Chinese Oil Import under China Pakistan Economic Corridor (CPEC) â€“ A Global Commutable General Equilibrium approach

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Author: Muhammad Iftikhar ul Hasnain
Co-Authors: Muhammad Aamir KHAN

Ever since the establishment of diplomatic ties, China sees Pakistan as a committed ally. Both countries have maintained cordial ties successfully through thick and thin and both have been serving each otherâ€™s interests. China-Pakistan Economic corridor (CPEC) is one such example. It is a policy initiative taken by the governments of Pakistan and China in 2013. This corridor is an excellent opportunity to improve the economic and regional connectivity. It is a $46 billion Chinese investment, covering a wide range of different energy, infrastructure and industrial projects in Pakistan. Pakistan, in turn, provides a cheap and short route to transport Chinese imports. Chinaâ€™s huge energy demand made it the worldâ€™s second largest importer of oil. China largely depends on Middle Eastern countries to satisfy its trade and energy needs. It previously used the South China Sea to ship oil through the Strait of Malacca, which cost them more than 70% of the cost of actual imported oil. CPEC, on the other hand, provides the shortest route that could reduce the transportation cost by 50%.

With this backdrop, this study adapted a new global commutable general equilibrium (CGE) model using latest GTAP Power data set and latest Social Accounting Matrix (SAM) of Pakistan. The economy wide results show that China would earn huge return on its investment under CPEC in the form of positive impact on real GDP and trade. Pakistan could earn toll tax on every consignment transported from Gwadar in Pakistan to Kashgar in China. This tax would increase Pakistani government revenue by 1% and real GDP by almost $100 million.