

China Pakistan economic corridor (CPEC): its impact on financial market



Submitted by

Muhammad Farhan Abbas

01-297161-005

Supervised by

Dr. Samreen Babar

MS Finance

**Department of Management Science
Bahria University, Islamabad, Pakistan**

Abstract

China Pakistan Economic Corridor (CPEC), China has made commitments to invest approximately \$62 billion in developmental-deals, which is equivalent to almost 15 per cent of Pakistan's annual GDP. The purpose of this study is to examine possible associations between China Pakistan Economic Corridor (CPEC), FDI, Cement sector and Oil & Gas sector with financial market in Pakistan. The paper results are based on unit root test (Augmented Dickey Fuller test), Correlation and Regression model tests applied to monthly data from 1999 to 2015. The study reveals that Cement sector and Oil & Gas sector have an impact on financial market. CPEC directly doesn't show that much impact until we use an interactive term to explain the relation, that shows a strong impact on financial market. FDI is observed as a major factor of financial market, both directly and indirectly, but in this study very little impact is explained. The results deliver significant information in terms of CPEC suggestions and their application is far from being limited. Some lessons in terms of sectoral impact can be drawn by financial market that are now more volatile with economic development. This study is the first of its kind to analyze the role of both Cement sector and Oil & Gas sector in the Pakistan financial market during the 1999-2015 period, over which other aspect were also taken as important to explain, in particular in the context of financial market structure. In order to gain from inflows of FDI, government should persist the progressive decrease of barriers to FDI.

Keywords: China Pakistan Economic Corridor (CPEC), FDI, Cement sector, Oil & Gas sector, Pakistan Stock Market.

Contents

Chapter 1.....	6
Introduction	6
1.1 Background	6
1.2 Gap.....	9
1.3 Research objectives	9
1.4 Research Objectives.....	9
1.5 Significance of the study.....	10
1.6 Hypothesis Development.....	11
Chapter 2.....	11
Literature Review	12
2.1 Conceptual Framework.....	17
Chapter 3.....	19
Research Methodology	19
3.1 Sampling Method.....	19
3.1.1 Population	19
3.2 Data Collection Techniques	20
3.2.2 Secondary Data	20
3.3 Data Analysis	20
Chapter 4.....	22
Results..	22
4.1 Descriptive statistics	22
4.2 Inferential Statistics.....	23
4.2.1 Correlation Analysis	23
4.2.2 Unit root results.....	25
4.2.3 Regression.....	25
4.2.3.1 Regression of Cement sector without Interactive Term (Model A) and with Interactive Term (Model B).....	25
4.2.3.2 Regression of Oil & Gas sector without Interactive Term (Model A) and with Interactive Term (Model B).....	27
4.2.3.3 Panel Regression of Cement firms without Interactive Term (Model A) and with Interactive Term (Model B).....	29

4.2.3.4 Panel Regression of Oil & Gas firm without Interactive Term (Model A) and with Interactive Term (Model B)	32
4.2.3.5 Regression of Cement and Oil & Gas sector without Interactive Term (Model A) and with Interactive Term (Model B)	34
Chapter 5.....	34
Discussion	37
5.1 Summary of Discussion	39
Chapter 6.....	38
Conclusion and Recommendation	41
6.1 Conclusion.....	40
6.2 Recommendations.....	42
REFERENCES	45