PalArch's Journal of Archaeology of Egypt / Egyptology

DO THE CHINESE INVESTMENT UNDER THE INITIATIVE OF ONE BELT AND ONE ROAD CHANGE THE ECONOMIC ENVIRONMENT OF PAKISTAN?

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Zulfiqar Ali Baig , Salma Neelofar , Tamoor Azam , Do The Chinese Investment Under The Initiative Of One Belt And One Road Change The Economic Environment Of Pakistan? , Palarch's Journal Of Archaeology Of Egypt/Egyptology 18(10), 1083-1100. ISSN 1567-214x.

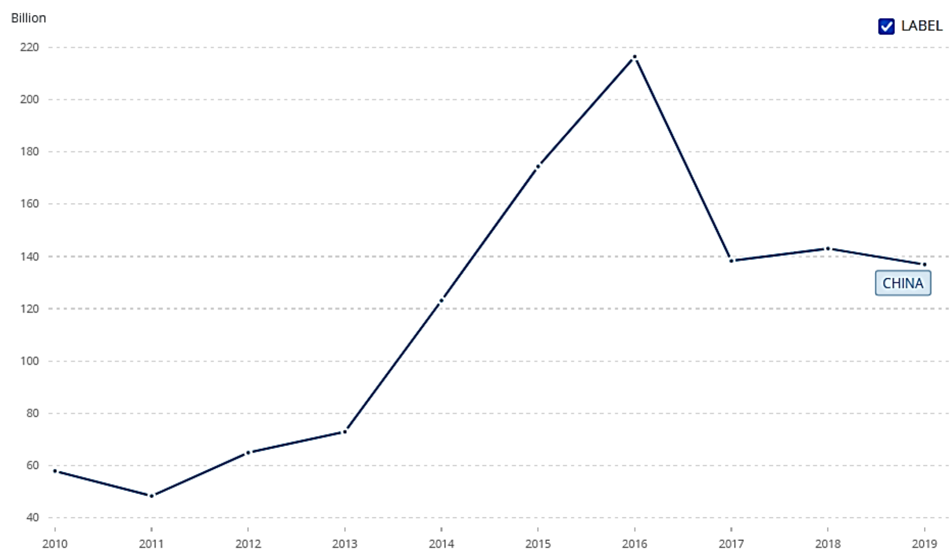
Keywords: Economic Corridor, SWOT analysis, Economic Development, China and Pakistan, Foreign Direct Investment.

Abstract

Under the globalization strategy, to ensure national economic development, it is necessary to actively construct overseas economic and trade cooperation and implement "bringing in and going out". At present, China's economy has entered a new stage of development. It has the largest foreign exchange reserve in the world and has strong manufacturing power. As a result, its international status and international discourse power have been greatly enhanced, and China has gradually developed into a major country and power in the world. However, it should be noted that most industries in China are still at the low end of the global industrial chain, with serious excess capacity, insufficient domestic demand and a lagging economic development model. Pakistan has always maintained good diplomatic relations with China. Under the initiative of "One Belt and One Road", Pakistan has become a comprehensive strategic partner of China and opened the "China and Pakistan Economic Corridor", a flagship project of "One Belt and One Road". Through such infrastructural projects, Pakistan has received an abundant inflow of FDI. However, the environment for Chinese FDI in Pakistan is confronting with various challenges. This paper intends to investigate China's direct investment environment in Pakistan through SWOT analysis.

Introduction

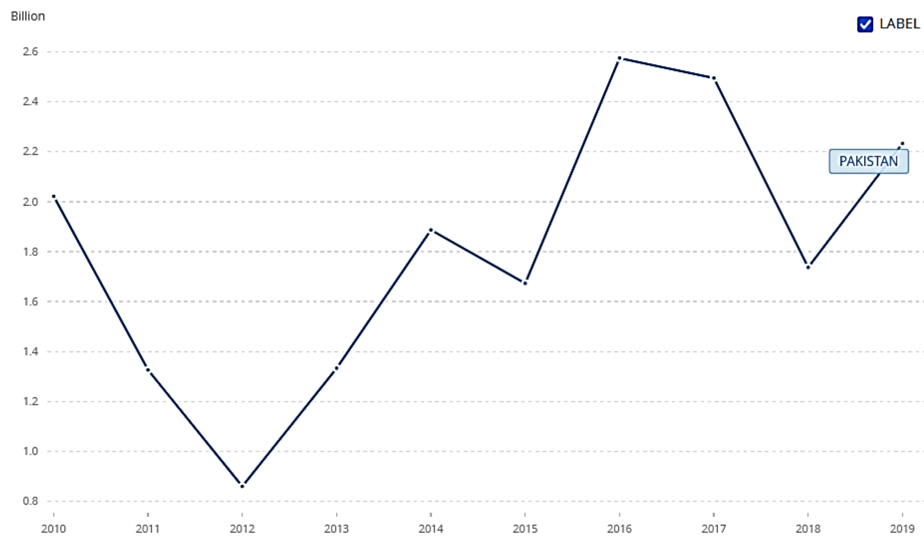
China and Pakistan have been iron brothers since 1951 and Pakistan was one of the first countries to recognize China as a new country (Ahmar, 2014). The diplomatic relations between both countries became iron strong with the initiation of infrastructural projects under China and Pakistan Economic Corridor. Acknowledging that regional integration is a necessary measure to meet the demands of an increasingly globalized and economically sound world , China reformulated and relaunched the Silk Road concept in 2013 under the ‘one road, one belt' initiative, which includes the Economic Belt along the Silk Road and the Maritime Silk Road. China, mostly called “the sleeping economic giant” is awake with profound strategies to fabricate its economic net thoroughout the globe while Pakistan still struggling with it economic condition are connected in the form of several infrastructural projects. China’s FDI during 2010-19 has seen several fluctuations.



Foreign Direct Investment, Net outflow of China

Source: ("Foreign direct investment, net outflows (BoP, current US$) - China | Data", 2021)

While the Inflow of FDI in Pakistan has been shown in the following graph.



Foreign direct investment, net inflows (BoP, current US$) - Pakistan

Source: ("Foreign direct investment, net inflows (BoP, current US$) - Pakistan | Data", 2021)

Although USA, UK, and Japan are the big investors in Pakistan however, Pakistan has grabbed China’s attention due to its geostrategic significance. With increasing inflow of FDI, Pakistan has a huge number of hurdles that are hindering the China’s FDI in Pakistan. On the other hand Pakistan has potential to attract all the big investors like China to invest huge sums of money. Hence, this paper aims to investigate the China's Direct Investment Environment in Pakistan through SWOT Analyses methodology. SWOT analysis is also called situation analysis, where S is strengths, W is Weaknesses, O is Opportunities, and T is Threats. It was presented by American management professor Werick in the 1980s (Yan et al., 2021). Through a systematic and comprehensive analysis of the status and environmental analysis of the research area, the internal and external advantages, disadvantages, opportunities and challenges are arranged in a systematic medium for clear understanding. SWOT helps to analyses various internal and external standpoints of the projects with systematic thinking, and draw corresponding conclusions and suggestions. This article uses SWOT analysis as an analytical tool to analyze the current situation of China's direct investment environment in Pakistan.

1. Strengths

1.1 Strengthening of China's foreign investment

China's GDP has always played an integral role in ameliorating the economy in the previous years. Table 1 shows the annual GDP growth percentage of China since 2010 to 2020.

Year	Annual growth (%)
2010	10.636
2011	9.551
2012	7.864

2013	7.766
2014	7.426
2015	7.041
2016	6.849
2017	6.947
2018	6.75
2019	5.95
2020	2.3

Annual GDP growth of China from 2010-2020 (The World Bank, 2021)

Since 2010, China has become the world's second largest economy alone, and has maintained a steady growth trend. While Pakistan is ranked as 40th in world's ranking based on nominal GDP value. Since China has extended its diplomatic relations with other countries for 40 years , the country's economic strength has gradually increased, and foreign trade has a more open policy environment. At present, China can be observed as a devotee to create a mutually beneficial international environment. For instance, adhering to the "One Belt One Road" strategy (Ploberger, 2017), advancing regional economic cooperation, promoting the opening of the financial industry (Ohashi, 2018), expanding imports and exports, and making the best use of foreign investment are among inevitable contributions of China towards the world economy. Moreover, Chinaseeks a broad space for development and resolution of the contradiction between domestic supply and demand and resource contradiction. At present, China's export-oriented policy has made breakthrough progress, and foreign exchange reserves have been increasing year by year (Zhu et al., 2021). During 2006, China's foreign exchange reserves ranked first in the world. By 2009, its foreign exchange reserves had accounted $1493 billion and for 1/3 of the world's total foreign exchange reserves. From 2010 to 2014, China's foreign exchange reserves have been in a trend of rapid growth. In 2011, it exceeded US$3 trillion and reached US$3,843.0 billion in 2014. It is precisely because of sufficient foreign exchange reserves that solid financial support has been laid for China's foreign direct investment. It can be seen from the entire process of China's past attracting foreign investment that the asymmetry of factors among countries also explains the international vertical direct investment. Compared with developed countries in Europe and the United States, China's labor resources are relatively abundant, which provides indispensable conditions for China's economic development and attracting foreign investment (Schott, 2008; Cui et al., 2018). In addition, China also has sufficient funds and advanced technology, so most developed countries are willing to invest in China. In this process, China has also leveraged its development and accumulated rich management experience and technology. As the second most populous country in South Asia, Pakistan has abundant labor resources, and the process of industrialization is still in its infancy. Therefore, it has become the best choice to promote China's advantageous industries to specialize in Pakistan. In labor-intensive industries, most companies have accumulated mature production technology and operating capabilities after years of development, and are capable of investing in Pakistan.

1.2 Promoting the construction of China-Pakistan Economic Corridor

Long before the "Belt and Road" and "China-Pakistan Economic Corridor" were proposed, China had invested in Pakistan's mineral energy projects. After the China-Pakistan Economic Corridor was proposed, it has provided more convenient conditions for China to invest in Pakistan (Gu, & Zhou, 2020). On the one hand, the construction of the China-Pakistan Economic Corridor was built in the name of the country, and its content itself is an investment corridor. The project covers infrastructure, power and energy, manufacturing, tourism, and agriculture. In order to ensure the effectiveness of investment projects has been signed under the guidance of the governments of the two countries, especially infrastructure projects such as roads, railways and light rail, to reflect the investment advantages guided by the state. On the other hand, energy investment and basic investment are the first projects of the China-Pakistan Economic Corridor at this stage. The project itself brings together a large amount of investment capital that can flow into Pakistan, and the completeness of infrastructure can greatly stimulate investment in other projects. At present, infrastructure projects represented by the Karakoram Highway and Gwadar Port have been the first and last projects in the China-Pakistan Economic. Among them, the Karakoram Highway is an expansion project, and its construction section is located in a high-altitude area, which is difficult to construct, but after it is completed and opened to traffic, the transportation capacity of this section of the road can be increased by three times. The connection on the road can increase the convenience of investment and trade between the two countries (Corridor Ali et al., 2019). With the launch of the China-Pakistan Economic Corridor, the importance of Gwadar Port at the other end has gradually become prominent. Gwadar area is relatively poor and its level of development is lagging behind, but the area has extremely rich natural resources, including especially resources and mineral resources, which are still in a state of development. Gwadar Port cooperates with regional transportation networks, hydropower infrastructure planning, and airports. Construction will bring a qualitative leap to the local economy and maximize its economic potential. After the completion of the two infrastructures, they will connect Pakistan from end to end, and at the same time complete the transportation network in the vast area in the middle, which will greatly promote the investment growth of various sectors of the economy. In the context of the construction of the China-Pakistan Economic Corridor, China has already had a wealth of financing channels for investment in Pakistan, and many large enterprises that can provide project-financing services (Singh, &Magray, 2017). Among the policy banks, China's Export-Import Bank and Development Influence also rely on its rich experience in overseas project financing business to provide better financing solutions for China's investment projects in Pakistan to ensure the level of China-Pakistan investment cooperation.

1.3 Support for China-Pakistan political relations

China and Pakistan have a close and stable political relationship. When Chinese Premier Zhou Enlai visited Pakistan in 1956, the two sides issued a joint statement, stating that the relationship between the two countries had a good start on the basis of traditional friendship. In the 1970s and 1980s, the international situation has undergone major changes, especially the deterioration of Sino-Indian relations and the war between India and Pakistan, which rapidly warmed up the relations between China and Pakistan (Freddy, 2020). After China's reform and opening up, China has actively adjusted its foreign policy, which has further deepened China-India relations.

After entering the 21st century, the political mutual trust between China and Pakistan has begun to increase, and it has entered an all-weather strategic cooperative partnership. At the same time, high-level exchanges of visits and increasing frequency between the two countries have played a leading role in China-Pakistan relations. During 2013, Premier Li Keqiang proposed the construction concept of the "China-Pakistan Economic Corridor", and China and Pakistan signed the "Memorandum of Understanding on the Development of the Long-Term Cooperation Planning of the China-Pakistan Economic Corridor" (Deng & Yu, 2018). In July of the same year, Pakistani Prime Minister Sharif visited China and announced the prospect of deepening the Sino-Pakistani strategic cooperative partnership. He also established the China-Pakistan Economic Corridor Planning Joint Cooperation Committee to provide the two parties with information on energy, trade, investment, and technology. Border communication platform. In 2014, Sharif visited China again, signed 19 cooperation agreements and memorandums with China, with a total value of more than 42 billion US dollars, and concentrated on energy investment and construction, the construction of industrial parks along the economic corridor, etc., to a certain extent (Munir, 2018). The construction of the China-Pakistan Economic Corridor has also assisted to Pakistan in overcoming the energy crisis. In 2015, Chinese General Secretary Xi Jinping made Pakistan the first stop of his visit to highlight the diplomatic priority of Pakistan between China. During his visit to Pakistan, Xi Jinping met with Pakistani leaders and reached an agreement on the establishment of an "all-weather strategic partnership" and signed a cooperation agreement worth approximately US$46 billion, which became the largest single transaction in the history of Chinese overseas investmentprojects. In 2017, the leaders of China and Pakistan jointly participated in the “Belt and Road” international cooperation summit forum and reached a consensus on economic and trade cooperation. In September 2017, the two sides also held the eighth meeting of the second phase of the China-Pakistan Free Trade Area negotiations, and discussed a number of issues on improving the level of bilateral trade between China and Pakistan and trade facilitation. In 2018, Li Keqiang met with the visiting Pakistani Prime Minister, and signed nearly 15 agreements and multi-field cooperation memorandums of understanding. It unified the establishment of a strategic dialogue mechanism between China and Pakistan, and carried out diplomatic training and exchange programs, so that the two countries’ political The degree of mutual trust has been deepened, and a more stable cooperative relationship has been built.

1.4 The close ties between China and Pakistan in economics and trade

Pakistan is not only the first country in South Asia to sign a free trade agreement with China, but also the first country to establish overseas economic and trade cooperation with China. China and Pakistan have had close cooperation in trade, investment and technology for many years. On the basis of the free trade agreement, the development of foreign trade between the two countries has increased and improved. In 2019, China and Pakistan signed a relevant agreement on a free trade agreement. The tax reduction clause in the agreement was officially implemented on January 1, 2020, which increased the proportion of zero-tariff products between China and Pakistan from 35%. To 75%, it has greatly expanded the openness of the trade markets between the two countries and improved the facilitation level of China-Pakistan trade. This close bilateral trade relationship has also created good conditions for China to invest in Pakistan. Since China proposed the "Belt and Road" initiative, "Silk e-commerce" has also developed rapidly and has become a bright spot and focus in the trade market. In order to promote full coverage of Pakistan’s network, China has also joined forces with countries along the “Belt and Road” to build a big data platform and form a silk network to provide more effective and targeted decision-making services. In the first quarter of 2021, Pakistan has recorded 69 % increase in exports to China which was $526million in 2020 while currently recorded figure in $888 million (Sajid 2021).

1.5 China-Pakistan friendly people-to-people exchanges

After the China-Pakistan Economic Corridor was proposed, the people-to-people exchanges between China and Pakistan have gradually become closer. Local sister cities and media exchanges, even think tank cooperation, and youth exchanges have gradually become linked. Currently, Chengdu City in China and Lahore City in Pakistan have established sister cities, and have conducted exchanges and cooperation in infrastructure construction and investment and trade, cultural exchanges, cultural education and other fields to help the construction of the CPEC. In addition, Zhuhai City, China, and Gwadar City in Pakistan have signed a friendship city. Relying on Zhuhai's sea access advantage and the resource and regional advantages of the Gwadar region, the facilities in port cooperation can be fully utilized. Additionally, China has also established a Chinese cultural center in Islamabad, the capital of Pakistan, to encourage the publishing agencies of both sides to publish outstanding works of the country, and set up a Pakistani studio using central media resources to deepen the cultural understanding between the two countries. In terms of academic research, the academic institutions of China and Pakistan have conducted exchange seminars on the construction of the China-Pakistan Economic Corridor on many occasions, and the themes mostly focus on the significance of the corridor construction to the development and strategic development of both parties (Degong et al., 2020). At present, the China-Pakistan Economic Corridor has officially entered the implementation stage from the planning stage. The achievements and problems in the implementation process have high practical value and have become more attention-grabbing topics. Discussions have also begun to focus on the areas of cooperation and projects between the two countries. Implementation status, cooperation process, possible problems, and the status and role of different cities and regions in China and Pakistan were discussed in depth, and more innovative and valuable results were provided to the two governments as the basis for decision-making. The think tanks has played a positive role in improving the investment environment and increasing mutual trust between the two parties.

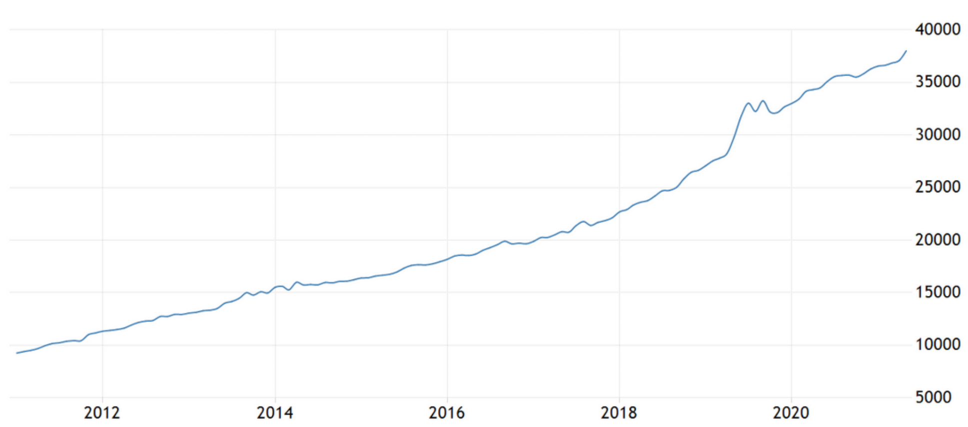
2. 2. Weaknesses

2.1 Pakistani debt default risk

Pakistan's domestic economic development status and debt status are another important factor that affects the investment efficiency of Chinese companies. Looking back on the states of Pakistan's national debt in recent years, it is not optimistic. Since 2007, Pakistan's national debt has been continuously increasing. By the 2016 fiscal year, the total balance of its national debt has reached 19.04 trillion rupees, of which foreign debt is about 54,200. Billion rupees, domestic debt is about 13.62 trillion rupees, and debt accounts for 63.8% of the country's total GDP. In fiscal year 2015, in order to repay foreign debts, the government paid about 6.4 billion U.S. dollars, of which interest was 915 million U.S. dollars in debt. Most of the foreign debt repayment funds are used for infrastructure construction. This large external debt is bound to occupy the country's construction funds for education and medical care. According to statistics from Pakistan's financial department, in the first nine months of 2016, its debt increased by about 1.94 trillion RUB, of which domestic debt 1.121 trillion rupees, the net amount is approximately 18.893 trillion rupees. As of 2017, Pakistan's public debt balance is still 20.873

trillion rupee. As Pakistan's own economic development is relatively lagging, its ability to repay debts is low. Therefore, when Chinese companies make direct investment in Pakistan, they will also face greater risks, and the rate of return on investment projects will be low. Some investment projects may even become bad debts, which will cause unpredictable economic losses to Chinese investment companies in the long run.

The given table shows the data for Pakistan’s national debts from 2011-2021.



Source: ("Pakistan Central Government Debt | 2011-2021 Data)

2.2 Pakistan's tax policy lacks perfection

Pakistan’s current taxation system is not yet perfect, and taxation policies have undergone major changes. There are many uncertain factors, including:

(1) The risk of taxation changes.

Pakistan’s tax system is relatively complex, and frequent changes in the system make the tax system extremely unstable and expose Chinese investors to great risks. In Pakistan, there are a large number of tax disputes every year, and companies receive more tax notices during their operations, which make the courts have to frequently deal with tax lawsuits between the tax bureau and the company. In this process, both the taxing party and the taxing party can do the above in accordance with the law, but even if the enterprise wins the lawsuit, the deducted tax is difficult to return. In this case, not only the workload of the enterprise is greatly increased, but also a large loss of funds in the morning (Wani, 2018).

(2) Withholding risk of costs.

Since Pakistan's invoices are not uniformly printed and issued by the tax authorities, but are printed by the companies themselves, the invoices are also complex and diverse, and it is impossible to judge their compliance. According to Pakistan’s system requirements, only the invoices related to subcontractors and suppliers who perform withholding and payment of income tax and sales tax obligations can be included in the external account costs, and the Ministry of Taxation in Pakistan regards the performance of withholding income tax obligations as taxation. For those companies that fail to perform the withholding and payment obligations, higher tax penalties will be imposed. In this process, if suppliers and subcontractors fail to perform the withholding and payment obligations in a timely manner, the cost of the enterprise will not be legally deducted. And if you rush to list non-compliance related expenses before tax, they will not be recognized by the tax authorities, and you will even face additional tax penalties, which greatly increases the actual tax burden of the company.

(3) Risks brought by the post-income tax assessment.

Pakistan belongs to the law of the sea, and both belong to the common law system, which is quite different from China's statutory law system. The formation of tax cases mostly depends on the subjective judgment of tax officials. This form also greatly increases the tax risk and legal cost of enterprises. Since 2016, Pakistan’s taxation environment has undergone tremendous changes, and tax officials have increased their tax investigations due to the completion of the annual taxation tasks, which has also increased the abuse of power by tax officials to a certain extent. There have been cases where Chinese-invested enterprises contracted projects in Pakistan, and the tax authorities of Pakistan considered that the materials and payment of the enterprises constituted the cost of external accounts in the later tax assessments, and required the enterprises to pay the taxes of the previous years and impose comparative measures on them. Large fines. This post-assessment of income tax not only has a greater impact on the performance of the project, but also threatens the safety of the company's accounts and funds in the local bank (Char, 2018; Mohsin et al., 2020a; Sarfarz et al., 2021; Naseem et al., 2021; Majeed et al., 2020).

2.3 Poor access to corporate investment information

When Chinese companies make direct investment in Pakistan, as the main body of project construction and investment, they usually need policy information related to Pakistan as investment guidance. Therefore, in the investment process, timely and accurate access to the investment information of the host country directly determines the investment benefit, investment direction, and investment decision of the enterprise. At present, investment projects focusing on the construction of the China-Pakistan Economic Corridor are all led by Chinese state-owned enterprises, so the investment fields involved are mostly large-scale infrastructure construction projects and mineral resource mining projects. Such kind of project is generally promoted by the government to promote cooperation, so investment information is negotiated and communicated by the governments of China and Pakistan. There are few information channels that private enterprises can obtain, and they cannot receive and understand investment opportunities and channels in the first time. Although Pakistan's official website can obtain some information, and has the Chinese Commercial Counselor's Office in Pakistan, and the Federal Taxation Commission of Pakistan, the Ministry of Commerce of China will publish the latest guide on investing in Pakistan every year to give a general introduction to the country's general environment. But it has to be said that this information still lacks detailed details for Chinese companies with investment plans. In the context of the construction of the China-Pakistan Economic Corridor, to increase the expansion of investment areas and regions in Pakistan, it is also necessary for Chinese companies to understand relevant investment information through borders and authoritative information channels, including investment restrictions on certain industries and taxation systems. Operation system, detailed preferential policies of various industries, financing support policies, etc. If China and Pakistan lack a supporting public information service platform, they will not be able to form an equal dialogue, and enterprises will not be able to obtain information accurately. They will not be able to make more accurate predictions about the investment environment in Pakistan, and they will not be able to analyze their domestic market demand status. Under this situation, companies' investment in Pakistan will also face many uncertain factors, and even investment errors will cause devastating economic losses.

2.4 Obstacles to corporate cross-cultural operations

Cultural risk will have an uncertain impact on the investment and business activities of a company to a certain extent. Generally speaking, cultural risk refers to the differences in consumer values and consumer preferences between the invested country and the investing country due to differences in cultural backgrounds. In foreign investment, the business process of the enterprise and the communication with the various departments of the host country will cause cultural exchanges and collisions. There are obvious differences between Chinese and Pakistani cultures (Naeem et al., 2020a). China is derived from Confucian culture and is dominated by Buddhism (Goswami, 2021), while Pakistan is an Islamic state (Jadoon& Mines, 2020). Chinese companies making direct investment in Pakistan will face greater cross-cultural integration issues. Within the enterprise, due to the large differences in religious beliefs, values, and aesthetics between Chinese and Pakistani employees, it is prone to disharmony among employees. In addition, poor language communication will increase the disagreement of the team. Harmony is divided into, which will affect the operating conditions of various departments of the enterprise and even increase operating costs. From the perspective of the external environment of enterprises, Chinese enterprises entering the Pakistani market not only occupy Pakistan's resources, but also use cheap labor there, which will make some Pakistani people feel violated and are prone to mutual dissatisfaction. If the internal and external conflicts caused by cultural differences cannot be effectively resolved, it will have a greater impact on the management efficiency of the company, the loyalty of employees, and even the occurrence of employee strikes, which will affect the normal operation of the company and damage the company’s reputation. It is easy to bring economic losses and is not conducive to the long-term development of the enterprise (Dang & Zhao, 2020).

3. 3. Opportunities

3.1 Pakistan's unique natural resources

Pakistan is rich in coal resources. According to preliminary estimates by the Geological Survey (GSP) of the country, its coal reserves have reached 185 billion tons.And 99.5% are concentrated in Sindh, about 184 billion tons; at the same time. Pakistan also has rich mineral reserves, of which iron ore reserves are about 430 million tons, bauxite reserves are about 74 million tons, and oil reserves are about 1.84 100 million barrels, natural gas reserves are about 492 billion cubic meters, and a large number of gems, chrome ore, and marble are distributed (Abro, 2021; Mohsin et al., 2021; Salamat et al.,2020; Naseem et al., 2018). At present, the Pakistani government is fully open to the two investment fields of natural gas and oil, and encourages foreign-funded enterprises to invest in the country. It has great concessions in terms of government licenses, taxes and royalties of production areas. Currently, more than half of the companies investing in Pakistan are engaged in the exploration and development of oil and gas resources, and the exploitation of metal mineral resources.

3.2 Pakistan's economic development potential

Pakistan has been constrained by structural problems for a long time. In the past decade or so, economic development has been greatly adjusted. In particular, security issues and fiscal imbalances have hindered the country’s economic development. In the 2009-2013 fiscal year, Pakistan's economic growth rate has been developing at a relatively low level. However, after the structural reforms in 2014, its economic conditions gradually stabilized, and it is on the road to economic recovery. In 2010, the total GDP of Pakistan was approximately US$174.508 billion; in 2011 it was approximately US$211.671 billion; in 2012 it was approximately US$214.641 billion; in 2013 it was approximately US$220.269 billion; it rose to US$248.949 billion in 2014; -In 2017, it maintained a stable growth rate, of which, in 2015, it was approximately US$267.035 billion; in 2016 it was approximately US$277.778 billion; in 2017 it was approximately US$302.139 billion. Among them, in the 2014 fiscal year, Pakistan’s economic growth rate exceeded 4%. In the 2015-2016 fiscal year, its GDP increased by 4.7% compared to the 2014 fiscal year, setting a record high. In terms of industrial structure, according to data released by the Pakistani Ministry of Finance, agriculture accounted for 19.53% of the GDP in the 2016-2017 fiscal year, industry accounted for 20.88%, and service industry accounted for 59.59%. In terms of fiscal revenue and expenditure, fiscal revenue in the 2015-2016 fiscal year also showed a strong growth trend, accounting for 15.3% of GDP. Regarding the fiscal deficit, the fiscal deficit for the 2014-2015 fiscal year was approximately Rs 1.349 trillion, accounting for 4.6% of GDP, which was significantly lower than the previous fiscal year. In 2017, according to the sovereign credit rating of the international rating agency Fitch, Pakistan was rated as B/B, with strong investment attractiveness and a good investment cooperation environment.

3.3 Pakistan's support for foreign investment policy

In order to attract foreign businessmen, Pakistan has formulated a loose and free investment policy, which reduces the business costs of foreign-funded enterprises, optimizes procedures, improves foreign investment protection, and strengthens coordination and cooperation between various government departments, which can provide foreign investors with a good investment environment. Investment services and preferential treatment, and almost all areas of the economy are open to foreign investment; foreign investors can enjoy the same treatment as domestic investors. At present, Pakistan has signed bilateral investment agreements with 48 countries including China, and signed agreements to avoid double taxation with 53 countries (Bhutta, 2021). At the same time, Pakistan has also formulated relevant incentive policies in different areas. For example, foreign investors can enjoy preferential treatment in terms of initial depreciation deposits, copyright technical service fees, and equipment import tariffs when investing in Pakistan. In the manufacturing industry, with the exception of weapons, radioactive materials, explosives, securities production, and alcohol production, other industries do not need to be approved by the government, and operating capital, profits, and dividends are remitted back to the country (Khan et al., 2018; Naseem et al., 2019a). There are no restrictions on the payment of technology royalties and concessions. In the non-woven field, including agriculture, service industry, infrastructure and social fields, except for some regulations that require certificates from relevant institutions, the others do not need to be approved by the government, and the tax incentives are relatively strong. In addition, on the basis of Pakistan’s national general investment policy, the investment policies of various provinces also have strong flexibility. Among them, Punjab and Sindh have their own special investment management institutions, which are mainly responsible for the management of investment and business activities.

4. Threats

4.1 Obstruction of Pakistani factional struggle

A stable and peaceful political environment is a prerequisite for China to invest in Pakistan, promote cooperation between the two countries, and explore Pakistan's market and resources. In the process of Chinese companies investing in Pakistan, political issues and political uncertainties have caused major obstacles to the advancement of investment projects. As we all know, Pakistan implements a multi-party system. Currently, there are more than 100 political parties, registered with Election Commission of Pakistan (ECP), and different parties represent the interests of different groups (Election Commission of Pakistan, 2021). Therefore, interest struggles between parties, including complex relationships and complex interest chains formed by government bureaucrats, religious leaders, industrial bourgeoisie, feudal land families will have a greater impact on election activities and directly determine the direction of the country’s power. Those groups that represent regional interests, ethnic interests, and personal interests have been vividly demonstrated in the National Assembly of Pakistan. Whether it is through a bill or an election, interest groups first consider their own interests and do not take into account the national and ethnic interests. For example, during 2014, Pakistan’s Justice Movement Party advocated against large-family politics and believed that there was fraud in the 2013 general election. It launched a long period of demonstrations and sit-ins, demanding Prime Minister Sharif’s resignation and carrying out administrative actions. Reform and re-election. After the political crisis, Pakistan's economy has been greatly affected, and the social turbulence has been relatively large, which has also delayed the visit of Chinese President Xi Jinping to Pakistan. At the same time, Pakistan’s Justice Movement Party and the People’s Movement Party also protested against the Pakistani government through many demonstrations. Even after the government had many dialogues with Duo Shan and adopted a series of measures, they still did not stop the struggle between factions (Dawn, 2019; Naseem et al., 2019b). In such a complicated domestic political environment, the Pakistani government has to devote more energy to dealing with partisan struggles, which makes certain policies of the China-Pakistan Economic Corridor not be implemented and carried out. In addition to domestic factional struggles, there are also conflicts of interest in the provinces of Pakistan. Although the provinces support China's investment in Pakistan, they also hope to receive more dividends. However, in the process of introducing foreign investment, it will also affect the progress of investment projects due to the grabbing of resources and the struggle for interests.

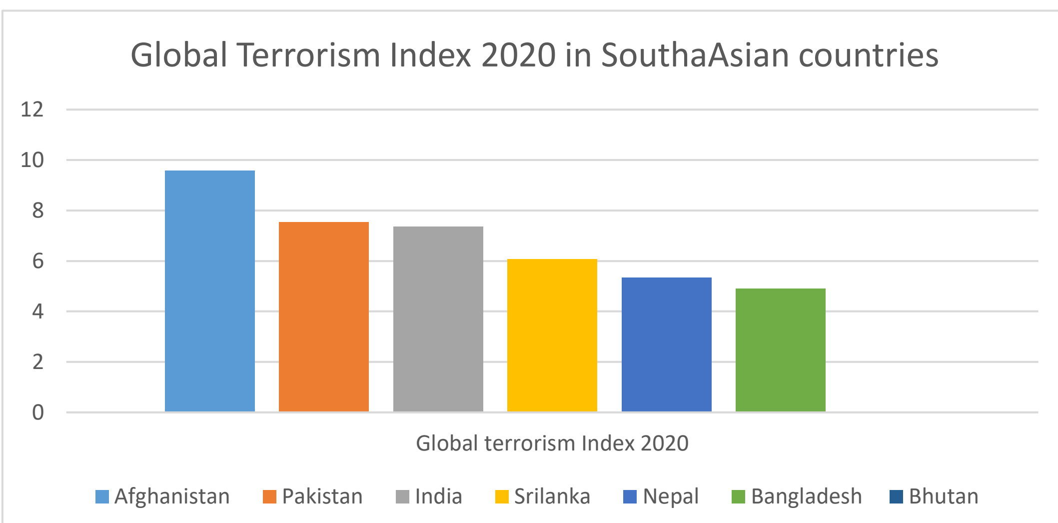
In addition, government officials in Pakistan also have complex backgrounds. Among politicians, there have been many cases of corruption involving major government officials (Uroos et al., 2021; Naseem et al., 2020b). In July 2017, the Supreme Court of Pakistan disqualified Sharif as president on suspicion of corruption and sentenced him to 10 years in prison (Mahmood &Chawala, 2021). In June 2019, Pakistan’s former President Asif Zari was arrested on suspicion of forging bank accounts and collecting kickbacks (Saifi& Britton, 2021). These cases can expose the degree of corruption of Pakistani officials to a certain extent. This kind of government's long-term corruption has greatly affected the credibility of the Pakistani government. It is prone to social unrest and has a negative impact on the business environment.

4.2 Threat of terrorist attack

Apart from political instability, terrorist attacks are also a problem that Chinese investors have to face in India. This terrorist act to split the nation has had an extreme impact on the domestic situation in Pakistan and hindered the construction of the China-Pakistan Economic Corridor. Especially after the September 11 terrorist attacks in Pakistan, the country has been shrouded in the shadow of terrorism, and terrorist activities have become more frequent and threats have continued to rise. Among them, the areas deeply affected by terrorism include the Federally Administered Tribal Areas, the Northwest Frontier Province and most of Balochistan, followed by the Pakistan-controlled Kashmir region near China (Wen, &Saleeem, 2021). In addition, Pakistan borders Afghanistan. Since the United States-led coalition forces withdrew from Afghanistan and the Taliban have taken the charge of Afghanistan, the situation is not reliable yet. The frequent occurrence of terrorist activities echoes the domestic terrorist situation in Pakistan, which greatly intensifies the security situation in Pakistan.For instance, the recent attack on the bus carrying Chinese engineers new Dasuin July 2021 is much of a worry for both countries (Uddin, 2021).

At present, Pakistan has dozens of terrorist organizations in Balochistan (Nadeem et al., 2021; Mohsin et al., 2019). Balochistan is Pakistan's identity with the largest area and an important bridge connecting the China-Pakistan Economic Corridor. The security situation in this region is critical to China and Pakistan. The construction of economic corridors and Chinese investment in Pakistan play a decisive role. In 2017, the separatists in Balochistan attacked and destroyed a mobile communication company's signal tower in Gwadar. In 2019, the Pearl Intercontinental Hotel in Gwadar was also attacked by terrorists, resulting in 7 deaths. Many people were injured and claimed that the terrorist attack was mainly aimed at China and other foreign investors.

According to theGlobal Terrorism Index 2020 report released by the Institute for Economics and Peace, South Asia is the most impacted region by terrorism in 2019 (IEP, 2021).The global terrorism index in Pakistan remains 7.54 in 2020.



Source ("Global Terrorism Index 2020 | Statista", 2021)

Currently, there are a number of Chinese employees participating in the construction of the China-Pakistan Economic Corridor, and these employees may all face the threat of terrorist attacks (Ahlawat& Ahmed, 2021; Naseem et al., 2020; Rafiq et al., 2019).Terrorism will seriously affect the construction process of Chinese investment projects in Pakistan, including increasing construction costs, increasing investment risks, and delaying construction progress. In addition, the field of infrastructure is also the key target of terrorist attacks, especially energy supply systems, water and power supply systems, hospitals, transportation systems, etc. These areas are densely populated. Once a terrorist attack occurs, the loss and damage caused by it is immeasurable.

4.3 The influence of extraterritorial powers

Chinese companies investing in Pakistan are also facing the intervention of countries outside Pakistan. In the United States, the country has frequently intervened to interfere with the construction of the China-Pakistan Economic Corridor, and proposed a corresponding "New Silk Road" plan, deliberately drawing Pakistan into the plan, and abandoning the China-Pakistan Economic Corridor (Khanum, 2021; Azam et al., 2020). With regard to the security situation in Balochistan, UAV air strikes were carried out under the banner of combating terrorist attacks, which caused serious interference to the construction of investment projects of Chinese companies in Balochistan. In India, The country concentrates its contradictions in the Kashmir region (Ganguly et al., 2019; Mohsin et al., 2020b). Because the western line of the China-Pakistan Economic Corridor passes through the Kashmir region, the ownership issue in this region has always been the key to the dispute between Pakistan and India. The two sides have also had three wars for ownership. Therefore, India is extremely worried that China will intervene in regional affairs because the China Conference will build the China-Pakistan Economic Corridor. At the same time, India is also worried that once the construction of the China-Pakistan Economic Corridor is completed, India’s status in South Asia will be greatly threatened. Therefore, India has also proposed a number of policies including the "Spice Plan" to hinder the construction of the China-Pakistan Economic Corridor.The intervention of these countries will also directly affect the investment status, investment efficiency, and investment process of Chinese companies in Pakistan.

5. Conclusion

This paper has attempted to investigate the strengths, weaknesses, opportunities and threats of China’s FDI in Pakistan. It has examined the environment through multiple perspectives. Under four major themes, several sub themes have been generated. Through this analysis, it is evident that Pakistan had optimum potential to increase the volume of Chinese FDI, however, it needs to act strategically to eradicate the major impediments such as terrorism, corruption, lack of law enforcement, bureaucracy, low quality governance, and poor strategies to advertise Pakistan as the best destination for foreign investments. The Government of Pakistan is responsible to deal with the issues that are hindering the growth of inward FDI. It is highly suggested that during the course of FDI from China, Pakistan should learn some imperative strategies that can help to magnify the volume of inward FDI and attract other huge international investors.

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