Impact of China Pakistan Economic Corridor on Local Economy and Tourism Development: Case of Hunza, Gilgit-Baltistan, Pakistan

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Abstract: This study is aimed to analyze the role of tourism in affecting the local economy of Hunza. The Structural Equation Modeling was applied for knowing the local people perception about CPEC projects and their effect on tourism economy development. In addition, descriptive statistics tools using STAT 12 have been used for the data analysis and prior to analysis, Cronbach's alpha test was used to check reliability of various items of the questionnaire. The data were collected from students, retailers, hotel owners, tour operators and travel agents. Results reveal that according to the respondents, CPEC is a game changer for the economy. In addition, there is significant effect of CPEC projects on the tourism development in Hunza. Results of the study also revealed that CPEC projects have negative effect on environment and local culture.

Keywords: CPEC, tourism development, infrastructure, economy, Hunza-Pakistan.

Introduction

Since the establishment of diplomatic relations between Pakistan and China, bilateral cooperation between these two countries has been increasing every year encompassing a broad range of fields. During the cold war Chinese economic growth was limited and its leverage was confined to certain regions of the world (Hussain and Khan, 2017). China has always attempted to cement its relationship with Pakistan at every opportunity. One of the flagship programs of Sino-Pakistani collaboration is the construction of KKH which also symbolizes the unshakeable Sino-Pak friendship. This 700km highway connecting Islamabad with Kashghar passes through the rugged mountains of Gilgit-Baltistan and this highway has been a vital source of economic development in the region (Amir, 2016).

The relationship between China and Pakistan has a long history since independence of both countries. Further, these relations are not limited to any one sector but it covers economy, culture, defense and other sectors (Karim et al., 2014). China Pakistan Economic Corridor (CPEC) is among the six economic corridors. The CPEC is connecting Xinjiang province of China with Gwadar port of Pakistan.

Other corridors include China- Mongolia- Russia; New Eurasia Land Bridge Economic Corridor, China – Central Asia- West Asia; Bangladesh- China- India-Myanmar and China – Indonesia Economic Corridor (Winter, 2016) under one belt and one road (OBOR). Its aim is to connect various regions of the world with the economic, political and strategic implications (Hali et al., 2014).

CPEC will have foremost impact on economy, tourism, energy, industrial sector, transport and infrastructure development of Pakistan. It will bring economic and financial stability in the whole region. Trade and tourism in the region will be boosted up by the completion of this project. On the other hand, the main impediment in successful completion of CPEC projects is security challenges (Ibrar et al., 2016). Therefore, both countries should emphasize on overcoming security problems because it is main challenge for CPEC projects (Chaziza, 2015) which might delay the implementation of these projects (Jamal, 2015). The recent heavy inflow of domestic tourists to Hunza is the outcome of expansion and improvement of KKH. According to Muhammad et al. (2020) tourism and development should be achieved in a sustainable manner so that environmental degradation is checked.

Manzoor et al. (2017) highlighted the main economic and social benefits of CPEC, which include creation of employment opportunities and reduction of poverty in Pakistan. In addition, the social benefits of this project include cross culture relations with other countries. Further, the real benefits of the project are to facilitate common man in Pakistan, which is possible through improvement in the agriculture sector by using the expertise of China. Hussain and Husain (2017) also highlighted the importance of CPEC in regional development in general and Pakistan in particular. In addition, importance of Gwadar port as a regional transshipment port was emphasized that it will connect China and other regions. The project has socio-economic benefits for the local people and entire region. Further, it will boost regional integration and increase the social, political and economic activities in both countries (Ali, 2015). After construction, CPEC will

further improve the trade and economic relations between China and Pakistan (Jadoon et al., 2017).

Materials and Methods

Figure 1 represents the proposed research model for testing the given hypothesis in this study. The direct effects of CPEC projects on local economy are shown by point c. on the other hand, a and b shows the indirect effects of CPEC on local economy. This study utilizes structural equation modeling for empirical analysis. Proposed Structural Equation Modelling for explores the local people's perception on CEPC projects and its effect on tourism economy development. In addition, descriptive statistics tools have been used for data analysis. The data are collected from locals, students, hotel owners and people related to various businesses.

Hypothesis 1: CPEC projects has positive and significant effects on local.

Hypothesis 2: A significant and positive relationship between CPEC projects and tourism development.

Hypothesis 3: Tourism development has a positive and significant effect on local economy.

Partial Least Square-Structural Equation Modeling (PLS-SEM) technique was proposed to find out the relationship among CPEC Projects, Tourism Development (TOUD) and Local Economy in Hunza. (Hair et al., 2013; Karim, Muhammad and Ullah, 2020, p. 199). Tourism development was introduced as mediating variable to explore the direct relationship between CPEC projects and local economy.
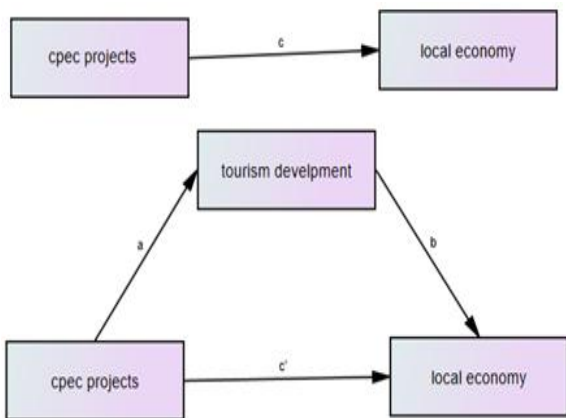

Fig. 1 Proposed Model (Khyareh, 2017)

Results and Discussion

Reliability Test

The Alpha Cronbach's test is used to test the reliability of each item used in this study. The outcomes of the Alpha Cronbach's test show that the value of each item is higher than 0.80 and the average of the all the items are 0.8412 (Table 1).

Table 1. Reliability Test.

Item	Obs	Sign	ITC	IRC	AIC	alpha
ei01	270	+	0.6752	0.5729	.1343042	0.8263
ei02	270	+	0.6882	0.6111	.1387645	0.8234
ei03	270	+	0.4879	0.3901	.1507669	0.8360
ei04	270	+	0.5669	0.4816	.147316	0.8311
ei05	270	+	0.5437	0.4602	.1492233	0.8322
ei06	270	+	0.5997	0.5193	.1458369	0.8291
ue01	270	+	0.3186	0.2271	.1601727	0.8427
ue02	270	+	0.4725	0.3953	.15431	0.8354
ue03	269	+	0.4137	0.3384	.1572579	0.8377
ue04	270	+	0.3928	0.3090	.1573979	0.8390
ue05	270	+	0.6275	0.5590	.1464068	0.8276
ueo6	270	+	0.5496	0.4717	.1498047	0.8317
es01	270	+	0.4931	0.4168	.1533548	0.8344
es02	270	+	0.6342	0.5622	.1450716	0.8270
es03	270	+	0.3850	0.3074	.1583276	0.8389
es04	270	+	0.3779	0.2936	.158047	0.8397
es05	270	+	0.4869	0.4154	.154402	0.8346
es06	270	+	0.5455	0.4622	.1491244	0.8321
Test	Scale			.1505496	0.8412	

Where: ITC= item test correlation, IRC= item rest correlation, AIC= average inter item covariance

KMO and Bartlett's Test

The result of the Kaiser-Meyer-Olkin is .808 which is higher than the required value i.e. 0.60. In addition, significance level (p-value = 0.000) is also observed from the Bartlett's Test of Sphericity. Therefore, factor analysis could be carried out for the date collected in the proposed study.

Table 2 KMO and Bartlett's Test.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.808
Bartlett's Test of Sphericity	Approx. Chi-Square	1350.759
	Df	153
	Sig.	.000

Measurement Models of the Constructs

The factor loading for all the items are above 0.5 and statistically significant. In addition, the values of the fitness indexes CFI and TLI are above the required level of 0.90 which shows that model is fulfilling the uni-dimensionality criterion (Fig. 2).
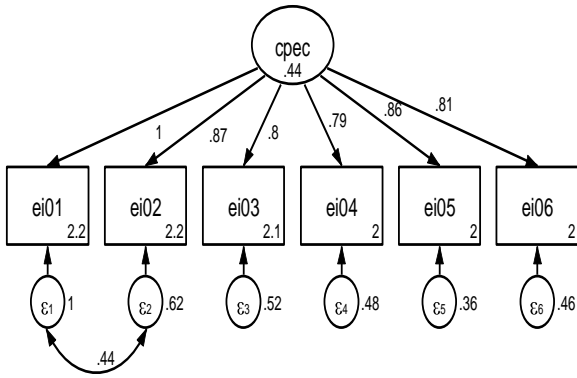
Fig. 2 Measurement Model of CPEC Construct.

The factor loading for all the items are above 0.5 and statistically significant. Likewise, the values of the fitness indexes CFI and TLI are above the required level 0f 0.90 which shows that model is fulfilling the uni-dimensionality criterion (Fig. 3).
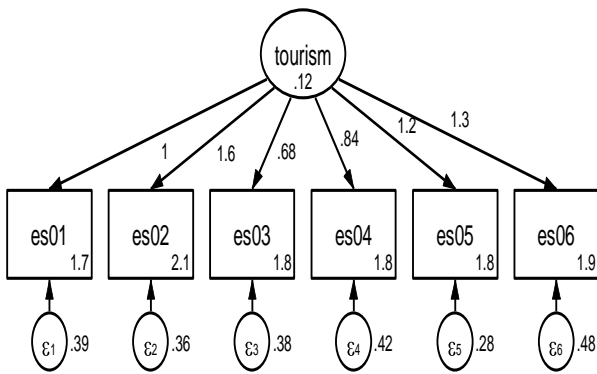

Fig. 3 Measurement Model of Tourism Development Construct

The factor loading for all the items are above 0.5 and statistically significant. Moreover, the values of the fitness indexes CFI and TLI are above the required level of 0.90 which shows that model is fulfilling the uni-dimensionality criterion (Fig. 4).
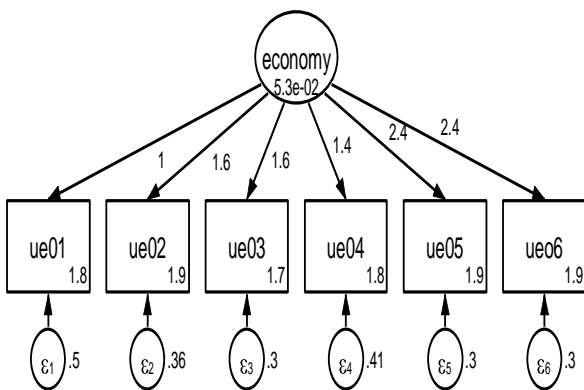

Fig. 4 measurement Model of Local Economy Construct

Structural Model

The results of the structural model show that CPEC has positive and significant influence on the tourism development in Hunza (Fig. 5). Tourism development is also contributing positively and significantly to the local economy. Furthermore, the effects of the CPEC on local economy are also positive and significant. Therefore, the findings show that tourism mediates the relationship between CPEC and local economy or partial mediation.
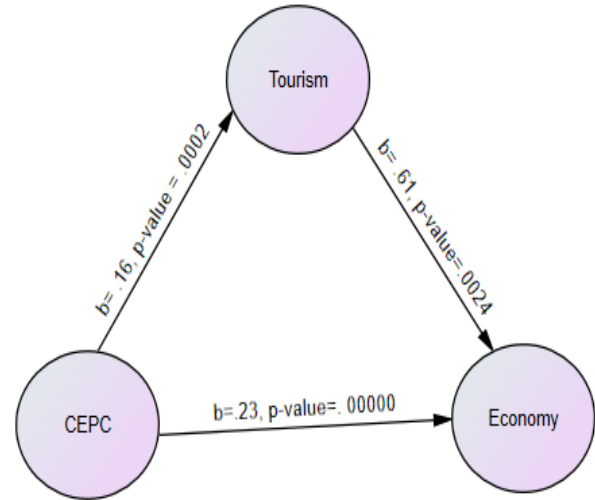

Fig. 5 Mediation Model.

Table 3 Mediation Results of Tourism Development.

Hypothesis	p-value	Results
CPEC projects has positive and significant effects on local economy.	0.0000	Supported
A significant and positive relationship between CPEC projects and tourism development.	0.0002	Supported
Tourism development has a positive and significant effect on local economy.	0.0024	Supported

Conclusion

Results of the structural model show the positive effect of CPEC on the tourism development and local economy in Hunza. In addition, the influence of tourism development is also positive and significant on local economy, that confirmed the mediating role of tourism in Hunza. Keeping in view the perception of people, this study suggests that both countries should address the environment related issues; pollution, traffic congestion on KKH and biodiversity disturbance along Khunjarab National Park area. In addition, majority of the population along CEPC routes are living in mountainous areas where basic facilities of life were lacking. The maximum benefits from CPEC projects could be accomplished only by brining reforms in all sectors of the economy. Moreover, trainings and education programs should be provided to prepare human resources for the CPEC related projects. Sino-Pakistan relations are limited to the co-operation in, the defense and security domains. However, recently these relations are extended to the economy, especially investment in energy and infrastructure.

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