is located at the southernmost end of the CMB Economic Corridor. The coast of the Indian Ocean, adjacent to the Middle East, radiates to most of the Middle East. It is only 400 away from the Hormuz Strait, the world's major oil shipping corridor. Km, is the throat of the Indian Ocean, but also China's transit hub connecting the Middle East. It is an important node of "21st Century Maritime Silk Road" and has very important strategic significance. In February 2013, China Overseas Port Holdings Co., Ltd. officially took over the operation of Gwadar Port in Pakistan and obtained the right to operate the port for 40 years. In February 2018, the construction of "corridor" focusing on Gwadar Port, energy, transport infrastructure and industrial parks has been carried out from the perspective of planning of ports, airports, special economic zones and residential areas. Gradually enter the full implementation stage. The road and railway construction projects are mainly for the repair of the Karakoram Highway, the Peshawar-Karachi Expressway project, and the upgrading of the Karachi-Peshawar and Taksila-Havilian Railways. By then, Pakistan will be referred to as a number of economic artery across the north and south and important national defense.

Crude oil from the Persian Gulf can enter the southeast coast of China via the Gwadar, Indian Ocean and Malacca Strait. In the future, cargoes along the route will arrive at Kashgar in China's Xinjiang Kiangsi via the Gwadar port along the CMB economic corridor. It can be seen from this that the China-Pakistan Economic Corridor with Gwadar as an important node will become a bridge and an important hub for connecting the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road."

The construction of the economic corridor between China and Pakistan is conducive to bringing about economic development in the relevant regions so that the planning and layout of corridors can take into consideration the various regions in Pakistan so as to benefit development results for all the people in Pakistan, help release the development potential of both countries and promote regional and sub-regional cooperation in Asia . Second, it helps to maintain energy security. The construction of the CMB economic corridor and the promotion of energy cooperation between China and Pakistan are conducive to the diversification of the energy supply channels between China and Pakistan, easing the oil tensions in the two countries, safeguarding oil security and promoting economic development.

### III. FACTORS AFFECTING THE LOGISTICS NEEDS OF CHINA-PAKISTAN ECONOMIC CORRIDOR

International logistics demand refers to the total amount of transportation of raw materials, semi-finished products, finished products, commodities, wastes or returns due to production or consumption within a certain period of time and a certain regional space, "Things" transport, packaging, inventory, loading and unloading, distribution, distribution

processing and information processing. International logistics demand is the motive force for the development of transnational commodity economy, which in turn will affect the economic development of various countries in the region. There are many factors affecting the demand of international logistics, including the volume of imports and exports, the level of economic development in various countries in the region, the living standards of residents in various countries in the region, and technological progress. Combined with the construction of the economic corridor in China and Pakistan, this paper believes that the main factors that affect the logistics needs of the CMB economic corridor are the following:

#### 3.1 The GDP

The total national economy of various countries in the region is closely related to the international logistics needs. Both the development of production and circulation will be reflected in the growth of the total national economy, and the production and circulation themselves will generate a great deal of logistics activities with strong demand for logistics. General GDP as a measure of the total national economy. The gross domestic product of China and Pakistan is also on the rise. Due to the differences in factor endowments and technological levels, the total economic output of Pakistan is lower than the total economic output of our country. However, the trend of continuous economic growth in both countries is obvious.

#### 3.2 International Trade

International trade is the most important reason to influence the demand of international logistics. Import and export trade can promote the optimal allocation of resources in China and the Middle East countries, which can not do without the support of international logistics. In recent years, the volume of trade between China and Central Asian countries has been constantly increasing, which has greatly increased the demand for international logistics. International logistics is a precondition for international trade in the CMB Economic Corridor. A backward logistics system will become a bottleneck restricting the development of trade. The larger the scale of trade, the greater the demand for logistics services such as freight transportation, warehousing, distribution and logistics information processing. The stronger the growth of trade, the stronger the growth of international logistics demand.

Among them, the trade volume between China and Pakistan has been increasing year by year since 2001 and has been growing strongly since 2013 and has reached 19.147 billion U.S. dollars by 2016. The ever-increasing trade volume between the two countries will undoubtedly increase the logistics demand of the CMB economic corridor.

Trade continues to expand. The trade between China and Pakistan mainly lies in the military and the goods are mainly military supplies. Pakistani exports to China are mainly raw materials and primary products such as cotton yarn, rice, fur, ore and fish products, which greatly limit the growth of logistics . With the growth of the economic corridor in China and Pakistan and the investment by China in Pakistan, the domestic industrial structure in Pakistan will be perfected day by day, the proportion of the secondary industry will increase,



the import and export of industrial products will increase, and the demand for logistics will be greatly stimulated .

China's oil imports to Saudi Arabia, Angola and other countries have increased. China's current oil mainly from Russia, Saudi Arabia, Angola and other countries. Oil imported from Saudi Arabia and Angola needs to reach China's hinterland via the Indian Ocean, the Strait of Malacca and the South China Sea via flotillas. There is a long way to go and the transportation costs are high and the oil is exposed to risks of uncertainty. Pakistan proposed that Pakistan could provide China with an oil transportation corridor and make the CMB become China's "energy channel." After the Gwadar port constructed and operated by China is connected with the road and rail transport network of the CMB Corridor, oil imported from Africa and the Middle East can reach Kashi, China directly from the Gwadar port, avoiding the risk of shipping and saving a large amount The transport costs, prompting China's diversified energy supply. The economic corridor between China and Pakistan provides a major artery for China's trade with the Gulf region and Africa through the oil trade. This will also greatly stimulate the logistics needs of the economic corridor.

### 3.3 Transport Resources

Infrastructure conditions also have a significant impact on regional logistics needs. Transport resources refer to the transport-related transport capacity, the length of the railway, the density of transport routes and other resources. The richer the transportation resources of a country, the lower the cost of transportation and the stronger the will to transport it by road, and the greater the demand for logistics. Only by constantly improving logistics capabilities and strengthening logistics infrastructure will the enterprises' willingness to international trade be further enhanced, resulting in more international logistics needs. The construction of the CMB corridor includes the construction of the Gwadar Port, the repair of the Karakoram Highway, the Peshawar-Karachi Highway Project, and the Karachi-Peshawar and Taksila-Havilian Railway Upgrading Project. The commencement of construction of these infrastructure projects has increased the logistics capacity of the CMB Economic Corridor, reduced logistics costs and stimulated an increase in logistics demand.

### 3.4 External environmental factors

First, good political and diplomatic conditions. The CMB Economic Corridor is the model project and the flagship project of the Belt and Road Initiative. In particular, the Gwadar Port is the core pivot of the entire economic corridor. China and Pakistan are "all-weather strategic cooperative partnership." They are highly political, highly interdependent and high-level. They are highly consistent with their understanding of actively promoting the construction of an economic corridor in China and are in good condition for coordinating the relevant issues between the two governments. Second, the foundation of economic and technological cooperation is good. The economic and technological cooperation between China and Pakistan has been going on for several decades. Chinese enterprises have undertaken projects in Pakistan for a long time and in many types, with remarkable achievements. Chinese enterprises are no strangers to the Pakistani market and society and have a

good foundation to participate in the construction of the economic corridor in China. Third, good social conditions. The friendly relations between China and Pakistan enjoy a high degree of consensus in the minds of the people of both countries and the Pakistani people are warm and friendly to Chinese friends. All political parties in Pakistan are highly consistent in their understanding of how to support the construction of an economic corridor between China and Pakistan. This is a very important social and environmental condition for building various types of economic corridor projects.

## IV. CHINA-PAKISTAN ECONOMIC CORRIDOR LOGISTICS DEVELOPMENT COUNTERMEASURES

First, strengthen the government's leadership over the construction of the CMB economic corridor. Due to China's economic development level Much higher than in Pakistan, the domestic development fund is also far more abundant than that of Pakistan. Therefore, the investment cooperation between China and Pakistan mainly aims at expanding direct investment by Chinese enterprises in Pakistan. Actively seek ways to build a good economic corridor between China and Pakistan. China and Pakistan should seize the project of "China-Pakistan Economic Corridor", deepen the investment cooperation between China and Pakistan and drive the economic and trade cooperation between China and Pakistan going forward. In turn, China's expanding investment in Pakistan can enhance its economic growth momentum. The parties are also more motivated to support the "CMB Economic Corridor".

Second, adhere to the principle of market operation. In the construction of the economic corridor in China and Pakistan, we should adhere to the principle of market operation, follow the market rules and international rules, give full play to the decisive role of the market in allocating resources and the main role of various enterprises, and give full play to the role of the government. In addition, the correct concept of righteousness and benefit should also be adhered to in the construction of the CMB corridor. The government and enterprises all do their part to work together to promote corridor construction. It is necessary to highlight the main role of enterprises in corridor construction, fully mobilize and give play to the enthusiasm and initiative of enterprises, promote the construction of key projects through the improvement of market mechanisms and profit-oriented mechanisms, the establishment of key projects based on the principle of commercialization and market-oriented mechanisms and measures We will give more play to the role of the economic corridor in Pakistan in promoting the social and economic development in Pakistan.

Third, strengthen the construction of international logistics infrastructure. The insufficient capacity of the railway highway is still a major factor restricting the logistics of the CMB economic corridor. In particular, lack of railway transport capacity is reflected in the cargo passing through ports. Due to lack of transport capacity, backlog of goods may occur, resulting in unnecessary loss of property. Therefore, on the one hand, it is necessary to strengthen the infrastructure construction of the railway and effectively solve the problem

of insufficient transport capacity through the import and export of the railway; on the other hand, it is necessary to strengthen the access to the highway, strengthen the construction of the highway network, and improve the construction of transportation hubs and stations. At the same time, to speed up the construction of Gwadar Port as a distribution center for logistics, it is necessary to strengthen infrastructure construction in Gwadar Port and strengthen equipment investment and informationization level at the ports in order to better improve the port clearance capacity and cargo integration ability. In the construction of the port park, we should do a good job in market research and rational allocation of existing resources to meet the ever-growing demand for international logistics.

Fourth, to strengthen international logistics personnel training economy is the basis for the development of talent, the rapid development of international logistics requires a large number of high-quality personnel. China and Pakistan should take measures to attract and train high-level logistic talents to Pakistan: to raise the level of wages and benefits and attract qualified personnel to work in Pakistan for a long time; to strengthen the teaching and research of logistics-related majors in higher vocational colleges; Training; learning foreign advanced logistics theory, improve the relevant theoretical level; to strengthen the training of practitioners to improve the overall quality of practitioners. In short, we should expand Pakistani international logistics personnel through a variety of methods, and focus on cultivating top-notch talents to serve the development of China's economic corridor.

Fifth, to strengthen the system construction in the relevant fields of international logistics Legal system and institutionalized management and coordination are required for the construction of the terminal stations related to international logistics, port construction and the facilitation of customs clearance. China and Pakistan should step up the building of an international logistics legal system, improve local laws and regulations and trade regulations, and push the international logistics industry in the economic corridor to a path of standardization, institutionalization and legalization as soon as possible. Do administration according to law, management according to law, check according to law, with perfect laws and systems to reduce transaction costs, improve logistics efficiency. At the same time, it is necessary to actively understand the laws and systems of various countries and promote the consistency and transparency of laws and regulations in all customs areas in various countries in order to reduce trade barriers.

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