



NEAR EAST UNIVERSITY  
GRADUATE SCHOOL OF SOCIAL SCIENCES  
INTERNATIONAL LAW PROGRAM

**INTERNATIONAL TRADE LAW AND REGIONAL STABILITY THROUGH  
ECONOMIC INTEGRATION - CHINA PAKISTAN ECONOMIC CORRIDOR:  
A CASE STUDY**

SHAHBAZ KHAN

MASTER'S THESIS

**NICOSIA  
(2018)**

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MASTER'S THESIS

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NICOSIA  
2018

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**13<sup>th</sup> June 2018**

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## **DEDICATION**

Dedicated

To

**'PAKISTAN'**

## **ACKNOWLEDGEMENTS**

I am thankful to Allah for all His blessings.

I would like to acknowledge and express my sincere gratitude to my supervisor Assistant Prof. Dr. Nazim Ziyadov and all the lecturers of Law Faculty who played an important role in the completion of this study. I am also thankful to my advisor Mr. Nabi Berkut who helped me at every stage. I am also thankful to Mr. Andrea and Mr. Winslow.

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## **ABSTRACT**

### **INTERNATIONAL TRADE LAW AND REGIONAL STABILITY THROUGH ECONOMIC INTEGRATION - CHINA PAKISTAN ECONOMIC CORRIDOR: A CASE STUDY**

The aim of this research is to discuss generally how international trade law promotes the regional stability through free trade. There are some of the main significant factors that need to be considered very important when conducting the international business. The ongoing project of China Pakistan Economic Corridor is also a multibillion-dollar project which under the umbrella of international trade law is going to strengthen the economy of Pakistan as well as China. CPEC is considered to be a game changer for the Asian region. The economy plays a major role in the stability of the regions when Special Economic Zones resulted in foreign direct investments. This was motivated by the idea that the influence of the international trade law on regional stability through economic integration still remains to be explored and that it is incomplete to conclude on the effects of the international trade law especially on bilateral and multilateral trade agreements. The study has ideas from established facts which were obtained from secondary sources such as a journal, articles, and reports so as to establish a sound point of reference and support of the established arguments. The results showed that CPEC offers huge benefits to both Pakistan and China but is being limited internal and external forces which are preventing both nations from fully reaping the benefits posed by CPEC. The study also established that the international trade law has no direct influence on regional stability but has mediating effects on international trade levels, growth, and development which in turn are responsible for regional stability through economic integration.

**Key terms:** China Pakistan Economic Corridor, economic integration, international trade law, regional stability.

## ÖZ

### **EKONOMİK ENTEGRASYONLA ULUSLARARASI TİCARET HUKUKU VE BÖLGESEL STABİLİTE - CHINA PAKISTAN ECONOMIC CORRIDOR : BİR VAKA ÇALIŞMASI**

Bu araştırmanın amacı genel olarak tartışmaktır Uluslararası ticaret hukukunun serbest ticaret yoluyla bölgesel istikrarı nasıl teşvik ettiği. Başlıca önemli faktörlerden bazıları vardı çok önemli görülmesi gereken uluslararası iş yaparken. Çin Pakistan Ekonomik Koridorunun devam eden projesi de bir milyar dolarlık projedir. Uluslararası ticaret hukuku çatısı altında olan Pakistan'ın yanı sıra Çin ekonomisini güçlendirmek. CPEC Asya bölgesi için bir oyun değiştirici olarak kabul edilir Ekonominin bölgelerin istikrarında önemli bir rolü vardır Özel Ekonomik Bölgeler doğrudan yabancı yatırımlarla sonuçlandığında. uluslararası ticaret hukuku etkisinin iddiasıyla motive oldu ekonomik entegrasyon yoluyla bölgesel istikrar hala keşfedilmeye devam ediyor Uluslararası ticaret hukukunun özellikle ikili ve çok taraflı ticaret anlaşmaları üzerindeki etkilerini sonuçlandırmak eksik kalmıştır. Çalışma, yerleşik gerçeklerden fikirlere sahiptir Bir dergi, makale ve rapor gibi ikincil kaynaklardan elde edilen ve sağlam bir referans noktası oluşturmak ve kurulan argümanların desteklenmesi için raporlar. Sonuçlar, CPEC'in hem Pakistan'a hem de Çin'e büyük faydalar sağladığını gösterdi ama sınırlı iç ve dış güçler. Çalışma aynı zamanda uluslararası ticaret hukukunun bölgesel istikrar üzerinde doğrudan bir etkiye sahip olmadığını, ancak uluslararası ticaret seviyeleri, büyüme ve kalkınmaya aracılık eden, bunun da ekonomik entegrasyonla bölgesel istikrardan sorumlu olduğunu ortaya koymuştur.

**Önemli terimler:** Çin Pakistan Ekonomik Koridor, ekonomik entegrasyon, uluslararası ticaret hukuku, bölgesel istikrar.



## TABLE OF CONTENTS

ACCEPTANCE

DECLARATION

DEDICATION

ACKNOWLEDGEMENTS

ABSTRACT

ÖZ

TABLE OF CONTENTS.....	i
LIST OF FIGURES.....	iv
ABBREVIATIONS.....	v
<b>1. CHAPTER: INTRODUCTION .....</b>	<b>1</b>
1.1 Background to the Study .....	1
1.2 Research Problem.....	2
1.3 Aims of the Study .....	3
1.4 Research Methodology .....	4
1.5 Significance of the Study.....	4
1.6 Organization of the Study.....	4
<b>2. CHAPTER: SCOPE AND DEVELOPMENT OF INTERNATIONAL TRADE LAW</b> <b>.....</b>	<b>5</b>
2.1 Insights into the Development of the International Trade Law.....	5
2.2 The Influence of the World Trade Organization on International Trade.....	7
2.3 Importance of Free Trade Agreements .....	8
2.4 Foreign Direct Investments .....	10
2.5 The Role of Special Economic Zone .....	11
<b>3. CHAPTER: CPEC (CHINA PAKISTAN ECONOMIC CORRIDOR).....</b>	<b>13</b>
3.1 CPEC main theme.....	13
3.1.1 China Economic Belt and Maritime Silk Road Project .....	15
3.1.2 Pakistan Geographic Position to be an Economic Corridor .....	19
3.2 CPEC and Economic Uplift of the Region .....	21
3.3 CPEC and Regional Stability.....	22
3.3.1 CPEC importance to Afghanistan and Central Asian Republics .....	23
3.3.2 CPEC and Iran .....	24

3.3.3 CPEC and India's Approach .....	25
<b>4. CHAPTER: INSIGHTS INTO THE EFFECTIVENESS OF THE INTERNATIONAL TRADE LAW.....</b>	<b>26</b>
4.1 Introduction .....	26
4.2 The Influence of ITL on Regional Stability through Economic Integration .....	26
4.3 The Relationship between International Trade Law and CPEC .....	29
4.4 Legal and Procedural Challenges affecting the International Trade .....	30
4.5 Prospects of Regional Integration .....	32
4.6 Bilateral Economic Integration.....	33
4.6.1 Threats on National Sovereignty .....	34
4.6.2 Quality Leadership.....	35
4.6.3 Asymmetrical Economic Growth .....	35
4.6.4 Spillover of Economic Crisis. ....	36
4.6.5 Suboptimal Exploitation of Pakistan's Natural Resources .....	36
4.6.6 Impact on Domestic Culture .....	36
4.7 Possible challenges that are affecting Pakistan and China's Economic Ties.....	37
4.7.1 Political Instabilities.....	37
4.7.2 Institutional Imbalances .....	39
4.7.3 Civil Disturbances.....	39
4.7.4 India's attitude towards CPEC .....	40
4.7.6. Implementation of Chabahar Port.....	41
4.7.7 The Interference of Major Economic Powerhouses .....	41
<b>5. CHAPTER: CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FUTURE STUDIES.....</b>	<b>43</b>
5.1 Conclusions.....	43
5.2 Recommendations .....	44
5.3 Way Forward.....	44
<b>BIBLIOGRAPHY .....</b>	<b>45</b>
Books.. .....	45
Case,Conventions, Journals.....	46
Organizations.....	50

## LIST OF FIGURES

<b>Figure 2.1:</b> Evolution of Regional Trade Agreements in the World.....	10
<b>Figure 3.1:</b> Graphical Illustration of the CPEC.....	17
<b>Figure 3.2:</b> Pakistan's Topographical potential and Prospects .....	21
<b>Figure 4.1:</b> Terrorist Attacks in CPEC-linked areas of Khyber Pakhtunkhwa ...	39

## ABBREVIATIONS

**BCIMEC:** Bangladesh-China-India-Myanmar Economic Corridor.

**CCWAC:** Central-China and West-Asia Economic Corridor.

**CMREC:** China-Mongolia-Russia Economic Corridor

**COPHC:** Chinese Overseas Port Holding Company.

**CPEC:** China Pakistan Economic Corridor.

**RTA:** Regional Trade Agreement

**FTA:** Free Trade Agreements.

**FDI:** Foreign Direct Investment

**SEZ:** Special Economic Zone

**GATT:** General Agreement on Tariff and Trade

**ITL:** International Trade Law.

**LEMOA:** Logistics Exchange Memorandum of Agreement.

**SAARC:** South Asian Association of Regional Countries.

**TTIP:** Transatlantic Trade and Investment Partnership.

**UNCITRAL:** United Nations Commission on International Trade Law.

**USA** – United States of America.

**WTO** – World Trade Organisation.

**Ibid** – Ibidem (the same source in the previous footnote).

# 1. CHAPTER: INTRODUCTION

## 1.1 Background to the Study

International trade provides a means by which countries can take advantage of their possession of economic resources and comparative advantage by engaging in trading activities with other nations. This is, however, not a swift process as it is resounded by a lot of complications and available insights show that the growth and development of international trade are being restricted by a series of challenges. Such complications and challenges are mainly as a result of differences in international laws between states that are involved in international trade. Due to nature, complexity and processes involved in international trade, most nations were no longer willing to continue to trade as some nations would legally and financially take advantage of other nations<sup>1</sup>. In addition, due to the legality of international trade, trading partners ended up incurring huge transaction costs while other nations were engaging in unethical practices so that they can benefit from trade<sup>2</sup>. Other nations were crying foul because of the huge amount of expenditure they were spending on tariffs while others were not in a strong position to trade effectively because of the high presence of trade barriers<sup>3</sup>.

All these challenges represented a major stumbling block which required a unified international legal system that can potentially address all these challenges. This led to the establishment of International Trade Law (ITL) with a sole mandate of addressing international trade issues. Which were related to customs and regulations so as to promote a growth and development in international trade<sup>4</sup>.

With the ITL being ineffective operations, questions could be levelled as to how it was going to warranty fair and transparent trade between nations, how nations of different economic stature can benefit from the use of the ITL and how the ITL considers issues of bilateral and multilateral trade agreements between nations, and

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<sup>1</sup> Jim Sherlock and Jonathan Reuvid: *An Essential Guide to the Principle and Practice of Export* (Kogan Page Publishers, 2011).

<sup>2</sup> Deborah Z Cass, 'The Constitutionalization of International Trade Law: Judicial Norm-Generation as the Engine of Constitutional Development In International Trade' (2001) 12.1 *European Journal of International Law*, 39-75.

<sup>3</sup> *ibid.*

<sup>4</sup> Marina v Neumann Whitman, *International Trade and Investment: Two Perspectives* (1981) 143 *International finance section, Dep of Economics* 1.

how nations were going to adjust their customs and regulations in line with the propositions made by the ITL.

Meanwhile, there have been significant trading developments between Pakistan and China with both parties desiring to fully tap and reach into the pool of benefits of engaging in international trade agreements. Pakistan has been one of the nations that have been affected by regional instabilities and efforts to promote economic integration between Pakistan and China could be presumed to go a long way in boosting regional stability<sup>5</sup>.

With a significant growth in international trade patterns between developed economies like China and less developed economies like Pakistan, it remained to be ascertained as to how the ITL imposed challenges on both China and Pakistan from fully reaping from the benefits of entering into international trade, how both parties would use the ITL to ensure transparency and fairness in trading deals, how economic integration between Pakistan and China help to promote regional stability in the Asian Region which has been hard hit by a series of economic and financial crisis<sup>6</sup>, and possible amendments that could be made to the ITL to boost unilateral and multilateral trade agreements.

## 1.2 Research Problem

There are various ideas that have been given about the role that is played by the international trade law in international trade. Other studies commend efforts to introduce the international trade citing that it has managed to deal with customs and legal restrictions that have been limiting trade<sup>7</sup>. Other studies also commended it on the basis that it has managed to deal with complexities and uncertainties that were being encountered in international trade<sup>8</sup>. There however problems that can be observed when it comes to the ability of the international trade law to influence regional stability. This is because other scholars argue that the ability of the international trade to positively influence regional stability is determined by a lot of macroeconomic variables especially internal economic elements and not trade

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<sup>5</sup> Showkat Ahmad and Arif Hussain Malik, 'China-Pakistan Economic Corridor: Impact on Regional Stability of South Asia' (2017) 5(6) International Journal of Political Science and Development, <http://www.academicresearchjournals.org/IJPSPD/Index.html> accessed 13 May 2018.

<sup>6</sup> Ibid.

<sup>7</sup> Steven Suranovic, *International Trade: Theory and Policy* (The Saylor Foundation, 2010) 33.

<sup>8</sup> *ibid*1.

relations with other economies. This is because regional stability lies in the ability of each nation to stabilize its economic environment and this requires that domestic policies such as monetary and fiscal policies be used to fine-tune and stabilize the economic situation<sup>9</sup>. Yet studies still consider that international trade law has a potential to bring in huge revenue or funds that can be used to support economic activities which will help to stir the economy into the desired productive path<sup>10</sup>. Such arguments are however refuted by ideas which showed that regional or national instabilities in one nation can easily be transferred from one nation or region to the other through contagion effects. Moreover, there are authors who are of the argument that the influence of the international trade law on regional stability through economic integration still remains to be explored and that it is incomplete to conclude on the effects of the international trade law especially on bilateral and multilateral trade agreements such as CPEC<sup>11</sup>. Possible reasons suggest that the ITL is surrounded by a lot of challenges which may undermine its effectiveness to influence CPEC through integration and regional economic stability<sup>12</sup>. This leaves a lot to be desired about the influence of the ITL on regional stability. Hence, this study seeks to examine how international trade law encourages regional stability through economic integration with special reference to CPEC.

### **1.3 Aims of the Study**

The main emphasis of this study is to examine how ITL encourages regional stability through economic integration with special reference to CPEC.

- To examine how Pakistan and China can effectively use the ITL to promote regional stability in the Asian region
- To identify possible challenges that are posed by the ITL on Pakistan and China's economic ties and or level of integration.
- To identify possible ITL features that are important to promote the growth of economic integration between nations so as to boost regional stability in the Asian region and other regions in the world.

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<sup>9</sup> N Berman, 'Financial Crises and International Trade: The Long Way to Recovery' [2009] Working Paper <<http://hdl.handle.net/1814/11675>> accessed 14 May 2018.

<sup>10</sup> *ibid* 3.

<sup>11</sup> *ibid* 5.

<sup>12</sup> Minahil Riaz Toor, 'An Assessment of China-Pakistan Economic Corridor: Threats , Prospects and Implications' (2017) 56, 17.

#### **1.4 Research Methodology**

This study uses previous studies to form a base upon which ideas will be supported and possible misconceptions can be refuted as well as identifying theoretical gaps. It also draws ideas and focuses on ITL statutes and articles to identify all the relevant statutory apparatus that govern the ITL and how they influence the level of economic integration between Pakistan and China. This also makes it possible to identify possible limitations in the ITL and future amendments that are required to strengthen its use and application especially in cases which are characterized by bilateral and multilateral trade agreements.

#### **1.5 Significance of the Study**

This study is important because it helps to promote economic integration between two or more different economies. By promoting economic integration, this study also results in economic and regional stability which now seems to be lacking in most continents especially in the Asian Region. It will also result in the establishment of clear legal guidelines upon which international trade will be established. Moreover, it helps to identify possible challenges limiting the effective use of the ITL and areas of improvements that need to be made to the ITL.

#### **1.6 Organization of the Study**

The study is structured into five chapters and emphasis in this chapter is to share information about the general international trade law and regional integration and stability and how they closely link with the CPEC. The second chapter provides information about the scope and development of International Trade Law. The third chapter looks at the description of CPEC and how it can be affected by the ITL. The fourth chapter looks at the analysis of the effectiveness of the ITL in dealing with matters pertaining to regional stability and economic integration and identifying possible measures that can be used to reinforce the effective use of the ITL. Lastly, the last chapter provides details on the conclusions and recommendations that can be made from the study.



## 2. CHAPTER: SCOPE AND DEVELOPMENT OF INTERNATIONAL TRADE LAW

### 2.1 Insights into the Development of the International Trade Law

Since the end of World War II, the development of international trade law witnessed. It appeared as an autonomous law and accepted by the states in spite of their national legal systems. International trade law is a body of law which solved the problems of international trade in an effective manner. It replaced the approach of conflict of laws in various legal systems. These approaches were not adequate to the modern changing circumstances of international trade<sup>13</sup>. International trade law is of elective and arbitral character. The elective branch of international trade law is basically based on parties will. The Parties have freedom to form and execute a contract. It is used to be express in the standard form of model contracts, clauses, terms and conditions for delivery and trade customs and usages and it is also important for an effective trade that there should be an arbitration agreement between the parties to contract<sup>14</sup>. In case of disputes the parties normally did not willing to be governed under the rules of municipal courts. So, they give preference to arbitral tribunals where customs and usages and business practices are highly taken into the account. There are three stages during which the international trade law went through and developed. The first one is the medieval stage of *lex mercatoria*. The second stage is the incorporation of *lex mercatoria* into municipal law and the third is the modern law of international trade<sup>15</sup>. The *lex mercatoria* had its origin far back in Babylonia. During the passage of time it went from one country to another with changes and modifications. The Romans made its rules more perfect and Justinian codified them<sup>16</sup>. By reaching Italy it developed there as special law of merchants and spread through entire Europe before it reached England. It took a uniform character as used by the mercantile associations for trade regularization and assisted in special courts fairs in big markets. It became well known to the merchant

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<sup>13</sup> Alexander Goldstein, *International Conventions and standard Contracts as means of Escaping from the Application of Municipal Law-1: The sources of the law of international trade with special reference to East-West Trade* (Stevens & Sons London, 1964)103-117.

<sup>14</sup> *ibid.*

<sup>15</sup> Jonh Weiler and Isabel Feichtner, 'International and Regional Trade Law : The Law of the World Trade Organization Unit I: The Syntax and Grammar of International Trade Law International and Regional Trade Law' [2011] The Syntax and Grammar of Int' Exchange Organizational Behavior Teaching Journal, 21.

<sup>16</sup> Rober E Hudec, *Enforcing International Trade Law: The Evolution Of Modern GATT Legal System* (1993) MICHIE 16-20.

class of that time<sup>18</sup>. At that time civil and common law countries legally incorporated it according to their own municipal laws. In 1807 France was the first country that reached and adopted the Code de Commerce. This code was adopted as a pattern by so many countries and still it is the basis of the codes of Belgium, Poland, Greece, Spain and Italy when the jurisdiction of the court of Admiralty was abolished in England then the law merchant was incorporated<sup>17</sup>. Thus, it becomes the law of the land. but consequently, it lost its swiftness and characteristics were mere in suitable for the commercial matters in the trade. In the United States of America, it was developed not as a separate body of law but like England it was adopted for legislation to regulate business in the colonies. Later on, to address business conditions, an organization was established by several states which were for voluntary cooperation to prepare uniform laws. Therefore, the uniform commercial code was established in 1952<sup>18</sup>.

According to Isaac, Pollock Tunc, that in spite of several civil and common law differences there is also a similarity in the trade law of all the countries<sup>19</sup>. It was a similarity which divides the world beyond the range into socialist and planning and free market economies. This division was due to the civil law of Rome or common law of England. The similarities widely found an international nature of trade and commercial practices. During the development, it respects the public policy of every state. The laws of a particular state may override the rules of international trade law but when the state is going to exercise such kind of pre-emption it should ensure that the law applicable enables it to exercise two social functions, one is the duty of the state to protect the community from the economic superiority of the trough some strong system of rules and the other is the capacity to adjust to new conditions in the commercial transactions<sup>20</sup>.

It is also a fact that law of international trade can be adopted only by the approval of municipal sovereign as it is founded on two principles one is freedom of contract and the other is recognition of international arbitral tribunals. It has been universally recognized and confirmed that freedom of contract and Pacta Sunt Servanda is an

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<sup>17</sup> Clive M Schmitthoff, *International Business Law: A New Law Merchant: Current Law and Social Problems*2 (1961) 129.

<sup>18</sup> Imre Gal, *The Commercial Law of Nations and The Law of International Trade* (6th edn, Cornell Int'l 1972) 55.

<sup>19</sup> *ibid.*

<sup>20</sup> *Unit Information and Learning Guide: International Trade Law* ( 2009) 65.

accepted fact<sup>21</sup>. The disposal of disputes in arbitral tribunals instead of municipal courts gives liberty to the law of international trade from other branches of municipal law. But in the contract, there are several questions which mean to decide as per terms and conditions of the contract. In sale contract, it is understood that question of the right of ownership or seller right of retention is the subjects of municipal law.

## **2.2 The Influence of the World Trade Organization on International Trade**

Today the WTO represents the international governance and regulatory framework for global trade. WTO came into being in 1995 as one of the youngest organization on global screen. It is the successor to the General Agreement on Tariffs and Trade (GATT) which was established after Second World War. The multilateral trading system was basically set up under GATT and the total trade in 2000 was 22 times higher than it was in 1950<sup>22</sup>. The creation of a strong trading system is the contribution of WTO and GATT to global trade. Trade negotiations were taken place under GATT for tariff reduction but later on, other issues of trade such as anti-dumping and non-tariff measures were also included.

The Uruguay Round 1986-94 leads to the creation of WTO which has now 160 members and 25 negotiating members<sup>23</sup>. The decision-making body is Ministerial Conference which meets at least once in every two years. WTO governs the rules to address the conduct of the member states during international trade. Its reports mechanism monitors the member states and the dispute settlement body analyzed trade cases raised by a member state. WTO rules the violations alleged to be committed by a state. Thus, it becomes the UN of international trade<sup>24</sup>. WTO role is to enhance global trade in a positive way through a durable multilateral trading system. For the economic development of developing countries, WTO acknowledges and insists on the importance of international trade as the case Agenda of Doha round 2001 was the facilitation of development<sup>25</sup>.

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<sup>21</sup> *ibid*, 16

<sup>22</sup> World Trade Organization. '*The legal texts: the results of the Uruguay Round of multilateral trade negotiations*' Cambridge University Press, 1999, 22-24.

<sup>23</sup> Serguei Kouzmine Miroslav N. Jovanovic, '*Standards and Regulations in International Trade*' (1998) <[http://www.ierc.biabg.com/uploads/vtcontract/files/vtcontract\\_\\_4ba9c266e3bb38f7650a6318ec82d468.pdf](http://www.ierc.biabg.com/uploads/vtcontract/files/vtcontract__4ba9c266e3bb38f7650a6318ec82d468.pdf)>.

<sup>24</sup> *ibid* 22.

<sup>25</sup> *ibid* 23.

Recently on 26 February 2018, a portal has been launched for the exchange of the news and trade development in WTO. The Committee for Trade and Development (CTD) is the major body within WTO to address trade and development<sup>26</sup>. It was established under the General Council to handle such issues. It also works on the implementation of the provision of for the developing countries. It issues guidelines for the technical co-operation and increased participation of the developing countries.

### **2.3 Importance of Free Trade Agreements**

WTO defined RTA that any reciprocal trade agreement between two partners<sup>27</sup> and it is not necessary that both belong to the same region in February 1996 the committee on RTA was established for the purpose to discuss their impact on trade<sup>27</sup>. At the 10<sup>th</sup> ministerial conference in Nairobi in 2015, a declaration was adopted in which instructions were given to the committee to discuss overview all the systematic implications of RTA's. The purpose was too multilateral system relates to the WTO rules. Till January 2018, 284 RTA's has been in force amongst different countries around the world<sup>28</sup>.

RTA's have an important impact on global trade and as it stands, more than 90% including developing countries have signed RTA's related to their trade<sup>29</sup>. If a member state is not participating in a particular RTA then the RTA and WTO regulations affected the trade of such state<sup>30</sup>. The reason is that the exports of a non-RTA member state will become weakened as it not taking the benefits of particular RTA so the state which regionally connected to other states can face economic problems in the market.

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<sup>26</sup> *ibid.*

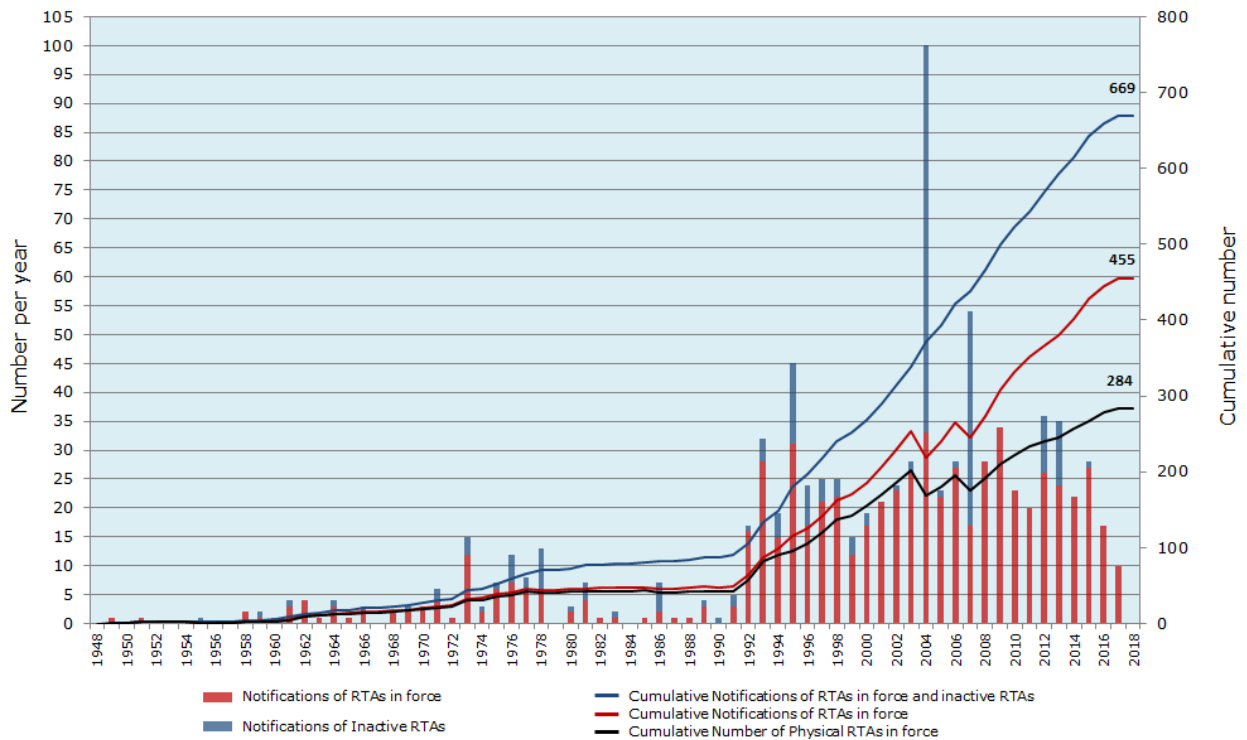
<sup>27</sup> *ibid.*

<sup>28</sup> *ibid* 25.

<sup>29</sup> International Trade Law, 'International Trade Law and Emerging Trade-Related Issues : The Case of Animal Welfare Concerns' 1 (2010) 8.

<sup>30</sup> *ibid.*

## Evolution of Regional Trade Agreements in the world, 1948-2018



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together. The cumulative lines show the number of notifications/physical RTAs that were in force for a given year.  
Source: RTA Section, WTO Secretariat, 25-Jan-18.

Figure 2.1: Evolution of regional trade agreements in the world

Source: Aqeel, Muhammad. "Impact of China Pakistan Economic Corridor (CPEC)" (2016).

According to American Jurist Arthur Nussbaum that during the imperial Spain era the Spanish theologian Francisco de Vitoria was the first to use the notion of freedom of Commerce and Seas. He used the principle of *jus gentium*<sup>31</sup>. Later on British economist Adam Smith and David Ricardo developed the idea of free trade. Most of the RTA's are Free Trade Agreements which created free trade areas by removing tariff and non-tariff barriers to promote trade. Free Trade Agreements can be bilateral like Jordan and US and Korea and Chile Free Trade Agreements or multilateral which based on important economic entities For example EU, NAFTA, ASEAN, Com Un Del Sur (South Common Market). Free Trade Agreement is approved by WTO when it is beyond any trade barriers and is not affecting non-members to that particular FTA<sup>32</sup>. The later requirement of affecting a state is important because sometimes it becomes a reason of depression amongst the

<sup>31</sup> *ibid* 22.

<sup>32</sup> Alan Winters, 'Innocent Bystanders: Implications of an EU-India free trade agreement for *excluded countries*' [2009] Commonwealth Secretariat, 29.

states as seen in 1930 and hence it is very important not to develop any FTA into exclusive trade blocs.

The reason for the authorization of an FTA is based on that how it will benefit the area through its expansion. The more the states join it the more it will give benefit to their trade. FTA increased as the multilateral negotiations are difficult in WTO. Because sometimes the negotiations in the areas of trade and investment, trade and competition policy and intellectual property rights gain so much of time. So due to the long duration of such negotiations, nations preferred a trade with limited countries. so, they could be able to share a common interest. This trend leads to form largest free trade areas which covered the two-thirds of the global trade<sup>33</sup>.

## **2.4 Foreign Direct Investments**

Foreign Direct Investment (FDI) is another important part of the international economy. With the development of communication as well as the transportation system it is highly understood across the borders that multinational business is very important for the countries<sup>34</sup>. The reduction of restrictions for foreign investors increased the ratio of FDI's. Nearly all countries whether they are developed or developing contributed to country's economy at large it brings opportunities to the host countries. The employment ratio increased and local economy boosted with capital technology, information and managerial expertise.

The developing countries often lack the necessary resources for a stable economy. In such situations foreign direct investments bring the important opportunities to get these resources. Many countries by offering good and favourable conditions that included tax and other financial benefits and one-stop services for the foreign investors. The investors were given protection and legal status to feel safe in the hosting countries. Good and transparent regulatory system attracts foreign direct investment always. As far as the investment is concerned there is no comprehensive multilateral treaty. The Organization for Economic Cooperation and Development (OECD) tried to execute an agreement but failed<sup>35</sup>. During the Uruguay round agreement on Trade-Related Measures, TRIM was created which purpose was to regulate these government measures affecting trade. Due to the absence of a treaty

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<sup>33</sup> Yong-Shiks Lee, 'Foreign direct investment and regional trade liberalization: a viable answer for economic development' (2005) 39 *J. World Trade*, 701.

<sup>34</sup> *ibid* 30.

<sup>35</sup> *ibid*.

which could regulate investment bilateral investment treaties regulated foreign direct investments (FDI). The free trade agreements have liberalized international trade and it is understood that it affected economic development in a positive way with the support of GATT and WTO<sup>36</sup>.

## 2.5 The Role of Special Economic Zone

SEZ is a very important part of international trade and its role cannot be denied. Gibraltar Hamburg and Singapore are the examples which are operating for centuries for the purpose of free routes for trade. It was the year 1959 that the first free zone for the industrial purpose was established in Shannon Ireland. But from 1970 East Asia and Latin America designed zones which attracted multinational companies to invest. So, these zones enabled the countries from the position of import to export. It brings integration to the country as well as the region. The purpose of the establishment of SEZ is to achieve the four policy objectives<sup>37</sup>.

- All zones programs including from traditional EPZ to large-level SEZs are established to attract FDI.
- To deal with unemployment issues: Though Dominican Republic and Tunisian SEZ projects of Tunisia and the Dominican Republic have been key economic targets, they failed to bring the necessary economic changes and did not even contributed towards creating employment.
- To initiate broader economic reform measures: it could be argued that SEZs was just a strategy that was aimed at exports promotion that deals with issues and elements that affects exports. Examples of countries with such initiatives include Taiwan, Mauritius, Korea and China.
- SEZ is a sort of trial labs for the use of new arrangements and methodologies: China's huge scale SEZs are exemplary illustrations. Inside the SEZ despite estimating the approaches of FDI, legality, land and work were presented and tried before the increase to the rest of the economy in future<sup>38</sup>.

SEZs had a blended history of achievements during the achievement of these objectives. Though it has had mixed fortunes, it still continued to have an influence on numerous cases such as bringing about "white elephants," and the development

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<sup>36</sup> *ibid.*

<sup>37</sup> Brautigam Deborah, Thomas Farole, and Tang Xiao Yang: *China's Investment in African Special Economic Zones: Prospects, Challenges, and Opportunities*, Vol 1 (2010) 22.

<sup>38</sup> *ibid.*

of zones that to a great extent have resulted in an industry exploiting of the situation when there are tax breaks and also not delivering significant work or fare profit. Additionally, a significant number of the conventional EPZ programs have been fruitful in a short-term by attracting investment and creating employment but when there is no sufficient advantage offered by preferential trade it has neglected to stay economical or when work costs have risen. Experimental research demonstrates that numerous SEZs have been effective in producing fares and work and triggered imperceptibly positive changes in cost-benefit evaluations<sup>39</sup>. Many economists viewed that over a limited time frame zones success is restricted and these are the second- or even third-best solution to competitiveness<sup>40</sup>. There are concerns that zones, by and large, have failed to extend benefits outside their enclaves or to contribute to the upgrading of skills and the production base<sup>41</sup>. There are examples which explain that the zones play a catalytic role in the processes of economic growth and adjustment<sup>42</sup>.

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<sup>39</sup> Ricardo Monge Gonzalez, Julio Rosales Tijerino, and Gilberto Arce Alpizar, 'Cost benefit analysis of the free trade zone system: the impact of foreign direct investment in Costa Rica' (2005) No. 382.97286 M743c. Washington, US: OEA, 35-38.

<sup>40</sup> Jagdish Bhagwati and Hamada Koichi, 'The Brain Drain, International Integration of Markets for Professionals and Unemployment: A Theoretical Analysis.' (1974) 1 *Journal of Development Economics* 19-42.

<sup>41</sup> Dorsati Madani, 'A Review of the Role And Impact Of Export Processing Zones' (1999) 2238 World Bank Publications, 15.

<sup>42</sup> Helena Johansson and Lars Nilsson: *Export processing zones as catalysts*, Vol12 (*World Development* 25 1997) 2115-2128.



### 3. CHAPTER: CPEC (CHINA PAKISTAN ECONOMIC CORRIDOR)

China–Pakistan Economic Corridor (CPEC) is a series of projects for developing infrastructures in Pakistan, supported by People’s Republic of China. CPEC is considered as a means of regional collaboration and connectivity. Not only China and Pakistan, other neighbour countries i.e. Iran, Afghanistan and Central Asian Republics are also in the pool to get benefited, either directly or indirectly, from the outcomes of CPEC. Regional collaboration, stability and integrated development are only possible when there is a better way of communication, infrastructure and technology that is what expected to be achieved through CPEC. Only then, the production and marketing infrastructures will be connected in the region, which will lead to develop and improve the regional trade. Once the trade relations are built, there are multiple outcomes in the shape of increased job opportunities, decreased unemployment and better socio-economies. These are some of the factors which pave roads for the states to be progressive and developed. Keeping in view the volatile situation of the Southeast Asian region, CPEC is considered to be a peace driving force via economic stability and social harmony.

CPEC can provide more prominent economic chances to Afghanistan and CAR’s to improve their economies. Furthermore, the corridor will put a huge impact on South Asia, Middle East and Central Asia.

#### 3.1 CPEC main theme

There are emerging economies in Asia, which can collaboratively work for the economic development of the region. China is looking forward to those developing economies as its new partners in their future development framework<sup>43</sup>. Summers asserts that;

*“the ideal models in the Silk Road vision explains the propagation of the thoughts of entrepreneur advancement communicated especially in the model of systems, which themselves have turned into a component of the contemporary worldwide political economy”<sup>44</sup>.*

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<sup>43</sup> Jacob Stokes, ‘China’s road rules: Beijing looks west toward Eurasian integration’ (2015)19 *Foreign Affairs* 19, 42.

<sup>44</sup> Tim Summers, China’s ‘New Silk Roads’: Sub-national Regions and Networks of Global Political Economy’ (2016) 9 *Third World Quarterly* 37, 1628-1643.

China has a well-developed and mechanized production sector, which is striving to capture potential; regional and international markets. The main theme of the 'One Belt One Road' (OBOR) is an initiative of China to establish linkages between Chinese producers/ production sector with Central Asia, Russia and European countries. Another target of the initiative is to get connected with "warm waters" of Indian Ocean. CPEC is a flagship project of OBOR, with an expected investment of \$ 46 billion. It is also likely to reorganize and improve the geopolitical situation of the region. Principally, CPEC is a collection of projects which are aimed to link western treaties of China with several regions of Pakistan, for a long-lasting and sustainable collaboration amongst China, Pakistan, Persian Gulf, Arabian Sea and the Middle East<sup>45</sup>. The major focus of the CPEC is developing roads infrastructure, developing energy sector and establishment/ development of industrial parks. During his visit in 2015, the President of People's Republic of China signed 51 MoU's for collaboratively working in the aforementioned sectors. As mentioned before, the total value of the projects under CPEC is \$62 Billion, while the time frame for the projects is expected to vary from 3 to 15 years<sup>46</sup>. Pakistan, as a major stakeholder of CPEC, is not only considering the CPEC as an economic activity but also as a tool of strategic equality of power in the Southeast Asian region. CPEC is also thought to be an addition to China's existing trade route; Malacca Strait. This will also facilitate China to reach out the Arabian Sea and capture/attract businesses in Gulf countries, through Gwadar. To touch the sea water is a dream for countries having landlocked geography i.e. Uzbekistan, Tajikistan, Afghanistan Turkmenistan. CPEC will enable those countries to reach international waters and explore global opportunities in trade. Keeping in view the previous similar approaches of economic corridors in African and European regions, there might be challenges while collaborating bilaterally or multilaterally. Furthermore, neighbouring countries will also look into their interest from CPEC and how it can contribute towards their economic uplift, also matters.

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<sup>45</sup> Hassan Askari Rizvi, ' The China-Pakistan Economic Corridor: Regional Cooperation and Socio-Economic Development' (2015) 4 *Strategic Studies* 34, 1-17.

<sup>46</sup> *ibid.*

### 3.1.1 China Economic Belt and Maritime Silk Road Project

The Chinese policymakers and economic drivers had already realized the importance of economic belts and international collaborations. Consequently, Xi Jinping, the then President of the People's Republic of China visited Kazakhstan in September 2013 and declared the project of the economic belt<sup>47</sup>. It was after two years of the declaration of the project, when a Chinese Ministry of Foreign Affairs, Commerce and National Development and Reform Commission revealed the guidelines and road map of the initiative<sup>47</sup>. There were two motivating factors behind the uphill struggle of Chinese policymakers to come up with sustainable, workable and result oriented steps to handle the emergent scenario; country's sluggish growth in terms of the economy since 2012 and weakening ties with some of the neighbouring countries and US<sup>48</sup>. Similarly, there are several other factors that making a conducive environment for moving towards successful collaboration under CPEC i.e. lowered annual GDP growth rate, companies' overcapacity in terms of the labour force, increase of enormous foreign exchange resources. These factors, specific overcapacity, are the causes of loss for public and private companies, which awakened the need for diverse global markets<sup>49</sup>.

China has a considerable network of Corridors and this indicates the vision of the country to pursue regional and international market through economic collaboration and shared benefits<sup>50</sup>. These connections are also meant to strengthen and further expand the influence of the country in the region. CPEC is considered to be the most important and productive corridor of all, also due to its geo-strategic position. It's an adjoining arm between the proposed belt and maritime Silk Road, which enhance its worth and importance for China in the near future scenario. The success of CPEC is more important for China, as it has the largest global export market (\$2.37 Trillion) and 3rd largest import market (\$1.53 Trillion) which is expected to be increased resulting in the boosted economy<sup>51</sup>.

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<sup>47</sup> 'China 6 Magical Economic Corridors,' *Foreign Policy News*, Available at <<http://foreignpolicynews.org/2016/08/14/china-6-magical-economic-corridor>> accessed 15 May 2018.

<sup>48</sup> *ibid.*

<sup>49</sup> Miner Sean, 'Economic and Political Implications: China's Belt and Road Initiative' (2016)11, 25-26.

<sup>50</sup> *ibid* 47.

<sup>51</sup> 'One Belt, One Road' Initiative will Define China Role as World Leader' accessed 31<sup>st</sup> August 2016 available at ><http://www.scmp.com/comment/insight-opinion/article/1753773/one-belt-one-road-initiative-will-define-chinasrole-world>

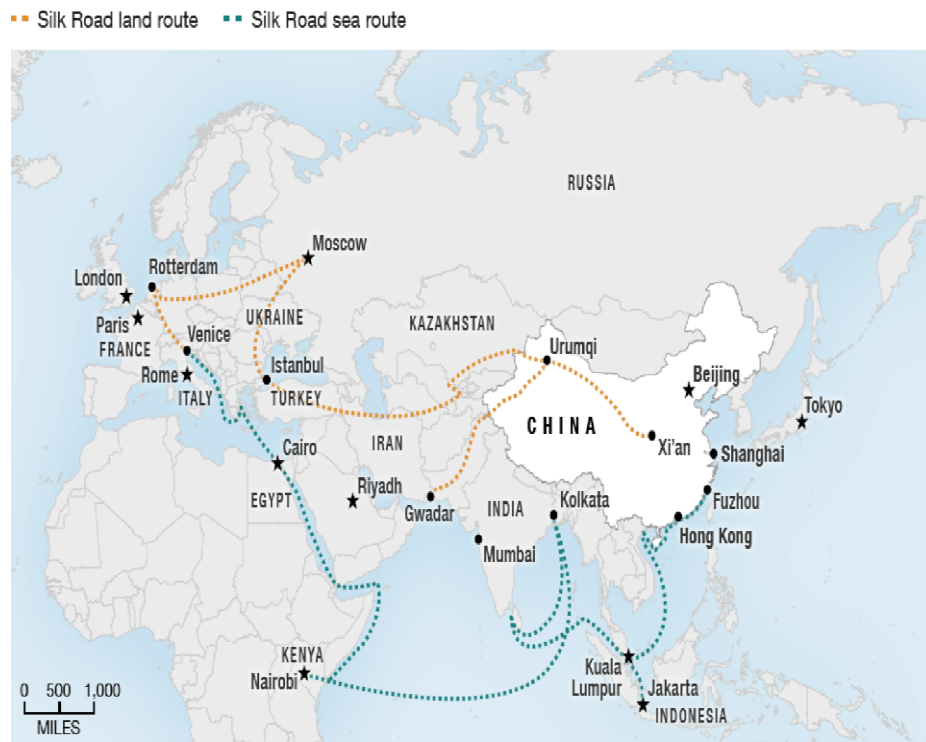


Figure 3.1: Graphical illustration of the CPEC

Source: <https://www.omicsonline.org/open-access/analysis-of-chinese-economic-and-national-security-interests-in-chinapakistan-economic-corridor-cpec-under-the-framework-of-one-be-2151-6200-1000284.pdf>.

In the next 10 years as expected by President Xi that the annual trade volume will exceed US\$2.5 trillion<sup>52</sup>.

China as the second driving country on the planet to expend oil, energy security remained China's most noteworthy concern. Additionally, expanding populace and gigantic financial development raised the interest for energy in China. China's oil imports travel far of 10,000 KMs from Strait of Hormuz through Indian Ocean, Malacca Strait and the disputed South – China Sea. To satisfy needs of China, Middle East contributes 46% and Africa 24%, which is right around 70% of the everyday prerequisite for energy<sup>53</sup>.

OBOR one belt one road program generally called the Silk Road gives the premier a quality of predominance in world markets. This opponents US and India inside the Asian region where they simply did not challenge China only in trade but there are

<sup>52</sup> *ibid.*

<sup>53</sup> Dr. Zhang Jian, 'China's Energy Security: Prospects, Challenges and Opportunities' The Brookings Institution (Centre for Northeast Asian Policy Studies, 2011) Vol 3, cited at Faaiz Amir, 'CPEC and Regional Integration'(2017) Pakistan Development Review, 579-597.

likewise social coordination factors as Yong notes "regardless of dangers and vulnerabilities (that) exists, the enforcement will boost the region". The territory secured by CPEC is a mineral-rich region which gives China awesome potential to additionally build up its economy. For instance, in 2017, the Gwadar-Kashgar pipeline was introduced the pipeline that has an ability to transport around 1 million barrels-per-day<sup>54</sup>. China would like to raise it to 17% of China's aggregate oil imports by means of this pipeline. Meanwhile, the Chinese are building an oil refinery at Gwadar refining Middle Eastern oil through pipeline. Likewise there is a 700Km long pipeline in progress for bringing in Chinese LNG (Liquefied Natural Gas)<sup>55</sup>. These pipelines through CPEC broaden China reliance on Sea transport. A forty years release has been gained by Chinese Port Holdings (COPHC) on Gwadar Port this was in 2013 t and will most likely be renewed in time.

These developments are still a risk because of the overly long and expensive distance of these pipelines agreements of logistical nature Logistic Exchange Memorandum of Agreement (LEMOA) have been agreed and signed between China's two main competitors US and India. This is the reason behind China naval and other land-based military developments. Even though CPEC is more an economic social agreement but LEMOA uses air and sea bases so they are being used for defence and logistical assistance<sup>56</sup>. The southern area port Gwadar falling under CPEC is at the crossroads of international sea transport especially oil routes. China here gains 10,000 km protecting Chinese energy by decreasing the sea distance to only 2500 km and then significantly only 2800 km from Gwadar port to Kashgar these are short projects saving time, distance and money<sup>57</sup>.

There is a real push for China to cement good relations on its part with its neighbours the OBOR is purported to offer a counterweight to trade in Asia again against US and Indian influence. Professor Yong Wang, a professor at School of

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<sup>54</sup> 'China to Build Mega Oil Pipeline from Gwadar to Kashgar' *Pakistan Defence*, accessed 25th March, 2018, available at <http://defence.pk/threads/china-to-build-mega-oil-pipeline-from-gwadar-to-kashgar.434652>, cited in Faaiz Amir, 'CPEC and Regional Integration'(2017) *Pakistan Development Review*, 579-597.

<sup>55</sup> 'Construction Work Started on 700 Km Pipeline from China to Pakistan: Abbasi' (*Dawn* 20<sup>th</sup> July 2015) Cited at Faaiz Amir, 'CPEC and Regional Integration'(2017) *Pakistan Development Review*, 579-597.

<sup>56</sup> 'U.S. India Sign Military Logistics Agreement' (2016) *Reuters*, Available at <<http://www.reuters.com/article/us-india-usa-military-idUSKCN114241>> (2016) 29 (3) *Review* 455-463.

<sup>57</sup> "Understanding China's Interests in Gwadar," For Pakistan Organization, available at <<http://forpakistan.org/understanding-chinas-interest-in-gwadar/>> accessed 16 May 2018.

International Studies and Director of Centre for International Political Economy, Peking University, offers his sentiment of OBOR as "China Belt and Road activity originated from the consolidated weight of backing off of Chinese economy, US turn to Asia and disintegration of the relations with neighbouring nations in the wake of weathering the storm of the Global Financial Crisis of 2008"<sup>58</sup>. China is responding to the US TPP attempts to change the makeup of World Trade China its own initiatives FTA which it believes through Belt and Road strategy will stand it in good stead. Genuinely liberal standpoint through World Trade Organization (WTO) and other territorial Free Trade Agreements (FTAs, for example, Transatlantic Trade and Investment Partnership (TTIP) to Trans-Pacific Partnership (TPP)<sup>59</sup>. The US has more prominent impact in spite of the fact that these agreements are fairly liberal and seen as fairly equal by their participating member states. China sees TPP as the US dominating trade rules of international institutions<sup>60</sup>.

China is looking through each possible ocean and road course to understanding its 'One Belt, One Road' which is President Xi's conviction that by doing this it will additionally fabricate the Chinese industrial limit <sup>61</sup>.. It will maintain a strategic distance from SCS, Malacca Strait and the Indian Ocean and afterward access to Europe through Gwadar Port. Trisha claims "over the longer term, large infrastructure projects and increased mobility can create opportunities for large-scale exploitation of natural resources along the corridor"<sup>62</sup>.

CPEC creates development for underdeveloped Western Xingjian again here it is imperative that all these trade and infrastructure projects filter down allowing economic benefits and growth in these regions. There are also large gold and copper resources in Baluchistan amongst other mineral deposits. There are estimated 659,000 kilograms of gold and reserves of 11.65 million metric tons (Mt) of Copper a

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<sup>58</sup> Yong Wang, 'Offensive for Defensive: The Belt and Road Initiative and China's New Grand Strategy' (2016)29 *The Pacific Review*, Cited at Faaiz Amir, 'CPEC and Regional Integration' (2017) *Pakistan Development Review*, 579-597.

<sup>59</sup> *ibid.*

<sup>60</sup> *ibid.*

<sup>61</sup> *ibid* 43.

<sup>62</sup> Trishia Octaviano, 'Economic Corridors Boost Markets, Living Conditions' [2018] *Business World Research*, available at <http://research.bworldonline.com/populareconomics/story.php?id=350&title=Economic-corridors-boost-markets,-living-conditions>. Cited at Faaiz Amir, 'CPEC and Regional Integration'(2017) *Pakistan Development Review*, 579-597.

vast amount in the Reko Diq Mines in Chagai District a 10-year contract was won by the Metallurgical Construction Corp. (MCC) of China<sup>63</sup>.

### **3.1.2 Pakistan Geographic Position to be an Economic Corridor**

The topography of Pakistan is maybe its exclusive quality that has pulled in worldwide powers in the quest for their political, monetary and vital interests. Fig. 2.3 exhibits Pakistan's topographical potential and prospects for local availability. Pakistan fringes India in the East, China in the North West, Afghanistan in the West, Iran in the Southwest and the Arabian Sea in the South. Pakistan is situated at the intersection of South Asia, West Asia, focal Asia and Western China. Pakistan has the possibilities of connecting the Middle East and the focal Asian vitality supplies to developing vitality requests in China and India. Pakistan may likewise encourage as a travel course to arrive bolted nations, Afghanistan and focal Asian states to exchange oil and gas by giving a less demanding access to the global market through the Arabian Sea<sup>64</sup>. Gwadar is a remote ocean port and deliberately situated at the intersection of Southwest and South Asia, with focal Asian too far away. Gwadar is at the mouth of the Persian Gulf and close to the Strait of Hormuz, which is the third busiest course, handling 35% of worldwide seaborne and around 43% of Chinese oil exchange. Gwadar is additionally near to Iran.

Geographical condition of Pakistan and has the open door for overland access. An understanding amongst Iran and Pakistan is as of now set up to fabricate an oil refinery at Gwadar. Iran is occupied with getting more offers in the worldwide oil showcases through Gwadar<sup>65</sup>. Pakistan's geographic potential and Gwadar port is exceptionally appealing to China's policymakers to manage oil supply challenges and opening up Western China to the world through local vitality and financial network. Pakistan's geographic area could likewise be a vital piece of China's New

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<sup>63</sup> Chin Kuo, 'The Internal Industry of Pakistan 'USGS: 2011 Minerals Yearbook Pakistan (Advance release), 2012, available at <http://minerals.usgs.gov/minerals/pubs/country/2011/myb3-2011->, accessed 16 May 2018

<sup>64</sup> Ibid 68.

<sup>65</sup> Ibid.

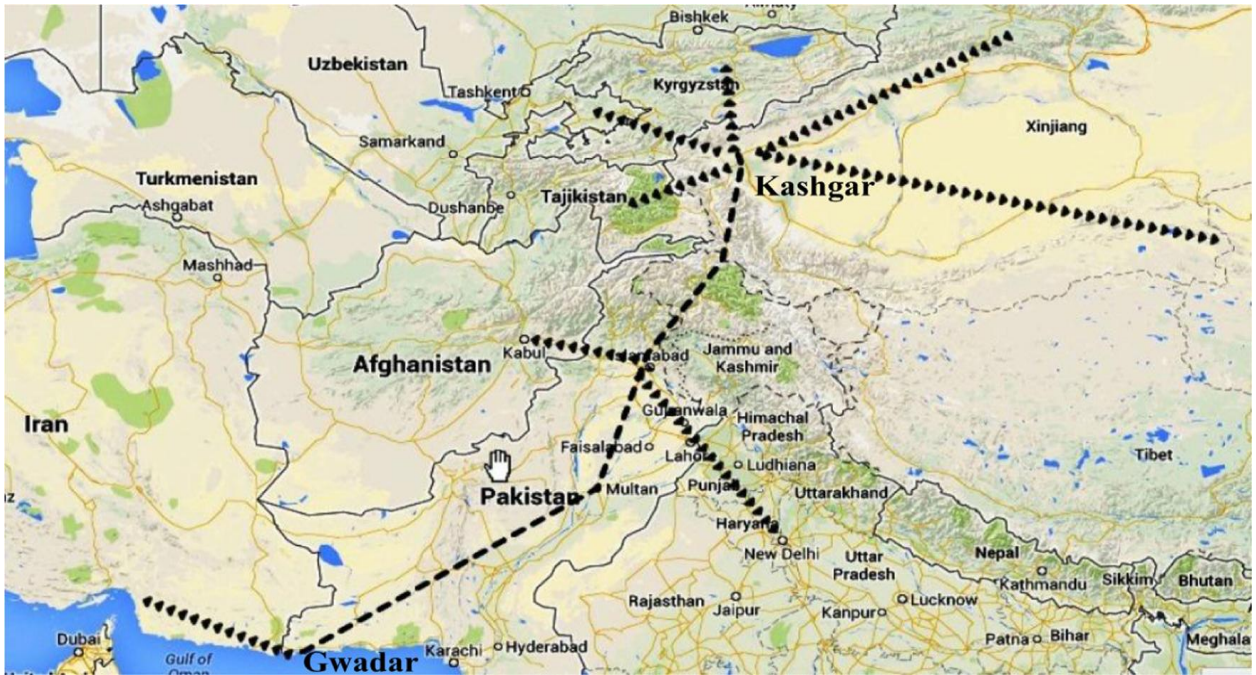


Figure 3.2: Pakistan's topographical potential and prospects

Source: <https://www.omicsonline.org/open-access/analysis-of-chinese-economic-and-national-security-interests-in-chinapakistan-economic-corridor-cpec-under-the-framework-of-one-be-21516200-1000284.pdf>

Silk Road Initiative "One Belt-One Road". Pakistan could be a corridor of this activity that includes a geographic position with oceanic vitality<sup>66</sup>. In addition, the appearance of the CPEC would guarantee China's quality at Gwadar Port at the centre of worldwide oil supplies, which absolutely offers geopolitical advantages for the two nations. To broaden the advantages from this potential, China financed and is presently working in the port of Gwadar Pakistan. China has made noteworthy interests in infrastructural extends in and around Gwadar Port and its overland street and railroad network with Western China<sup>67</sup>.

### 3.2 CPEC and Economic Uplift of the Region

It is expected that with free trade long-term integration will benefit south Asian regional economies. This is important because the South Asian economies boost 22% of the overall world's population, therefore, this will lead to it driving South Asia as one of the fastest developing world regions. It is thought that the region has

<sup>66</sup> ibid 69.

<sup>67</sup> ibid



insurmountable corrupt mindsets and lacks integrity and morality. Which created many social and environmental problems internally and externally this can lead and risk leading to regional conflicts. Trade volume is as low as 5% which is another factor that can further exacerbate the region causing pressure on the region's instability<sup>68</sup>. CPEC could act as a neutraliser with its propensity to concentrate on developing projects amongst other things this will enhance economic growth and cooperation. Long-term Cooperation is a necessity in all regions of the world. So using the structure that CPEC offers will make the outcome of success more viable. It was initially estimated that trade volume was \$20 billion between China and Pakistan in 2015 when CPEC came into force<sup>69</sup>. It is also believed that the main beneficiary of CPEC will be China. Whether or not this is true to be seen growing in trade has already heavily been to the advantage of China. One aspect of the benefits of the influence of CPEC is the financial benefits in currency markets. China is already accused of being a currency manipulator by the Yuan. It is China's desire to propel the Yuan into a position of a global player in currency markets allowing it to trade not just in free trade but in derivative markets and used by many differing institutions<sup>70</sup>. The silk road Fund AIIB blends in well with CPEC which will create further benefit prompting all concerned to move to fund forward in the construction of infrastructure projects needed in many parts of Asia, Africa and the Middle East. China and Pakistan had effectively consented to trade agreements in 2006 before CPEC. There is no uncertainty these trade agreements and routes will profit all members particularly China matching numerous western economies and drawing them into the overlap. Numerous associations, for example, the Shanghai Cooperation Organization and the Conference on Interaction and Confidence Building in Asia permit China advance strategic plan of action involved with Washington<sup>71</sup>.

Pakistan shares the outlook that there will be benefits to its economy to the extent that CPEC will strengthen bilateral ties cementing free trade. This will develop its own export industries and human resources creating employment offering a better standard of living to the more deprived regions and its people. The gains will take

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<sup>68</sup> *ibid*

<sup>69</sup> 'China-Pakistan FTA' China FTA Network, available at <http://fta.mofcom.gov.cn/topic/enpakistan.shtml> Accessed at 28th March 2018,

<sup>70</sup> *ibid* 52.

<sup>71</sup> Faaiz Amir, 'CPEC and Regional Integration' (2017) *Pakistan Development Review*, 579-597.

time but if the basic concepts of Macro economies are followed there should be rewards.

### **3.3 CPEC and Regional Stability.**

CPEC is ranked as an agreement that will offer long-term stability as long as the actors play their perspective roles in the integration process. It is claimed that the Association of Regional Countries (SAARC) and particularly India are stalling for whatever the possible reason maybe it will have knock effects to the region unless it can overcome and harmonise further with its counterparts through agreements perhaps the problem could be its histological perceptions and rhetoric from differing political divides fuelling this. However with others in the region like Afghanistan, Iran, CARs, Myanmar and Saudi Arabia which are the largest oil exporters and as the largest economies offering India an easy route to China<sup>72</sup>. This may convince India to set aside its differences. Stability will also bear fruit in the political arena as a place to voice inhibitions Globalisation cannot be ignored and CPEC is part of this process it is a long-term project that will blend the politics and economics that are conducted in Asia. The regions integration as of the CPEC agreement needs to be pushed through but as of yet as a result of the inhibitions and geopolitical problems the process is lagging behind this is not at all a way forward and will not assist in the development of the region. These problems with the region must be resolved if CPEC has any chance of success the most important winners in all this are the people of the region the political divide must be set aside otherwise all the hard work that has gone into reaching this point may well be lost to the detriment of all concerned.

It is not a time to flex muscles, for instance, the ring of pearls whereby naval expansion into the Indian Ocean which encapsulates India and is straining ties. Washington is also monitoring the situation and the possibility of Chinese threats<sup>73</sup>. In response, India has signed a mutual cooperation agreement with Iran and Afghanistan to establish a foothold and connect with CARs<sup>74</sup>. Hopefully, there can

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<sup>72</sup> Dr. Azhar Ahmad, 'Gwadar: A conduit of Peace and Prosperity' The Diplomatic Insight, 16, <<http://rtepakistan.org/wp-content/uploads/2016/04/>The-Diplomatic-Insight-Special-Supplement-on-China-> Pakistan-Economic-Corridor-Feb-2015.pdf>.

<sup>73</sup> ibid 52.

<sup>74</sup> ibid.

be resolutions that the CPEC will succeed and there will be new participants that would want to join.

### **3.3.1 CPEC importance to Afghanistan and Central Asian Republics**

There is a clear importance in the region of Afghanistan Turkmenistan, Tajikistan, Pakistan, Uzbekistan, Iran and China. The combined population is approx. 32.5 million; Most of its trade goes through the Karachi Port of Gwadar this proximity being closer makes Afghanistan a large gainer of benefit via the western route of CPEC. It should be noted that there are also landlocked borders. Its Exports mainly consist, raw cotton, tropical fruits, scrap iron, coal grapes and briquettes and it is has a large dependence on agriculture, in terms of its size it makes it the 158th largest economy in terms of exports its trading partners are the regions others Pakistan, Iran, China, Russia, India and Turkey<sup>75</sup>. The port route against the standard transportation route is approximately 600Km shorter<sup>76</sup>. It is likewise essential for the export of agriculture merchandise. There is a plan ready for Pakistan to assemble a 256 km long motorway from Peshawar to Kabul joining Afghanistan with CPEC in the north<sup>77</sup>. A Feasibility study of the project is underway<sup>84</sup>. There are obvious benefits as a consequence with its the bilateral trade partners such as Stability and economic prosperity as there are increases in volume; Pakistan, trade amounts to \$2 billion to \$5 billion and is expected to grow<sup>78</sup>. This is on the grounds that it is its biggest trading ally and being the focal country to landlocked CARs (Central Asian Republics). it is situated midway in Eurasia, as a radiant travel way between South Asia, Central Asia and Europe<sup>79</sup>.

A completely finished CPEC program would improve all quarters of the locale Central Asian Republics, Tajikistan, Kyrgyzstan Uzbekistan and Kazakhstan Turkmenistan with the shortest route at sea. Gas and oil-rich states Turkmenistan,

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<sup>75</sup> Dr. Khalid Manzoor Butt and Anum Abid Butt, 'Impact of CPEC on Regional and Extra-Regional Actors' (2015)13 Journal of Political Science, 37.

<sup>76</sup> Mubarak Zaib Khan, 'Land Routes Finalized to Boost Trade with Central Asia' *Dawn*, (17th January, 2016, accessed 1st March 2018, available at <http://www.dawn.com/news/1233450>, cited at Faaiz Amir, 'CPEC and Regional Integration'(2017) Pakistan Development Review, 579-59.

<sup>77</sup> *ibid*.

<sup>78</sup> The World Factbook, available at [https://www.cia.gov/library/publications/resources/the-world-factbook/wfbExt/region\\_cas.html](https://www.cia.gov/library/publications/resources/the-world-factbook/wfbExt/region_cas.html), cited at Faaiz Amir, 'CPEC and Regional Integration'(2017) Pakistan Development Review, 579-597.

<sup>79</sup> *ibid*.

Kazakhstan and Uzbekistan that export their oil based commodities through different courses will most likely advantage from it.

It must be a success for CARs as the circumstance that as of now exists does not promote trade amongst CARs and South Asian states. Accordingly, trade by means of this route with FTA amongst Pakistan and CARs expand well for regional trade through CPEC<sup>80</sup>.

### **3.3.2 CPEC and Iran**

Iran is a large energy producer of carpets, fruits, cement, chemicals, gas, petroleum and others. It borders Armenia, Afghanistan, Pakistan, Turkmenistan Iraq, Azerbaijan, and Turkey. It has also trading partners which it imports and exports to namely India, Japan, UAE, China, South Korea and Turkey amongst others they trade in many products such as consumer goods, capital goods, Industrial supplies and technical services. Just like other countries Iran is considering joining CPEC this remains to be seen but it will aid trade via integration of land trade<sup>81</sup>.

There is the discussion of an Iran-Pakistan-India and Chinese (IPIIC) Pipeline. This should be possible under the pretence of CPEC introducing stability especially in Afghanistan. Also, moreover, there are contemplations of a train link associating Pakistan, Iran and Turkey.<sup>82</sup> This will create a trade route from South-Asia to the Middle East straight to Europe.

### **3.3.3 CPEC and India's Approach**

India neighbours are Bhutan, Bangladesh, Nepal, China, Pakistan and Burma. It is a South Asian atomic power that has one of the most elevated world populaces with an expected populace size of 1.252 billion. It doesn't look good of CPEC and clearly has reservations on its intensity. The principle reason is China's maritime nearness at Gwadar and land trade goals. In this regard, India is contributing a sum equalling to \$85.21 million dollars in a seaport Chabahar in Iran to serve its interests for Afghanistan.<sup>83</sup> is additionally helpful for CARs. India's framework activities, for example, roads bridges, airports are generally under thought and will serve to adjust

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<sup>80</sup> ibid 71.

<sup>81</sup> Yasmeen Aftab Ali, 'Iran and CPEC' *Pakistan Today* (Karachi, September 7, 2015) Cited at Faaiz Amir, 'CPEC and Regional Integration'(2017) *Pakistan Development Review*, 579-597.

<sup>82</sup> Dr. Ahmed Rashid Malik, 'CPEC and the Region' *Pakistan Today* (Karachi, November 9, 2015).

<sup>83</sup> ibid 75.

the present state of affairs with China in Strait of Hormuz. From a political point during Indian Prime Minister's ongoing visit to China, there were dialogs to end CPEC but the Chinese Prime Minister clearly refused<sup>84</sup>. There is essentially very little India can do as China is proceeding with its One-Belt-One-Road program in conjunction with CPEC. India's choices are two either oblige CPEC getting to business sectors in the CARs and past through the most limited way or keep on with unshakable contradiction. This will decide peace and stability for the region. It's approach towards CPEC will likewise imperative for the regional soundness.

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<sup>84</sup> ibid 78.

## **4. CHAPTER: INSIGHTS INTO THE EFFECTIVENESS OF THE INTERNATIONAL TRADE LAW**

### **4.1 Introduction**

It is important to be noted that the importance of international laws such as the international trade law lies in their respective capabilities to attain its given objectives which in this study has been established to be promoting regional stability through economic integration. This ability to influence regional stability through economic integration still remains to be determined. This includes looking at regional perceptions towards CPEC, what has been achieved so far through CPEC and how the international trade law influences such an ability to attain or achieve given standards and targets. It also looks at the effective use of the ITL to promote regional stability in the Middle East region, possible challenges that are posed by the ITL on Pakistan and China's economic ties and the possible ITL amendments that can be made to promote the growth of economic integration.

### **4.2 The Influence of ITL on Regional Stability through Economic Integration**

The ITL has been well commended for its abilities to turn around international trade fortunes<sup>85</sup>. But the question is can similar deductions be made when it comes to regional stability through the promotion of economic integration? In order to determine if this will be possible, it is therefore important to look at the positive benefits that are posed by promoting trade through the use of the ITL as well as limitations of trade towards promoting regional stability.

Regional stability refers to the stability of a region in terms of economic, social, political and religious aspects. In this study, attention will be paid towards economic stability because it can be established that all the other forms of regional stability are determined by changes in economic stability<sup>86</sup>. Which implies that positive changes in economic stability have a positive influence on other forms of stability and this is because individual members of the society are believed to be primarily interested in economic stability which offers them opportunities to improve their standard of

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<sup>85</sup> Clara Brandi and Kahtrin Berensmann, 'The Financial Crisis and International Trade – The Consequences for Developing Countries' <[www.die-gdi.de](http://www.die-gdi.de)>.

<sup>86</sup> Zihui Ma and Leonard K Cheng, 'The Effects of Financial Crises' (2005) 14, 17.

living<sup>87</sup>. Improvements in the standard of living are tied to a lot of factors and elements such as peace of mind, obedience to given rules and policies and ethical standards and behaviour etc.

Foremost, international trade is an essential element in any economy and the use of the ITL is to improve and boost international trade levels as well as foreign direct investments (FDI) levels into an economy like Pakistan<sup>88</sup>. What it, therefore, offers as an advantage is that an increase in trade and FDI inflows causes an increase in the growth potential of companies in both Pakistan and China. This is because they will be having a huge customer base which has a high potential to buy and supply goods in large quantities and possibly at lower prices. The increase in sustainable revenue growth levels in what benefits companies in both Pakistan and China. Such is important especially when considerations have been put that the Asian region has been suffering from a lot of adverse economic circumstances such as financial and economic crisis<sup>89</sup>. Hence, a growth in revenue levels acts as a cushion against bad economic circumstance which can threaten viability and survival of companies in both Pakistan and China<sup>90</sup>. This will help to attain both national and regional stability as both economies experienced a growth in productivity and size of firms.

Secondly, it is important to note that promoting international trade through the use of the ITL has positive effects on financial performance of corporations in the Asian region<sup>91</sup>. As noted that regional instabilities are often caused by a poor economic performance which triggers an undesired response from the society in terms of demonstrations, civil wars, social unrests etc.

It has been well known that international trade improves market competitiveness which a key factor in improving economic stability especially when ideas are showing that most firms within the Asian region went bankrupt because of lack of competitiveness<sup>92</sup>. Improvement in competitiveness is, therefore, an element that stirs firms into producing more goods and services at relatively low costs which can

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<sup>87</sup> *ibid.*

<sup>88</sup> Robert C Sheburne, 'The Global Financial Crisis and Its Impact on Trade : The World and the European Emerging Economies' [2010] United Nations Economic Commission for Europe: Discussion Paper Series No. 2010.2 1, 24.

<sup>89</sup> Alex Izurieta and Nicolas Maystre, 'The Impact of the Economic Crisis on Trade: Trade and Economic Growth Patterns' (2009) 7, 35.

<sup>90</sup> *ibid.*

<sup>91</sup> *ibid* 93.

<sup>92</sup> *ibid* 94.

trigger an increase in market demand of the commodities on the international market.

Domestic firms, on the other hand, are in a strong position to get access to the required resources which are essential for the efficient and effective production of goods and services which can turn around the economic situation of Pakistan. Economic situations such as financial crisis can trigger regional instabilities and hence improvements in competitiveness will help to cushion economies from negative effects posed by instabilities.

On the other hand, when it comes to the limitations that affect international trade, it can be noted that regional instabilities in one nation or region can trigger instabilities in another country. This is mainly in the form of what is termed a contagion<sup>93</sup>. This can be true especially after noting that economic instabilities in some countries such as China and the surrounding areas have been spreading to other nations as well<sup>94</sup>. Moreover, it is believed that regional instability in any form depends on the individual nation's ability to effect sound and proper strategies and policies to affect stability<sup>95</sup>. Which implies that economic integration does not always lead to regional stability especially when the other nation has no policies and strategies to support the integration. This can be true especially when compared with happened to Pakistan soon after agreeing on CPEC and yet it had to sound structure to support CPEC and was characterised by a lot of incidences of political disturbances and civil unrests<sup>96</sup>. What it therefore implies is that the international trade law only works to offer support to CPEC and has no direct effects on regional stability but rather seeks to reinforce the effectiveness of bilateral and multilateral agreements such as CPEC. The international trade law, therefore, becomes a mechanism of channelling improvements in trade, economic integration and regional stability.

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<sup>93</sup> ibid 96.

<sup>94</sup> ibid 98.

<sup>95</sup> Dieter Schmidtchen, Roland Kirstein and Alexander Neunzig, 'Conflict of Law Rules and International Trade. A Transaction Costs Approach' [2004] SSRN Electronic Journal <<http://www.ssrn.com/abstract=545763>>.

<sup>96</sup> Fakhur Hussain, 'China Pakistan Economic Corridor and its Geopolitical Paradigms' [2017] International Journal of Social Sciences, Humanities and Education, 79-95.



### 4.3 The Relationship between International Trade Law and CPEC

From the above arguments, it has been established that the ITL is a mechanism of promoting trade and FDI inflows. The main objective of CPEC is to promote trade by eliminating barriers to trade and other challenges posed by customs<sup>97</sup>. The ITL hence can be said to focus on laws that govern trade between nations. CPEC, on the other hand, is a bilateral trade agreement which extends to include FDI inflows from China into Pakistan, free movements of goods and a removal of some trade barriers<sup>98</sup>.

Though the ITL is an international law that governs trade, similarities can be observed between CPEC and the ITL. Foremost, both elements can be said to constitute a huge element of regulating customs and tariffs to ensure that there is a conducive international trade atmosphere. The ITL through the General Agreement on Tariff and Trade (GATT) seeks to deal with trade issues and trade limitations that are imposed by tariffs<sup>99</sup>. Such has been a common objective with CPEC as it sought to ensure that all the obstacle that would limit international trade between China and Pakistan and as well with other nations along the corridor would be eliminated<sup>100</sup>.

The other thing pertains to cross-border transactions that will be done between China and Pakistan. The ITL that helps to distinguish whether international or bilateral activities between China and Pakistan should be classified as part of international trade. With a significant amount of cross-border financing coming from China into Pakistan, considerations can be made that the ITL trade applies by virtue of CPEC constituting huge elements involving cross-border financing as noted that US\$20 billion of funding was going to be transferred to Pakistan within the course of a 5-year period<sup>101</sup>.

The ITL also applies to govern part of CPEC agreements especially those that involve the international movement or exchange of goods and service between China and Pakistan<sup>102</sup>. Usually, products producing commodities outside the jurisdictional limits constitutes part of international trade and this can be supported

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<sup>97</sup> *ibid.*

<sup>98</sup> Gm Grossman, Henrik Horn and Pc Mavroidis, 'The Legal and Economic Principles of World Trade Law : National Treatment' [2012] IFN Working Paper available at <<https://ssrn.com/abstract=2094286>>, accessed 14 May 2108.

<sup>99</sup> *ibid.*

<sup>100</sup> Commerce and Government, 'Strategic Trade Policy Framework 2015-18 Ministry of Commerce Government of Pakistan' 2018, 12.

<sup>101</sup> *ibid*106.

<sup>102</sup> *ibid*108.

by the operational activities by the Chinese in Balochistan<sup>103</sup>. The ITL, therefore, comes into effect to ensure that all the trade barriers between China and Pakistan are eliminated and that any customs that are to be imposed by either China or Pakistan are in line with stipulations made by the WTO.

The major difference is that CPEC disputes are to be handled between China and Pakistan and in the event that Pakistan and China had expressly agreed to include the ITL as part of their contractual agreements to govern their conduct, then international arbitration tribunals would be in a strong position to handle and settle the dispute<sup>104</sup>. This also includes the idea that CPEC is a multi-faceted bilateral agreement which does not only focus on international trade but also on bilateral agreements<sup>105</sup>. But in most cases, any dispute involving the international exchange of goods and services are to be handled in line with Article XXII and XXIII of the GATT<sup>106</sup>.

In conclusion, it can be stated that the ITL is an instrument that lays a foundation for bilateral trade agreements between nations that involve in international trade of goods and services as well as foreign direct investments. In addition, the ITL can also be concluded to be a pillar that seeks to improve the effectiveness of prevailing international trade laws and bilateral agreements between nations<sup>107</sup>. By promoting the removal of barriers and customs challenges, and imposing sustainable tariffs, the ITL thus aims to offer a platform upon which trade between CPEC members can grow. However, CPEC does not include how disputes are to be handled and is not managed by international world bodies such as the WTO but is only restricted to two international players.

#### **4.4 Legal and Procedural Challenges affecting the International Trade**

CPEC has been deemed to be a major instrument that will catapult development not only in Pakistan but also in surrounding areas which include among others India and Bangladesh<sup>108</sup>. But the ability of CPEC to cause such positive changes is not being limited by internal factors within the Pakistan community and the interference of other economies but also by legal and procedural challenges. These challenges are;

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<sup>103</sup> *ibid.*

<sup>104</sup> Convention on Contracts for the International Sale of Goods (Draft counterpart of Article 74 CISG).

<sup>105</sup> The United Nations Convention on Contracts for the International Sale of Goods (Vienna, 1980).

<sup>106</sup> *ibid.*

<sup>107</sup> *ibid*112.

<sup>108</sup> *ibid.*

- **The inability to get accurate customs valuation:** Different nations follow different customs valuation procedures and the ability of a foreign trader to get access to accurate valuation information is sometimes restricted. As such, most traders often take advantage of another trader's inability to access to accurate valuation information. This often results in price distortions and restrictions in trade development<sup>109</sup>.
- **Inaccurate or unclear commercial invoices:** International trade is negatively affected when inaccurate or unclear invoices are being issued. There are cases whereby the seller issues inaccurate invoices to an international buyer and in the event that such has happened arguments often arise as to who bears the risk of payment or loss that has occurred<sup>110</sup>. In this case, the Convention on the International Sale of Goods (CISG) considers the risk to be borne by the seller<sup>111</sup>.
- **Lack of consistency in how imports are regulated between all countries that belong to WTO:** Inconsistencies in import regulations have a tendency to cause uncertainties which represents a form of risks and international traders are in most cases risk averse and would not want to engage in something that will compromise their transactions<sup>112</sup>. Hence, in doing so, they can cut back on trade volumes. Such inconsistencies have been a major disruption which most economies constantly changing their import regulations so as to control their economic performance in line with their domestic situation. The WTO has thus to involve and appreciate standard ways of controlling import regulations among its members<sup>113</sup>.
- **Trade barriers and also how anti-dumping duty:** for the protection of domestic firms, most nations are increasingly used to impose trade barriers especially on imports from other countries. The purpose of which is to boost domestic productivity and competitiveness but it has a negative effect on trade especially after when other countries begin to retaliate as what noted

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<sup>109</sup> *ibid* 113.

<sup>110</sup> Chinese Seller and US Buyer, China International Economic & Trade Arbitration Commission CIETAC (PRC) Arbitration Award, Freezing facilities case [2 September 2005].

<sup>111</sup> *Ibid*.

<sup>112</sup> Kenneth W. Abbot and Duncan Snidal, '*Hard and soft law in International Governance*' Vol 54.3 (*International organization* 2000), 421-456.

<sup>113</sup> *ibid*.

between USA and China when the USA imposed tariffs on Chinese products and China retaliated<sup>114</sup>.

#### 4.5 Prospects of Regional Integration

South Asia is considered to constitute 22% of the entire world population and this goes along with ideas which have established it to be among the fastest growing regional economies<sup>115</sup>. These developments are however also surrounded with a series of severe internal and external challenges which included bad national or diplomatic relations with other states, low living standards, terrorism, energy starvation, high illiteracy, poverty and corrupt bureaucratic approaches<sup>116</sup>. To make matters worse, it is believed that there is a lot of interdependence among the Asian nations and it is this tendency which exposes them to instabilities and crisis<sup>117</sup>.

However, in the event that CPEC has been fully rolled into full effective operational capacity, chances are very high that it will unify the region. This is because a lot of infrastructural development projects will be available for development which increases cooperation among Asian countries and thereby helping boost economic growth and development levels. This will also have an effect of causing an increase in regional free trade areas as cooperation among nations continues to increase. The increase in FTAs will also make growth in financial integration and this can be supported by ideas which show that the inception of CPEC has led to a bilateral agreement between China and Pakistan with more than US\$20 billion of trade revenue being amassed by the end of the period 2015<sup>118</sup>.

The other aspect that can be looked at when it comes to the prospects of regional integration is what China stands to gain from CPEC. There are several ideas which have been established about who benefit the most among the Asian economies that are involved or impacted by CPEC. A lot of these ideas point out that China is the only CPEC beneficiary that stands to benefit a lot from CPEC as compared to other Asian economies<sup>119</sup>. CPEC offered huge opportunities for Chinese companies to

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<sup>114</sup> Chad P. Bown, 'US-China Trade Conflicts and the Future of the WTO' (2009) 33 *Fletcher F. World Aff*, 27.

<sup>115</sup> Richard Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism" (2002) 42 *Asian Survey*, 440-455.

<sup>116</sup> Trade Summary and Import Policies, 'No Title' 2012.

<sup>117</sup> *ibid*.

<sup>118</sup> Uzair J Kayani and Sikander A Shah, 'Non-Tariff Barriers and Pakistan's Regional Trade: A Legal and Economic Analysis of Non-Tariff Barriers in Pakistan, India, China and Sri Lanka'.25

<sup>119</sup> *ibid*.

undertake the construction of power plants, railroad, highways and ports in the Middle East, Africa and Asia<sup>120</sup>. Such projects have a potential to cause an increase in the value of the Yuan as more swap deals and loans are made to finance the projects.

On the other hand, there are ideas which contend that CPEC will result in an increase in the number of bilateral agreements that will be made between nations those are along the dual trade routes<sup>121</sup>. More nations are more likely to come up and offer services to the main activities that are being run by the Chinese which will strengthen relations between nations and lead to improved economic performance which is a key component to maintaining regional stability.

The most important prospect lies in ideas which suggest that CPEC will contribute towards promoting regional integration among economies as it connects with other economies along the corridor<sup>122</sup>. This is because Pakistan forms a hub which networks other economies and CPEC will, therefore, serve as a vehicle that strengthens such links and will help towards improving human assets and industrial base among economies within and surrounding the corridor. Such as important because it will result in a reduction in economic inequality<sup>123</sup>.

Irrespective of the gains that will be made from regional integration, considerations must be made that there are always challenges and costs that are associated with integration and such challenges and costs may actually have adverse effects which can outweigh the positive gains of CPEC.

#### **4.6 Bilateral Economic Integration**

Though bilateral agreements are highly welcomed, they tend to be associated with a lot of disadvantages which can threaten the viability and operational capacity of other nations. This is especially true when the possible gains made from these bilateral agreements are less than the costs which have been incurred in implementing such agreements. Thus, in order to make sure that bilateral agreements are of huge benefit especially to the host economy, effort must be placed on dealing with possible effects of bilateral economic integration or possibly areas that are negatively

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<sup>120</sup> International Trade and Dispute Resolution, 'Survey Report on International Trade Dispute Resolution' (2015) 15-17.

<sup>121</sup> *ibid.*

<sup>122</sup> Michael Kugelman and Robert M. Hathaway: 'What Needs and others, *Pakistan-India Trade*.' [2013] The Wilson Centre, 35.

<sup>123</sup> *ibid.*

affected by bilateral economic integration. With regards to these challenges, it can, therefore, be established that threats to national sovereignty, lack of quality leadership, asymmetrical economic growth, spillover effects of economic crisis, suboptimal exploitation of resources and impacts on domestic culture. These issues are herein discussed as follows;

#### **4.6.1 Threats on National Sovereignty**

The idea of economic integration is sometimes overestimated and this is because it has associated costs and challenges which overlooked in certain scenarios. This can be supported by observations which were made which showed that bilateral economic integration sometimes has adverse effects on national sovereignty<sup>124</sup>. This implies that certain members of CPEC or those who will part of the bilateral agreements made under CPEC to surrender part of the economic sovereignty. As a result, these economies will end up lacking a capacity to control certain economic activities and make certain informed decisions. In this, bilateral agreements can be said to be capable of effecting national sovereignty in economical context. This is also considered to be a similar case that transpired with most European economies which gave up their sovereignty to make decisions to Brussels. Hence, EU membership can be associated with negative things such as resentment and dissatisfaction among members. Such similar things can be observed with CPEC in the event that CPEC members are dissatisfied with the ongoing proceedings, chances are very high that they will resent to it.

There also ideas which suggest that developing economies can hide behind bilateral agreements so as to dominate other nations<sup>125</sup>. Due to the fact that developing economies tend to possess a huge financial base, they can make huge demands which are tied to the provision of funds or to govern the bilateral agreements. Nations that are in need of funds are sometimes forced to compromise their sovereignty and interests to which these developed nations are always willing and ready to take advantage of less developed economies and exploit them. This is another issue that has been pinned against CPEC by most analysts citing that

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<sup>124</sup> Ibid 126.

<sup>125</sup> ibid 128.

Pakistan will constantly rely on trade and energy, China can to a large extent make intrusive requests and end up influencing internal affairs<sup>126</sup>.

Moreover, economies from less developed regions have also been known to feeble with foreign policies which are not capable of safeguarding their interests against more developed economies like China<sup>127</sup>. Hence, it is important to ensure that economies like Pakistan are well capable of highlighting their common interests as part of the bilateral agreements and thereby safeguarding their interests.

#### **4.6.2 Quality Leadership**

Successful economic integration and bilateral agreements rely heavily on the ability of involved nations especially the host economy to possess sound and quality leadership<sup>128</sup>. Such can be evidenced by the roles played by France and German to integrate EU members together<sup>129</sup>. But what is now of huge concern is that the prevailing challenges such as the Brexit issue are a reflection of leadership problems that can be faced with in the case of economic integration. These problems are strongly believed to be a lot on the side of Pakistan and not China<sup>130</sup>. This is because China is contended to be having a strong focus on achieving its goals either through OBOR or CPEC. Hence, it can be said to be in a strong position to possess the right and qualified leaders who can forge the desired procedures and strategies that can help it to accomplish its tasks<sup>131</sup>.

#### **4.6.3 Asymmetrical Economic Growth**

Economic integration is always surrounded by mixed opportunities and hence, it can have adverse effects on economic growth. For instance, integration can lead to increased competition in trade economies and markets and possibly cause markets to shift towards the benefit or favour of more developed economies<sup>132</sup>. This idea is often linked to what are termed multinational corporations (MNCs) and these are in some cases in possession of huge sources of funds and technological resources

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<sup>126</sup> Z Mahmood, 'WTO and Pakistan: Opportunities and Policy Challenges' (1999) 38 Pakistan Development Review, 687.

<sup>127</sup> *ibid.*

<sup>128</sup> Staff Course, 'Lecture Delivered to the Participants of the Command and Staff Course at Command and Staff College Quetta on September 4, 2009. 1' 1.

<sup>129</sup> *Ibid.*

<sup>130</sup> *Ibid* 130.

<sup>131</sup> Ishrat Husain, 'Economic Challenges Facing Pakistan' [2013].

<sup>132</sup> *Ibid* 134.

which can overshadow local companies<sup>133</sup>. They can also engage in price war fares so as to drive domestic firms out of business which can in the long run cause unemployment and economic decline problems.

#### **4.6.4 Spillover of Economic Crisis.**

As noted in the previous section that financial and economic crisis has been a key challenge that has been affecting bilateral trade agreements, economic integration and regional stability<sup>134</sup>. With the effects of the Greek Debt crunch taking effect in 2009, other EU members ended up suffering from the same effects<sup>135</sup>. This crisis did not only destabilised the region but also resulted in resentment among EU nations<sup>136</sup>. Thus, incidences of economic instabilities are more likely to have negative effects on neighbouring countries but instabilities in China are more likely to hurt Pakistan to a large extent.

#### **4.6.5 Suboptimal Exploitation of Pakistan's Natural Resources**

In nations like Pakistan and other economies, the presence of China has been met with a lot of conflicting perceptions and much of these thoughts have been negative. For instance, it is noted that the Chinese are always in a strong position to exploit another economy's resources<sup>137</sup>. Hence, their presence in China can be said to be in a position to overshadow competition among Pakistan companies as it expands its efforts to exploit more resources. Such has been established to be relatively true especially in Balochistan which has been highly characterised by a lot of Chinese activities<sup>138</sup>.

#### **4.6.6 Impact on Domestic Culture**

The main purpose of integration is presumed to be attaining a common identity, mutual responsiveness, gaining multipurpose capabilities and peace<sup>139</sup>. But with the high level of globalisation which is taking place, the use of bilateral agreements can

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<sup>133</sup> The World Bank, 'Pakistan Development Update' (2016) available at <<http://www.copyright.com/>>.

<sup>134</sup> *ibid.*

<sup>135</sup> Shahid Javed Burki, 'Unsustainable Economic and Growth Rate, 'Pakistan Economy: Challenges and Opportunities' (2008) 5 Center for Strategic and International Studies.

<sup>136</sup> *ibid.*

<sup>137</sup> Ping Deng, "Investing for Strategic Resources and its Rationale: The case of outward FDI from Chinese Companies." (2007) 50.1 *Business Horizons*, 71-81.

<sup>138</sup> *ibid.*

<sup>139</sup> *ibid* 136.



be said to have infiltrated domestic culture since integrating nations are most likely to share common values, customs and norms. With this idea in mind, globalisation is relatively perceived as having adverse effects on culture<sup>140</sup>. There are always fears that globalisation will penetrate into a nation's language, traditions, economies and end up influencing cultural development which makes impact cultural diversity. It is believed that opening economies to international trade through economic integration will have negative social effects on host economies such as Pakistan<sup>141</sup>. Some of these effects are not only limited to culture but also excited to include a rise in the price of land, an increase in diseases such as HIV and AIDS etc. The Pakistan culture has been deemed to be already under the threat of Indian and Western cultures and CPEC will face huge challenges from these two cultural elements<sup>142</sup>.

#### **4.7 Possible challenges that are affecting Pakistan and China's Economic Ties**

##### **4.7.1 Political Instabilities**

Political instabilities within Pakistan itself are a major obstacle that is threatening the success of CPEC. This follows a series of political violence which have been characterized by mass bombing and suicidal attacks with the recent incidence that took place killed 9 policemen and 26 civilians<sup>143</sup>. Insights into the political instability in Pakistan have revealed that lack of democracy is one of the most contributing factors that are affecting not only peace, social development but also economic progress<sup>144</sup>. This is because the level of social development and economic progress is tied to the way in which people respond in relation to social and political issues. This is further supported by ideas which show that there is a negative relationship between investment and politics<sup>145</sup> this implies that an increase in incidences of political instability has an effect of deterring investors especially Chinese investors who have been committed to injecting more funds into Pakistan over the 6-year period<sup>146</sup>. Political instabilities have a tendency to cause uncertainties and investors

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<sup>140</sup> Jose Lopez- Calix, 'Pakistan: Path to Rapid Growth and Job Creation' (2013) *World Bank*, 65.

<sup>141</sup> *ibid*

<sup>142</sup> Siyal Saeed, 'Administrative Policies of Improving People to People Contact: Pakistan-China Strengthening Strategic Friendship' (2017) 32.

<sup>143</sup> *ibid* 139.

<sup>144</sup> *ibid* 141.

<sup>145</sup> *ibid* 145.

<sup>146</sup> *ibid* 148.

in such cases are reluctant to commit more funds into CPEC since the investment environment is being characterized by a lot of uncertainties.

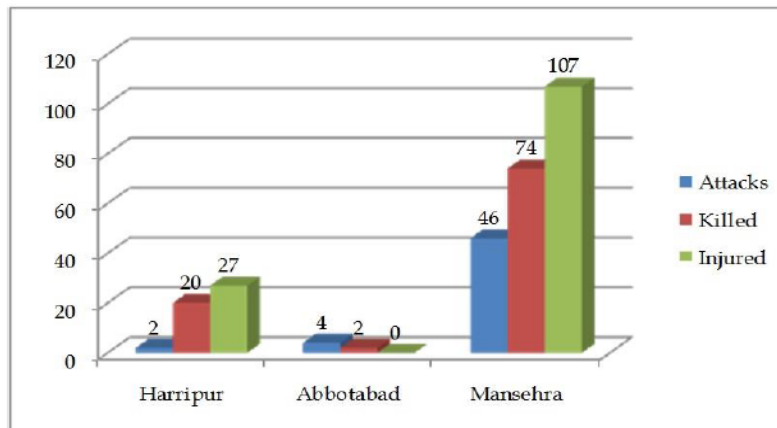


Figure 4.1: Terrorist attacks in Khyber Pakhtunkhwa where CPEC-linked areas 2007-2014  
 Source: School of Political Science and Public Administration, University of Electronic Science and Technology of China, China, 'Graphical Illustration Of CPEC' <analysis-of-chinese-economic-and-national-security-interests-in-chinapakistan-economic corridor-cpec-under-the-framework-of-one-be-2151-6200-1000284.pdf <https://www.omicsonline.org/>.

Figure 4.1 shows that there has been a growth in the number of attacks in areas that are linked to CPEC which include Harripur, Abbotabad and Mansehra dominating the front line with 46 incidences of attacks, 74 victims who were killed from the attacks and 107 injured people.

A notable political instability that took place in Pakistan that is threatening investment project in the ouster of the Pakistan prime minister<sup>147</sup>. Such a political incidence has been considered to be posing huge threats of causing military intervention<sup>148</sup>. There have been fears that this incidence is more likely to spill into another conflict with India<sup>149</sup>. Such can also be termed a civil conflict as the situation is being triggered as well from ethnical clashes that are occurring against different groups which are being triggered by Fidayeen commando's suicide bombers who are led by the Tehrik-i-Taliban Pakistan<sup>150</sup>.

The nature of political instabilities that are being witnessed in Pakistan is also being considered to be of huge magnitude. This can be supported by remarks which were

<sup>147</sup> Policy Experts' Political instability in Pakistan Will Help its Military' NDTV, Press Trust of India, 30 July, 2017, <<https://www.ndtv.com/world-news/political-instability-in-pakistan-will-help-its-military-say-policy-experts-1731075>> accessed on 11 May 2018.

<sup>148</sup> *ibid.*

<sup>149</sup> *ibid.*

<sup>150</sup> *ibid.*

made that the political situation in Pakistan is similar to that which is being witnessed in Israel<sup>151</sup>.

#### **4.7.2 Institutional Imbalances**

Institutional imbalances are also an issue to reckon with when looking at challenges that are posing threats to CPEC. This follows observations which have been made which showed that Pakistan lacks the necessary institutional stability that can foster the growth and development of CPEC<sup>152</sup>. These institutional imbalances are mainly in terms of governmental institutions that can manage public resources and control social and political affairs. Over the 60 years of Pakistan's independence, it has been established that Pakistan has been ruled by the military for more than 35 years<sup>153</sup>. Over these 35 years, it is established that Pakistan has been under the control of martial law for at least 3 times<sup>154</sup>. During this period of time, the Pakistan constitution is considered to have been abrogated and this poses challenges to CPEC in the form of security issues<sup>155</sup>. This is because, in order for CPEC to operate effectively, it needs a conducive environment upon which it can be managed without hindrances. One of the ways is to boost security provision so as to ensure that all the channels and routes that are used as stipulated under CPEC in order to attain its goals are protected. This has been affecting the ability of the Pakistan government to come up with effective legal and economic strategies that can create a conducive atmosphere upon which CPEC can be further strengthened to yield effective results.

#### **4.7.3 Civil Disturbances**

Pakistan has been well known for suffering from provincial conflicts and these conflicts are not between provinces but have also been established to be within provinces as well<sup>156</sup>. This follows grievances that have been aired which showed that there are inequalities that are associated with the distribution of CPEC returns or gains among Pakistan's provinces<sup>157</sup>. This can be supported by ideas which were

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<sup>151</sup> Murtaza Niaz, "Political instability" *Dawn News* (November 07, 2017) <<https://www.dawn.com/news/1368924>> accessed on 11 May 2018.

<sup>152</sup> *ibid.*

<sup>153</sup> Malik.

<sup>154</sup> *ibid.*

<sup>155</sup> *ibid.*

<sup>156</sup> <http://www.pc.gov.pk>.

<sup>157</sup> *ibid.*

expressed which contend that of all the provinces in Pakistan, Punjab is the only province that gets a huge share of CPEC benefits<sup>158</sup>. This has managed to fuel tensions between the Pakistan government and its provinces. China, on the other hand, has been calling for Pakistan to deal with its internal issues which include among others, ensuring that there is an agreement among the provinces that there is an equitable distribution of CPEC returns among the provinces.

#### **4.7.4 India's attitude towards CPEC**

India has to a greater extent been considered to be a huge threat to the success of CPEC which has been expressing negative sentiments towards certain CPEC aspects. For instance, it is argued from an Indian perspective that Gilgit Baltistan is a disputed region and hence allowing CPEC to use this region is illegal<sup>159</sup>. Moreover, India is believed to be suspicious of CPEC to an extent that it considers the Gwadar seaport as part of China's deceptive moves to reap off other nations<sup>160</sup>. India has been against the idea of China developing some strategic routes and sea ports which compromise its security systems and such ports include seaports in Bangladesh and Sri-Lanka<sup>161</sup>. There are tons of arguments which have been given by Indian officials over CPEC and such arguments also point to the idea that the eventful success of CPEC will block India's access to other seaports since China has been building a lot of seaports around India<sup>162</sup>. Hence, some of the moves which have been made by India are considered to be acts of sabotage against CPEC<sup>163</sup>. Others consider that the arrest of an Indian detective Kulbhushan Jadev is a strong evidence of the interference of India in CPEC and desire to sabotage CPEC efforts, especially over Baluchistan<sup>164</sup>.

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<sup>158</sup> *ibid.*

<sup>159</sup> Waqar I Ghani and Rajneesh Sharma, 'China-Pakistan Economic Corridor Agreement: Impact on Shareholders of Pakistani Firms' (2017) *10 International Journal of Economics and Finance*, 148.

<sup>160</sup> *ibid.*

<sup>161</sup> S.U.Rahman and Z.Shurong. 'Analysis of Chinese Economic and National Security Interests in China-Pakistan Economic Corridor (CPEC) under the Framework of One Belt One Road (OBOR) Initiative' (2017) *8 Arts and Social Science J*, 2.

<sup>162</sup> *ibid.*

<sup>163</sup> *ibid.*

<sup>164</sup> Rao Q. Idrees and Shapiee Rohimi, 'Borders serving as Bridges, The Role of Harmonization and Unification among road Transport and Logistics rules in CPEC and how WTO trade facilitation agreement will benefit Pakistan' available at <[https://scholar.googleusercontent.com/scholar?q=cache:xarhK9t3akEJ:scholar.google.com/+Shapiee+and+Idrees.+CPEC&hl=en&as\\_sdt=0,5.>](https://scholar.googleusercontent.com/scholar?q=cache:xarhK9t3akEJ:scholar.google.com/+Shapiee+and+Idrees.+CPEC&hl=en&as_sdt=0,5.>)

#### **4.8.5 Indo-Afghan Nexus**

The Indo-Afghan refers to the relations that exist between India and Afghanistan and such relations have to a great extent been considered to be volatile and sour. In addition, this issue is also being aggravated by tensions which are being experienced in Afghanistan which have been considered to be posing serious threats on Pakistan. This is because a significant number of terrorist activities which were witnessed in India are considered to have been fuelled by the political instability in Afghanistan. The Afghanistan issue is thus external issue which is causing internal imbalances in India which are not conducive to CPEC at large

#### **4.7.6. Implementation of Chabahar Port**

The development of the Chabahar port is also being considered to be a challenge to CPEC because its development is being done and managed by India together with Iran<sup>165</sup>. The development of Chabahar port is being seen as India's propaganda to counter Pakistan and China's bilateral agreement. The defence was however raised that India's port, Chabahar was not being developed as a counter-measure against CPEC but rather will compete with Gwadar for opportunities<sup>166</sup>.

#### **4.7.7 The Interference of Major Economic Powerhouses**

On the other hand, CPEC is also facing severe challenges not only because of Pakistan internal disturbances but also because of the interferences of major economic powerhouse such as the United States and Japan who are believed to be against China's investment expansion drive<sup>167</sup>. Hence, there is a common belief among Pakistan people that the USA has been interfering with the development of Gwadar seaport in opposition of CPEC<sup>168</sup>. The other reason is that it is believed that China will make use of Gwadar as its military base and hence the USA has to obstruct its development so as to fend off threats from China<sup>169</sup>. Also, the Russian interest in CPEC and the growing relations between the USA and India is also of significant importance. This follows observations which were made that the USA has been offering India with support towards nuclear supplier Group which acts against

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<sup>165</sup> ibid 126.

<sup>166</sup> ibid 129.

<sup>167</sup> Trend Economic Growth, 'Pakistan Development Update' 1961.21

<sup>168</sup> ibid.

<sup>169</sup> The World Bank, "Pakistan Finding the Path to Job-Enhancing Growth - A Country Economic Memorandum"(2013).12

the interests of Pakistan<sup>170</sup>. Moreover, the interference by Japan is also believed to be as a result of the idea that CPREC will reduce China's trading distance by 9 000 kilometres which pose threats to Japan's competitiveness<sup>171</sup>.

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<sup>170</sup> *ibid.*  
<sup>171</sup> *ibid.*

## **5. CHAPTER: CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FUTURE STUDIES**

### **5.1 Conclusions**

With a lot of insights being shed on the motives behind CPEC, the use of the international trade law and the influence of internal and external factors, the following conclusions can be made;

- Based on the established ideas, it has been noted that the international trade law has no direct influence on regional stability but has mediating effects on international trade levels, growth and development which in turn are responsible for regional stability through economic integration. Hence, conclusions can be made that the international trade law helps to strengthen and improve the effectiveness of international trade in promoting regional stability through economic integration.
- When it comes to the issue of the international trade law promoting regional instability, it has been noted that regional stability is in different forms but the total form is economic stability and it is through economic stability that other forms of stability such as political, social and religious instabilities are triggered. Hence, conclusions can be made that the ITL helps to boost regional economic stability through economic integration.
- CPEC has an ability to offer huge benefits to both Pakistan and China but what is affecting or limiting these two states from fully enjoying the potential benefits offered as a result of the implementation of CPEC, are internal and external forces.
- Conclusions can also be made that by promoting the removal of barriers and customs challenges and imposing sustainable tariffs, the ITL thus aims to offer a platform upon which trade between CPEC members can grow
- Pakistan's ability to get economic and social benefits from CPEC is based on to resolve its internal disputes.
- Major challenges that are limiting or hampering CPEC the operational capacity and effectiveness of CPEC are political instabilities in Pakistan, India's attitude towards CPEC, Indo-Afghan nexus and the interference of major economic powerhouses.

## **5.2 Recommendations**

Based on the established assessments that have been made, this chapter, therefore, proposes the following amendments and recommendations;

- There is a greater need that Pakistan army, bureaucracy and political leadership should be on one page. So it can contribute to a strong foreign policy. Then the regional political stress would be decreased. This will strengthen economic ties.
- In order for the Pakistan government to fully reap and enjoy the benefits offered through CPEC, internal disputes should be solved which are posing a series of social, political and economic instabilities.
- There is a huge need to promote transparency so as to ensure that there are smooth operations and functioning of CPEC and equitable distribution of benefits between Pakistan's nationals.

## **5.3 Way Forward**

This study examines generally the effect of international trade law on regional stability and how economic integration helps to foster regional stability. Hence, future studies can be developed specifically to examine any sector how International trade law influenced on it like energy, infrastructure, communications, cultural impacts and education in which huge investment made through CPEC.



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