CPEC

A Reality Check

National Defence University Islamabad
Pakistan

With the Compliments of

Lieutenant General Majid Ehsan, HI(M)
President National Defence University

CPEC – A Reality Check

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Foreword

CPEC has emerged as one of the most intensely debated topics of present times, both domestically as well as internationally. On the one hand, it is seen as a game changer in the context of Pakistan and on the other, aspersions are being expressed about its geo-strategic fall-outs, exacerbating the existing power politics in the region. CPEC is likely to remain a relevant policy issue in the foreseeable future.

In this backdrop, NDU took an initiative and organized a Roundtable on 'CPEC – A Reality Check' on 19 February, 2018 and a seminar on 'CPEC: An Extra Regional Perspective', on 23 July 2018, inviting the top intellectuals of the country to present their views. It gives me added satisfaction that the participating scholars not only expressed their candid views but some of them also came up with well researched papers, which have been compiled in the book in hand. CPEC is emerging as an initiative with far reaching effects and it is likely to captivate the attention of researchers and scholars in a foreseeable future. I would like to urge upon students of policy studies to stay focused and continue to conduct empirical research on various aspects of CPEC.

I compliment DG ISSRA and his team for compiling this timely and important book on a vital current subject. I am sure, it will help policy-makers as well as scholars to look at CPEC venture through new lens of policy perspectives.

God-speed to ISSRA and its team.

Islamabad
September, 2018

Lieutenant General Majid Ehsan
President, NDU

Preface

China Pakistan Economic Corridor, commonly known as CPEC, is undeniably a major joint venture by two time-tested South Asian neighbours, China and Pakistan. It ostensibly aims at transnational linkages through development of communication network and, thereby, promotion and expansion of economic opportunities across South and Central Asian regions and beyond. Its purport, as proclaimed, seems to bring about economic prosperity in the region, which in turn, may help ameliorate lives of a large segment of humanity, living in this part of the world. Notwithstanding noble intents of the proponents of this venture, it has also triggered off debate, which alludes to the implications thereof. There is no concept of 'free lunch' in relations among nations, therefore, it is argued that Pakistan needs to watch its interests, as CPEC unfolds and when its effects start appearing.

Keeping in view the far reaching effects of CPEC on Pakistan and the region and ongoing debate in national and international media, NDU decided to organize seminars and roundtables to analyze this venture threadbare for the consumption of policy-makers and the public at large. In this regard, the first Roundtable on 'CPEC – A Reality Check' was organized at ISSRA, NDU, on 19 February, 2018, which provided a forum to national level intellectuals to express their views and concerns. We are really grateful to all of them, as they participated in the Roundtable not only with full enthusiasm and adequate preparation but also sacrificed their time to contribute full–length research papers, which are now in your hands, in the shape of this book. The findings of the Roundtable have also been included at the end of this book. It is a useful compilation for the participants of National Security and War Course and even Staff College, besides the students of international affairs and scholars of policy studies. I am confident, the book in hand will pave the way for further research on this issue of extreme national importance in the days to come.

I compliment Brigadier Shaukat Qadir (Retired) and his team at ISSRA, who worked relentlessly to complete this project and were able to publish it in time. We will continue to work on issues of national importance in future as well. May Allah help our nation rise in the comity of nations with each passing day. Aameen.

Islamabad
September, 2018

Major General Muhammad Samrez Salik
Director General, ISSRA

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Abbreviations

ADP	Annual Development Plan
AIIB	Asian Infrastructure Investment Bank
AJK	Azad Jammu and Kashmir
BRI	Belt and Road Initiative
BOI	Board of Investment
BCIMI	Bangladesh-China-India-Myanmar Initiative
CAREC	Central Asia Regional Economic Cooperation
CPEC	China Pakistan Economic Corridor
COPHC	China Overseas Port Holding Company
CENTO	Central Treaty Organization
SEATO	Southeast Asia Treaty Organization
CCP	Chinese Communist Party
CSR	Corporate Social Responsibility
COSCO	China Ocean Shipping Company
CEMS	Continuous Emission Monitoring System
DIFC	Dubai International Financial Center
DTMB	Digital Terrestrial Multi-media Broadcast
EHP	Early Harvest Phase
EIA	Environmental Impact Assessment
ETDZs	Economic and Technological Development Zones
EPZs	Export Processing Zones
EIC	East India Company
EIP	Eco-industrial Park
FMCG	Fast Moving Consumer Goods
FPs	Free Ports
FTA	Free Trade Agreement
FTZs	Free Trade Zones
FDI	Foreign Direct Investment

GDP	Gross Domestic Product
GB	Gilgit-Baltistan
GPA	Gwardar Port Authority
GDA	Gwadar Development Authority
GPRMT	Greater Peshawar Region Mass Transit
GFZ	Gwadar Free Zone
GTI	Global Terrorism Index
HIDZ	High-Tech Industrial Development Zone
HVDC	High Voltage Direct Current
HRD	Human Resource Development
ICT	Information & Communication Technologies
IC	Industrial Cooperation
ILO	International Labor Organization
JCC	Joint Corporation Committee
JCC	Joint Coordination Committee
JWG	Joint Working Group
JVs	Joint Ventures
KCR	Karachi Circular Railway
KKH	Karakoram Highway
KPK	Kyber Pakhtunkhwa
LCA	Latent Competitive Advantage
LTP	Long Term Plan
MNE	Multi-national Enterprise
MPDR	Ministry of Planning, Development and Reform
NDS	National Directorate of Security
NDRC	National Development and Reform Commission
NHA	National Highway Authority
NFR	Non-fare Revenue
NOCs	No Objection Certificates

OBOR	One Belt One Road
OLL	Orange Line – Lahore
PRC	People's Republic of China
PD&R	Planning, Development and Reform
PCAC	Pakistan Central Asia Corridor
PCEEC	Pakistan–China Energy and Economic Corridor
QMT	Quetta Mass Transit
SCO	Shanghai Cooperation Organization
SAARC	South Asian Association for Regional Cooperation
SEZs	Special Economic Zones
SMEs	Small and Medium Enterprises
SDGs	Sustainable Development Goals
SVI	Strategic Vision Institute
SSD	Special Security Division
UNSC	United Nations Security Council
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme

Making CPEC a Real Game-changer

Shahid Rashid*

Abstract

This study attempts to examine the prospects and implications of the multi-billion energy driven infrastructure development project for regional connectivity and industrial cooperation, namely the China Pakistan Economic Corridor (CPEC), which is widely regarded as a pilot and flagship corridor of the Belt and Road Initiative (BRI) of China. In this study, long term plan (LTP) of CPEC has been discussed and different initiatives taken in Early Harvest Phase (EHP) of the corridor have been examined. Case studies of different projects, included under the umbrella of CPEC, have been demonstrated to understand the ground realities. Improvement potentials have been identified and specific policy recommendations have been given to make CPEC a real game changer.

Key Words: China Pakistan Economic Corridor (CPEC), One Belt One Road (OBOR), Belt and Road Initiative (BRI), Regional Integration, Game-changer

Introduction

According to the Oxford English dictionary, Game changer is "an event, idea, or procedure that affects a significant shift in the current way of doing or thinking about something." This definition provides a basis to understand that a game changer could be any move, which could result in a significant change in status quo or rules of the business. However, the reasons of change are dynamic and causal. In other words, in the absence of a 'Holistic and Inclusive strategy', a game changer for one sector could be a game over for other sectors. Also, optimum implementation and effective communication are important aspects to change the game.

The Islamic Republic of Pakistan and the People's Republic of China (PRC) have enjoyed long lasting and friendly ties[1] and strong strategic relations, stretching over six decades.[2] The Pak-China friendship is all weather and time tested. China has come a long way in a short time, and its

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rise is the most compelling economic story of the 21st century.[3] Pakistan China relations enjoy a unique continuity in terms of convergence of interests and cooperation. The relationship is, indeed, rich and multi-dimensional, often categorized as strategic.[4] However, more recently in 2013, the launch of one belt one road (OBOR) or the belt and road initiative (BRI) by China, an important dimension of socio-economic development has been supplemented to attain prosperity for the people of both countries and the region.

The BRI comprises six corridors and one of the pilot corridors is China Pakistan Economic Corridor. Its memorandum of understanding (MOU) was signed between China and Pakistan on 5th of July, 2013 at Beijing, in which it was agreed upon by both sides to jointly develop a long term plan for CPEC. Later in April, 2015, President Xi Jinping visited Pakistan and established a 'One plus Four' cooperation mode, including CPEC as the core and cooperation on the four priority areas, namely energy, transport infrastructure, Gwadar, and industry. During this visit, 51 MOUs for different projects and initiatives worth $46 Billion were agreed between the two countries under CPEC. President Xi Jinping also addressed a joint session of the Pakistani Parliament, where he stated that "Pakistan and China's struggles have brought their hearts and minds together .... Pakistan was with us when China stood isolated" and added that the CPEC will cement an "all-weather strategic cooperative partnership" between the neighbours. The Prime Minister of Pakistan, Muhammad Nawaz Sharif, in his speech responded that "Friendship with China is the cornerstone of Pakistan's foreign policy." This visit drew world attention to Pakistan and international media started highlighting investment potentials of Pakistan, contrary to the pre-CPEC perception of Pakistan, as a 'dangerous state'.

Long Term Plan of CPEC

The first memorandum on CPEC in May, 2013 included a commitment to develop a long term plan for China Pakistan Economic Corridor. Accordingly, the long term plan (LTP) of CPEC was drafted, discussed and agreed by China and Pakistan in around four and a half years and was signed on 21 November, 2017 during seventh Joint Cooperation Committee (JCC) meeting of CPEC in Islamabad. The LTP of CPEC provides a conceptual framework for CPEC. This plan is considered as a national plan for both the countries and has been approved by both Chinese and Pakistani governments. It will effectively match relevant national plans of

China and the Pakistan Vision, 2025. This plan is effective until 2030 and will provide macro guidance for implementation of CPEC. The improvement of peoples' livelihood is on top of the agenda of CPEC projects, whose spatial layout fully reflects the regional development gap.

The development scope of CPEC includes the Xinjiang Uygur autonomous region of China, having area of 1,664,897 square kms, population of 23.6 million and GDP per capita $ 6,137, which is less as compared to the average GDP per capita in China, which is $8,200. The LTP includes one corridor and eight key nodes, namely Kashgar, Atushi, Tumshuq, Shule, Shufu, Akto, Tashkurgan and Tajik. On Pakistan side, the whole country is included in CPEC for development with an area of 881,913 square kms, population of 207 million and GDP per capita around $1,600. The LTP for Pakistan includes one corridor, eleven key nodes; namely, Gilgit, Peshawar, Dera Ismail Khan, Islamabad, Lahore, Multan, Quetta, Sukkur, Hyderabad, Karachi and Gwadar. The five functional zones included in CPEC LTP are Xinjiang foreign economic zone, northern border trade logistics and business corridor & ecological reserve, eastern and central plan economic zone, western logistics corridor business zone and southern coastal logistics business zone. Most of the nodal cities, transportation corridors and industrial clusters are concentrated in these factional zones.

The institutional framework for CPEC includes the Joint Cooperation Committee (JCC) at the top, which is supported by five joint working groups (JWGs) for planning, energy, transport infrastructure, Gwadar and industrial cooperation. The JCC is co-chaired by Vice Chairman of National Development and Reform Commission (NDRC), China and Minister of Planning, Development and Reform (PD&R), Pakistan. Seven JCC meetings have been conducted so far between 2013 and 2017 to sign off the projects already discussed, developed and agreed in the respective JWGs. Moreover, fifty-four inter provincial and inter-ministerial progress review meetings have also been conducted during the aforementioned period to discuss and achieve the project deadlines. An orderly method for development and prioritization of CPEC has been adopted, based on the significance and readiness of each project. Following are the phases, in which projects will be carried out under CPEC LTP:-

Figure 1.1: Phases of Development under CPEC LTP

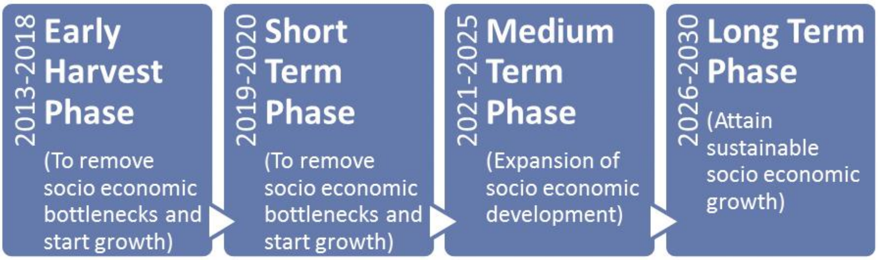


Figure 1.1 illustrates the four phases of development under CPEC through long term plan. There are seven key areas of cooperation under the LTP (see Figure 1.2).

Figure 1.2: Key Areas of Cooperation under CPEC LTP

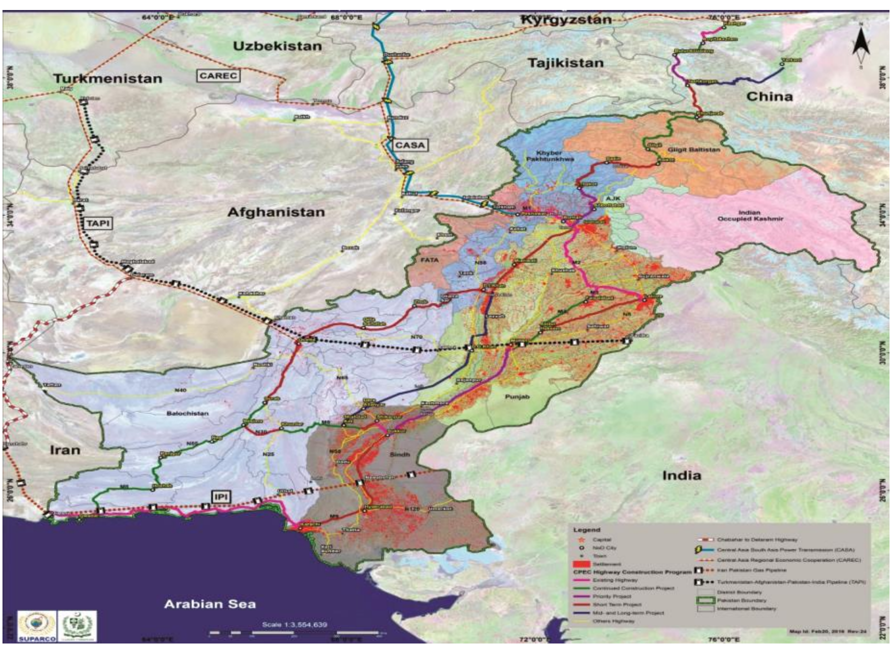
The early harvest phase (EHP) (2013-2018) is approaching its end, however, it is mainly focused on 'connectivity', 'energy' and to some extent the 'trade and industrial parks'. The long term cooperation portfolio planned under CPEC LTP is extensive and needs untiring long term efforts (till 2030) to reap the real fruits i.e., inclusive regional development.

The subsequent sections of the document will examine one by one the seven key areas of cooperation mentioned above and will analyze the progress and implications associated with the EHP and include specific policy recommendations to achieve the medium and long term objectives of CPEC.

Connectivity under CPEC

Pakistan's strategic location makes it a connecting regional point for Central Asia, China, South Asia, Middle East, Africa and Europe. CPEC would play key role to connect economic agents in China, Pakistan, and West Asia, including Middle East, and Africa[5] and will link the demand and supply forces of the market.[6] Given the unique location of Pakistan, 'connectivity' has been considered as the key cooperation area of the CPEC LTP. 'Integrated Transport System' and 'Information Network Infrastructure' are the two core areas of connectivity under CPEC LTP. The integrated transport system includes development and expansion of road, rail, Gwadar Port and Smart Port City, whereas, the information network infrastructure includes development and enhancement of optical fibre infrastructure, information & communication technologies (ICT) clusters and human resource development (HRD). Adoption of Chinese digital terrestrial multi-media broadcast (DTMB) standards is also included for upgrading this sector. Map 1.1 below illustrates a glimpse of regional connectivity prospects of Pakistan.

Map 1.1: Connectivity Prospects of CPEC (Courtesy of SUPARCO)



Map 1.1 depicts the strategic connectivity prospects of Pakistan and highlights the various existing and some of the planned initiatives of highways, railways, pipelines, electricity transmission lines and sea ports, including Gwadar deep sea port to connect Central Asia, China, South Asia, Middle East and rest of the world. The details of connectivity component of CPEC are enumerated in the succeeding paragraphs.

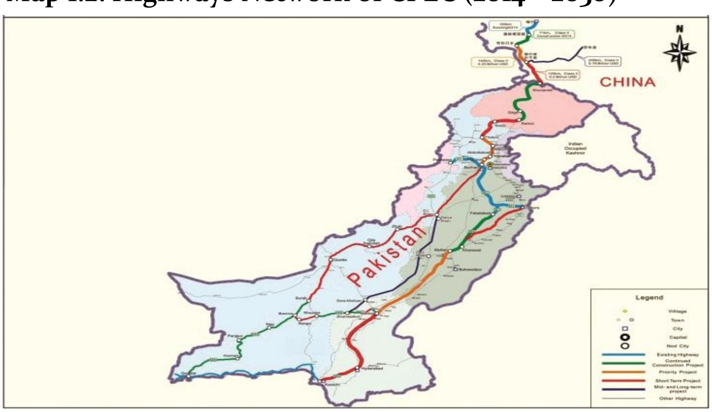
a. **Integrated Transport System**

A reliable and efficient transportation infrastructure is crucial in the development of any economy. In China, there is a proverb; "if you want to be rich, build roads" and in current era of Chinese development, Chinese say, "if you want to be richer, build railways" and "if you want to be the richest, build bullet trains." Out of the initial agreed amount of $ 46 billion under CPEC, $13.58 billion have been allocated for road, rail, optical fibre and other infrastructure related projects.[7]

(1) **Integrated Road Transport System**

Road connectivity holds great importance, as economic growth in modern times is achieved by 'getting people connected'. The Early Harvest Phase (EHP) of the CPEC includes different initiatives to enhance connectivity by improving transport infrastructure. In this regard, a monographic study on transport planning was jointly conducted by China and Pakistan in 2013 and 2014 to conceptualize and plan the road related infrastructure of Pakistan for long term. Map 1.2 illustrates the national level road plans for CPEC, planned in the aforementioned study.

Map 1.2: Highways Network of CPEC (2014 – 2030)

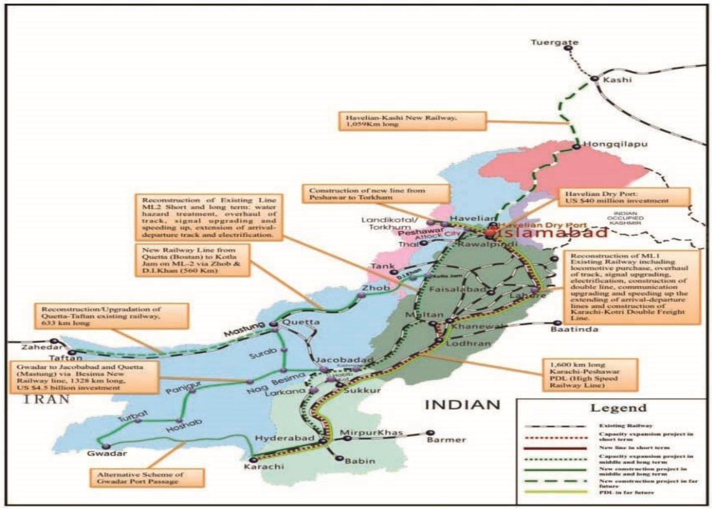


Map 1.2 illustrates the highway network for CPEC, including various nodal cities connected through different North-South and East-West alignments, which are either constructed, under construction or planned to be developed in short, medium and long term, based on its significance and readiness. Currently six major road infrastructure projects are under construction across the country. The details are available on the official website of CPEC.[8] For instance, the portion of 650 kms road, connecting Gwadar with Quetta, passing through Turbat, Hoshab, Panjgur, Nag, Besima and Surab, is already complete, reducing the five-day grueling jeep tracks journey to one day on a highway.[9] Both the western alignment and eastern alignment are expected to be completed within short term, whereas, the central alignment and other routes shown on the map would be constructed step by step in medium to long term plan. Zia and Waqar (2018) carried out evidence-based employment survey to estimate the number of direct jobs to be generated in the six CPEC related road projects. Data has been collected from National Highway Authority (NHA) and the result shows that during the construction phases of these road projects, around 40,000 direct jobs will be generated, out of which 38,000 will be Pakistani workers and the rest of these will be Chinese.[10]

(2) **Integrated Rail Transport System**

Contribution of Railways is of utmost importance to achieve freight transportation efficiency and reduce cost at long distances. Obsolete infrastructure, technology and equipment cause the railway network to experience severe delays and safety hazards. CPEC EHP has focused on the development of railway sector and the joint China-Pakistan monographic study on transport planning has also conceptualized and planned the rail related infrastructure of Pakistan for long term. Map 1.3 given below illustrates the railway plans for CPEC.

Map 1.3: Railway Network of CPEC (2014 – 2030)



Map 1.3 illustrates the railway network for CPEC, including various lines connecting nodal cities across the country in North-South and East-West directions. Some of the lines need reconstruction of existing tracks, including locomotive purchase, overhaul of track, signal upgrading, electrification, construction of double line, communication upgrading and extending of arrival/departure line and construction of double freight line, where required. Reconstruction of Main Line-1 (ML-1) is the priority project, which will improve the existing rail link from Peshawar to Karachi through Islamabad, Lahore, Khanewal, Multan, Lodhran, Sukkur and Hyderabad. The estimated cost of this 820 km project is $8.173 billion and the estimated time to complete this project is 5 years (2018-2023). Freight transportation would be given priority in this project, however, the up-gradation would also improve passenger services. The project is planned to increase the average speed of train from current speed of 60 km per hours to more than 120 km per hour for freight transportation and 140 km per hour for passengers' transportation. It also includes Havelian dry-port in KPK, which would be a multi-modal (road/rail) facility to expedite cargo flows through the North (see Map 1.3). Alongside the priority project of ML-1, there are other existing lines and

some new proposals illustrated in Map 1.3, including ML-2, ML-3 and others. For instance, Peshawar-Torkhum, Gwadar-Quetta, Gwadar-Karachi, Havelian-Kashi, and others would be developed gradually in medium to long term phases of CPEC.

(3) **Gwadar Port and Smart Port City**

Gwadar is a port city on the south western coast of Balochistan, Pakistan. The city is located on shores of the Arabian Sea, approximately 700 kms to the west of Pakistan's largest city, Karachi. Gwadar port is a natural warm water deep-sea port on the mouth of Strait of Hormuz.

Amjad and co-authors (2018) carried a case study titled 'Gwadar: The Heart of CPEC', in which extensive interviews of the senior officials of Gwardar Port Authority (GPA), Gwadar Development Authority (GDA), China Overseas Port Holding Company (COPHC) and Pakistan customs have been carried out. The study suggests that there are three main functions carried out at any international port including; port authority, port operations, and logistic functions. Port authority is responsible for looking after the governance related matters of the port, such as security arrangements of the port, devising and implementing policies of the port and port ownership. The port operations and logistics services on the other hand, take care of operational aspects of the port, including handling of cargo, storage and warehousing and pilotage and towing of called in vessels. At Gwadar port, landlord port model is adopted to govern the port, which is considered as the most dominant model prevailing internationally due to its higher efficiency, innovation and operational excellence. Here, Gwadar Port Authority (GPA) is the landlord and China Overseas Port Holding Company (COPHC) is the operator. The operational charge of Gwadar port was given on a lease of 40 years to the COPHC, using assignment and transfer agreement in May, 2013. The COPHC has a plan to commercialize the port by attracting the regional sea trade. A plan is developed to expand the port by developing more berths in medium to long terms. The

Gwadar natural deep-sea port is located in the middle of dozens of regional ports shown in Map 1.4.[11]

Map 1.4: The Centrality of Gwadar Natural Deep-sea Port in the Region

Map 1.4 illustrates the strategic location of Gwadar deep-sea port surrounded by regional ports developing a 'hub and spoke system', making Gwadar Port as a 'hub' for rest of 'spokes' in the region, containing significant amount of oil and merchandise trade. Alongside the port, CPEC aims to transform Gwadar from a fisherman village into a smart port city. In this regard different projects have been initiated. Details of these projects are available on the official website of CPEC.[12] A brief list is given in table 1.1 to introduce some of the key projects here.

Table 1.1: Gwadar Projects

S#	Project	Cost ($ Million)
1.	Gwadar East-Bay Expressway	140.60
2.	New Gwadar International Airport	230
3.	Construction of Breakwaters	123
4.	Dredging of Berthing Areas & Channels	27
5.	Development of Free Zone	32
6.	Necessary Facilities of Fresh Water Treatment, Water Supply and Distribution	130
7.	Pak Chain Friendship Hospital	100
8.	Technical and Vocational Institute at Gwadar	10
9.	Gwadar Smart Friendship Hospital	4
10.	Bao Steel Park Petrochemicals, Stainless Steel and Other Industries in Gwadar	
11.	Development of Gwadar University (Social Sector Development)	
12.	Up-gradation and Development of Fishing, Boat Making and Maintenance Services to Protect and Promote Livelihoods of Local Population	

Table 1.1 illustrates twelve major projects to develop Gwadar port, connect it with the hinterland and make Gwadar a smart port city with all the amenities available. For instance, the new Gwadar International Airport can usher in a new era of regional connectivity and coastal tourism. The Gwadar master plan is under finalization, following which a piece of 4,300 acres of land is assigned to the new airport, which will make it the largest airport in the country. The new airport will connect seamlessly with the regional airports and act as a key resource in facilitating the international travels to the warm waters and virgin beaches of Gwadar.

(4) **Urban Mass Transit Projects**

Urban mobility and urban transport is considered as a priority for sustainability of urban centers across the world.

Mass transit projects are launched with an aim to facilitate commuters and riders. Transport-related problems in the populated cities of Pakistan have significantly increased in recent decades. Traffic congestion contributes to increased air and noise pollution, health problems, high accident rates, and environmental degradation. It also means declining living standards. To avoid long commutes, people have limited their choices about place of residence and livelihood. Long commuting times, congestion, over-loaded and poorly maintained vehicles are common problems for the residents. Under CPEC early harvest phase, following urban mass transit projects have been included:-

(a) Greater Peshawar Region Mass Transit (GPRMT)
(b) Quetta Mass Transit (QMT)
(c) Orange Line – Lahore (OLL)
(d) Karachi Circular Railway (KCR)

Physical work on the OLL is almost complete and a successful test run was carried out in May, 2018. Whereas the work on other 3 projects are under planning and feasibility stage and will be started in due course of time. Moreover, it is important to make the urban mass transit projects commercially viable and avoid any subsidies from the government.

b. **Information Network Infrastructure**

In the contemporary world, it is impossible to imagine a country to successfully develop hard infrastructure projects without constructing effective digital base. The digital connectivity is fast becoming the essential infrastructure of the 21st century.[13] The CPEC Long Term Plan (LTP) of information network infrastructure includes development and enhancement of optical fibre infrastructure, information communication technologies (ICT) clusters and human resource development (HRD). Adoption of Chinese digital terrestrial multi-media broadcast (DTMB) standards is also included in this sector. The CPEC early harvest phase (EHP) includes laying of 820 km long fibre optic cable (Phase-1) at a cost of $44 million; stretching from China's Xinjiang region and enters Pakistan through Khunjerab border and then running through Gilgit-Baltistan (GB) and connecting Mansehra (KPK) and

Muzaffarabad (AJK) and onwards reaching Islamabad and Rawalpindi, where its link with existing optical connectivity network of Pakistan, will be established.

The 3G/4G services in such remote areas of GB and AJK would not only provide easy access to the internet, but also generate employment opportunities for the local youth, especially women and boost tourism. This connectivity has the potential to spread from many soft to hard infrastructural projects, such as paperless trade facilitation, e-commerce, e-government, risk management and playing a supporting role in the construction and management of industrial parks, roads, rails and ports.

c. **Policy Recommendations to Make 'Connectivity' a Game-changer**

The national and transnational connectivity associated with the highways & motorways, railways, Gwadar port & smart port city, urban mass transit and information networks, discussed in the aforementioned section, can contribute and make it a game changer, only if appropriate policies are devised and implemented at right time. For long term self-sustainability of the connectivity infrastructure, effective utilization of these projects is vital. Following are some of the recommendations in this regard:-

(i) Sub-national and local corridors (local and link roads and allied facilities) need to be upgraded or constructed for connecting the existing growth centres, merchant cities and population clusters with the CPEC road and rail alignments.

(ii) New growth centers (industrial parks, mineral processing zones, ICT parks, oil and gas processing and storage facilities, commercial parks and product & service display centers, logistic hubs, zoos & entertainment parks, and others) may be planned and developed in proximity to the CPEC road and rail routes as well as with the stations connected with optical fibre.

(iii) Transport should be planned and supported to facilitate the commutation of local communities and traders, utilizing the local, trans-national and CPEC corridors and having an easy access to the markets and growth centres.

(iv) Toll tax regime should be designed in such a way that it encourages and maximizes both freight and passenger traffic through the CPEC road alignments and enhance the revenue.

(v) Rail fares should be such that passengers and freight transportation over long distances is encouraged.

(vi) Rail and urban mass transit projects should initiate new business models to make these financially sustainable. In this regard, Non-fare Revenue Generation (NFR) policy could be developed considering: (a) development and facilitation of new feeder routes, (b) provision of park and ride facilities, (c) passengers' refreshment services, (d) advertisement at the cart and at stations, and (e) e-services for the passengers.

(vii) Special emphasis should be laid on connecting the local communities in the deprived regions of the country, including Balochistan and KPK/FATA with the CPEC Western alignment, improving their mobility and livelihood.

(viii) Promote community transportation for social cohesion and quality of life enhancement.

(ix) Develop and implement innovative connectivity initiatives to support visitors and tourists.

(x) Local population of Gwadar should be provided with basic amenities, employment and initiatives for livelihood improvement to make the development sustainable.

(xi) Explicit policy to be developed jointly for collaborative operations of Gwadar port and its regional sister ports, namely Chabahar port, Karachi port, port Qasim. This will maximize the utilization of ports and benefit all.

(xii) Policy measures to be taken for development and operationalization of the east-west corridor, which holds significant economic prospects for eastern countries, including India.

(xiii) Policies to be devised to facilitate trading across the region through CPEC. In this regard, CPEC could be leveraged at the other regional connectivity and cooperation forums, including Central Asia Regional Economic Cooperation (CAREC), Shanghai Cooperation Organization (SCO), South Asian Association for Regional Cooperation (SAARC) and other related forums.

(xiv) Logistic master plan to be developed to plan the suitable location and size of warehouses, petroleum storages, multi nodal trans-shipment hubs, and facilitation centers to improve logistic efficiency and, thereby, achieve better utilization of the current and forthcoming transport infrastructure.

(xv) Bounded carriers to be registered at Gwadar for freight transportation across the ports and other destinations within Pakistan and to other regional landlocked countries.

Most of the above mentioned initiatives fall within the working scope of provincial governments, which must take up their role accordingly and proactively.

Energy Related Fields under CPEC

Energy is the fundamental prerequisite for modern economy and is linked to the social development, including health sector, education and better quality of life.[14] Electricity, oil and gas are the important inputs to turn the wheels of modern economy and industry. The CPEC long term plan encourages both China and Pakistan to strengthen cooperation in the fields of oil and gas, electricity and power grids and promote the construction of major projects of thermal and hydro-power, coal gasification and renewable power generation through: (i) supporting power transmission networks, in order to enhance the power transmission and supply reliability, (ii) development of oil and gas resources and establishing oil refineries and storages along the CPEC route, (iii) optimizing the sourcing and use of coal and expansion and augmentation of coal mining sector, (iv) actively promoting river planning and hydro power generation, (v) developing wind and solar energy and diversifying its supply channels, (vi) construction of high voltage-class power grids and transmission for reliable electricity supply, and (vii) developing the industry for manufacturing of energy sector equipment, especially for renewable energy equipment.[15]

At the time of inception of CPEC in 2013, the approximate deficit of electricity was 6000 MW in peak season, which has affected the social and commercial segments of the society. Therefore, out of the $46 billion initial investment, $33 billion have been allocated to power generation and transmission projects. In the early harvest phase of CPEC, a joint energy survey has been carried out in Pakistan to identify the electricity generation potentials and to develop viable electricity generation and transmission projects. In this regard, 21 projects have been agreed upon to generate around 13,810 MW electricity, using hydro, coal, solar and wind resources across the country. (see figure 1.3).

Figure 1.3: CPEC Electricity Generation Portfolios

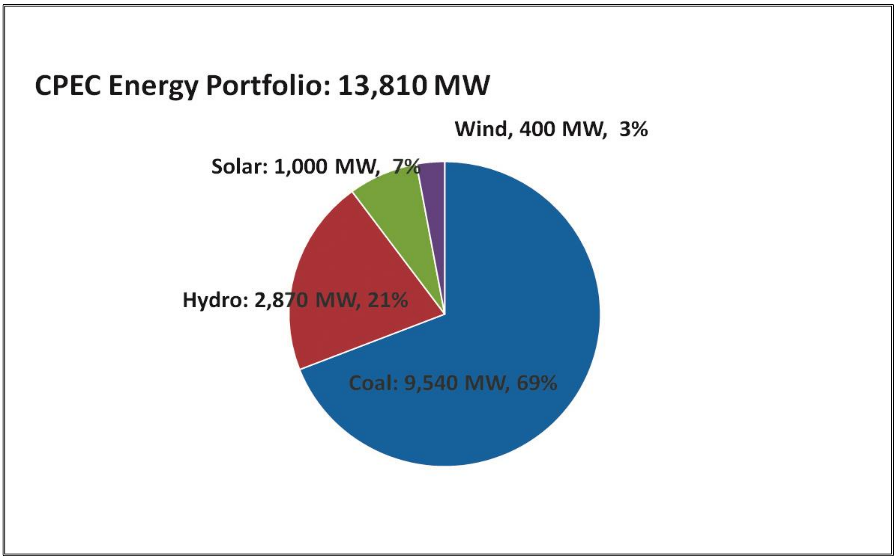


Figure 1.3 illustrates the capacity and energy mix before CPEC, the CPEC energy portfolio and the expected energy mix after the completion of CPEC electricity generation projects. Under CPEC, coal and hydro fuels are holding large share, followed by solar and wind. As of now, 15 out of 21 projects have commenced and the associated capacity is around 13,000 MW, which is expected to be completed in short term phase (2020). Moreover, CPEC introduced an efficient long distance high voltage direct current (HVDC) transmission to connecting Matiari (Sindh) with Lahore (Punjab). This would transmit the electricity being produced at Port Qasim, Hub and Thar coal power plants and reduce line losses through the improved technology.

For last many decades, coal has been used as a reliable and affordable fuel for generation of electricity across the world. Figure-1.4 shows an increasing trend of use of coal for generation of electricity and the average global percentage was 40% in 2014. However, in comparison Pakistan would be establishing its power generation through coal within 20% of its total fuel mix. Coal is not the best choice to use because of its environmental and climatic implications, however, the improved super critical technologies have reduced the harmful effects upto certain minimum level. The CPEC coal power projects are liable to follow the environmental regulations of the country.

Figure 1.4: Global Electricity Generation Using Coal (1971-2014)

Zia and Waqar (2018) carried out a detailed survey of Sahiwal coal project of CPEC and wrote a case study, based on the interviews from most relevant officials, particularly from employment and environment perspectives. The detailed case study is available on website, however, some relevant portions of the study are included here.[16] The Sahiwal coal plant is Pakistan's first super-critical coal-fired power plant with total capacity of 1320 megawatts. Efficiency of typical sub-critical power plant is 38%, whereas, today's super-critical technology increases this to around 45-47%. The Sahiwal Coal power plant took different measures to mitigate environmental implications, which include dust control measures, NOx (Nitrogen Oxides) control measures, SOx (Sulphur Oxides) control measures, mercury control measures, waste water treatment, Continuous Emission Monitoring System (CEMS) and high tower chimney. According to the Environmental Impact Assessment (EIA) seepage control measures are taken and spray guns are installed to timely sprinkle the water on top of coal pile to ensure the surface moisture about 6% to effectively reduce the coal dust. Regarding the natural means, the power plant has aimed to plant 30,000 trees in the nearby vicinity, out of which 15,000 trees have already been planted and remaining will be done in due course of time.[17]

Apart from the electricity generation and transmission focused in the Early Harvest Phase of CPEC, the CPEC long term energy initiatives include a wide range of oil and gas projects that would be planned and implemented step by step through the CPEC joint working group (JWG) on energy.

Policy Recommendations to Make 'CPEC Energy' Portfolio a Game-changer

To make the energy portfolio of CPEC sustainable, following are a few key recommendations:-

(i) The electricity transmission needs to be ensured from the CPEC power generation projects to all across the country.

(ii) In line with the existing commitment of government to curtail coal based power generation to a minimum possible limit, clean fuels like hydro, solar and wind should be utilized, for which large potential is available in the country. In case of coal, preference should be given to the local Thar reserves over the imported coal.

(iii) For coal power plants, as per the applied environmental obligations, a regular surveillance to be carried out to ensure compliance and to develop and maintain the green narrative of CPEC and BRI.

(iv) Transmission losses, line losses and circular debt should be controlled and minimized through the use of advanced technology and the best practices.

(v) Oil refineries to be promoted and, where possible, installed locally at the sources (wells), to fulfil the need for refined oil and, in a way, to create jobs for local population and save a portion of foreign exchange.

(vi) Petro-chemical complex, including the Naphtha cracker, to be leveraged under CPEC, as currently Pakistan does not have any and, hence, spends a large chunk of dollars to import naphtha for the production of plastic related products. A comprehensive oil and gas master plan should be chalked out for CPEC in the light of CPEC LTP, so that the strategic demand, supply and storage could be optimally managed for Pakistan and to develop autonomous region of Xinjiang, which is a part of CPEC.

Accordingly, oil and gas pipelines should be designed and developed for efficient and environmentally safe transportation of the fuels. Active participation of provinces and regions is mandatory, so that the energy sector could be effectively developed in the country.

Trade and Industrial Parks

According to James Forrestal, the only way in which durable peace can be created is by world-wide restoration of economic activity and international trade.

Industrial parks and special economic zones (SEZs) are promoted around the globe, mainly in less developed countries, as a strategy to industrialize and accelerate the economic growth.[18] During 1970s and 1980s many SEZs were established in Asia, particularly in East Asia and they have played a key role in catalyzing the economic growth. China, Malaysia, Singapore, the Republic of Korea, Bangladesh, Sri-Lanka, Vietnam, India and Jordan shared some outstanding success stories from Asia. China has experienced tremendous success in getting foreign direct investment after opening up its economy. SEZs have played substantial role not only to attract FDI, but also supported its manufacturing industries. In Pakistan, SEZs are relatively a new concept launched in 2012 through SEZ Act, which was modified in 2016. Seven SEZs have been approved so far, including three in Sindh, three in Punjab and one in KP.

About 90% of all the enterprises in Pakistan can be classified as small and medium enterprises (SMEs), totalling to around 3.2 million enterprises. The SMEs employ 80% of the non-agricultural lab or force, contribute 40% to GDP and have share of 35% in value addition. However, the SMEs are constrained by financial and other resources, including scarcity of working capital, lack of educated and skilled manpower, shortfall of research and development capabilities, limited access to new technologies & practices, inadequate know-how about the required standards and compliances, and lack of branding, marketing & communication skills. Due to aforementioned limitations, the SMEs may not be able to cover the ever changing domestic and global market demands and, hence, fail to produce right products and earn forex. In Pakistan, most of the success stories in industrial sector are somehow associated with the multi-national industrial and manufacturing enterprises and their brands, which have not only contributed to the economy of Pakistan, but also developed a lot of local vendors in SME sector, which later on expanded to local and exportable brands. However, this intervention is limited to few sectors, especially automotive, domestic appliances and food processing industries. Foreign direct investment (FDI) is required in sectors for which Pakistan has endowments, but has not tapped and has a wide potential to expand value adding envelop like marble, granite and gem stone, apparel and branded clothing, fruits/vegetable and dairy products, livestock and fisheries' products, textile/industrial and agriculture machinery, and industrial automation equipment. The aforementioned sectors are economically viable in different parts of the country, but for effective contribution, these need FDI along with technology, the best practices and enterprise, brands and access to global markets. CPEC can be a game changer, if it can initiate industrial growth in Pakistan by development of SEZs and setting up of the industrial enterprises and create the backward linkage with the existing SMEs and forward connection with the global markets and value chains.

Under CPEC long term plan (LTP), the development of 'Trade and Industrial Parks' is a key cooperation area between China and Pakistan. It includes the promotion and development of SEZs across the country, cooperation in Industrial capacity, exploration and development of mineral resources for setting up zones, expansion of trade logistics and business to business (B2B) linkages, establishment of customs special supervision areas across CPEC routes, and development of Gwadar free zone (GFZ).

In the early harvest phase of CPEC, industrial cooperation has been focused and a joint working group (JWG) on industrial cooperation (IC) has been set up to work on this agenda under the Board of Investment (BOI), Pakistan. In mid-2016, all the provinces, regions and Islamabad capital territory worked out and designated nine prioritized locations to build the special economic zones (SEZs) across the country. These locations were discussed with the Chinese counterpart during the 6th JCC meeting held on 29th Dec 2016 at Beijing. Later in 2017, a couple of JWG meetings on IC have been carried out and Chinese officials visited some of the proposed locations of SEZs a couple of time to share their thoughts on SEZ development. A few Chinese expert groups and academicians also presented their SEZs development experiences of China during their visit to Karachi, Lahore and Islamabad to the public at large. During 2017, feasibility studies were developed by the respective authorities of provinces, regions and the capital for the proposed SEZs. The studies have been handed over to the Chinese counterpart during the 7th JCC meeting held in Islamabad on 21

November, 2018. Chinese experts are now working on the feasibility studies, so that development of the SEZs and establishment of feasible industrial clusters could be carried out jointly (see Table 1.2).

Table 1.2: CPEC SEZs and Suggested Sectors for Investment

S. #	Name of SEZ	Suggested Sectors for Investment
1.	Bostan Industrial Zone, Balochistan	Mines and minerals processing and value addition warehousing for goods and minerals storage and transportation, light engineering, iron and steel, fruit processing & high value addition.
2.	Rashakai Economic Zone on M-1, KPK	Fruit & food packaging & processing (meat & halal foods), logistic support industries, engineering & manufacturing, automotive parts, marbles & granite, tobacco and leather & woollen apparel, fast moving consumer goods (FMCG)
3.	Mohmand Marble City	Marble & granite processing, chemical & calcium industry and other mineral based industries
4.	SEZ Dhabeji, Sindh	Automotive & allied, building material, chemical & pharmaceuticals, fast moving consumer goods (FMCG), foundries-steel fabrication, light engineering and textile & garments
5.	M-3, Industrial City, Faisalabad	Leather & textiles, value addition pharmaceuticals, electrical & electronics, chemical and dyes, light engineering, iron & steel re-rolling and food processing
6.	ICT Model Industrial Zone, Islamabad	Research & development, information technology & communication services, high-end electrical & electronics, green technologies, tourism facilitation, business facilitation, gems jewelry & handicraft.
7.	Mirpur Industrial Zone, AJK	Food / fruit processing & preservation, beverages, herbal medicines, furniture / wood works, chip / fiber board, marble powder making and gemstone cutting / polishing, mini cement plants, agriculture tools & implements, paints and varnishes, and garment
8.	Moqpondass SEZ, GB	Food/fruits processing and packaging, marble and granite, gems/ jewellery, copper & iron processing
9.	Port Qasim SEZ, Sindh	Automobile & Auto vendor industry, steel fabrication, information technology & communication industry, chemical & pharmaceutical industry, livestock feed industry, machine manufacturing (textile, agri, mining, etc)

Table 1.2 illustrates various potential sectors for investment in the nine SEZs under CPEC. There are several means for successful and sustainable development of these SEZs, i.e. mobilization of the domestic investments, investments from diaspora (overseas Pakistanis), Chinese investment and other international investors such as Multi-national Enterprises (MNEs). Moreover, the Chinese; 'Go Global' strategy could be utilized under CPEC, which encourages the Chinese state owned enterprises (SOEs) and private enterprises to re-locate to other countries, especially the BRI countries, for which a suitable sum of financial incentives is offered for relocating the enterprises.

The nine SEZs under CPEC account for a total area of 9,400 acres. Out of this, 6,580 would be utilized for development of industrial units, whereas, the remaining 30 % area would be used for commercial activities, such as trade and commercial centre, green areas, mosques, roads, parks, waste treatment and for provision of other amenities. The estimated long term employment portfolio under these nine SEZs is 800,000 direct jobs, however, the backward linkages of the SEZ enterprises with the existing SMEs and forward linkages with the merchant cities and global markets would create more than a couple of million jobs for local population.

China and Pakistan signed a free trade agreement (FTA) in 2006 and awarded Most Favourite Nation (MFN) status to each other, due to which the trade between both countries has gradually increased and after the construction of CPEC in last three years (2015-18) China becomes the largest trading partner of Pakistan. However, due to import of capital goods for the large infrastructure projects, Pakistan is facing net-trade deficit amounting to US$ 12 billion per year. To overcome such a huge trade deficit and provide opportunities for domestic manufacturing sector, the Ministry of Commerce is already negotiating second round of the Pak-China FTA in order to decide tariff for different trade lines to boost export of Pakistani products to China. Here, it is important to note that China is the largest global exporter ($ 2.2 trillion/year) and the second largest importer ($1.3 trillion/year) with annual food imports constituting $ 63 billion. These joint developments, such as renegotiation of the Pak-China FTA and launching of the nine SEZs under CPEC, can be instrumental in enhancement of Pakistani exports to China.

Policy Recommendations to Make the 'Trade and Industrial Parks' a Game-changer

To make CPEC a real game changer, development of world class industrial parks is vital to contribute to regional and global trade. China, being the top trading nation, is the most successful country in developing and operating world class industrial parks. Following are some of the recommendations to harness this key area of cooperation under CPEC:-

(i) Chinese expertise of SEZs planning, development and management should be utilized for developing the CPEC SEZs. In this regard, Chinese state owned zone developers may form a joint venture with relevant provincial government of Pakistan for joint investment, development and marketing of the zone to local, Chinese and global industrialists.

(ii) Modern infrastructure networks, including comprehensive transport system, energy system, water, waste management system and security, should be ensured in SEZs by the Federal and Provincial Governments as per their commitment.

(iii) The nine prospective SEZs of CPEC show a wide range of factors and unique endowments, which make these feasible for investment (see Table-1.2). On the other hand, China's 'Go Global' strategy encourages the Chinese enterprises in various sectors to re-locate, for which Pakistani SEZs could be the attractive destination. Following three models/principles in respect to re-location could be used: (i) For import substitution; sectors such as petro-chemical, auto-assembly and auto parts manufacturing, pharmaceutical, IT equipment and office automation machinery to be focused in relevant SEZs, (ii) For Export promotions; large export oriented Chinese enterprises to re-locate their subsidiary along with its global orders and brands, technologies, practices and compliances to any of the suitable SEZs. In a way, these industries shall boost-up the national exports through product diversification and create new jobs through value-addition, and (iii) for productivity enhancement across different sectors of economy (agriculture, industrial and service) those enterprises must be attracted in SEZs, which can improve productivity, quality and innovation across different sectors. For instance, a wide range of agriculture technology and machinery being used by different countries to support high productivity and if these technologies and machinery are produced and serviced locally, then, it could leverage the sector's productivity. Hence, there is a large room to attract these technology vendors to install their plants in SEZs of Pakistan.

(iv) Considering the global best practices, 'backward linkages' of the SEZ enterprises must be developed with the local enterprises and SMEs for effective industrial development of Pakistan. To attain this, policy intervention may be carried out by restricting the SEZs enterprises to procure certain minimum value of inputs from the local vendors, however, the local enterprises and SMEs need to be competitive to maintain commitments.

(v) Joint ventures (JVs) of the Chinese and other international investors with local enterprises should be encouraged in the CPEC SEZs.

(vi) Across the nine zones, SEZ specific uniqueness should be introduced based on their latent competitive advantages (LCA) or any specific value proposition to precede inclusive and analogous development of each of the subjects of SEZs, especially the ones in less developed provinces.

(vii) Keeping in consideration the current economic outlook of the country, high priority should be given to the generation of new and better employment in industrial sector. To facilitate this skill development centers and job centers within the SEZs, commercial areas could be established.

(viii) Effective branding and marketing to be carried out to promote these SEZs to the prospective investors across the world, including the local and overseas Pakistanis, Chinese and International investors to attract the much needed FDI in the industrial sector.

(ix) 'One-size-fits-all' strategy might not be effective and case based investment promotion policies and fiscal regime (fiscal and tax incentives) should be designed and tested for the development of subject SEZs and their respective sectoral clusters.

(x) The main incentive for any foreign firm does not merely depend upon tax holidays. A foremost requirement to encourage foreign investors rests on the political and macro-economic stability and transactional efficiencies within the SEZ and its related eco-system. Tax holiday, on the other hand, is costly in fiscal terms, but it only matters at the margin.

(xi) Innovative SEZ financing should be devised to promote and attract investment in SEZs.

(xii) Universities and vocational centers should step forward and join hands with SEZ authorities, developers and enterprises to produce the required human skills. Accordingly, it is required to design the curriculum that can satisfy the skill demands in medium and long term across the country's SEZs.

(xiii) The success of SEZs and industrial development also need a sustainable urban eco-system within and around these SEZs, so that besides work, an environment friendly socio-economic environment could be available to the work force.

(xiv) SEZs tend to take almost 5 to 10 years in order to benefit the host country in terms of large-scale stable employment and production. This phenomenon has been commonly experienced even by the most successful SEZs in China and Malaysia. Hence, step by step development of SEZs should be followed in an informed and structured way.

Similarly, the active role of provincial and regional governments is the key to implement the above mentioned recommendations.

Agriculture Development and Poverty Alleviation

Agriculture holds great significance for Pakistan. Pakistan has primarily an agriculture based economy, but for the last 50 years the direct contribution of agriculture to GDP has dropped from 60% to a current low level of 20%. However, it is still accommodating half of the employed work force and supporting manufacturing and service sectors to the level of their 60% contribution to GDP. To exploit the potential of agriculture sector, agricultural modernization is required from seed to produce for current and future food security of the country, for which a comprehensive strategy needs to be developed to focus Agro-Value adding Special Economic Zones, having backward and forward linkages with research and technology institutions and export value chains, respectively. Similarly, dairy and livestock value added industry has a lot of potential to be capitalized.

The CPEC long term plan focuses on the use of comparative advantages of both China and Pakistan by strengthening agricultural infrastructure. Agricultural personnel training, technical exchanges and cooperation will be focused. In the early harvest phase (EHP) of CPEC, a sub-group for agriculture sector cooperation has been established under the joint working group on 'industrial cooperation', which includes experts from both China and Pakistan to jointly coordinate for the development of win-win projects for the subject sector.

Policy Recommendations to Make the 'Agriculture Sector' a Game- changer

Following are some specific recommendations to boost the agriculture sector through CPEC long term initiatives:-

(i) A comprehensive policy is required to promote the value adding crops, while maintaining the food security of the country.

(ii) China Pakistan joint agriculture parks are required to be established across the CPEC routes to test Chinese modern technologies and practices and the successful models to be used across the country.

(iii) Relocation of Chinese agricultural machinery / industries to Pakistan should be encouraged for local production of the needed technologies.

(iv) Water preservation agriculture technologies, like drip irrigation is acquired and leveraged.

(v) Joint research to be carried out on high yield seeds and their compatible fertilizers and pesticides.

(vi) Cold storages to be developed across the CPEC alignments and axis to facilitate the strategic stock of crops and to minimize waste.

(vii) Cold supply chains to be established to transport the produce from strategic storages to the points of consumption.

(viii) Due attention should be given to the food and agriculture value adding in the nine special economic zones (SEZs) of CPEC, where suitable endowments and competitive conditions exist or could be established.

Tourism

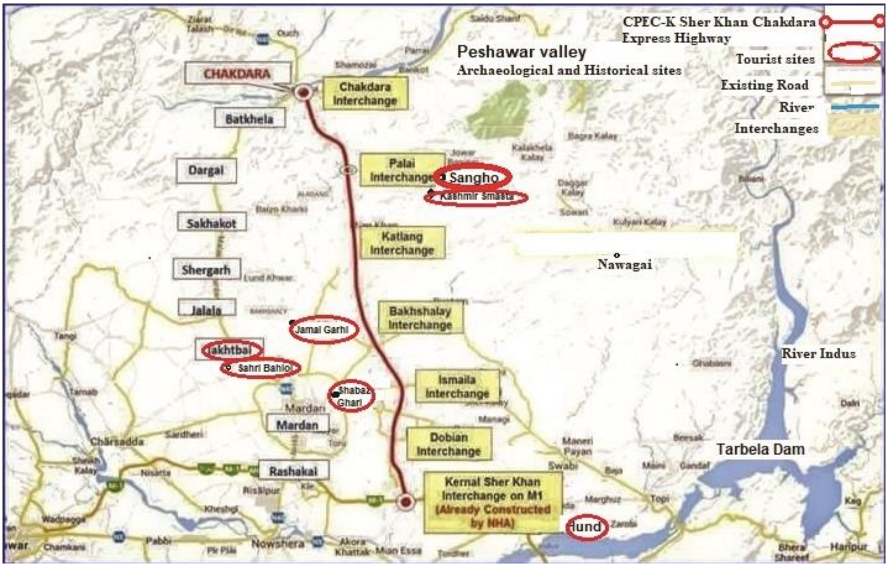
According to UNWTO, "Tourism comprises the activities of persons travelling to and staying in places outside their environment for not more than one year for leisure, business and other purpose."

Pakistan occupies the eastern most basins of three rivers of the old world: the Nile, the Tigris-Euphrates and Indus. These basins were the cradles of early civilization. The Indus valley civilization was distinctive in

South Asia, dating from 2500-1700 BC (Bronze Age), characterized by a pair of large city sites at Mohenjo-Daro and Harappa. In terms of physiographic diversity, Pakistan is highly rich in landscape with all types of land forms, from sea level upto the second highest peak (K2) of the world. Pakistan is a country, where the three famous mountain ranges of the world, namely Hindu Kush, Karakoram and Himalayas meet. It has four seasons, with variation in temperature, rainfall, rivers, glaciers, lakes, forest, bio-diversity and beautiful valleys. There are more than 44 peaks with an altitude of over 7,000 meters, including five of the world's highest 8,000 meters peaks, including K2, Nanga Parbat, Broad Peak, Gasherbrum I and II, and Hidden Peak, which attract a lot of tourists. The most beautiful mountains, valleys, forests, along with Jhelum and Neelum rivers, are yet to be opened to the world and even majority of Pakistanis do not know about them. Mountaineers from around the globe are expected to assemble in Pakistan as soon as CPEC infrastructure is complete and fully operational. Increased Chinese investment in tourism sector of Pakistan via CPEC, after building the road, railways, aerial and sea routes, connecting the two countries, will further generate new investment opportunities.

Khan and Ali, conducted a survey of the North Western region of KP in connection with the tourism prospects, besides the Northern alignment of CPEC.[19] The detailed case study is available in the 'CPEC Quarterly' magazine, Vol. II, 2018 and also website.[20] The succeeding portion will share some of the salient features of the cultural tourism study. The opening of an alternate CPEC route from northern Pakistan through Gilgit-Chitral-Dir, Chakdera – Karnel Sher Khan in Peshawar valley will further develop the cultural tourism in this region. Map 1.5 illustrates that majority of the tourism sites (encircled in map 1.5) are located within a distance of 10 to 20 kilometers along Chakdara to Karnel Sher Khan Interchange of the CPEC highway, connecting motorway-M1.

Map 1.5: Cultural Tourism Sites across the CPEC Northern Corridor



Chinese are fond of tourism and in the year 2016 Chinese tourists spent $ 261 billion on account for tourism.[21] China was ranked as the fourth most visited country of the world in the year 2015, after France, United States and Spain, with 56.9 million international tourists a year. China, being a partner under CPEC and tourism, is one of the key areas of cooperation under the CPEC LTP, both the countries can share their particular strengths and make win-win projects to make CPEC a 'tourism corridor'.

Policy Recommendations to Make the 'Tourism' Sector a Game-changer

Following are some specific areas which should be exploited for development of CPEC a "tourism corridor";

(i) CPEC is bringing wider prospects for tourism, especially between China and Pakistan, for which a joint research study should be conducted to develop and promote tourism.

(ii) Federal and provincial institutions responsible for promotion of tourism may enhance their capacity and develop strategy to facilitate specific sites for tourism across the CPEC route.

(iii) A comprehensive country-wide 'tourist activities calendar directory' should be developed and spread across the globe to support planning and promotion of tourism.

(iv) Provinces and regions should develop an 'investor's friendly one window' for encouraging local and foreign direct investments in tourism sector.
(v) Known and new tourist resorts should be focused for improved security, amenities and connectivity national level infrastructure.
(vi) New sites should be identified and developed in the country like the '2+1+5' tourism spatial structure, including the Karachi and Gwadar ports as the two centers, the coastal tourism belt, connecting both the centers and the five tourist zones of Jiwani and Gwadar, Jhal Jhao, Ormara, Somiani and Keti Bander.
(vii) Neelum, Jhalum, Leapa, Chakar, Sudangali; Khalana valleys in Kashmir should be included for development of tourist resorts.
(viii) Effective tourism training and skill development programs should be started across the country to impart required level of hospitality to the international tourists.
(ix) Private sector should assess and invest in the tourism opportunities under CPEC, especially in the hospitality and travel services of better standards.

Cooperation in Areas Concerning People's Livelihood and Non-governmental Exchanges

One of the frequently asked questions about CPEC is 'what CPEC is offering to general masses'? Most of the debate and articles published about the CPEC are focused on the geo-political, fiscal and financial, and to some extent environmental matters. There is a huge gap in research to report the evidence-based socio-economic impact of CPEC on the general masses, especially those who are living along the CPEC routes and projects.

Khan and Ali carried out research to correlate the CPEC early harvest, medium term and long term projects with those of the United Nation's sustainable development goals (SDG's).[22] Both the CPEC and SDG initiatives are long term and Pakistan is committed to both till 2030, hence, both can complement each other.

Figure 1.6: CPEC Projects and Expected Socio-economic Impacts

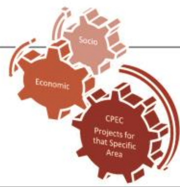
	Timeframe; Projects/Activities	Geographical Socio-Economic Conditions and CPEC Interaction	Direct local impact Outcomes	SDGs Attainment
CPEC PROJECTS	1. Early Harvest Roads, Railways, Fiber optics Energy/Power plants, Gwadar Port etc.		Improved Access Transportation, Communication, Trade/Businesses, Jobs/Income, Environmental degradation Climate change Development partnerships	Goals 1,2,7,8,9,101 1,13,14,1517
	2. Medium Term Gwadar Port City, Gas Pipelines, Infrastructure, SEZs Development and Industrial cooperation and Relocation, Energy etc.		Transportation, Communication, Trade, Industries, jobs/income, Education, Health & Well being Environmental degradation Climate change Development partnerships	Goals 1,2,3,4,5,6,7, 8,9,10,11, 13,14,15,17
	3. Long Term Institutional strengthening Broader socio-economic development Strengthen cooperation		Employment, Education, Health and Living standards, Income and gender equality, Reduced Poverty Strengthened institutions Improved environment	Goals 1,2,3,4,5,6,7, 8,9,10,11,12, 13,14,1516,1 7

Figure 1.6 shows that all the phases of CPEC have socio-economic impacts. For example, the early harvest connectivity projects of CPEC are providing improved access to better opportunities for the communities residing along these routes. These opportunities could be trading, education, health facilities and others. The study suggests that out of 17 SDG indicators, 11 are focused in early harvest phase, 15 in medium term and the remaining 17 in the long term.

The CPEC Long Term Plan (LTP) aims to further strengthen cooperation between local governments. This will strengthen the communications among non-governmental organizations, develop extensive project cooperation centered on public opinions communication, people-to-people friendship, people's livelihood improvement and enhance the comprehensive service capability of the cities along the CPEC. Improved people's livelihood is important to provide a good social environment for the CPEC building.

Policy Recommendations to Leverage the 'Non-governmental Exchanges' under CPEC

Following are some recommendations to encourage and enhance the non-governmental exchanges and promote people to people linkages between China and Pakistan under the CPEC long term initiative:-

(i) An explicit and supportive visa policy should be adopted by both China and Pakistan to encourage different categories of visitors to travel freely, e.g. visa on entry.

(ii) Embassies and consulates of both the countries should have 'friendly visitors' welcome desks for information and support of visitors planning to visit across. Essential information about cultural, religious and other norms of the societies should be made available in various languages for developing understanding and maintaining respect by the prospective visitors.

(iii) Chinese and Urdu languages programs should be promoted in Pakistan and China respectively. Also English language programs for Chinese students can be started in Pakistani colleges and universities, as Pakistan has a huge number of teachers of English language.

(iv) Chinese and Pakistani history and culture centers should be established at suitable locations along the CPEC routes to enhance understanding and cultural aspects of each other.

(v) Soft image is often helpful to make any development initiative successful. Different corporate social responsibility (CSR) initiatives should be taken along the CPEC routes and projects for livelihood improvement of the local communities to make the initiative secure and sustainable.

(vi) Both the governments should support and promote yearly events and exchange programs for different segments of society, including media, civil society, academia, business community, government (local, provincial and federal), civil and military bureaucracy/officials and entrepreneurs.

(vii) A multi-lingual 'CPEC social development platform' should be developed jointly by both the countries for information of masses across the countries about the development needs of societies and initiatives undertaken so far.

Financial Cooperation under CPEC

Finance is one of the key components of development. In developing countries like Pakistan, the limited availability of finance curtails the development and, thereby, the growth. The 'two-gap model' elaborates the financial limitation and way forward in a simple way. For instance, to develop energy and infrastructure projects, a portion of money is required in local currency to acquire land and local inputs and another portion is required in foreign exchange to procure imported plant and machinery. Developing countries lack availability of local currency, due to shortfall of savings, which creates the first gap and leads to local borrowing. Due to limited exports the shortfall exists in the foreign exchange, which creates the second gap and leads to foreign borrowing. The solution lies in a 'Big Push', where heavy domestic and foreign borrowing is used for massive investments, which radically increase future productivity, and place the economy on a long run higher growth trajectory. This theory conforms very well to the current economic scenario in Pakistan, and the investments and loans under CPEC to develop the energy and infrastructure sectors are supportive to fill the aforementioned gaps.

The CPEC long term plan (LTP) aims to focus on the following areas of cooperation, details of which are available in the CPEC LTP:-

a. Strengthen cooperation in financial regulation.
b. Cooperation between financial institutions.
c. Cooperation between financial markets.
d. Financial cooperation between Free Trade Zones (FTZs).

Dr Ishrat Hussain, former Governor State Bank of Pakistan (SBP) and a renowned economist wrote an evidence- based analytical report title, 'CPEC and Pakistani economy: An appraisal'. The report explained that out of the total commitment of $ 50 billion, $ 35 billion would be coming in the form of foreign direct investment (FDI) to Pakistan. Independent power producer (IPP) policy of the Government of Pakistan is applicable to all domestic and foreign investors, including the Chinese investors. According to the policy, the investors are allowed 17 percent return on equity in US dollar terms. Infrastructure projects would be financed by long term concessional loans, averaging interest rate of 2 percent and grants. It is estimated that the total annual outflows on both these counts would average between 2.5 to 3 billion dollars. On the other hand, the removal of energy bottleneck would help to gain $ 6 – 7 billion annually. Also, resumption of higher growth rate of 6 to 7 percent would not only serve to repay these obligations comfortably but also have ample resources available for new investment. It can be seen that higher growth of economy and exports would enable Pakistan to meet its repayment obligations comfortably.[23]

Innovative financing would also be included to support CPEC financing for socio economic development and promote private sector investment. Some of the examples include green bonds, green Sukuk, blue bonds, environmental defense fund, women livelihood bond, diaspora bond, social impact bond and forest foundation fund.

Conclusion and Recommendations

This study has discussed the recent key initiative of China, namely the One Belt One Road (OBOR) or the Belt and Road Initiative (BRI) launched in 2013. Among the six corridors of BRI, the China Pakistan economic corridor (CPEC) is the pilot and flagship bilateral project between the two neighboring countries. The study encompasses the CPEC long term plan (LTP) and discusses its seven key areas of cooperation in detail. For instance, connectivity, energy, trade and industrial parks, agriculture and poverty alleviation, tourism, non-governmental exchanges and financial cooperation are areas of key cooperation, which have been explicitly covered in the study, using evidence-based case studies of the projects, initiated under CPEC in the early harvest phase (EHP). Specific policy recommendations have been given for each of the long term areas of cooperation, so that long term sustainability of CPEC could be achieved.

Apart from the policy recommendations, given in the aforementioned sections, following are some key recommendations which should also be considered to make CPEC a real game-changer:-

a. CPEC is a project of inclusive development of the country and is widely considered as a flagship of the Belt and Road Initiative (BRI) of China. Therefore, all efforts should be made by both the Chinese and Pakistani governments to maintain balanced development through even distribution of the projects and funding in all parts of the country, especially in the deprived provinces and regions including Balochistan, Southern KPK & FATA, Southern Punjab, Sindh, AJK and GB.
b. After the eighteenth constitutional amendment, responsibility for provision of amenities and infrastructure lies with the local,

provincial and regional governments. Hence, active participation of the local, provincial and regional governments is the key to make the CPEC infrastructure suitably utilized for development of the local communities. In this regard, five years plan for each province and region should be made in the light of the phased development of CPEC and accordingly in annual development plan (ADP) the local and regional projects should be prioritized to connect the CPEC opportunities with the local needs.

c. Capacity issues exist in general, especially in some of the under developed provinces and regions. Federal Government should support these provinces and regions to develop their plans and projects to catch up development in various areas and sectors and, thereby, make CPEC an inclusive initiative.

d. Maintaining fool-proof security of the CPEC alignments and projects is a basic condition for its timely construction and optimum utilization. All efforts should be made to uphold the security in long term.

e. China Pakistan joint development of export led industrial parks and special economic zones (SEZs) should be given priority to generate foreign exchange, deal with balance of payment issue and create new jobs.

f. Development of agriculture, tourism and mineral sectors should be focused to unleash the potentials of these untapped sectors.

g. Diversification of sources (countries) of imports and exports should be planned and realized in a strategic way. For instance, exports to China should be increased, so that heavy reliance on the western countries for exports can be balanced out.

h. Governments of China and Pakistan through several official and informal communications have urged that CPEC is an initiative of regional prosperity, therefore, private sectors of both the countries, other countries, international development agencies and other investors can participate in the development of CPEC. Hence, both the governments and business communities should make feasible projects and promote them for the participation of other countries and international investors.

i. Participation of private sector and diaspora is a must to use the enabling business environment prevalent in the country, with improved security, energy and infrastructure. International exportable brands should be invited and joint ventures should be launched for expanding the horizon of investment, trade and industrialization.

j. CPEC centres should be established in all universities across the country to conduct evidence-based research and development for different current and long term aspects of CPEC.

k. Entrepreneurial culture should be promoted in all the universities, colleges and skill development institutions to create social, environmental, business, legal, quality, industrial, hospitable, economic and financial entrepreneurs to connect the investors with the current and prospective opportunities under CPEC.

l. Environment friendly, and climate compatible development should be promoted to make CPEC a 'green corridor'.

m. Role of media and civil society is significant in the development of CPEC. Media and civil society should actively participate as knowledge partners in CPEC with the Ministry of Planning Development and Reform (MOPDR), as focal ministry for CPEC. Both should advise the ministry about the improvement potentials and leverage of CPEC. Indeed, the facts would shed off the myths launched by enemies and nay-sayers.

n. Timeline for initiation and completion of CPEC projects must be ensured, to offset the impact of inflation / increased costs.

The CPEC within short term has been able to initiate 42 projects, out of which 20 are complete or close to completion. Alongside the benefits given by the energy, infrastructure and Gwadar projects, the key contribution of CPEC is loud and clear i.e. Pakistan can no more be the victim of terrorism, rather it is the victor and, hence, is a safe haven for billions of dollars of Chinese investment. This has gradually changed the global perception about Pakistan and many countries across the world are currently in active communication with Pakistani and Chinese authorities to join CPEC and invest for the peaceful inclusive development of the region. In a way, CPEC is a 'mindset changer' which has changed the global perception about Pakistan, however, local opinion of CPEC has yet to be clarified and changed. CPEC can only be a game changer for the country and the region at large, if all the local stakeholders take its ownership with full clarity and contribute to support its development through knowledge, investment and promotion in the long term.

Concluding all, the three golden principles of the great Quaid Muhammad Ali Jinnah should be inculcated in the minds and souls of the nation i.e. 'unity, faith and discipline' to make Pakistan a shining star among the prosperous nations on the surface of earth.

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CPEC and Pakistani Economy: An Appraisal

Ishrat Husain*

Abstract

The media has sometimes carried opinions regarding China–Pakistan Economic Corridor (CPEC), exaggerating, detracting and understating its importance for Pakistan. This article identifies those components that have been approved, completed or under active implementation, without indulging in speculation about plans to come. Benefits that can come from CPEC are discussed with the reiteration that such benefits are not automatic. Therefore, the article outlines policy reforms and institutional arrangements that should enable Pakistan to derive maximum benefits for the economy, for large segment of the population and minimise risks.

Key Words: Corridor, implementation, institutional mechanism, policy reforms, special economic zones

CPEC should be considered, in the large context of the Chinese development model that has brought about an economic miracle, the Belt and Road Initiative, and China's stellar comparative advantage in infrastructure construction. It is only when we examine CPEC in this context, that we would be able to fully understand its importance and the likely impact. Any partial or fragmented approach in isolation would only compound the confusion and give rise to misperceptions and apprehensions.

China's development model, that has lifted more than 700 million people out of poverty in a short period of twenty-five years, has bewildered the whole world, particularly development scholars, and practitioners.[1] The progress achieved in less than a generation in transforming from a poor country with per capita income of $300 to become the second largest economy in the world, and top exporting nation on the globe has puzzled almost everyone.[2] How was it able to achieve this rapid and successful transformation? It seems that China has found a mid-way ground by combining an efficient market mechanism, with an effective and

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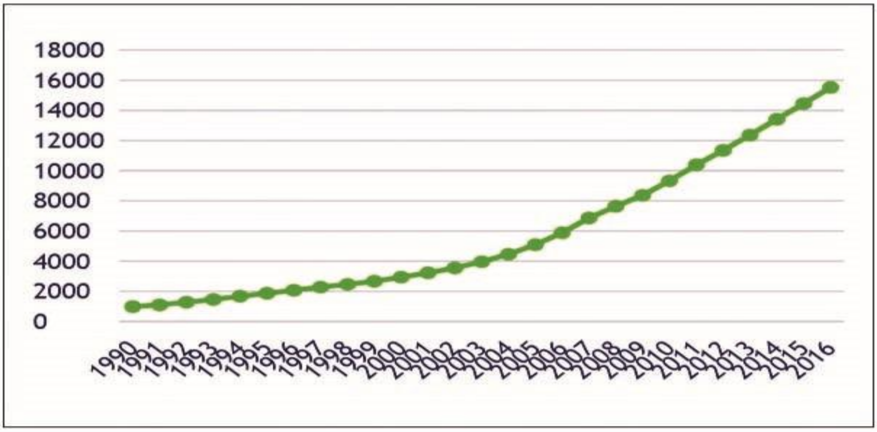
functioning government to accelerate economic growth and significantly reduce poverty. By combining the visible hand of the government with the invisible hand of the market, it has struck an equilibrium, in which the asset holders favored by the market create wealth and jobs, while the government, by providing infrastructure and social services, helps in redistributing the gains of growth among those who are unable to derive any benefits from the market mechanism.

Graph 2.1: China – GDP Per Capita USD – 1990-2016



Source: *World Bank data, China*

The Soviet economy collapsed because the State took care of the citizens' needs from cradle to grave, but was a big stumbling block in the creation and accumulation of wealth.[3] As the ever-growing demand of the population exceeded the supply of financial resources, it was inevitable that the economy would collapse.

In the capitalist system, only those who have capital or skills can make enormous returns and incomes, while the hands-off and non-interventionist policy of the State results in the less endowed population to fall below the poverty line. Before Obama Care was introduced, as many as 45 million Americans (approx. 14% of the population) did not have any kind of health insurance, and one sixth of the population was living below the poverty line, in the Citadel of Capitalism.[4]

The populism and backlash exhibited in 2016 elections by the U.S., the Brexit and rise of nationalist political parties in Europe are a manifestation of the deep-rooted frustration and disaffection by the segments of population that have been by-passed by this capitalist system. Pakistan has to seriously ponder if the Chinese development model can be adapted, modified and applied to suit our peculiar conditions. In a multi-ethnic society, wider diffusion of benefits to the large majority of the population, particularly the deprived regions of the country, should take precedence in the interests of social cohesion and national integration.

The scope of China-Pakistan economic relations should not remain limited to CPEC, but also broadened to include trade, bilateral investment, financial services and Transfer of Technology. The Free Trade Agreement (FTA) with China should be re-negotiated and the terms allowed to ASEAN countries made applicable to Pakistan also. Pakistani exports should be allowed less than equal reciprocity access. As the world's largest exporting nation, the penetration of Pakistani goods and products provide an attractive means for boosting employment and growth in Pakistan. In financial services, currency swaps between Yuan and Pak Rupee, expansion of Chinese bank branches in Pakistan and allowing Pakistani banks to open branches in China and availability of credit lines for cross border trade would reduce the transaction costs of doing business for both the countries, The second order effects of CPEC projects would be further spread as trade and financial cooperation are intensified. China has become a power-house in emerging technologies with applications to health, agriculture and industry that include clean energy, genetics, bio-technology and ICT. Pakistan should seek assistance of the Chinese scientists in training and collaborating in research with our scientists, by establishing laboratories and regular exchange programs. This would solidify the Research and Development base of Pakistan and this trained manpower, in turn, would adapt and diffuse these technologies for increasing productivity in our various sectors.

The Belt and Road Initiative (BRI) involves $3 trillion investment over the next 30 years, in nearly 60 countries, covering 60% of the population, and 33% of the global GDP.[5] The goals of BRI are Policy Coordination, Connectivity, Unimpeded Trade, Financial Integration, and People to People Bonds. Six major economic corridors, linking China with the rest of the world are developed – four land routes and two maritime corridors. In this region, the other noteworthy Corridor is Bangladesh – China – India – Myanmar.

It must be realized that while the threats to globalization and financial integration are emanating from its proponents such as the U.S. - the country which is making an attempt to preserve and relay the impulses of globalization, and, thus, help bring about prosperity to large segments of population, is China. President Xi Jinping made a highly persuasive and eloquent case for preserving and promoting globalization in his speech at Davos in January 2017.[6] BRI is by no means an altruistic endeavor - it is aimed at maintaining and augmenting China's comparative advantage in international trade, by opening new markets for Chinese goods. It would also help China in securing alternate trade and energy routes and generate new opportunities for investment in emerging markets by Chinese enterprises. In return, if the partner countries are able to derive maximum benefits through this connectivity, the end result would be a win-win situation.

China has the financial capacity to undertake this quantum of investment. If the BRI enables China to arrest its slow rate of economic growth, then, this capacity would be further strengthened and enhanced.

According to an article by Wang Yiwei in China Daily, China has signed 101 cooperative agreements with 86 countries and international organizations, carried out regular capacity cooperation with more than 30 countries, built 75 economic and trade zones with 24 countries along the routes, and made a cumulative investment of $50 billion in different countries, creating nearly 200,000 jobs since Belt and Road Initiative was first conceived.[7]

Given that, China enjoys huge advantages in infrastructure construction, the advancement of BRI will surely boost connectivity between China and the rest of the world. The growing economic and political power of China, which would get a further boost through the connectivity with 60 countries under the BRI has begun to raise serious concerns among the Western powers, which are likely to lose their hegemony. Attempts are being made through media, think tanks, and social media to raise suspicions and doubts in the minds of the intelligentsia and opinion makers in developing countries about the efficacy of these projects. A recent study by the Washington based Center for Global Development has already pronounced the judgment that eight developing countries, including Pakistan, are entrapped by the heavy burden of the Chinese debt. The highly respected magazine, The Economist in its cover story of March 3, 2018 has challenged the West: “It is a time for serious thinking about how to balance China more effectively, with a united front and without losing sight of the strength of democratic, accountable government and free press and independent courts. Instead the West feels tired, timid and tetchy. From Washington to capitals of Europe, the air is filled with call for more aggressive screening of investments and proposals to deny Chinese academic visas.” The struggle between the rising power of China and the eroding influence of the West would have unintended adverse consequences for the developing countries. Pakistan’s expanding ties with China and the US’s with India in this struggle would play a major role in systematic efforts to discredit CPEC in the eyes of Pakistani opinion makers, opined writers, talk show and seminar participants.[8] This does not mean that genuine criticism and shortcomings of CPEC projects should be swept away and ignored. A sense of blind faith should not prevail among the negotiators or policy-makers and maximization of the national interests of Pakistan should be the sole criterion for build-up of the portfolio under the CPEC.

CPEC is only one component of the Belt and Road Initiative (BRI) of China.[9] CPEC offers great advantage to China, as it gains physical access to the Indian Ocean and closer proximity to the Middle Eastern oil resources. It would reduce its dependence on Straits of Malacca, through which 85% of its oil imports travel.[10] Savings in the cost of transportation for Chinese exports and imports from the Western China would help boost the economy of this backward region. There is no doubt that reduced transaction costs and turnaround time through this network would serve China’s economic interests and particularly its Western provinces. But it would not come at the cost of any damage to Pakistan’s economic interests. It is the concentrated efforts of the Government and the private sector of Pakistan, which would determine if the benefits are shared equally or disproportionately.[11] A confrontational, adversarial and non-cooperative approach within Pakistan, where the provinces blame the Federal government, the Government complains about the lack of capacity in the provinces, the private sector believes it is being ignored and by-passed or a level playing field is not available to them, would definitely end up in diminished benefits to the country. CPEC should not also be considered as a substitute for relations with other powers in the region or the world, but as a first step towards using the country’s strategic location for economic advantage rather than for geo-political purposes, which has only brought us infamy in the world and huge losses in financial and social capital domestically. If CPEC is successfully implemented, there is no reason as to why we should not develop the East West Corridor, connecting South Asia with Afghanistan, Central Asia and China and also Gwadar-Iran land rail and sea links.

How is Pakistan going to derive maximum gains from CPEC or is it altogether for China's own interest? To begin with, a more collaborative, synergetic and constructive approach followed by all the stakeholders, is quite critical. In my view, the present cynical and suspicious atmosphere propagated by certain sections of the media and intellectuals in Pakistan, it is not all conducive, and may, in fact, be a self-fulfilling prophecy with disastrous results. Unfortunately, both the champions and detractors of CPEC have done a great disservice. The impact of CPEC on Pakistani economy has been highly exaggerated by its proponents and champions, while it has been vastly understated by its detractors. Some of them have created unfounded fears and apprehensions.

We must first spell out what is likely to happen over the next 15 years. To trace the economic consequences, we need to identify those components that have been approved, have been completed or are under active implementation such as Early Harvest Projects. It is not advisable to indulge in speculative analysis of the projects that are still under planning stage or are included in the Long Term Plan for preparing feasibility studies first. This article, however, proposes later on some safeguards and guidelines for those projects also as part of the action plan of policy reforms and institutional restructuring. Out of the originally approved CPEC allocations of USD 45 billion for the period 2015-30, as much as USD 35 billions are earmarked for Energy projects, including Generation and Transmission.[12] The priority of CPEC is, thus, very much responsive to meet the immediate economic needs of Pakistan. Under the Early Harvest program and Short Term Projects to be completed between 2015-2020, projects worth $ 23-26 billion are to be undertaken for the three components: Energy, Infrastructure and Gwadar. While Energy projects are investment by the Chinese companies in the IPP mode under the established policy of the Government of Pakistan, the infrastructure projects are financed through Government to Government loans at a concessional rate of 2.4 percent average with an extended repayment period and most of the Gwadar projects are based on grants. Missing from these amounts is the ML1 Railway project, costing over $ 8 billion for upgrading the track from

Karachi to Torkham. This project is still under study and the terms have not yet been finalized.[13] It may be clarified that most of the Western Route projects are being financed by the Government of Pakistan out of its own resources under the Public Sector Development Program and these are not reflected in the above allocations. Although Special Economic Zones (SEZs) for industries are mentioned in the approved program very little work, except identification of nine zones has taken place.

As mentioned earlier, bulk of the allocation $ 35 billion out of 46 billion would be utilized for adding generation capacity of 11,000 MW by 2020 to ease the crippling shortages of power.[14] Fuel sources would be diversified and LNG, Coal, Wind, Solar and Hydro-power, replacing Furnace oil, projects generating about 3720 MW have been commissioned or are expected to be commissioned in the next few months. 70 percent feeders in the national grid system are at present free from load-shedding. The real test would be whether supply and demand for power during the peak hours in the coming summer are in equilibrium. This would be the most tangible achievement of CPEC that can speak for itself. Infrastructure projects that span the Western Route, Central Route and Eastern Route are at various stages of contracting, construction and completion.

The overall possible contribution of CPEC to Pakistan's economy has been highly exaggerated in some quarters, as if the country did not achieve anything before or is unlikely to do better in future in absence of CPEC. Pakistan's current annual investment outlay by the public, private and foreign sectors amounts to USD 45-50 billion. CPEC's annual average investment of USD 3 billion would account for around 6 percent of the total and, therefore, any claims that it is going to be the only game in town are not substantiated by this empirical data. Over time, as the country's economy grows even by 5 percent annually and investment rises correspondingly, the share of CPEC projects would keep on declining to less than 3 percent of the total investment by 2030. What it would do, however, is to change the perception of Pakistan among other foreign countries as an attractive destination for investment. It would help in easing the power shortages, building Gwadar port and city, upgrading the quality of railway network, connecting the backward districts of Balochistan and southern KP with the national markets through the Western route and proposed Railway link connecting Gwadar with Jacobabad. CPEC is the first major initiative that could play a pioneering role in taking advantage of Pakistan's strategic location. Following this, other corridors connecting the East-west and

Pakistan-Iran and Pakistan-Afghanistan–Central Asian States can be established. What it is not going to do is to industrialize Pakistan overnight, as even the planning for industrial zones has not yet begun or take care of the our youth employment problem in any significant way (at the best only 400,000 new jobs are to be created by CPEC projects during this entire period, while 1 million youth enter the labor force every year) or bring about extraordinary prosperity and transform the country economically into another Korea or Vietnam. These are unrealistic expectations that need to be tampered and those proponents of CPEC, who are making such claims do not realize that they are, in fact, doing a great disservice.

The detractors of CPEC are also blatantly wrong, when they assert that Pakistan would not be able to service the loans and repatriate the profits to Chinese investors, due to declining exports, depleting foreign exchange reserves, an unsustainable current account and a heavy debt servicing burden.[15] The country would be trapped in serious debt obligations to China which would provide the latter a leverage to take over all assets, including Gwadar. A cool and dispassionate analysis would reveal that the crux of all these problems lies in the energy crisis that brought Pakistani exports down from USD 25 billion to 21 billion (see the Chart below for both goods and services). Export orders could not be fulfilled, as the exporters did not have reliable and uninterrupted power and gas supply. Had the energy constraint been absent, a growth rate of 10 percent annually would have been achieved in the last four years (during 2002-08 export growth rate was 14 percent and in the first eight months of FY 18 exports have risen by 11 percent as the load shedding has eased). In that case, Pakistan's exports would have reached USD 36 billion in FY 18. Current account deficit with the unchanged volume of imports would have been lowered by at least USD 15 billion and the need for short term commercial borrowing would not have arisen. Foreign exchange reserves would have been healthy and debt servicing burden manageable. Debt and Debt servicing projections prepared by the Ministry of Finance for the period 2018/19 to 2022/23 show declining debt servicing ratios . The additional burden of CPEC debt as well as repatriation of profits on investment would not create any stress and is quite manageable.[16] IMF has estimated that at its peak the repayments on both debt and investment account would be between 2.5 to 3 billion annually. This amount can be easily absorbed by increased exports, savings in imports of fuel, transit fees etc. Thus, the fear of Debt entrapment does not stand the test of empirical validity.

Graph 2.2: Pakistan: Export Goods Services 2001-2016 (Current USD billion)

Source: *World Bank Data, Pakistan*

Going forward, the key to Pakistan's economic stability and revival does not lie in the CPEC, but in improving the competitiveness of our exports, by (a) removing the problems of their liquidity and paying their refunds promptly, (b) reducing the cost of doing business, (c) minimizing the hustle caused by government functionaries and (d) providing the exporters access to gas and power at affordable prices. A country, where domestic consumers are subsidized at the expense of the exporters, has its priorities completely wrong. Along with this upsurge in exports, an acceleration in the economic growth rate by 1.5 to 2 percent arising from assured energy supply, reduced costs of logistics and savings in imported fuels would strengthen Pakistan's repayment capacity well beyond the USD 2.5 to 3 billion – the amount that we have to pay annually on account of debt servicing and return on equity for the CPEC projects.[17] However, it must be once again reiterated that the realization of these benefits is not automatic and without concerted efforts on many fronts.

The focus of this article is, therefore, to outline the **policy reforms** and **institutional arrangements** that should enable Pakistan to **derive maximum benefits for the economy**, for **a large segment of the population**, and **minimize risks**. The proposed action plan should contain the following measures:-

a. As generation projects are completed and become fully operational, the Circular Debt quantum is likely to rise, creating stress on public finances, unless the **Transmission and**

Distribution losses are **brought down** and electricity dues are fully recovered. This can only be done either by restructuring the DISCOs or privatizing them and introducing competition. Upfront tariffs and guaranteed Take or Pay and return on equity arrangements for generation plants should be replaced with auctions and multi-buyer and multi-seller competitive market model as soon as possible.[18] Some of the existing contracts can be bought out. Consumers particularly industries would get relief from the existing high tariff structures.

b. Western route connecting Gwadar to KKH should be given priority, as it would open up the backward districts of Balochistan and integrate the population with the national market for goods and exchange. Education, health, drinking water, vocational training and credit facilities should be made available to the communities, living along the Western Corridor to improve their economic and social conditions. Careful planning should be done, so that the local population benefits in the form of employment, contractual services, rural roads & transport services and agriculture development in the districts, where industrial zones are built. The proposed rail link connecting Gwadar to Jacobabad should also be taken up for implementation on a priority basis to increase the effective movement of inbound and outbound freight from the port, reducing the cost of goods exchanged between Balochistan and the rest of the country .

c. To facilitate effective Coordination between the Federal, Provincial and local governments on one hand, and the private sector on the other, a highly empowered agency should be established to take timely decisions, review the progress and resolve implementation problems. The present system of obtaining clearances, NOCs by multiple agencies in a sequence is time consuming and costly and should be revamped.

d. The present reported cost estimate of the cost per kilometer of the up-gradation of Main Railway line between Karachi to Peshawar appears quite high in relation to other similar double tracking projects. Including the complementary investments in locomotives and wagons, the economic viability of this project may require future recurring subsidies from the state. Different design features should be applied to bring down the costs and make it feasible. Physical upgradation must be accompanied by building of capacity within the Railway organization to operate, manage and maintain the system in an efficient and commercially viable manner.

e. As the labor costs in China are on a gradual incline, some of the labor intensive export industries are no longer competitive there. Joint ventures between the Chinese and Pakistani companies ought to be given preference for location in the industrial zones, in which technical know-how, design, connection with the buyers in international markets and supply chain management functions would be carried out by the Chinese with Pakistani partners providing low cost fabrication facilities.

f. An autonomous governing board and fully empowered but accountable management should run the affairs of the Special Economic Zones (SEZs), where all the infrastructure, utilities, land acquisition & development and facilities are established before handing over the possession to the industrial units. In case the sponsors are unable to complete the project within the stipulated time, the allotment of land should be cancelled and no secondary sales allowed to curb land speculation. Once these bodies are functioning, and the Zones become operational, the role of Provincial Economic Zone Companies should not extend to these nine zones.

g. The guidelines for investment in the Special Economic Zones should be widely disseminated. The principle of level playing field to every investor whether Chinese, Pakistani or foreigner should be strictly adhered to. All concessions, tax exemptions, subsidy preferences, credit etc. should be made available to all the investors in a transparent manner. Regular consultations with the private sector in the planning of the zones should be held to keep them apprised, but also seek their feedback and views, as they are going to play a critical role in populating these zones. Board of Investment should take active measures to attract non-Chinese foreign private investment in these zones, as well in addition to Pakistanis and Chinese.

h. Preference should be given to: (a) local residents in employment contracts, and service provision in the SEZs ,(b) industries that are export oriented, (c) employ 80% of the Pakistani workers – skilled, semi-skilled and unskilled, and (d) those sub-contracting with the small and medium industries, and using local raw materials such as Horticulture, Livestock, Fisheries, mineral resources. Various types of clusters should be set up in these SEZs. Domestically manufactured goods should be brought on a par with the Chinese goods, in the treatment of taxes. Dumping of Chinese goods at prices lower than the international benchmarks should not be allowed.

i. Attention should be paid to job creation, skill up-gradation and professional training of Pakistanis working with the Chinese on these projects. One of the competitive advantages of the Chinese companies is to complete the projects on time and deploy cutting edge technologies. The training of Pakistani engineers, working on CPEC projects in China along with the accompanying transfer of knowledge to and project management would enhance the highly skilled manpower inventory of Pakistan and prove a major boon to Pakistani economy in the long run, and must remain on the top of our agenda.

j. Backward and forward linkages of CPEC projects to the Pakistani economy should be appraised systemically and materialized. Cement, steel, automobile, cable and electrical goods, and trucking industries are likely to benefit largely from these linkages. Complete information about the timing, phasing and quantum should be made available to all concerned, so that Pakistani businesses can prepare themselves for supplying goods and services required for all the CPEC projects - ongoing or future additional demand estimates should be firmed up for the entire portfolio and disseminated widely.

k. There is no room for complacency about Gwadar's future, as a deep sea port and hub in view of intense competition from Salalah, Jebel Ali, Bandar Abbas and Chabahar. Commercial promotion and presentations about this new port's benefits to the businesses, such as a vast hinterland, should remain a continuous activity. To attract talent, the living conditions and habitat in Gwadar should be upgraded. Gwadar's development as an urban center, particularly in providing potable drinking water supply, electricity and roads should not lose sight of the requirements of the population of the district, and the adjoining areas in Makran division. Local population of the district and adjoining areas should be trained, employed and given all possible opportunities to fully participate in Gwadar's development. Potable drinking water remains a serious problem for the residents of Gwadar and expeditious arrangements should be made to meet this pressing need. Fisheries Industry in Gwadar, which provides sustenance and livelihoods to a large section of population, should be taken up for modernization.

l. Pakistani businesses should be made aware of the working mode and practices of the Chinese companies. At the same time, the Boards of Investment of the Federal and provincial governments must play a proactive role in identifying opportunities for joint ventures, sub-contracting, and supply chain participation for Pakistani businesses. Facilitation Centers should be established in each SEZ.

m. Environmental Protection and Green Technologies should be prime considerations in the selection of the projects in the SEZs. Coal-based energy projects should remain limited to the Thar area, where coal deposits are plentiful, but imported coal based energy projects ought to be disallowed. Renewables such as Hydropower, Wind and Solar offer much better return on investment, have lower tariffs, and are also clean. New investment must be allowed only in these sub-sectors, saving foreign exchange on import of fossil fuels. Industrially effluent plants must be made an integral part of the infrastructure facilities of each Zone.

n. Business schools should organize collaborative short-term Executive Development programmes, in which both the Chinese and Pakistani businesses can interact with each other.

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Leveraging CPEC for Shared Prosperity

Haroon Sharif*

Abstract

There are varying experiences across the globe about conversion of transport corridors into real economic corridors. The success of China-Pakistan Economic Corridor (CPEC), as an economic and strategic corridor for shared prosperity and stability in the region, is the biggest test for both China and Pakistan. This article highlights key risks, challenges, opportunities and strategies for both countries to prioritize targeted investments in industrial and agriculture sector partnerships. Based on the global experiences, the article points out policy options to deal with capacity gaps and related steps required to convert CPEC to a true economic corridor in a timely manner. Corresponding risk mitigation strategies for institutional, geo-political, business, knowledge and sector specific risks are also articulated. In order to leverage its potential, it will be critical for CPEC to connect with neighbouring economies of West and Central Asia to make it a regional initiative, led by Pakistan.

Key Words: institutional, game-changer, risk mitigation, debt trap, industrial revival.

Current Status

China and Pakistan's historic strategic friendship is being converted into business joint ventures worth over USD 60 billion under the China-Pakistan Economic Corridor (CPEC). This new business partnership has an unprecedented impact on foreign policy, security, economic, political and social landscape in Pakistan and in the region. For Pakistan, the scale of

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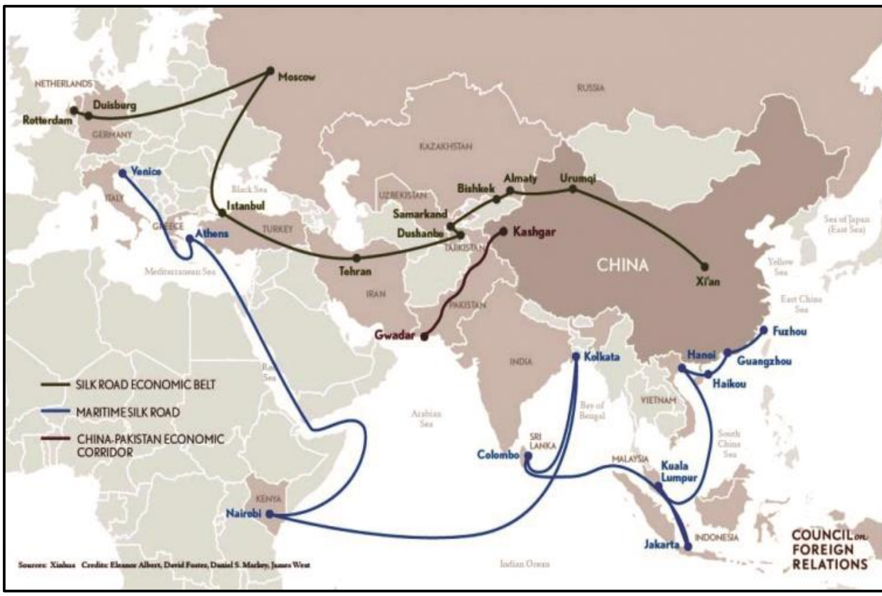
ambition is huge and considered a ‘game and fate changer’.[1] If CPEC projects start supplying much needed electricity and goods start to flow from Southern port of Gwadar to Western China, Pakistan’s GDP could grow by 2% per year according to some estimates. More importantly, the CPEC could shift the prevailing national narrative marred with conflicts, fragmentation and weak democracy to economic cooperation and prosperity.

Map 3.1: China’s Proposed New Silk Roads



CPEC has created huge interest as well as skepticism among traditional Western and Asian players in the South Asian landscape. In the eyes of Washington, India and, perhaps, Tokyo, CPEC is a strategic move from China to gain access to the Indian Ocean to encircle India through the deep-sea port of Gwadar in the southern province of Balochistan. Though, according to Andrew Small of the German Marshall Fund, improving transport links through the mountainous neck of land that joins Pakistan to Xinjian province in Western China is one of the lesser priorities in CPEC. China is certainly interested in Gwadar, as a strategic naval port in Indian Ocean, but they would have done that in any case. Most of CPEC investments are aimed at improving Pakistan’s economy and opening up a large neighboring market for China.[2] A more dynamic Pakistan would certainly help China for counter-balancing the deepening relationship between India and the USA. The militancy links between Xinjiang and extremist forces also worries China.

The success of CPEC is crucial for both China and Pakistan. Pakistan has a poor track record of implementing reforms and large projects, whereas, China's investments in Sri-Lanka and Africa resulted in a huge loss of face due to poor structuring and lack of respect for local economic, cultural and political dynamics. In addition to the security, politics and capacity related risks, Pakistan has to deal with several other risks. The IMF has already warned Pakistan about a looming balance of payment crisis, where CPEC loan repayments are a huge component of current account deficit. China has not traditionally bailed out investment partners in a balance of payment crisis, but they may have to support Pakistan to avoid a potential trust deficit between the long-time strategic friends. It is interesting to note that while China is largely perceived as Pakistan's great friend, Pakistani people have had very little interaction with Chinese people and there are huge cultural and language barriers between the two nations. CPEC is bringing large number of Chinese people into Pakistan, which is causing all sorts of adjustment problems. At the end of the day, people of Pakistan must see benefits of CPEC to their livelihoods.[3]

Key Challenges, Risk Mitigation and Strategic Opportunities

The Capacity Mis-match

Developing countries often falter on delivering large-scale projects, due to weak institutions and technical capacity. In case of CPEC, there is a stark difference of capacity between China and Pakistan, which is causing delays in timely and proper implementation of various initiatives. Over the years, Pakistan's civil service has gone weaker in terms of planning and implementation of development policies and programs. This has also led to a rather dangerous dependence on international lenders and partner countries, who do not understand the political and cultural dynamics of Pakistan. In this initiative, world's second largest economy with Gross Domestic Product (GDP) of 11,218 billion US dollars is going to join hands with a developing economy of Gross Domestic Product (GDP) of 284 billion US dollars.[4] The institutional capacity gaps between the two countries are evident from the selected Global Competitiveness indicators as mentioned in the table below.

Table 3.1: Global Competitiveness Indicators

Sr.	Competitiveness Indicator[5]	China	Pakistan	Differential
1	Transparency of Government policy making	45	97	52
2	Bribes and Irregularities	49	102	53
3	Property Rights	53	115	62
4	Wastefulness of Government Spending	19	58	37
5	Legal Efficiency in Settling Disputes	45	83	38
6	Business Cost of Crime and Violence	64	121	57
7	Burden of Government Regulations	18	64	46

It takes a huge effort and time to build institutional capacity of state. Pakistan has a world class managerial expertise in the private sector and the best option for Pakistan is to evolve a public-private partnership framework for CPEC implementation. For this, the country will have to adopt a governance structure, which could insulate project implementation from political interference. This will not only attract good managerial expertise from the market, but will also give confidence to China about quality and efficiency of its investments. Most importantly, this mechanism will bring much needed knowledge of CPEC to the people of Pakistan, who are still struggling to demystify the populist political narrative of CPEC.

Pakistan's domestic politics is intense, volatile and lacks institutional capability to develop consensus on major structural reforms. The political power remains fragmented between the military and civilian regimes. While the democratic process is gaining strength and getting more maturity with the completion of second successive democratic government, it will take a long time for political leadership of mainstream parties to agree on national priorities like the CPEC. Policy inconsistency is the most damaging aspect of Pakistan's political structure that has hampered economic growth. Behind the democratic process, there is a strong elite capture of vested local interests of powerful families that have been creating hurdles against progressive reforms in Pakistan. According to Carnegie-Tsinghua Center for global policy, various parties within Pakistan have disagreed a lot about how CPEC transportation routes should be mapped out. The competing parties are primarily interested in how the cake should be divided, so to speak. To strengthen its respective standing among the electorate, each of Pakistan's political parties hopes the CPEC will pass through the region it represents, allowing its local community to enjoy the corridor's benefits. In fact, since the initiative was first presented in 2013, the debate over which route the CPEC would follow caused substantial delays. The best way forward would be to hand over implementation of industrial zones and other infrastructure projects to independent professionals, where the state limits itself to a strong regulatory and monitoring role.

Due to cultural differentials, it is not easy for Chinese and Pakistani officials to plan, negotiate and agree on CPEC priorities in a straight forward manner. Although both countries have been strategically very close for decades, but the people to people contact has remained minimal. Both countries will have to massively increase investments in training people on each-other's managerial practices, languages and other cultural sensitivities. Pakistan must benefit from China's phenomenal research and development expertise in all spheres and link up its universities and think tanks with south and west Asian neighbors. It is the exchange of skilled youth, which will generate ideas and strengthen the regional integration for shared growth and stability.

A Potential Debt Trap?

Before commenting on the economic and strategic risk of CPEC on increasing debt burden and possible risks to sovereignty of the country, it is important to understand the structural flaws in Pakistan's economy. The structure of economy and economic management in Pakistan have not changed for the past three decades. Pakistan's economy shows periods of good growth in the range of 5-6% and, then, fails to sustain it, due to chronic fiscal and balance of payment related imbalances. The growth momentum is then broken, and the focus moves towards stabilization through monetary tightening and compromising investments needed for a sustained growth period. It is pertinent to note that Pakistan has one of the lowest savings and investment to GDP ratios in Asia. Extraordinary commitment and efforts are needed to create the required fiscal space to double the investment levels in Pakistan.[6]

While Pakistan's economy has shown upward growth trend during the past three years, it is significantly lagging behind India and Bangladesh. Pakistan's growth is mainly driven by consumption (private and public) through services sector and some revival of manufacturing and agriculture due to CPEC related activities, improved power sector and better security situation. However, this growth is not sustainable unless budget and current account deficits are reduced and exports are revived.[7]

Once again, Pakistan is faced with serious fiscal and balance of payment imbalances. The more serious component of the twin deficits is the burgeoning Current Account gap which has increased by 50% upto February 2018.[8] Although exports have picked up by 12%, the imports have risen at a faster rate of 18% over the same period. Since Pakistan's economy is sensitive to external shocks like the potential increase in oil prices or an adverse geo-political development linked to Pakistan, this situation has once again become alarming. Even after phasing out of the CPEC related machinery imports and tapering off of inventory build-up in anticipation of a further rupee depreciation, there will be a significant gap in the foreign exchange reserves, which will require medium term support.

It is expected that Pakistan will go back to the IMF program to maintain at least two months of import cover and to give confidence to the international creditors.[9] In a time of political transition, it is unlikely that 'other sources' could help Pakistan with large cash inflows. Prima-facie, the Fund will ask for further devaluation of rupee, slowing down on CPEC imports, substantial cuts in public sector development program and increase in energy tariffs.

In the nutshell, the above situation is not new to Pakistan but the sentiment in Washington is less favorable at this point and will have an impact on the IMF negotiations. This situation will slow down CPEC implementation for a few years and the economic growth will continue to suffer unless structure of the economy is reformed and CPEC helps improve exports to China.

Industrial Revival through CPEC

Pakistan's structure of economy has not changed for decades and the country continues to rely on uncompetitive industries that could only survive on state patronage. Successive governments have failed to reform the industrial sector, which has lost competitiveness due to lack of innovation and high cost of doing business. The table below shows Pakistan's narrow export base.

Table 3.2: Pakistan Narrow Export Base

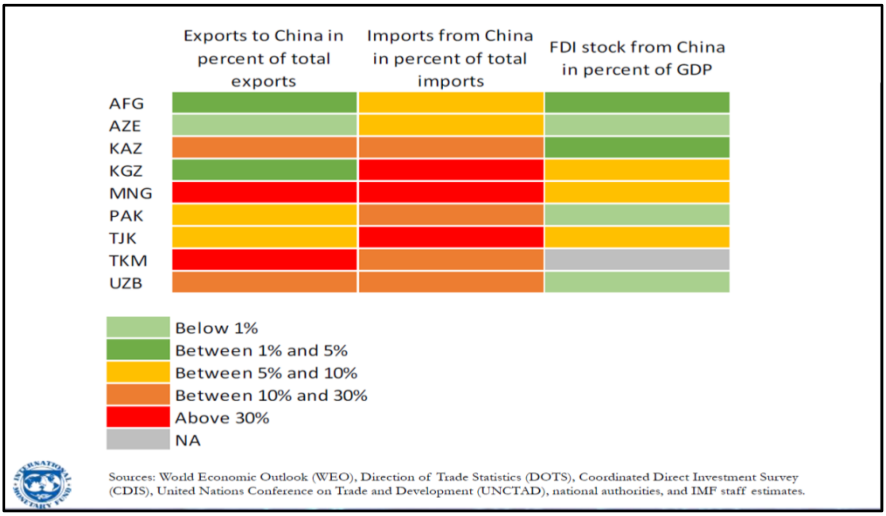
Commodity	Share
Textiles and Clothing	58.48 %
Vegetable	14.53 %
Hides and Skins	5.04 %
Food and Products	3.91 %
Animal	3.20 %
Minerals	2.68 %
Metals	1.77 %
Chemicals	1.62 %
Plastic or Rubber	1.36 %
Fuels	1.20 %
Mach and Elec	1.16 %
Wood	0.52 %
Footwear	0.54 %
Miscellaneous	3.35 %

Source: *WITS World Bank http://wits.worldbank.org*

China is willing to encourage reputable Chinese companies to invest in Pakistan, but it also expects Pakistan to develop plug-and-play industrial zones, provide raw material to feed its textile cluster in Kashghar and provide preferential policies. According to the CPEC Long Term Plan, the foundation of future industrial cooperation should be laid out on the relative strengths of the two countries, with China bringing 'experience, technology, financing and industrial capacity' to the table, while Pakistan can contribute through favorable resources, labor force and market opportunities.[10]

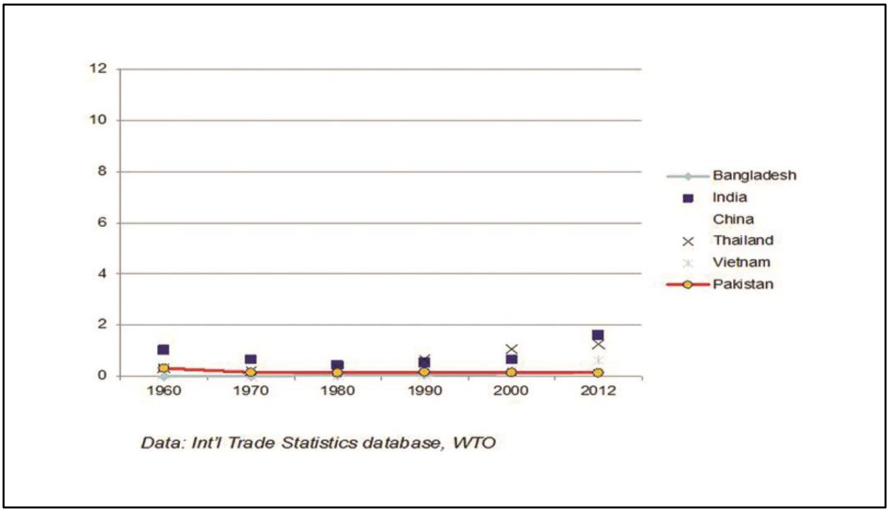
An industrial partnership on above lines is highly risky, as Pakistan has not clearly identified its own priorities for industrial cooperation under CPEC. As indicated before, the capacity gaps in the state institutions are huge and expecting a progressive evidence-based plan will be stretching it a bit too far. If Chinese companies take the acquisition route, the hostility against Chinese investors will further rise. There is a clear need for developing a joint document based on the potential to contribute to Pakistan's growth objectives. Creating jobs for youth through private sector will lead to export-oriented industry. The Chinese side should re-visit their model and look for technology transfer to local entrepreneurs through joint ventures. Only this approach will create opportunities for collaborative business-to-business linkages e.g. joint ventures, and access to Chinese markets.

Figure 3.1: Spillovers from China are Driven by its Growing Trade & Investment Linkages with the CAREC Region



In order to convert the transport corridor into an economic corridor, the government of Pakistan needs to make well-planned complementary public investments in road infrastructure to connect industrial clusters and markets with the CPEC route. Targeted interventions are also needed to upgrade appropriate skills of the workforce in Pakistan. Pakistan's technical level labour force has a significant comparative cost advantage over China and India at the moment. Supporting business environment improvement will be vital to create incentives for local and international investors. Currently, the regulatory structure has not made required adjustments to facilitate investors intending to benefit from the transport corridor investments. If planned and managed properly, the nine economic zones could offer a fantastic opportunity for industrial revival and partnerships. It is strongly recommended that an independent professional body with world class private sector development expertise be created to plan, develop and manage these economic zones. The proposed economic zones should offer a level playing field to international investors and may learn from global best practices like the Dubai International Financial Center (DIFC) for an independent governance system. The security of these zones will of course remain the responsibility of state.[11]

Figure 3.2: Pakistan's Export Competitiveness



A well thought out plan of working with Chinese firms needs to be chalked out, as the differences in competitiveness between Pakistan and China might mean that the reduction in barriers to trade result in more Chinese products flooding the Pakistani market, contributing to premature de-industrialization. Pakistan must avoid heavy incentives to Chinese firms, as this may not only lead to a disproportionate cost to the exchequer, but may also limit the possibility of positive spillovers to the Pakistani economy. A clear understanding will be needed to absorb Pakistani labour force in these joint ventures to ensure job creation and local ownership of these investments. Speculative land purchases by foreigners might price out local firms as well.

Agriculture Sector Partnership

Looking at the CPEC Long Term Plan, agriculture sector of Pakistan is of a particular importance for China, as a long-term source of affordable food products. An effective cooperation strategy between Pakistan and China can prove to be greatly beneficial for both countries. For Pakistan these dividends could come in the form of new export opportunities, improved technology, private investment flows and growth for local enterprises within agri-business sector.[12] Due to a lack of institutional capacity, fragmentation among power groups, huge knowledge gaps and lack of proper disclosure, Pakistani side does not appear to be ready to capitalize on this opportunity at this stage.

In 2015, Pakistan exported agriculture products worth $303 million to China. Pakistan's exports to China are mainly concentrated in a few products – cereals, beverages, edible fruits & nuts, and residue of food industry. Almost half of the Pakistan's agriculture sector exports to China comprise cereals, which include rice, wheat, muslin, maize or corn, barley, rye and oats. The second largest category is beverages, spirits and vinegar, which constitute almost $90 million of export earnings. Raw agricultural products constitute 68% of total exports to China, while value-added processed items account for 32% exports to China. China's imports of agro and agro-processed items from the world amounted to a cumulative $76 billion in 2015. A variety of agricultural and agri-processed products are imported by China, ranging from oil seeds to fruits, vegetable and flour. The share of Pakistan's exports in total imports of China is nominal.

Figure 3.3: China's Imports of Food and Agricultural Products

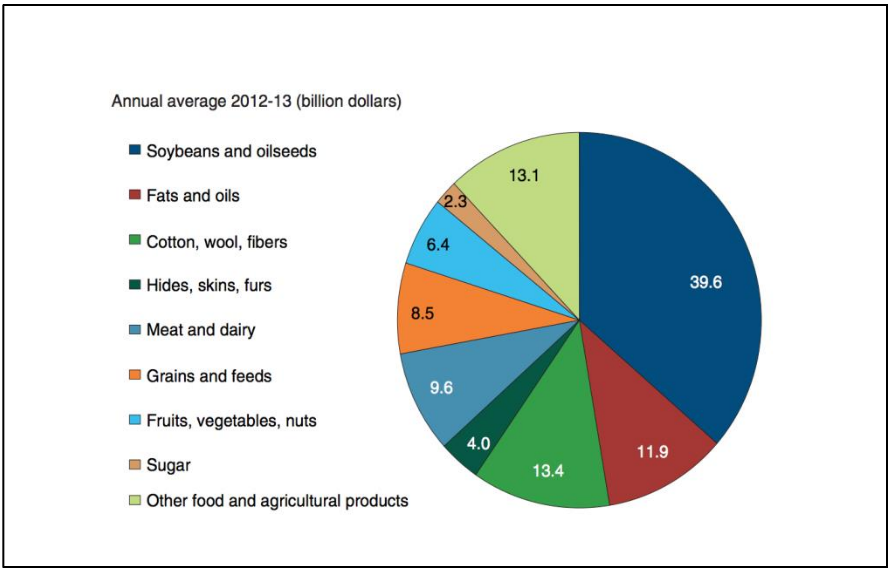
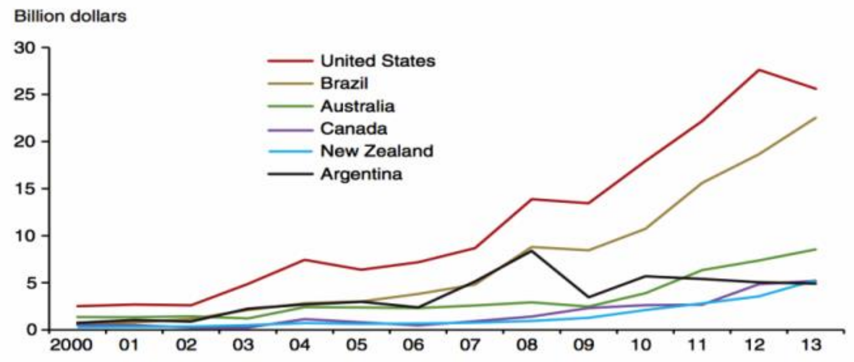


Figure 3.4: China Agricultural Imports, by Supplying Country, 2000-13



Source: USDA, Economic Research Service analysis of China's customs statistics reported by the Global Trade Atlas (2014).

Pakistan's inability to define its comparative advantage in the agriculture sector is a major risk for CPEC partnership. This is mainly about an absolute lack of credible research and extremely weak planning on part of the successive governments. The huge knowledge gaps will open up space for vested interests to distort the facts and contribute towards all kinds of conspiracy theories. The potential demand for agricultural produce is huge in China and this should be looked into more seriously as a primary source of export earnings, increased productivity through technology transfer and attracting private investment. Although agriculture is a devolved subject to the provinces, the Federal Government can create a 'value chains development and innovation fund' to signal their interest in developing this sector as a priority for CPEC. This fund could provide risk capital and support value addition initiatives in targeted products like rice, livestock and dairy based on rigorous diagnostics and identification of high opportunity areas.

Having devised a business strategy for agriculture sector, the second biggest challenge will be the removal of tariff and non-tariff barriers, impeding export growth in agriculture products through re-negotiation of Pak-China Free Trade Agreement (FTA). Some of the identified areas include: better tariff for rice under the FTA at par with China's other trade partners; removal of non-tariff barriers for citrus gaining access to China by road with lower transportation cost & time and saving the need for cold treatment; modernization of custom procedures with laser scanners and sniffer dogs to allow checking packages without opening them; training of anti-narcotics teams for strict adherence to procedures and no unnecessary physical inspection; setting up of inquiry portals, where exporters can gain information regarding technical requirements of their target markets, developing internationally recognized indigenous accreditation capability, creation of domestic certification bodies to provide metrology, testing and accreditation service, etc.[13]

Pakistan and China should develop technology partnership for technical exchanges and cooperation on areas like water resources and water-saving techniques, crop seed reproduction, breeding and production technology, agricultural products processing, animal & plant epidemic prevention & control, mechanization demonstration, ICT-enabled agriculture and remote sensing technologies, post-harvest agricultural practices, including storage, transportation and agricultural processing.

Conclusion: Prioritization will be the Key for Shared Prosperity

The transport connectivity through CPEC is making good visible progress and there is a clear need to leverage this investment into economic and strategic gains for the common people of Pakistan. Both China and Pakistan cannot afford to lose this opportunity due to the risks of capacity gaps, weaknesses in shared planning, volatility of Pakistan's fiscal situation, geo-politics and lack of level playing field for the local and international private sector investors.

CPEC is a huge ambition for Pakistan and its success will depend on prioritizing investments in energy, industrial and agriculture sectors. Local ownership of CPEC investments is crucial for sustainability and maximization of economic and strategic gains. For this, a transparent public-private partnership structure will have to be evolved with much higher participation of private sector management. It is of utmost importance that this framework insulates economic projects from internal political fragmentation and interference.

China and Pakistan need to invest more on shared business planning for both the agriculture and industrial sector cooperation. Pakistan is facing a serious balance of payment crisis, due to declining exports and rising imports. By transferring capital, technology and opening its market by developing value chains, China could help Pakistan overcome its chronic structural weaknesses in the export sector. A stable Pakistan will ensure timely implementation and wider ownership of CPEC. Enhanced scale and productivity in the agriculture sector of Pakistan will be a win-win prospect for both China and Pakistan.

The new political government will have to make tough decisions about steering the public investments towards development of the priority sectors under CPEC. A macro-fiscal framework will have to be agreed-upon to minimize impacts of CPEC related imports on Pakistan's already fragile external account situation. Cross cutting investments in knowledge production and exchange will be vital for strengthening ownership and timely implementation of CPEC initiatives. At this point, knowledge about cultural and business practices in China and Pakistan is at a minimal level. This may pose a major threat as the investments and people to people contact will continue to increase in coming days.

Finally, connecting CPEC to the regional markets of West and Central Asia will be crucial for stability in the region. This will open up exciting opportunities for international investors in a new connected economic geography, consisting of a market size of over 0.5 billion people.

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[8]A country is said to have a trade surplus if its exports exceed its imports, and a trade **deficit** if its imports exceed its exports. Positive net sales abroad generally contribute to a **current account** surplus; negative net sales abroad generally contribute to a **current account deficit**.

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BRI and CPEC: Prospects for Pakistan

Safdar Ali Shah*

Abstract

China-Pakistan Economic Corridor (CPEC) is a flagship project of China's Belt and Road Initiative (BRI) or One Belt One Road (OBOR) project, which provides a broad framework of China's plan to shape up the economic order and globalization with a view to creating co-prosperity regions in China's neighborhood, along the Silk Road Economic Belt. It is important to study the Chinese world-view and the Western perception of China's motives of this biggest infrastructure development initiative in history–also called the project of the century. This article takes into view the professed objectives of BRI, which form the context of CPEC and the Western perception of this initiative. Their implications have been discussed in order to understand the true potential and prospects of China-Pakistan Economic Corridor, which has been discussed as a game-changer for trade and socio-economic development of Pakistan, regional connectivity and economic integration.

Key Words: BRI, OBOR, CPEC, Gwadar, inclusiveness, multi-nationals

Introduction

The concept of One Belt One Road was unveiled by President Xi Jinping of People's Republic of China during his speech at Nazarbayev University in Astana, Kazakhstan on September 7, 2013. In his speech titled 'Promote People-to-People Friendship and Create a Better Future', he proposed "to join hands building a Silk Road Economic Belt with innovative cooperation mode and to make it a grand cause benefiting people in regional countries along the route".[1]

A few weeks later, in his address to the Indonesian Parliament on October 3, 2013, he called for building a new "Maritime Silk Road" and spoke of China's commitment "to the path of peaceful development, the independent foreign policy of peace and the opening-up strategy for win-win results . . . share opportunities for economic and social development

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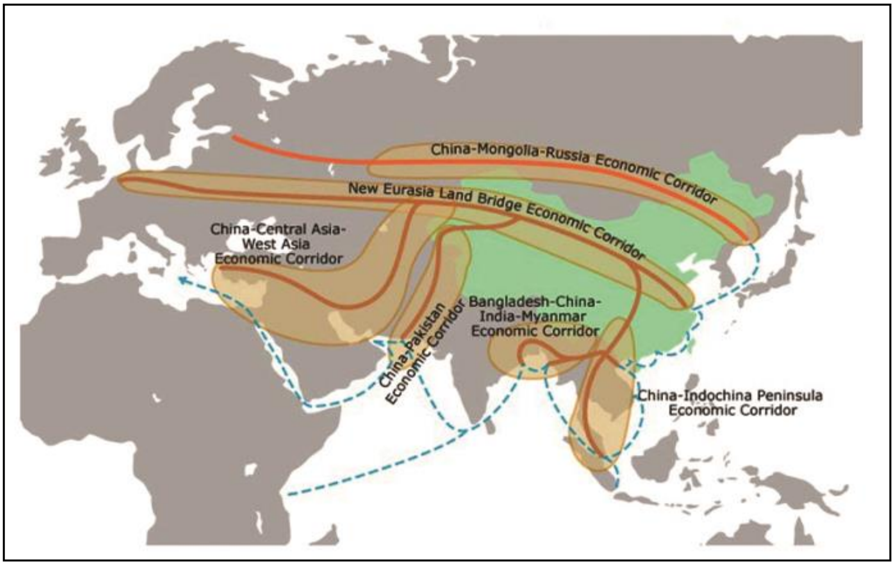
with AESAN, Asia and the world".[2] The choice of locations for these announcements in China's neighborhood is significant-Kazakhstan is a critical node of one of the land corridors, while Indonesia is an important destination on the Maritime Silk Road.

The Belt and Road Initiative refers to the 'Silk Road Economic Belt' and the '21st Century Maritime Silk Road' plans. Together, they constitute a framework for multi-national economic development. To some observers, it shows a shift in Chinese thinking 'from participating in globalization to shaping globalization'.[3] The term 'silk road' symbolizes the 'spirit of peace and cooperation, openness and inclusiveness' associates with China's soft power which links China with the wider world over land routes and across the seas. It evokes positive vibes about the golden times, and refers to the unmarked paths, trails and routes across deserts and mountains, epitomized as the Silk Road. 'This modest non-road became one of the most transformative super highways in human history-one that transmitted ideas, technology, and artistic motifs, not simply trade goods.'[4] The term 'Seidenstrassen' or 'Silk Road' was coined by a German geographer, Baron Ferdinand von Richardson, in 1877. Later, it was carried as title of the English translation of a book by Sven Hedin in 1936.[5] The use of Silk Road symbol for BRI highlights trade and cooperation as the thrust of BRI objectives.

Map 4.1: **The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe and Africa.**[6]



The concept of BRI is based on six land corridors and a Maritime Silk Road, termed by the West as a 'String of Pearls' strategy to build naval outposts.[7] These corridors include: (1) China-Mongolia-Russia Economic Corridor, (2) New Eurasian Land Bridge, (3) China-Central Asia-West Asia Economic Corridor, (4) China-Indochina Peninsula Economic Corridor (5) China-Pakistan Economic Corridor, and (6) Bangladesh-China-India-Myanmar Economic Corridor. Reportedly, China has set aside $1 trillion for this ambitious plan, which analysts believe is going to dominate world trade.[8]

The Making of BRI

Building the trade highways is in line with an old Chinese saying "If you want to be rich, you must first build roads." Its economic justification is that if transportation cost is reduced by 10%, it can boost trade by 25%. So, the Chinese initiative is a well-calculated economic move. Its practical demonstration was the trade train from Yiwu, China to London, which reached on January 17, 2017, traversing a distance of 12,000 km, in 18 days, the second-longest train trek. It was at half the cost of shipping by sea and 30 days faster in time.[9] Similarly, the first mega trade caravan, carrying 200 containers, started from Sust Dry Port at Pak-China border on October 29, 2016, and reached Gwadar Port on November 12, 2016, covering a distance of 2,692 km–thus, operationalizing the China-Pakistan Economic Corridor through the western route.[10]

As per financial projections, China's GDP (PPP), which has already surpassed that of U.S., will be double the size of U.S. GDP, (rising up to $40 – 75 trillion) and five times that of Japan, by 2050. It is based on China's unprecedented average annual growth rate of 10% from 1980 to 2010. From 2010 to 2015, the growth rate was 7.5%. By another estimate, China's GDP and per capita income will double in 2020, as compared to 2010. In 2000, there were nine Chinese multinational companies in Fortune 500, 16 in 2005, 73 in 2012 and in November 2017, the number rose to 115, after U.S. with 128.[11] As regards the Unicorn start-up companies (with a current valuation of $1b or more), 6 out of top 10 and 13 out of top 20 are Chinese companies, led by Ant Financial, an affiliate company of Alibaba Group, with a valuation of $150b.[12] Therefore, the economic strength of China seems to be the main driver of BRI.

The significance of this initiative can be judged from the enormity of its scope and projected impact on global trade. As per recent Bloomberg

Report, "the Belt and Road initiative will help three billion Asians grow into the middle class by 2050. China's own research also predicts that China's trade volume with the countries along the Belt and Road will increase to $2.5 trillion in the next 10 years".[13] It now concerns 4.4 billion people in sixty-five countries with a collective GDP of $2 trillion.[14] The volume of Chinese products is the largest in the world; and 126 countries are trading partners of China. The BRI initiative, therefore, may be considered a step to accelerate the 'political and economic expansion of China.'

The BRI is a natural outcome of China's growing economic strength with an estimated $3.51 trillion in foreign reserves, which she plans to diversify and deploy safely and efficiently. It "underlines China's bold and powerful move forward to a bigger role in global economic and political affairs and shows the way it would like to participate in shaping the world and its future."[15]

Belt and Road Initiative – Chinese Vision

The Chinese view of BRI revolves around connectivity and cooperation on one hand and transformation and togetherness on the other-the idea of shared destiny and win-win for all. *The concept is too inclusive and extensive to be accepted without a tweak of disbelief by skeptics and rivals.* BRI aims at free flow of goods and services through improved infrastructure to transform communities and countries in its ambit. China has not only given regional frameworks, but also created financial instruments like Asian Infrastructure Investment Bank (AIIB), New Development Bank, and the Silk Road Fund, which are expected to invest more than $890 billion in more than 900 projects (China Daily, May 28, 2015), which involves 65 countries (representing 60% of the world's population and 30% of global GDP), including not just China's nearest neighbours, but also countries in South Asia, the Middle East, Africa and Central and Eastern Europe. It is bigger than the Marshal Plan and is rightly considered a catalyst for world trade.[16]

The BRI concept and objectives are best enunciated in the 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road', issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorization, in March 2015.[17] The preamble highlights the Silk Road Spirit of "peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit", which forms the basis of Chinese vision of BRI. The arguments advanced in this regard are as under: [18]

a. BRI can help promote the economic prosperity and regional economic cooperation, strengthen exchanges and mutual learning among different civilizations, and promote world peace and development.

b. The initiative to jointly build the Belt and Road, can embrace the trend towards a multi polar world, economic globalization and cultural diversity.

c. It is aimed at promoting orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets.

d. It aims to promote the connectivity of Asian, European and African continents and their adjacent seas.

e. Set up all-dimensional, multi-tiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries.

f. Promote investment and consumption, create demands and job opportunities,

g. Enhance people-to-people and cultural exchanges, and mutual learning among the peoples and enable them to understand, trust and respect each other and live in harmony, peace and prosperity.

h. China will stay committed to the basic policy of opening-up, build a new pattern of all-round opening-up, and integrate itself deeper into the world economic system.

i. **Principles**

   (1) BRI is in line with the purposes and principles of the UN Charter. It upholds the Five Principles of Peaceful Co-existence: mutual respect for each other's sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in each other's internal affairs, equality and mutual benefit, and peaceful co-existence.

   (2) It is open to all countries, and international and regional organizations for engagement. It is harmonious and inclusive.

(3) It will abide by market rules and international norms.

j. **Framework**

(1) The BRI is a way for win-win cooperation.
(2) It will connect the vibrant East Asia economic circle at one end and developed European economic circle at the other, encompassing countries with huge potential for economic development.
(3) The Initiative is an ambitious economic vision of the opening-up to improve the region's infrastructure, and put in place a secure and efficient network of land, sea and air passages, lifting their connectivity to a higher level.

The document lays down the guidelines and covers a number of subjects, including Cooperation Priorities, Cooperation Mechanisms, China's Regions in Pursuing Opening-Up, China in Action and Embracing a Brighter Future Together.

Belt and Road Initiative - The Western Perspective

Though the United Nations Security Council (UNSC) endorsed the BRI through Resolution 2344 and backed the relevance of regional cooperation initiatives, based on Chinese principle of creating 'a community of shared future for mankind', Western critics and commentators find faults with the Chinese initiative mostly on the following grounds:- [19]

a. It is opaque, doesn't compartmentalize economic and strategic components.
b. Is motivated by geo-political considerations.
c. Is 'long on rhetoric and short on design'.
d. Is driven by China's geopolitical goals to break perceived US 'encirclement' in the Asia Pacific and constrain the rise of India.
e. It is an outcome of China's desire to break the economy out of its post-GFC slowdown.
f. Is 'a 'soft power' push to burnish China's image,'.
g. Constitutes a geo-political and geo-economic agenda to enhance China's global power and the legitimacy of the Chinese Communist Party (CCP).

There is also a talk of China's military ambitions and putting the countries into a debt trap by design. Most of these arguments are based on presumptions and do not offer any reasonable bases, or alternatives to the developing countries to improve their lot. Some scholars speak of new paradigms, like the shifting world order, as Martin Jacques in his book, 'When China Rules the World', propounds:

For over two hundred years we have lived in a western-made world, one where the very notion of being modern was synonymous with being the Western. The twenty-first century will be different: with the rise of increasingly powerful non-Western countries, the West will no longer be dominant and there will be many ways of being modern. In this new era of 'contested modernity,' the central player will be China.[20]

China-Pakistan Economic Corridor (CPEC)

The China-Pakistan Economic Corridor (CPEC) was launched as a flagship program of BRI during President Xi Jinping's visit to Pakistan in April 2015. It aims at connecting China's western Uighur Autonomous Region of Xinjiang to the Arabian seaports of Karachi and Gwadar in Pakistan, via Khunjerab Pass, passing through important communication nodes on the way. This $46 billion initiative primarily focuses on energy ($35 billion) and infrastructure ($11 billion).

It signifies 'a firm strategic partnership between Pakistan and China.' Besides connecting the Silk Road Economic Belt with 21st-century Maritime Silk Road, it shows complete convergence of strategic interests of the two friendly neighbors, envisioned as under:-[21]

a. **China**. China's vision is to further enhance the Western Region Development Strategy, promote Xinjiang economic and social development, speed up the Belt and Road initiative, give greater play to China's advantages of capital, technology, and project operating capacity, and form new economic system.

b. **Pakistan**. Pakistan' vision is to fully harness the demographic and natural endowment of the country, by enhancing its industrial capacity through creation of new industrial clusters, while balancing the regional socio-economic development, enhancing people's well being, and promoting domestic peace and stability.

CPEC is designed on 1 + 4 model - namely, one as centre of the China-Pakistan Economic Corridor and four key points of Gwadar Port, energy, infrastructure construction and industrial cooperation. A Long-Term Plan on CPEC (2017-2030) was concluded in November 2017, highlighting seven key cooperation areas or pillars: (1) Connectivity, (2) Energy related fields, (3) Trade and industrial parks, (4) Agricultural development and poverty alleviation, (5) Tourism, (6). Cooperation in areas concerning people's livelihood and non-governmental exchanges, and (7) Financial cooperation.[22]

Although all key areas are important, Gwadar Port is pivotal to the project for its strategic location near the Strait of Hormuz, at the mouth of the Persian Gulf. According to Gwadar Port Master Plan, the port can capture 25 percent of total international trade of Pakistan, 12 percent of Xinjiang province of China, 40 percent of Afghanistan, and 15 percent of the total trade of Pakistan with CARs.[23] Talking about Gwadar's 'ultra-strategic location' and its significance in terms of convergence of Pakistani and Chinese national interests, and its potential for future pipelines and transhipment, "Gwadar becomes the pulsing hub of a new silk route, both land and maritime: a mega project and gateway to landlocked, hydro carbon-rich Central Asia-an exotic twenty-first century place-name."[24]

A summary of major projects under CPEC is given below. It also highlights direct job opportunities:

Table 4.1: Summary of China Pakistan Economic Corridor's Major Projects

Major Categories	Number of Projects	Estimated Cost (US$ Million)	Projected Cost (US$ Million)	Direct Job Opportunities
Energy	21	26,370 for 13,810 MW	33,000 for 17,045 MW	71,959
Infrastructure (Road)	5	5,341	5,341	31,474
Infrastructure (Rail)	3	8,237	8,237	14,400
Infrastructure (Optical Fiber)	1	44	4	41,294
Gwadar	12	793	10,000-14,000	77,700
Total	42	$40,784	$58,622	196,827

Source: *Ishrat Hussain, CPEC and Pakistani Economy: An Appraisal, Centre of Excellence for CPEC, 2018.*

Analysis

A 2017 report, prepared by United Nations Development Program (UNDP) and China Centre for International Economic Exchanges, titled, 'The Belt and Road Initiative: A new means to transformative global governance towards sustainable development' takes a balanced and realistic view of the BRI.[25] This report builds its analysis on the 'transformative potential' of the initiative and highlights it as 'a window of opportunity for sustainable development':

> . . . the BRI offers a window of opportunity for sustainable development across and within countries. By aligning with the 2030 Agenda for Sustainable Development, the BRI can serve as an accelerator for achieving the Sustainable Development Goals (SDGs). This, in turn, would help China to position itself as a bridge-builder and responsible partner in international development cooperation.

Major observations of the report are as under:-

a. It will stimulate the adoption of advanced technologies and services and to a high valued-added manufacturing system.
b. Establishment of new institutions such as New Development Bank (NDB) and Asian Infrastructure Investment Bank (AIIB) will support development project.
c. The total volume of trade between China and the BRI countries is growing-reached $915 billion in 2016 (Xinhua, 2017.)
d. It has the potential to effectively address economic exclusion (income poverty and inequality) and promote sustainable development. As many as 56 free trade zones are to be established in 20 BRI countries.

BRI is a unique project by virtue of its size, scope and developmental model. "Yet, the real significance of this project isn't linked to its size; it is the paradigm and the spirit behind it Cooperation, inclusiveness and win-win approach, being the main elements of this development model, makes it a completely distinct paradigm . . ."[26]

Seen in the context of CPEC, which is progressing as planned, adds to the credibility of the initiative, which augers well for the future undertakings. Pakistan, which is only in the 3rd year of the 15–year plan, has already completed or is about to complete 20 (out of 43) projects planned during the first five years, Gwadar port and vital road links have become operational; China Ocean Shipping Company (COSCO) started its commercial operation from Gwadar to UAE on March 7, 2018. The project has created more than 50,000 direct jobs without planned industrial zones coming into play as yet.

Commenting on the speculative criticism of BRI, Hu argues that "CPEC is a never-before-seen project . . . And as such, it is bound to draw speculation, from institutions and analysts for whom understanding China as a problem-solver rather than a trouble-maker have always presented an enormous challenge."[27] Opposition to the BRI by U.S. and India is understandable, as they feel threatened for various reasons. The U.S. influence in the Indian Ocean and the world at large is dwindling day by day because of its policies. The hold of World Bank and IMF is weakening because of new emerging financial institutions. The U.S. is involved in trade wars with its rivals and allies. Its disregard of international agreements and protocols has made it an unreliable partner. So, it is fast losing its leadership role and moral ascendency in international affairs. The vacuum has to be filled and China is a natural choice for developing countries.

As for India, she is trying tooth and nail to stop or impede the progress of CPEC, going to the extent of abetting terrorism (RAW officer, Kulbhushan Yadav, was arrested from Balochistan), while saner voices are advising the ruling party otherwise. Mehbooba Mufti, a politician of India-controlled Jammu and Kashmir, has repeatedly endorsed CPEC. "According to the Stockholm-based think tank International Peace Research Institute, Indian opposition to CPEC reflects its concern over the internationalization of the Kashmir issue and China's growing clout in the Indian Ocean."[28] Beijing regards CPEC as the flagship project of BRI. Indian thinkers, who are mindful of its potential, think that "an economically empowered Pakistan, less reliant on Western aid and trade and more integrated into a Sino-centric geo-economic space, could become emboldened in its strategic decision-making or less vulnerable to non-military coercive action".[29]

The synergy of BRI and CPEC is well articulated by Wang Yi, China's Foreign Minister, saying that "If One Belt, One Road' is like a symphony involving and benefiting every country, then, construction of the China-Pakistan Economic Corridor is the sweet melody of the symphony's first movement."[30]

Andrew Small, author of 'The China-Pakistan Axis: Asia's New Geopolitics', comparing Chinese Package of $46 billion (now over $62 billion) to the U.S. $5 billion aid to Pakistan between 2010-2014, under the 2009 Kerry-Lugar-Berman Act, enunciated the hypothetical Chinese response as saying, "You haven't done it on a large enough scale . . . that it is only by doing it on this kind of big-bang scale that you're going to have the transformative economic effect that Pakistan needs."[31]

As regards the Western perceptions, they are more ingrained in Cold War mind-set, like ascribing military motives to trading partnerships, and finding naval bases along the Maritime Silk Road, regardless of the professed policy that 'Beijing isn't and will never be part of any power bloc'. So, "understanding CPEC and BRI requires overcoming the Cold War mentality, embracing potentially complementing visions, and sharing resources."[32]

The New York Times, in its international edition of June 28, 2018, reported that "China is using its economic deployment program to ensnare vulnerable countries in debt trap", citing the case of Sri Lanka's Hambantota port, about which "the Chinese officials insist that China's interest is purely commercial."[33] Another misperception is being spread about 'placing the partners under unpayable debt burden'. The case in point is Pakistan. Of the $46bn initial package for CPEC, $35 billion worth of energy projects are mostly under foreign direct investment (FDI). So, the specter of 'unpayable debt burden' on Pakistan is unjustified. The remaining $11 billion are mostly government to government soft loans; and a very small percentage of commercial loans, which will be mainly utilized for infrastructure development. Moreover, being a 15-year project, the investment will take 15-20 years to complete. So, the argument of debt burden is untenable, as far as Pakistan is concerned. Likewise, other objections, such as opacity, are partly justified.

It is estimated that by 2020 China's imported oil will make up 66% of its total oil demand, increasing to 72% by 2040. And 80% of China's oil (in addition to much of its trade) moves through the narrow waterways, called Strait of Malacca and Lombok / Makassar Strait. Chinese President Hu Jintao, being mindful of its strategic significance, referred to it as "Malacca Dilemma" in 2003.[34] He expressed his concern that "certain major powers" were bent on controlling the strait, and called for the adoption of new strategies to mitigate the perceived susceptibility. "It is no exaggeration to say that whoever controls the Strait of Malacca will also have a stranglehold on the energy route of China."[35]

In the coming days, the number of Chinese ships in the Indian Ocean will increase along with their requirement for refuelling, repair and supplies. All this highlights the importance of CPEC and Gwadar Port and shows Chinese interest in the Indian Ocean and its adjacent waters, which according to U.S. Marine Corps 'Vision and Strategy' statement, unveiled in June 2008, "will be a central theatre of conflict and competition."[36]

Prospects for Pakistan

CPEC is the most audacious and comprehensive project in this part of the world since the large-scale infrastructure and irrigation projects executed during the colonial period. CPEC projects are far more extensive and inclusive, covering all regions and all fields of national development, in consonance with the national aspirations and priorities spelled out in Pakistan Vision 2025. This is the agenda for sustainable growth of Pakistan and integration with regional and international supply chains. The unrestricted targets highlighted in the Long Term Plan on China-Pakistan Economic Corridor, jointly prepared by National Development and Reform Commission (P.R.C.) and China Development Bank, issued in 2015, speak for its bright future:

a. CPEC will speed up economic growth of Pakistan by 1.5 percentage points on the original basis from 2016 to 2020, and another 1 percentage point from 2020 to 2030.
b. From 2016 to 2020, the growth rate of China-Pakistan trade will reach 24% and that of bilateral direct investment being 25%; from 2020 to 2030, the speed of trade growth should be 16% and that of bilateral direct investment will be 20%. Industrial added value should exceed by 1.5 percentage points.
c. A total number of 500,000 to 800,000 new jobs will be created.
d. The length of newly built or upgraded roads and railways should reach 3,871 km and 1, 529.07 km respectively. Power generated by newly built sources will reach 19.785 million kw and length of optical fiber cable will reach 2, 084 km.

CPEC is supported by China which has been a trusted all-weather friend of Pakistan. An example of this friendship is the Karakoram Highway (KKH), where 200 Chinese road builders laid down their lives, helping build a road, which connects the two countries and will be the crucial CPEC highway. JF-17 Thunder fighter jet project is a shining example of cooperation between the two countries. So, Pakistan is focused on the success of the project for its own reasons and larger objectives of BRI.

CPEC is considered a golden opportunity for Pakistan to improve infrastructure, economic performance and institutional governance. By ending power outages, reviving robust industrial activity based on value-added exports, Pakistan can ensure sustained GDP growth. Gwadar, which has the potential to be the world's largest transhipment cargo port, can make Pakistan regional hub of international trade.

According to a 2016 study by Shaikh, Ji and Fan, Pakistan–China Energy and Economic Corridor (PCEEC) offers the best option of constructing an oil pipeline, which would take the shortest time for transporting oil from Gwadar to China's border. It will be the most viable option to feed Kashgar economic zone. The proposed oil pipeline would earn transit fees of about US$6 billion over the entire life of the pipeline.[37]

Some analysts view the project in term of stability. They contend that CPEC will improve economic, commercial as well as geo-strategic environment and help Pakistan in dealing with the problems of poverty, unemployment and inequities of undeveloped provinces. It will make China a real stakeholder in Pakistan's stability and security.[38]

Besides construction of road and rail networks, oil and gas pipelines, industrial zones and development of Gwadar Port, the project will generate new employment opportunities and boost economic activity in the region:

According to the international labor organization, CPEC would bring more than 400,000 jobs to the country, while the Applied Economic Research Centre has estimated that the mega initiative would provide around 700,000 direct jobs between 2015 and 2030. The Planning Commission's data shows even more promising results, with CPEC generating around 800,000 jobs in the next 15 years. Besides, there will be a positive multiplier effect and more indirect and induced jobs will be created.[39]

Conclusion

CPEC is a project of national consensus, with cross-party support. With terrorism running out of steam, due to concerted efforts and sacrifices of the security forces, the prospects of CPEC are brightening up day-by-day. With the completion of CPEC infrastructure and operationalizing of Gwadar port, along with nine industrial zones and the Free Trade Zone, the true potential of the project will come to the fore.

Future of BRI and credibility of China as the prime mover hinges on the success of CPEC. Therefore, smooth implementation of CPEC is essential to promote credibility and cooperation in the region. In order to take full advantage of the opportunities arising out of the CPEC initiative, Pakistan needs to take the following steps:-

a. Evaluate the requirement of high-tech human resource in the emerging domains and skill development/training requirement, and take necessary steps to address the issue.
b. Make all deals, contracts and agreements transparent to dispel misgivings and opacity, which attracts criticism.
c. Learn from the Chinese investment experiences in South Asia, Africa and other places to take suitable steps to avoid pitfalls, which might bedevil relations in the coming years.
d. Adopt advanced technologies and services to develop a high-value-added manufacturing system, to enhance export capacity and improve balance of payment.
e. Connect with the CARs to expand regional connectivity and diversify trade.
f. Reduce poverty, especially in the rural areas, through improvements in agriculture, to slow down urbanization.

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Transforming CPEC into PCAC

Kaiser Bengali*

Abstract

Pakistan possesses the best strategic location. It borders 12 major powers and lies at the centre of regional trade routes running north-south and east-west and covering a vast hinterland. The economic advantages, it can derive, are immense. Not surprisingly, CPEC is being billed as a 'game changer'. Potentially, CPEC can change the economic and political landscape of the country. It can, however, also pose serious macro-economic and political hazards. In terms of economics, grave perils exist on account of weakening of the industrial base and rising balance of payments and budget deficits. If only the direct rupee costs to Pakistan are greater than its share in Gwadar Port revenues, CPEC will be a losing proposition. And if Balochistan's share of economic benefits are not substantial, then, CPEC will be irrelevant to the province. In political terms, it can extend Pakistan's sphere of influence to Central Asia as well as 'impose' a de facto loosening of the Pakistan-India gridlock by breaking down travel and trade barriers between India, Pakistan and Afghanistan –a la Berlin Wall. Unfortunately, the pluses and minuses of CPEC have never been discussed transparently. There is an element of opacity that leads to suspicions of it, being rooted in the context of military strategic calculations, if any, and the drum-beating about economic miracles is a smoke-screen. Essentially, it appears that history is repeating itself, with China-centricity replacing US-centricity. The logic behind the reckoning is, however, irrational and flawed. The US never courted confrontation with India on Pakistan's behalf, nor will China. If Pakistan is to derive full benefits from its position at the center of regional trade routes, it will need to broaden the existing CPEC framework into a Pakistan-centric, Pakistan Central Asia Corridor (PCAC). Pakistan is a 200 million plus human resource rich country, without the burden of a bulging population that India suffers from. It is not a nation that can be overwhelmed by another nation. The above are expressions of potential pitfalls. All of them can be managed. If not, it is a moot point whether future historians will bill CPEC as a game changer or game over!

Key Words: CPEC, Balance of payments, fiscal stability, connectivity, geopolitics.

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Introduction

Pakistan is strategically located in terms of geography. It borders major regional powers Iran, China and India, totalling an area of 23 million square kilometers with a population of 2.7 billion. To the west lie Saudi Arabia, UAE and Oman, covering area of 42 million square kilometers with a population of three million. Pakistan's south provides access to the seas for a vast area that includes western China, four central Asian states and Russia, west of the Urals, spreading over nine million square kilometers with a combined population of 160 million. All the above mentioned 12 countries, if combined, cover an area of over 25 million square kilometers with a population of over three billion. Five of the twelve countries are economic power houses, with GNPs totalling nearly US$ 40 trillion and per capita income ranging from US$ 6,500 to US$ 73,000.

Pakistan is situated at the center of more than one regional trade route, running north-south and east-west, and covering a vast hinterland as explained above. The economic advantages, it can derive and the multiplier impact it can create, by merely providing transit, are immense. There exists the potential to change the economic geography of the country. An earlier project that changed the economic geography of the country was the Indus Water Works: construction of Mangla and Tarbela dams along with thousands of kilometers of canals and water courses. Resultantly, two crops a year are now grown, where not a blade of grass grew, and bustling towns exist in place of dusty landscapes. That was the 1960s.

Similar claims are being made about the China-Pakistan Economic Corridor (CPEC). The flagship project is symbolized by the construction of the port at Gwadar in Balochistan and the highway to connect Gwadar with Kashgar in Xinjian province in western China, along with electricity generation, potential industrialization, etc. CPEC is billed as a 'game changer', promising to propel Pakistan into prosperity. And it is likely to be so, IF Pakistan executes the project with competency.[1]

Quest for Information

The 'IF' referred to above is now being raised increasingly by independent analysts and commentators. Economists and business and industry leaders have individually and collectively raised alarms about the nebulousness of claimed benefits and the emerging evidence of potential costs to the national economy. All projects have benefits and costs. CPEC too has its downsides and it would be necessary to identify the downsides and adopt mitigating measures. At times, the mitigation of human and social costs is as important as the project itself. The identification of benefits and costs requires comprehensive feasibility studies, which now appear not to have been carried out.

Much depends on how a scheme is designed. As such, to what extent CPEC will be beneficial to Pakistan, will depend on how the component schemes are devised and implemented, within an overall framework – defined *a priori*. Many claims and comments are being made about CPEC. Most, if not all, do not appear to be based on empirical analysis – on account of the fact that sufficient data or information regarding CPEC is not publicly available. The quest for information about CPEC has gone unanswered for more than five years now and the opaqueness is deeply troubling. There are twelve basic questions that need answers. They are:

a. Has Pakistan prepared an overall CPEC Feasibility?
b. Has Pakistan prepared a CPEC Environment Impact Assessment?
c. What is Pakistan's share in Gwadar port revenues, if any?
d. What is Balochistan's share in Gwadar port revenues, if any?
e. Is the Gwadar-Khunjrab Highway a toll road? If yes, what are the shares of provinces through which the Highway passes?
f. What will be the impact of China Transit Trade on Pakistan's manufacturing sector?
g. What will be the impact of tax exemptions to CPEC-related foreign imports on Pakistan's manufacturing sector?
h. What will be the (medium and long-term) Balance of Payments impact of foreign exchange inflows (Loans, FDI) and outflows (debt repayment, profit remittance)?
i. What is the budgetary burden on Pakistan for protecting foreign road and sea convoys?
j. What is percentage of security units, being raised for CPEC related protection, recruited from districts through which the Gwadar-Khunjrab Highway passes?
k. What is the water provision plan for Gwadar? If desalinated, what is the financing plan to cover the high cost?
l. What is the plan to ensure that Gwadar does not become a Baloch minority city?

Questions 1 and 2 are overarching. Any move – and one as fundamental as the Gwadar-Kashgar development mega-project – needs to be studied in advance with respect to its benefits and costs. If CPEC's overall feasibility in terms of technical, economic, social, environmental, military, diplomatic and political have not been carried out, it would amount to jumping in the sea with blind-folds.

Questions of Relevance to the National Economy

Questions 6, 7, 8, 9 and 11 are crucially relevant to the national economy. Potentially, CPEC can pose three macro-economic hazards for Pakistan's economy: to the manufacturing sector, to balance of payments stability, and fiscal balance stability.

Impact on Manufacturing Sector

Pakistan's manufacturing sector stands in serious danger from two factors, unless prior protective measures are adopted. Experience shows that an allegedly large part of goods from the Afghan transit trade, transiting through Karachi port, is off-loaded in Pakistan or makes its way back. These *de facto* tax free products compete with *de jure* taxed products manufactured in the country and has caused many industries to shut down altogether. The Gwadar-Kashgar traffic is another name for China transit trade, with volumes a thousand times more. The impact of even one percent of the goods in transit leaking into the Pakistan market *a la* Afghan transit goods can be imagined.[2]

Further, experience again shows that tax exemptions to industries or to regions have only created distortions, without benefitting the economy. Empirical results also show that such exemptions are used by industries located outside the tax-free zones to set up token facilities in the tax-free zones and claim benefits to boost profits from their operations elsewhere in the country. Gadoon-Amazai is a classic example. That foreign firms will resort to similar tactics cannot be discounted.

With regard to CPEC, the sweeping tax exemptions, being awarded to Chinese firms, create a highly damaging non-equitable and discriminatory playing field against Pakistani firms, with the potential to virtually eliminate the remaining locally-owned manufacturing sector in the country. The argument that tax exemptions are available to all firms located in industrial zones, irrespective of nationality, is flawed. Given that Chinese companies are generally sole-sourced for bidding purposes means that companies from other countries, including Pakistan, are excluded from bidding. And evidence has now emerged that Chinese companies are provided tax exemptions *after* the project has been awarded to them.

Balance of Payment Stability

Pakistan's Balance of Payments has always been in the red, but manageable, despite occasional crisis points. The negative balance is created on account of deficits in the trade as well as services and income balances. Post-2000, however, the income deficit (earlier reported under services balance) has risen sharply to merit attention.

The income deficit phenomenon has arisen on account of privatization of large service sector enterprises in banking, telecommunications, etc. sectors and inflows of foreign direct investment (FDI) in service sectors – food, retail trade, etc. All these foreign firms earn their revenues in rupees, but remit their profits in foreign exchange. These firms do not earn any foreign exchange for Pakistan, given that, few – if any – of them operate in the manufacturing sector and do not have any 'produce' to export. Resultantly, there have not been foreign exchange inflows corresponding to foreign exchange outflows.[3]

CPEC-related foreign and foreign-supported investments is largely, if not almost exclusively, in the form of loans and FDI. The former will entail debt servicing and, the latter, profit remittance to host countries. If corresponding foreign exchange inflows are not ensured – and this is critically important – there is likely to be a Balance of Payments crisis of gargantuan proportions and Pakistan's economic and political sovereignty can be at stake. One source of regular foreign exchange inflows is likely to be the revenues from Gwadar port. This window has, however, been narrowed with a mere 9% of gross revenues share for Pakistan.

Fiscal Stability

Concerns about fiscal stability arise on two counts: security costs and water costs. With regard to the former, Pakistan's commitment to CPEC is reported to extend to providing maximum security on land and at sea. To this end, it has raised dedicated security units, which will entail rupee costs to be met from the national budget, unless funded autonomously. There can be three or more sources of funding this cost.

a. One, direct payment by countries benefitting from security protection.
b. Two, dedicated funding from a CPEC-related revenue source. For example, a share of Gwadar Port revenues can be dedicated to meeting security expenditures.
c. Or three, financing the cost of providing security to foreign interests out of the budget by taxing the public or via deficit financing. Both options will burden the general public – direct CPEC beneficiaries and non-beneficiaries and the rich and the poor alike. Currently, the security costs have been reported to be subsumed – and hidden – in the electricity bills that all consumers across the country will receive and pay.

With regard to water, the water availability question in Gwadar is serious, but always brushed under the carpet to avoid discussion. A hackneyed answer is that dams will be constructed. However, dams do not produce water, they only store available water. And, in Gwadar and all along the Balochistan coast, rains are the only source of water; and rains are erratic, with drought periods extending to three years or more.

The other source of water is the sea – i.e., desalination. However, desalination is exorbitantly expensive. Here again, providing a permanent subsidy from the budget will lead to an exploding budget deficit; leading to the possibility of hyper-inflation or crippling tax rises. Given the strategic importance of Gwadar and the imperative to develop the port, a water solution is essential and one source is the sea. However, a financing plan needs to be developed, with a permanent built-in cross-subsidy from a Gwadar port-related revenue source. If Pakistan's cost of providing security for CPEC projects and personnel and water to Gwadar is greater than Pakistan's share in Gwadar Port revenues, CPEC is a losing proposition.[4]

The above are expressions of potential pitfalls. All of them can be coped with, provided they are recognized upfront – and managed. If not, it is a moot point whether future historians will be writing about CPEC as a game changer or game over!

Questions of Relevance to Balochistan

Questions 3, 4, 5, 10, and 11 relate to Balochistan. CPEC is Gwadar-centric and Gwadar is Balochistan. If Balochistan's share of economic benefits are not substantial, then, CPEC is irrelevant to the province. There is a need to ensure:

a. Meaningful share for Balochistan in Gwadar port revenues.
b. Proportionate share of highway toll revenues, in terms of highway mileage share passing through Balochistan.
c. Proportionate share in recruitment of personnel for CPEC security in terms of highway mileage share passing through Balochistan. If not, the security units stationed in Balochistan will be perceived as occupation forces.

More fundamentally, there are three necessary conditions: internal road connectivity, urban development and human resource development, without which CPEC will not be a game changer for Balochistan.

a. ***Internal Road Connectivity.*** The highway will originate in and pass across Balochistan. However, if a producer (farm, factory, etc.) is located 50 kilometers away and cannot reach the Highway, it will be of no benefit to him. Thus, internal road connectivity is essential.
b. ***Urban Development.*** Downstream port and highway connected investment can be expected in the port city and in urban centres along the Highway. However, the state of urban infrastructure in any of the cities in Balochistan, including Quetta, is such that there is no location, where a foreign or even a Pakistani firm can locate its offices or houses nor is there the necessary urban facilities for staff and families.
c. ***Human Resource Development.*** Port management requires a set of high level technical and managerial skills. For example, pilots to tug ships aside berths, crane operators, etc., as well as clearing and forwarding agents for handling paper work for incoming and outgoing cargo, etc. These skills are totally lacking in Balochistan.

Furthermore, there is a need to ward off the danger of a cataclysmic demographic change in Gwadar, with migrant workers from the rest of Pakistan and from abroad, pouring in to fill in emerging jobs. Effective constitutional, legislative and administrative measures need to be taken to ensure that the Baloch do not become a minority, relegated to secondary position, in the port city and adjacent areas.

Geo-politics of CPEC

CPEC also holds the potential to change the political geography of the region. Culturally and politically, Pakistan lies on the border of south and west Asia. Two eastern provinces – Punjab and Sindh – are firmly part of South Asia. And two western provinces – Balochistan and Khyber-Pakhtunkhwa – are more akin to west than to south Asia. There is a Punjab province in Pakistan as well as in India and Punjabi is a language common to provinces of both countries. The Baloch population resides in Pakistan as well as in Iran. Farsi (Persian), the official language of Iran, is widely spoken in Balochistan. Pushtu is a language common to northern parts of Balochistan, Khyber-Pakhtunkhwa and Afghanistan. Close family links exist between Pakhtun families in Khyber-Pakhtunkhwa and Afghanistan and between Baloch families in Balochistan and Sistan-Balochistan province of Iran. Gilgit-Baltistan (and Peshawar valley) has had centuries-old linkages with Sinkiang in China and with central Asia.[5]

For geo-political reasons, all travel and trade connections with Sinkiang and central Asia were severed during the first quarter of the 20th century and remained so till very recently. It was as if the world to the north/north-west of Gilgit-Baltistan and Afghanistan did not exist. CPEC promises to unlock many of the doors, hitherto closed, and open up a vast area to the north and north-west. To the south, Gwadar and Chahbahar are destined, *de facto* even if not *de jure*, to emerge as twin ports, complementing each other. Gwadar is a deep sea port, which Chahbahar is not; rendering it economically beneficial for Chahbahar to establish a trans-shipment relationship with Gwadar. Today, Pakistan is largely a south Asian player; post-CPEC, Pakistan is likely to emerge as a central and west Asian power as well.

To the east, CPEC is likely to 'impose' a *de facto* loosening of the Pakistan-India gridlock. As Chinese trucks ply 2,000 kilometers between Gwadar and Kashgar, they will inevitably pass Hasanabdal, which incidentally is a mere 300 kilometers from the Indian border.[6] For China, the 700 kilometer Kashgar-Hasanabdal-Amritsar route would beckon as yet another shorter and lucrative route to expanding trade with an economically resurgent India – already exceeding US$ 80 billion currently along the 5,500 kilometer Shanghai-Mumbai sea route.

China is likely to pressurize Pakistan for allowing Chinese trucks to proceed to and from India on the Hasanabdal-Wagah route. It is, then, likely that Indian trucks are also allowed to use the Amritsar-Hasanabdal-Kashgar route. And it is, then, also likely that Indian trucks, allowed into Pakistani territory up to Hasanabdal on way to Kashgar, are allowed to proceed the balance 450 kilometers from Hasanabdal to Kabul. While unimaginable at this point of time, given the vast and complicated geo-political baggage, travel and trade barriers between India, Pakistan and Afghanistan can possibly come down *a la* Berlin Wall.

Dependency Syndrome

The opacity surrounding CPEC lends to suspicions that the entire project has been launched exclusively in the context of military strategic calculations and that the drum-beating about economic miracles is a smokescreen. Essentially, it appears that China is being courted as an alternative to the US in standing up to India and history appears to be repeating itself –with different combination of players; in the 1950s, India 'allied' itself with the erstwhile USSR, while Pakistan formally aligned itself with the US.

In the 1950s, Pakistan joined US-led anti-USSR military alliances through CENTO and SEATO, though it had no disputes with the USSR. These pacts promised the member countries to aid each other in case of attack by a third country. Yet, during Pakistan's two wars with India in 1965 and 1971, the US looked the other way. Three decades later, Pakistan again had no disputes with the USSR, yet, the then leadership drew closer to the US. With the Soviet army withdrawn from Afghanistan, the US not only abandoned Pakistan, but imposed sanctions vide the Pressler Amendment and jailed senior executives of a Pakistani bank that had aided the US war effort by laundering its money to terrorists in Afghanistan.

From the 1950s to the 1980s, Pakistan offered itself as an ally in the four-decade long US-USSR cold war. Today, it appears to be becoming – once again – an instrument in the evolving US-China conflict of interests. The policy-making parameters in Pakistan's policy establishment appear to continue to persist, as it was in the 1950s and 1980s. Conflict with India remains the fulcrum around which Pakistan's defence and foreign policy revolves. First it was the yearning for security that led to seeking the American umbrella and now a Chinese umbrella is being sought. The view appears to be: if India is drawing closer to the US, find India's enemy and draw closer to it.[7]

The rationale of our policy-makers is dangerously flawed. China and India, despite their history of armed conflict, border dispute and rivalry for supremacy, are *not* mortal enemies. China-India trade exceeds 80 billion US dollars and rising, compared to China-Pakistan trade that is at a stagnant point of 12-14 billion US dollars. China and India are least likely to go to war and any thought that China will go to war on behalf of Pakistan is laughable. India cannot afford war even against the nuclear Pakistan. China is actively wooing India to persuade it to join OBOR and it is a matter of time that India does, even if in a limited way. In the event, Pakistan's strategy of using China to shield itself from India needs re-visiting.[8]

A Plea for Pakistan-centricity

The fundamental problem appears to lie in the fact that Pakistan's foreign and defence policy establishment suffers from chronic India-centricity, leading to consequential China-centricity that CPEC, in turn, suffers from. If Pakistan is to derive full benefits from its position at the centre of regional trade routes, it will need to break out of China-centricity and broaden the existing CPEC framework to centre around Pakistan. Of course, the essential pre-requisite for breaking out of China-centricity is breaking out of India-centricity. This would require changing the current China-centric CPEC framework into a Pakistan-centric *Pakistan Central Asia Corridor (PCAC)* and establishing direct trade and investment relationships with Afghanistan, Iran, Central Asian Countries, China and Russia.[9]

A defining project to signal the shift towards Pakistan-centricity can be the building of a railway line proceeding north from Gwadar to Nokundi in mineral-rich Chagai district of Balochistan and onwards to the city of Sangin in Helmund province of Afghanistan, which is connected by road to all parts of Afghanistan. The proposed connectivity will provide Pakistan a more direct link to central Asia. Needless to say, the bidding for building the railway will need to be opened to all interested parties internationally.[10]

The attempt to move towards Pakistan-centricity will require, primarily, shedding off the ingrained inferiority complex ridden policy framework, which believes that Pakistan must always need a protector. Pakistan is a country of 200 million people, with a strong agricultural, manufacturing and human resource base. It is resource rich, without the burden of a bulging population that India suffers from. It is not a nation that can be overwhelmed by another nation, how powerful it may be. It is capable of standing tall on its own feet. As such, the inferiority complex driven security mind-set is uncalled for. China is a reliable friend and its offers of help are genuine. However, there is no need to bend over-backwards at every turn.

Endnotes

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[6] All distances are in straight line, 'as the crow flies', terms

[7]A.Aggarwal, "Performance of Export Process Zones: A Comparative Analysis of India, Sri Lanka and Bangladesh". Working Paper No. 155, *Indian Council for Research on International Economic Relations (ICRIER)*, New Delhi, 2005.

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[9] It may be added that the east-west corridor will remain non-operational without India

[10]Kun Tang, Zhihui Li, Wenkai Li, and Lincoln Chen. "China's Silk Road and Global Health." *The Lancet*, December 09, 2017. https://www.pubfacts.com/detail/29231838/Chinas-Silk-Road-and-global-health.2595-2601.

CPEC - A Critique of Lucid Implications

Ahmad Khawar Shahzad*

Abstract

This article elucidates an overview of the investment initiatives of China-Pakistan Economic Corridor (CPEC) and its bridge-head role in the maturity of One Belt One Road (OBOR) global initiative of China. A clear picture of the dominating sway of CPEC amidst China's investment in Africa and Bangladesh-China-India-Myanmar Initiative (BCIM) has been strived to be delineated. It's an incisive study of the logical implications of CPEC, in view of the geo-politic developments and security risks. It is imperative to fathom major implications keeping in view geo-strategic policies of China, Sino-Pak relations and cutting-edge economic aspirations of both the countries. An endeavor has been made to explicate the financial insinuations of CPEC, prodding the ubiquitous economic tumult in Pakistan and cogitating the Omni-directional foreign policy of Sri Lanka with China. Implications of Chinese maritime developments in Karnaphuli, Colombo and Naypyidaw have been expounded to comprehend the burgeoning template of maritime politics and aura of extra-regional players in South Asia. This study is qualitative in nature as methodology pertains to reviewing the existing literature. Well-structured analysis of the lucid implications would aid to cope with the prevalent ordeals, hampering the accomplishment of CPEC and simultaneously the development of Pakistan. Plausible conclusions are drawn to eschew the grey belts of fragile economy of Pakistan and restructured maritime subtleties in South Asia. Conclusions, extrapolated from the astute study of implications, may succour think tanks to contrive dynamics of foreign policy of Pakistan, ruminating over the rise and fall of global players.

Key Words: OBOR, Blue Economy, Foreign Policy, Economic Development, South Asia.

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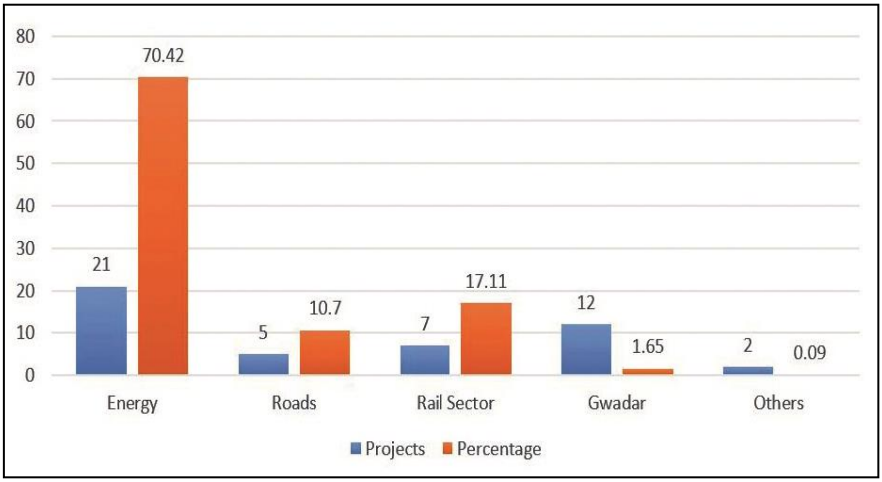
Introduction

Trade is as old as civilization. Trade routes have been used as economic tool for generation and accumulation of wealth since time immemorial. Since 2nd Century BC, trade route from China to Rome is recognized as the Silk Road. Silk Road was first developed during Han Dynasty (206 BC-220 AD), when Europe was united under Roman rule.[1] The brisk trade along the Silk Road continued till the advent of 'Mercantile Capitalism' in Europe in the 14th century.[2] Rise of Western Europe, by opening trade route with Arab World, empire of Portugal (16th Century) with discovery of route to India and prosperity of Western Europe through Suez Canal (19th Century) are some of the diverse revolutionary illustrations of economic developments central to route developments. Edifice of China's newly enunciated policy of One Belt One Road (OBOR) Initiative of 21st Century is erected on the archaic trade networks and ancient cultural interaction between China, Central and Southeast-Asia and Europe.

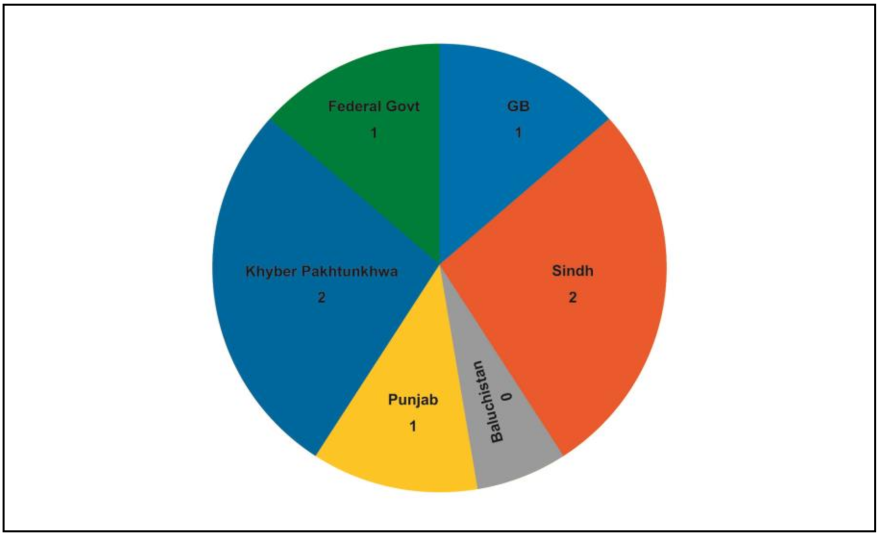
One Belt One Road (OBOR), a trans-regional initiative, spanning over 68 countries of the world, involves 40 percent of global GDP[3], 60 percent of global population[4] (4.4 billion people) and 75 percent of energy resources across Africa and Europe.[5] CPEC is a flagship project of OBOR. An amount of $1 trillion has already been invested in OBOR project, while several trillions are due to be invested in next decade, to reap economic and political benefits for China.[6] CPEC is a long-term project and its impact may accrue after a long period of time. A study on social impact assessment for CPEC investment activities underscored CPEC as an expected win-win initiative for Sino-Pak bilateral relations; it also accentuated some macro and micro level risks. The risk degree from Kashmir dispute, extremism, regionalism, religious customs and subversive forces was high, whereas, unemployment, damage of natural and historic heritage, obstacles of language, culture and customs were middle degree risks.[7]

Projects under CPEC. On April20, 2015, during Chinese President Xi Jinping's visit to Islamabad, Pakistan and China signed 51 MOUs, encompassing 05 concerning energy sectors, while 30 pertaining to economic development.[8] CPEC is roughly 3000 km long network, linking Kashgar in Xinjian region to Gwadar in Balochistan province, for the establishment of Silk Road Economic Belt and the 21st Century Maritime Silk Road. It's pre-ordained to link China with Asia, Africa and Europe. CPEC, a central link of BRI, cuts 10,000 miles of shipping by sea, and connects ports from Shanghai to Africa and Europe through Gwadar.[9] CPEC presents a unique opportunity to both the countries to integrate with regional economies and become a hub of trade and manufacturing with Gwadar Port, developed as an international free port. Four key areas of the corridor are, (i) Gwadar (including port and city and Gwadar region's socio-economic development), (ii) Energy (coal, hydel, wind, solar, transmission), (iii) Transport infrastructure (road, rail, aviation), (iv) Investment and Industrial Cooperation (Gwadar free zone and other industrial parks) and any other mutually agreed areas of interest.

Graph 6.1: CPEC Projects Against Percentage of the Estimated Cost



Graph 6.2: Special Economic Zones in Pakistan



China and Pakistan agreed on Long Term Plan (LTP) of CPEC in 7th Joint Cooperation Committee (JCC) Meeting held in November 2017.[10] However, projects under 6th Joint Cooperation Committee (JCC), held in December 2016, clinched finalization of progress on industrial cooperation, construction of nine Special Economic Zones[11] (SEZ) in Pakistan and a number of projects under progress related to Gwadar, cooperation related to transport infrastructure and energy cooperation.[12] It was agreed upon to establish SEZs with major participation of Tianjin Municipal Government and Board of Investment (BOI), Government of Pakistan. Three SEZs have been identified in Faisalabad, Hattar and Dhabeji for the first round. However, an additional SEZ in Sheikhupura has been proposed in Punjab.[13]

Heart of CPEC opportunity lies in the SEZs.[14] In CPEC Summit & Expo-2018 of Karachi, Chinese Ambassador to Pakistan, Yao Jing said, "SEZs will involve mainly the private sector from both sides."[15] Dr. Ishrat Hussain opined, "After all, the success of these Zones would not depend upon the hardware created in the Zones by the Government, but by the investment decisions made by the Pakistani, Chinese and non-Chinese investors.[16] Shaukat Tareen, convener of Economic Advisory Council, proposed that (i) SEZs must have a segment focused on producing 'intermediate goods' which have a rising share in our imports, (ii) we need to set up intensive labor training arrangements with the help of Chinese at SEZs, (iii) we must focus on upgrading our knowledge and skill with respect to industrial technology.[17] In the words of Prof. Jia Yu of Peking University, if things work out smoothly, Pakistan could use the FDI in its power and transport infrastructure and, then, in manufacturing sector with the experience of leveraging SEZs to unlock the trios potential for rapid gains in job-rich industrialization.[18] Prof. Jia also proposed proactive and systematic approach for attracting investors, together with strong market factors. 'Low hanging fruits' through SEZs can kick-start the development trail by attracting primary investors. CPEC and SEZs are open for all investors, including those from other countries beyond China.[19]

Major Implications of CPEC

a. **Creditor's Imperialism: Perception or Reality as a Modern 'East India Company'**

'Philosophy of Mercantilism' by Adam Smith (to enrich the country by restraining imports and encouraging exports), truly manifested by the East India Company (EIC), was based on the principle of *'all for ourself and nothing for other people'*.[20] Economic exploitation and accumulation of wealth bereft of the local considerations was the trademark of the EIC. It's one of the perceptions about CPEC to become a modern East India Company. Is it a million dollar question, rhetorical notion or merely a metaphorical statement? Fear-mongers must analyse this argument in the historical perspective and economic philosophy of China in view of the prevalent economic and strategic scenario of Pakistan. Some lawmakers and politicians of Pakistan also perceive CPEC as another East India Company in the offing. 'We are proud of the friendship between Pakistan and China, but the interests of the state should come first'.[21] Others believe that the argument is farfetched on some apposite sanities. ***First,*** China, possessing a prolific cultural heritage, is among the world's leading civilizations, possessing five of the last seven thousand years of recorded history.[22] In 3000 years of history, China has never occupied a single inch of foreign territory compared to every other global power that has done imperialism in history[23]. ***Second,*** China's influence is based on joint economic expansion in dissent to the mercantilism of East India Company (EIC). China's contribution toward Africa through 'economic prosperity and infrastructure development' is an ample testimony of mutual growth strategy established on win-win situation.[24] China was the single largest bilateral source of annual Foreign Direct Investment (FDI) in Africa's 54 countries.[25] During the period 2003-2008, China invested in 45 out of 53 African states; South African region attracted the largest volume of Chinese outward FDI.[26] ***Third,*** we may glance with the perspective of Global Communication Theories.[27] It is not the epoch of mercantile colonialism (1600-1950) sought to control the 'toil and soil' through sea-waves that captured the territory and the cheap lab or. It is the era of 'Electronic Colonialism'(1950-Present) predestined to clasp the ears, eyes and the minds through the air-waves, predominantly referred as 'Empire of the Mind'. Chinese President, Xi Jinping, emphasized to implement in real earnest the roadmap on the internet and digital economy in his remarks to the 1st Session of the Asia Pacific Economic Cooperation (APEC) Economic Leaders Meeting, held in Vietnam (Da Nang) on 11th Nov 2017. ***Fourth,*** In 2017, Chinese Ambassador to Pakistan, Mr. Sun Weiding said, 'China-Pakistan Economic Corridor is a major and pilot project of the Belt and Road Initiative'. Chairman of National Development &

Reforms Commission of China, Mr. He Lifeng said, 'CPEC is closely related to the Belt and Road Initiative (BRI).Thus, success of CPEC is a gateway to the success of OBOR. Think tanks of BRI would never crave to discredit this gigantic project with the stigma of 'Mercantile Colonialism' of the 20th Century amidst Globalization, Innovation and Global Economic Governance of 21st Century. ***Fifth,*** Globalization processes and Global Economic Environment would depend upon either the epitome of domination or the cooperation. Chinese Ambassador to Pakistan, Yao Jing emphasized to believe that China and Pakistan can contribute to a new paradigm, a new concept of regional cooperation and regional development.[28]

b. **OBOR and Changing Dynamics in Foreign Policy of Pakistan**

Relations between China and Pakistan expanded from bilateral to multi-lateral, fostering diplomatic support for each other on international forums. Chinese believe that stability of political economy of China will always protract its positive image to defeat the unipolar system after the war between USSR and USA.[29] Pakistan, situated in the juxtaposition of India, Afghanistan and Iran, commands paramount geostrategic location in South-Asia wherein China and Pakistan share 523 km long border.

First come the upshots of Pak-US relations. Despite historic Defence pacts of SEATO and SENTO in 1950s, Pakistan's front line role in Soviet-Afghan war, and being an ally in the post-9/11 war on terror, tenuous nature of relations were denigrated by spate of US economic sanctions that stemmed into Pakistan's economic, political and military dependence on China.[30] Presence of extra-regional powers in South Asia has always witnessed a new regional political paradigm. Islamabad' stout relations with Beijing would peeve Washington's political dominance and global leadership. It may entail think tanks of Pakistan to redefine the dynamics of its foreign policy and nature of relations with US and China in view of CPEC and OBOR. China does consider the presence of US military in the South Asia region as an important factor for aggravating social and political disorder.[31] Simultaneously, China accuses US, Pakistan and Afghanistan for formulation of Taliban, creating problems of terrorism in her Xinjiang's region.[32] On 10th May 2018, Pakistan took a 'Reciprocal Action' by introducing new travel permission regime and imposed reciprocal travel sanctions on US diplomats and Consulate staff in Pakistan.[33] In view of the above, Pakistan must absorb lesson from the 'Omni-directional foreign policy' of Sri Lanka with China in the form of insolvency of foreign debts for infrastructure developments.

Second comes into view the impact of 'Indian Factor'. CPEC would surely facilitate Chinese imports of natural resources and exports of processed goods to the region (South Asia, Middle East and Europe) and rest of the world. Indian Government was fearful of the Chinese exports in the region through 'Bangladesh-China-India-Myanmar (BCIM) Corridor' as expressed by Gatesh Sharma of Indian External Affairs Ministry.[34] Currently, there is comatose and tug of war between India and China, lingering since its first meeting in 2013, on this sub-regional initiative of BCIM. In the vein, next meeting of Joint Study Group (JSG) for four countries has been supposed to be held in 2018 in Myanmar. Indian Prime Minister, Modi, during his visit to Beijing, termed the project 'unacceptable' as CPEC is going through Azad Jammu and Kashmir.[35] Ostensibly, CPEC is a bilateral project and Indian concern only extends to the India-Pakistan territorial disputes in Kashmir and Gilgit-Baltistan.[36]

Third appears RAW sponsored terrorism in Pakistan. Chinese intelligence agencies shared with Pakistan, frontline activities and news to sabotage CPEC by Research and Analysis Wing (RAW) in line with other hostile agencies.[37] India is a common enemy of China and Pakistan.[38] On March 24, 2016, arrest of RAW's agent and Naval officer, Kulbushan Yadav, divulged India's spying activities in Balochistan and Karachi. Kulbushan confessed in a video, flashed on Pakistan's TV channels, that 'he was the agent of RAW' and during his stay, 'he contacted various Baloch separatist leaders and insurgents, including Dr. Allah Nazar Baloch, to execute the task of damaging CPEC Projects'.[39] Defence Secretary of Pakistan, Gen (Retd) Alam Khatak, said that Indian RAW and Afghan's National Directorate of Security (NDS) have launched joint secret operations against Pakistan. It is using three Indian Consulates in Jalalabad, Kandahar and Mazar-e-Sharif to provide logistic support to agents for subversive activities in FATA, Balochistan and Karachi.[40] Chairman Joint Chiefs of Staff Committee, Gen Zubair Mahmood Hayat, revealed that "RAW established a new cell with a special allocation of over $500 million in 2015 to sabotage CPEC Projects [in Pakistan]".[41] Currently, Interior Ministry of Pakistan has written a letter to Home Department of Gilgit-Baltistan, mentioning that India has sent a group of 400 Muslim youth to Afghanistan for getting training to attack bridges of CPEC Projects on Karakoram Highway.[42] Pakistan Army launched successful operation Zarb-e-Azb (End of militancy) and next Phase Raad-ul-Fasaad (End of militancy narrative) to curb the militancy in the country.[43] Resultantly, Pakistan ranked fifth out of 163 countries on the Global Terrorism Index (GTI) with a score of 8.4 out of 10 after Iraq, Afghanistan, Nigeria and Syria.[44] Previously, Pakistan was ranked at three on GTI after Iraq and Afghanistan in 2014.[45] Additionally, special security measures have also been taken to beef up the security of CPEC projects. A Special Security Division (SSD), comprising 9,000 Pak Army soldiers and 6,000 para-military forces personnel has been set-up for the security of the project and individuals working on it.[46]

Fourth come the consequences of CPEC on the maritime politics in the Indian Ocean and the Arabian Sea in South Asia. Quintessence of sea-power always remained at the heart of geo-political and strategic epitome that dwelled arduous without stalwart naval force. The Chinese brainchild of Maritime Silk Road under BRI and the construction of Chinese-impelled Gwadar Port in Balochistan and 'Chinese Naval Base' in Arabian Sea, would trigger a race in South-Asian maritime politics. Being galled, New Delhi may initiate aggressive and swelled naval developments. Bloated Indian Naval expansion would drag Pakistan into oceanic geo-political competition that also invites China to counterbalance India. The never-ending multi-pronged and dogmatically protracted clash between New Delhi and Islamabad will never leave the inescapable contesting connections between Washington and Beijing.[47] Command and control over the Indian Ocean portrays authority over Asia. Chinese maritime developments may not be purely confined to economic developments. China's various economic covenants with Bangladesh (Karnaphuli)[48], Sri Lanka (Colombo)[49] and Myanmar (Naypyidaw and Tatmadaw)[50] are key components of Bangladesh-China-India-Myanmar (BCIM) Corridor. India quails at such developments as 'Expansionist Ambitions' and labels it as

'Creditor Imperialism'[51] by China. In such inexorable geo-politic proclivity, it impinges upon Pakistan to exalt its navigational infrastructure to neutralize the belligerent maritime elaborations of India. Indeed, history is evident with fraught creditor's Imperialism. China seeks to strategize its quest for maritime power by developing a broad-based maritime economy. China developed its port and shipping sector on war footings and enhanced output of China's Maritime Industry from one trillion Yuan in 2011 to 4.56 trillion Yuan in 2011.[52] Pakistan Maritime Administration through development of Gwadar Port, shipbuilding, ship-recycling, aqua-culture and maritime research can develop Pakistan into a blue economy, as Pakistan comprises 990 Kilometers of coast-line and 290,000 Square Kilometers of extended special economic zone, rich in resources. Pakistan Navy must devise a multi-pronged strategy to reinforce the security of Gwadar port security, vessel security and sea-lanes security.

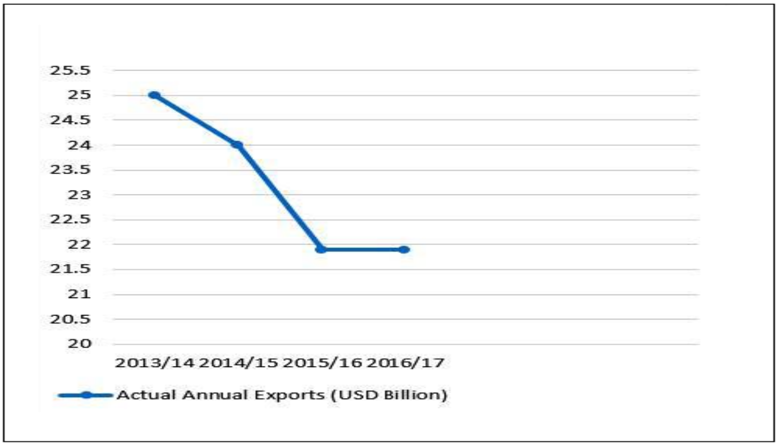
Fifth comes the sequel of China's engagements in Afghanistan. China's rugged border with Afghanistan crisscrosses just 76 Kilometers but Durand Line traverses 4,250 Kilometers (2640 Miles). China's fiscal stakes in Afghanistan shielded developmental assistance of $240 Million from 2001 to 2013 and $80 Million alone in 2014. Bilateral agreement was also inked on technical cooperation worth US $76 Million in May 2016. Additionally, Mes Aynak Copper Mine Project of China's Foreign Direct Investment (FDI) worth $3 Billion on 30 year lease and Amu Darya Oil River Basin Project were also ample financial engagements of China and Afghanistan.[53] Ambassadors of Afghanistan (Former and present) to Pakistan extended support for CPEC and expressed interest to join it.[54] Afghanistan-China Transit Trade through Karakoram Highway (KKH), extension of Mes Aynak-Torkham railway line, Turkmenistan-Afghanistan-Pakistan electricity transmission line (TAP-500v) and Central Asia-South Asia Power Project (CASA-1000) can laudably bolster trilateral cooperation among Pakistan, China and Afghanistan. If the trio bourgeons bonds, strained relations between Kabul and Islamabad may normalize with Beijing's mediation. Beijing's interest in Afghanistan is out of its security concerns related to the presence of Uighur militants in Badakhshan Province. For Beijing, peace and stability in Afghanistan is critical for both its own security and investments in Pakistan.[55] The same is in the national interest of Afghanistan as well. Fostering connectivity between Afghanistan's domestic road network and CPEC could ajar Afghanistan worldwide through a diversified selection of roads, rail and maritime links that would endow the country to interject in the fastest and economically viable trade.[56] Historical perspective corroborated historic connections of China with Af-Pak region as the two ancient empires the Kushan (Yuezhi in Chinese) and the Hepthalite (Yada in Chinese) empires who ruled most of the Af-Pak region, originated from China.[57] Thus, trilateral Cooperation could stabilize the region.

c. **Economic and Financial Implications: Investment, Loans and Financing Mechanism**

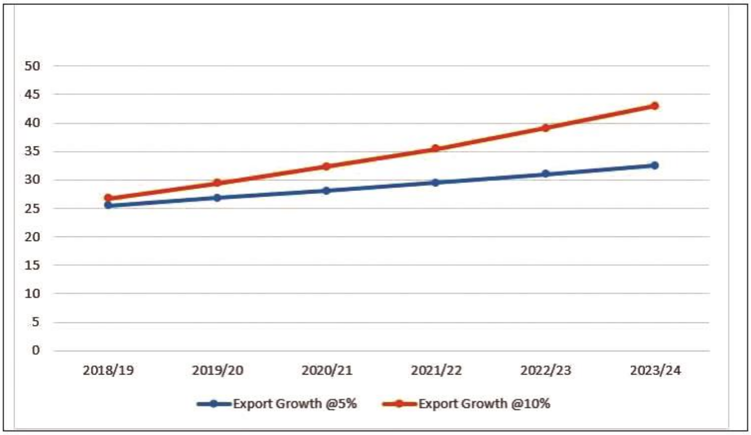
Pakistan must be pre-emptive of the prevalent domestic circumstances and the developmental aspirations. 'It may be precarious if Pakistan has to tolerate the entire debt burden; will this [project] be a national development or a national calamity?'[58] This sphere of influence will have an impact on Pakistan's economy.

First–Fragile economic parameters of Pakistan's Economy may not commensurate with the accelerated development pace of China. In the words of Dr. Ishrat Husain, 'the main risk arises from the current mind-set and model of doing business as usual'.[59] What's more panicky are the exports of Pakistan, recorded at a serious decline of $22 Billion in 2016-17 due to multiple reasons.

Graph 6.3: Export Revenues of Pakistan



Graph 6.4: Assuming Export Growth Rate (USD Billion)



Source: *Figures gleaned from 'The CPEC Summit and Expo 2018 Supplement', Perspectives: Business? Yes. As Usual? No.* https://epaper.dawn.com/?page=22_05_2018_001

A number of other local business agents, foreign investors and cartels already affect the economic policies of Pakistan rather they steer economic power through tax cut reforms, tax exemptions[60], tax concession packages[61] and tax amnesty schemes.[62] In Davos, Prime Minister of Pakistan invited foreign investors, while offering a liberal investment policy encompassing 100 percent equity ownership, full repatriation of capital, tax breaks and customs duty concessions on import of machinery and raw materials.[63]

Second–CPEC Project is riveted by a mix of financing structures: (i) IPP investment mode (75pc between Chinese companies and lending banks for which Government of Pakistan has not to bear any debt servicing obligation), (ii) Government to Government loans for infrastructure development (Concessional long-term loans to be paid in 20-25 years), (iii) Grant from Chinese Government (for development of Gwadar) and (iv) Private Direct Investment. Infrastructure development and energy-related projects are supported by concessional loans and investment from Chinese banks and enterprises respectively. Pakistan has to pay 1 to 2 percent interest on concessional loans given by Chinese Government for the execution of CPEC related projects, whereas, investment from Chinese enterprises entails interest rate to 5% or less than that.[64] About 65% of early project loans ($28 Billion) have 7% interest rate attached. If somehow, we manage to pay back $28 Billion, a little less than $40 Billion more at similar rates are on the way.[65] In the words of Dr. Ishrat Hussain, 'if our exports attain a level of $40 Billion by then, this would not cause any stress on balance of payments and can be easily absorbed'.[66] Currently, our export sector is over-stressed by the energy short-fall. Hence, export growth rate of more than 10 percent annually can enable Pakistan to absorb peak even payments with the new energy production regime.

Third–Chinese Embassy commented on media reports vis-a-vis halting of funds of three CPEC-related projects[67] to review the financial mechanism and mode of funding.[68]

Fourth–Loans taken from China may incur austere repercussions for Pakistan. If Chinese model of debt-driven infrastructure development is same for Pakistan as for Africa and South Asian countries, then, it must be a matter of abstemious concern for Pakistan as well. Let's narrow eyes at Chinese debt of $15 Billion (in Chinese money) to Sri Lanka during 2005 to 2017 to facilitate the construction of infrastructure projects (power plant, airport and Colombo port). Sri Lankan Government formally handed over its port of Hambantota to Chinese interests on 99 years lease.[69] It's pertinent to mention that Hambantota was a commercial failure, got hardly any ship, tainted into a fraught asset.

Fifth–CPEC should not be considered just a 'gift' from China, but Pakistani government should also establish an 'FDI Advisory Board' that shall promote the new image of the country.[70] A case study of Malaysia estimates that FDI can effectively contribute to growth, if it is at least 3.14 pc of GDP.[71] Net inflow of FDI into Pakistan has registered growth of 4.4 pc to $ 2.09 Billion during July/March 2017/2018, as compared to $ 2 Billion in the corresponding period of last fiscal year.[72]

Conclusion

Twenty-first Century is the epoch of Global Communication, prodigiously dominated by 'Electronic Colonialism' that is to clasp the minds, ears and eyes. 'Mercantile Colonialism' was the ballot of 19th and mid-20th Century, the colonialism of 'soil and toil'. China's influence is based on collaborative economic expansion. CPEC, a flagship venture of BRI, has emboldened Pakistan with balancing substitute of geo-economics from geo-politics, after witnessing mammoth turmoil of Afghan-Russia war and 9/11 war on terror. Pakistan must take advantage of China's economic acclivity on the global canvas. It would fetch a revolution in the economy of Pakistan, if tangible, unfeigned and strenuous endeavors are consolidated to garner boons from Chinese investment in the form of transfer of technology, and coherent infrastructure and human development.

Soul of CPEC success dwells in leveraging SEZs through lucrative investment decisions for Pakistani, Chinese and non-Chinese investors. FDI coalesced with modern knowledge and skill of industrial technology can steer to job-rich industrialization era in Pakistan. CPEC and SEZs are open for all investors and Pakistani investor must yield benefits from 'low hanging fruits' of SEZs. Pakistan must dispense with archaic business model and ensure level playing policies, impartial and just business environment to obliterate the apprehensions of business community of Pakistan. Dynamic participation and exuberant contribution of private sector would be ample testimony of success of Special Economic Zones, whereas, mere industrial-infrastructure development would be a mirage without salubrious investment.

Sri Lanka renounced its sovereignty and capitulated to the 'Creditor's Imperialism'. But this analogy is not germane to Pakistan as some fear-mongers auger to cede her territory, Gwadar to China, in case on succumbing debt-burden trap. In the manifestation of 75 percent IPP mode investment, grants from China for Gwadar and concessional long-term loans to repay in 20-25 years, such fears can be obliterated, if Pakistan just escalates export growth rate above 10 percent annually. New systematic energy production regime may spiral exports up to $40 Billion, a bare minimum level to grit peak debt burden. Construction of new water storage reservoirs and production of hydro-electric energy would be the most economical source of energy, alternate to coal-fired, wind-mills and solar-power projects, contemplated under CPEC projects. To jettison qualms about high-interest rate loans from China, a third-party 'Independent Evaluation System' must be evolved to reconnoitre consternations from all angles for contriving effective repayment mechanism. Nation must be kept well-informed about foreign and domestic loans and their terms and conditions for repayment.

Regional stability and peace can be safeguarded with China's succor. Inclusion of Afghanistan in CPEC can be politic and pragmatic to counter three evils of terrorism, extremism and separatism. Currently, there's comatose between India and China on BCIM Initiative. CPEC is 'unacceptable' for India, that's tacit abnegation of BRI initiative. In the vein, India is the common foe of China and Pakistan, striving remorselessly to thwart CPEC projects of BRI initiative through joint tumultuous mayhems of RAW, NDS and MOSAD under the umbrella of CIA. Successful operations of Zarb-e-Azb (End of militancy) and Raad-ul-Fasaad (End of militancy narrative) annihilated networks of adversary agencies and stoutly exterminated militancy in Pakistan. Pakistan, situated in juxtaposition of India, Afghanistan and Iran, must contrive new dynamics of geo-strategic relations with US and Russia accentuating only the national interest. China pursues to strategize for broad-based navigational economy. Chinese Naval Base in Arabian Sea may trigger a race in South-Asian Maritime politics. Pakistan must strive to exalt its navigational infrastructure to neutralize the belligerent maritime elaborations of India. Pakistan Navy can augment Pakistan into a mounting blue economy of South Asia by developing 990 Kilometers of coastline and 290,000 Sq. Kilometer of extended economic zone in Arabian Sea.

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Developing Pakistan through SEZs under CPEC

Ahmed Saeed Minhas*

Abstract

Developing Pakistan's feeble industrial base through CPEC-specific SEZs with their multi-billion massive string of projects between Pakistan and China is considered as the greatest boon for Pakistan. While China rightfully eyes on an easy access through CPEC to the outside world, especially the Middle East, Central Asia, Africa and Europe. For her this is a much shorter and secure route for boosting her trade. Indeed the CPEC initiative can be rightly termed as a game changer for Pakistan, if it is able to support energy and industrial projects in Pakistan for a genuine and sustainable economic development in the country. This paper focuses on the prospects and challenges of SEZs in Pakistan, being initiated under CPEC. While SEZs have been a buzz- word around the globe for economic development, especially after the success story of Chinese SEZs followed by similar accounts in other countries like South Korea, India, Bangladesh, Singapore and other Asian countries, this paper also highlights the exigent issues related to the legal complexity, special incentives, location considerations, social dimensions, human development and environment etc. These aspects cannot be ignored, while planning economic development because, if not addressed, these issues may result in total failure of SEZs as it happened in most parts of Africa or the development process, even if achieved, will be heavily marred by the accompanying challenges, as it happened in China, India and other parts. The paper recommends measures to be taken in order to translate the theoretical benefits of SEZs into real fate-changer in terms of GDP growth, economic uplift, urban development, trade and export advancement and ultimate amelioration of living standards for a common Pakistani citizen.

Key Words: corridor, special economic zones, environment, amelioration, economic feasibility

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Introduction

China Pakistan Economic Corridor (CPEC) is a mega project that has been initiated recently and is going to revolutionize economy, communication and industrial infrastructure in Pakistan, ultimately ushering in a new era of development for the people of this region. The project was initially estimated at 46 billion US dollars, but the cost has now risen to 59 billion dollars, covering a myriad of ventures ranging from road, railway, pipelines, and fibre optics on one side and power generation, industrial setups and trade enhancement on the other. Development of Gawadar port and the connecting communication network across Pakistan till China is the iconic pivot of the whole initiative. The project, initiated under the Chinese aspiration of One Belt One Road, is hoped to have far reaching effects on the economy, living standard and employment opportunities for people of not only China and Pakistan but also of the region as a whole with the potential and likelihood that the network would be extended to the neighboring countries like Iran, Afghanistan, India and Central Asian Republics. The mega project has been termed as game changer for Pakistan and is expected to transform the fate of Pakistan and modernize its economy by boosting trade, overcoming the dreadful energy crisis, developing infrastructure, improving security situation and strengthening regional connectivity. Some of the major benefits Pakistan is expected to reap form this undertaking include expansion of tax network, enhancement of foreign direct investment (FDI), creation of 700,000 direct jobs and balance of trade through exports, leading gradually to a boost in Pakistan's annual economic growth by 2 to 2.5 percent.

However, the multi-billion project is not a smooth-sailing initiative and challenges and criticism have been unleashed from the very start of this project. Notwithstanding the lucrative commercial benefits and the alluring advantages, many critics have drawn attention to issues like lack of transparency in funds, high mark up on loans, the Chinese firms, preference to importing equipment from China rather than source from Pakistan, apprehensions regarding the efficiency and economic feasibility of the project, social and political disruption and the loss of innocent lives. Apprehensions are also being voiced from some quarters that China may exploit Pakistan’s vast natural resources, especially in Balochistan, in the guise of developmental assistance. A more worrying and pertinent concern expressed in local business quarters is that, in the long run, CPEC might prove a game changer for China only as the local industries and labourers would expect fierce competition and ultimately succumb to the cheaper goods-smuggled or legally imported- available in the Pakistani market. Dr. Bob Wheeler, former Dean KSBL Karachi, while addressing a conference at LUMS, said, “although CPEC will create jobs, it will also hinder some aspects of Pakistan’s economy.” There are also apprehensions about the timely completion of energy and other related projects. Some critics of CPEC are of the view that China is more interested in a direct and shorter route from Kashgar to Gwadar rather than any economic development in Pakistan.

Despite all misgivings and propaganda from within the country and outside, CPEC is going to be a unique opportunity for Pakistan and will infuse new life in the ailing economy of the country by turning it into a trading hub and transit route. However, the greatest benefit Pakistan can reap from CPEC is through revitalizing its rudimentary and feeble industrial base, by attracting FDI and diversifying its industrial production, increasing exports, minimizing the trade deficit and investing in energy sector and mining. Only then substantial and sustainable economic growth will be achieved, because only these steps will lead to boosting up trade and diversifying export base, ultimately resulting in social uplift and amelioration of the present status of general masses. While dispelling apprehension about the Chinese hegemony in the region through CPEC, Dr. Zafar Iqbal Cheema termed CPEC as a historical opportunity for Pakistan and maintained that it will be a game changer. However, he adds that ultimately it will depend on Pakistani leadership as how actively they play the game to gain maximum benefits and secure the national interests in the process.

CPEC is a combination of projects, covering areas like communication infrastructure, energy, development and expansion of Gawadar port and establishment of Special Economic Zones (SEZs) along the corridor. As industrial development plays a vital role in the economic growth of a country, the planned SEZs throughout the country are going to be a great leap in achieving sustainable development for Pakistan. Developing of SEZs, in fact, is going to be the real game changer and harbinger of economic and industrial development in Pakistan.

Metamorphosis of Special Economic Zones (SEZs)

A Special Economic Zone (SEZ) is specified area within a country, granted with special economic incentives and policies, including lower tax rates and more flexible labour laws and other infrastructural facilities, in order to attract foreign investment, increase employment and promote exports. As SEZs receive special treatment from the government, they get competitive advantage over the local industries, and can produce at a lower production cost and so compete globally. SEZ as a geographically delimited area with tax amenity is not a new concept and has existed in the world for centuries, in the ancient China, Carthage and the Roman Empire in the form of age-old concept of free ports (FPs). The modern SEZ is the reincarnation of the ancient free-trade ports and was first introduced in Puerto Rico in 1947 and the first modern industrial SEZ was established in Shannon, Ireland in 1959. These zones differ from one another, but they all share certain characteristics e.g. (1) SEZ is geographically delineated area, usually physically secured; (2) managed by a single administration; (3) offers special incentives to investors located within the zone; and (4) it has a separate customs area (duty free benefits) and streamlined procedures.[1]

Benefits from SEZs are often grouped into two categories i.e. 'Static' economic benefits which include increased employment opportunities, better exports, increased government tax incomes, and substantial foreign exchange earnings. The second category is known as 'dynamic' benefits, which include skill up-gradation, technology flow, knowledge spill-overs, innovation, value addition, economic diversification and productivity enhancement of local firms, etc.

China is the best-known success story of using SEZs to boost economic growth and development. China introduced SEZs in late 1970s, as small scale industrial experiments in Shenzhen, Shantou and Zhuhai. They were accompanied by 'Open Door' policy reforms in 1978, which resulted in tremendous economic growth and foreign investment that was totally absent earlier. Later, SEZs were extended to other areas after successful experiment, standing today at over 1750 SEZs in China, resulting in unprecedented economic growth through favourable policies and institutional reforms. The success story further encouraged the Chinese government to introduce other measures like Economic and Technological Development Zones (ETDZs), also known as National Industrial Parks, High-Tech Industrial Development Zones (HIDZs), Export Processing Zones (EPZs) and Free Trade Zones (FTZs). Today, China is enjoying a significant contribution from SEZs to its GDP, technological advancement and modernization. FDI in China rose to $4.1 billion and exported products reached to $10 billion through these four SEZs by the end of 1980s and by the year 2000 FDI reached to $50 billion. SEZs in China have also enhanced the openness through factor mobility, technology transformation and research and development activities around the world. Today 30 million jobs in China owe their existence to the success story of SEZs, contributing 60% share to exports and 22% share to the GDP, while drawing 46% of FDI.[2]

SEZs around the World

The success story of China with SEZs has made the concept very popular the world over. According to a report of the citing International Labor Organization (ILO), there were approximately 176 zones in 47 countries in 1986; and in 2015, their number was estimated at around 4,300 zones in over 130 countries.[3] However, the outcomes are not uniform for all the world markets; some have shown results very similar to China, while in other places, the results are not so promising, with even negative results reported.[4]

In South Asia, India can be quoted as an example with excellent performing SEZs. India launched its first EPZ in 1965 at Kandla, Gujrat. In the next 40 years, India opted for more open policy for special economic zones characterized by measures like simple administrative procedure, public-private partnerships and special incentives and established many more zones throughout the country. India announced the first SEZ policy in 2000, focusing on an increase in exports and offered lucrative benefits to both the investors and SEZs developers.[5] Indian financial reforms towards greater linearization have resulted in her economic growth and increase in FDI. Factors like policy reforms, adoption of good governance practices, urban planning, and supply of basic public services contributed to the success of SEZs in India.

The story of success is more common in the Asian and Latin American regions, while the African countries with the exception of Mauritius, Kenya and Madagascar, have reported a less attractive picture. Among other reasons, the lack of business environment and power shortages may be held responsible for the dismal performance of SEZs in Africa. Studies on SEZs in other countries, particularly in the US, France and the UK, have shown inconclusive results.[6]

This lopsided performance of SEZs has also given rise to a debate about the rationale and justification for using SEZs as an instrument for economic development. However, keeping in mind the low industrial capacity of

Pakistan, despite all the potentials for modernizing economy through industrialization and value addition, high unemployment ratio, limited export base, availability of raw material and trained and young human capital, the prospects of success of SEZs for Pakistan are quite high and may work as a catalyst to achieve high economic growth and development.

SEZs in Pakistan under CPEC

The 6^{th} Joint Corporation Committee (JCC) has approved establishment of nine SEZs under CPEC located throughout the country, including AJK and GB, based on the unique potential of each geographical location for some specific production units to be established. These SEZs are expected to attract FDI and generate employment opportunities for the local population. These zones will also provide huge opportunities for improving local industries in the form of value addition to our textile and other rudimentary products and enhance our exports and earn valuable foreign exchange through backward and forward linkages. In addition, these zones can also help Pakistan strengthen its already functional advanced industrial units, by relying less on imported parts and raw material and enhance the capacities of local enterprises in fields like automobile, chemicals, pharmaceutical, electronic goods, metallurgy, and agro-based production units. SEZs will also afford an opportunity for local businesses to enter into joint ventures with the world class export-oriented Chinese and foreign companies to relocate in the industrial parks and SEZs. The planned Special Economic Zones in CPEC are the right track, where these ambitions can be achieved. Mr. Ross Masood Husain, Chairperson Strategic Vision Institute (SVI), is optimistic that the Shenzhen SEZ experience of China will ensure to replicate the same story of success in Pakistan with Chinese assistance.

Table 7.1: Special Economic Zones under CPEC

S.No	Name of SEZ	Suggested Sectors for Investment
1	**Bostan Industrial Zone, Balochistan**	Mines and minerals processing and value addition, warehousing for goods and minerals storage and transportation, light engineering, iron and steel, fruit processing.
2	**Rashakai Economic Zone on M-1, Khyber-Pakhtunkhwa (KP)**	Fruit & food packaging & processing (meat & halal foods), logistic support industries, engineering & manufacturing, automotive parts, marble & granite, tobacco and leather & woolen apparel, fast moving consumer goods (FMCG).
3	**Mohmand Marble City**	Marble & granite processing, chemical & calcium industry and other mineral based industries.
4	**Special Economic Zone Dhabeji, Sindh**	Automotive & allied, building material, chemical & pharmaceuticals, FMCG, foundries-steel fabrication, light engineering and textile & garments.
5	**M-3, Industrial City, Faisalabad**	Leather & textiles value addition, pharmaceuticals, electrical & electronics, chemical and dyes, light engineering, iron & steel re-rolling and food processing

6	**ICT Model Industrial Zone, Islamabad**	Research & development, information technology & communication services, high-end electrical & electronics, green technologies, tourism facilitation, business facilitation, gems, jewelry & handicraft
7	**Mirpur Industrial Zone, Azad Jammu Kashmir (AJK)**	Food /fruit processing & preservation, beverages, herbal medicines, furniture/wood works, chip / fiber board, marble, powder making and gemstone cutting/ polishing, mini cement plants, agriculture tools & implements, paints and varnishes, and garments
8	**Moqpondass SEZ, Gilgit-Baltistan (GB)**	Food/fruits processing and packaging, marble and granite, gems/jewellery, copper & iron processing
9	**Port Qasim Special Economic Zone, Sindh**	Automobile & auto vendor industry, steel & steel fabrication, information technology & communication industry, chemical & pharmaceutical industry, home appliances/ consumer durable industry, livestock feed industry, machine manufacturing (textile, agri, mining, etc.)

Lesson from SEZs around the World for Pakistan

The success story of SEZ in China, India, Malaysia, Singapore, Jordan and other South East Asian countries on one hand and the dismal performance of these zones in African countries have lessons for Pakistan to learn, in order to get the maximum benefit out of these ventures and avoid any misadventure through unplanned undertakings. Some of the features of the successful SEZs the world over are given below.

Legal Protection for SEZs

History of success of SEZs in China, Malaysia, India, South Korea, Bangladesh and Jordan shows that they have been successful in countries where they were accompanied by strong legal protection and statutory measures in comparison to African countries where such legal protection was not quite strong. Pakistan's economic growth rate and industrial development has been quite sluggish due to the lack of a coherent industrial policy. In addition, the nationalization policy in the 1970s further obstructed industrial development in Pakistan and apprehensions of investors in the country have not been brushed away, despite later efforts by the successive governments. Moreover, the political journey of Pakistan has been quite uneven and bumpy and the country is known for adhocism in policies and undoing the initiatives of the preceding governments with every change of government. In such scenario, a sound legal protection and framework defining the outlays of SEZs are vital to anchor the confidence of investors, especially foreigners. Foreign invest in Pakistani SEZs will only come when there is continuity of policies and long-term government commitment. In absence of such guarantees, the investors will definitely prefer to move to a more secure environment. At the same time, facilitation of the investors through easy-to-follow and transparent procedures, free of bureaucratic hiccups, is also required in order to attract more and more investors. A one-window-operation mechanism will need some legal cover in order to make the investors feel the preferential treatment for investing in SEZs. In order to make SEZs successful, Pakistan will have to change its fiscal and investment policy. Pakistan needs to set up a separate CPEC Authority, with monitoring and implementation mechanisms and strategies.[7]

Clear Goals and Objectives

Successful SEZs the world over have been established with the objectives of promoting industrialization and value addition, extending GDP growth, increasing employment opportunities, attracting FDI and diversifying and expanding the exports base. By setting up SEZs in various parts of the country, the government as well as the management of SEZs and investors need to remain focused on these goals and objectives, in order to reap the maximum benefits from these SEZs. Although the interest of the investors and management of SEZs usually remain linked with the goals of respective governments regarding their establishment and the benefits of both the partners remain dependent on each other, however, sometimes the investors may remain focused on getting benefits from their investment without any concern for the overall developmental goal of the country associated with SEZs. In such cases, SEZs will not get the desired results and they may prove unproductive, despite getting huge incentives and privileged treatment from the government. Lack of communication and coordination of efforts between investors and local governments in Africa caused the failure of SEZs experience there.

Incentives for Investment and Operational Autonomy

In today's competitive business environment, investors eye on the markets around the globe for cheaper and skilled labour, easily available raw material, uninterrupted and cheap power supply, easy processing opportunities, less complicated exporting facilities of their products to the consumer markets, legal cover to their investment, freedom to operate their business according to the market demands and assurances of easy transfer of the profit to their countries. SEZs are developed to facilitate the investors in this regard and provide them a better business environment, which is normally not available in other parts of the country with the sole purpose to promote investment by removing all the legal and administrative hiccups. Just financial incentives and tax relaxation is not the answer to create a better business environment; a better business environment is also characterized by availability of required power supply, communication and business infrastructure, skilled labour and most importantly the regulatory reforms and political and economic autonomy. China attracted FDI in SEZ through policies ensuring special incentives like easy processing and customs clearance, flexible labour laws, tax amnesty and concessions and other privileged and preferential treatments to the investors, including greater operational autonomy and freedom within the zones.[8] Pakistan is ranked at 147 in terms of ease of doing business.[9] Pakistan needs to change this image by providing incentives and facilities to the investors to attract investment and improve the business environment in the country. By holding business seminars and conferences abroad, Pakistani Diaspora living in the Middle East, Europe and America particularly need to be convinced to bring their investment in Pakistan and get benefit from these incentives.

Strengthening the Local Infrastructure through Skill Development and Technology Transfer

Joint ventures with big names and investment from multi-national enterprises offer an opportunity to the local business and ventures to learn from their expertise. In SEZs, there is high concentration of skilled people, because they hire trained workers and also train the local manpower in dealing with the new technology in order to make their products competitive. The Chinese SEZs have also established training centres, which work closely with technical and vocational schools, colleges and universities and provide relevant skills training and technology support for the firms in the zones. This innovation and learning diffuses to other enterprises and stimulates synergetic learning and enhances industrial competitiveness.[10] In addition, SEZs are closely linked to domestic enterprises and industrial clusters through supply chains or value chains, which help achieve economies of scale, business efficiency and entrepreneurship. By close coordination with Chinese firms through joint ventures, Pakistan can promote local talent and technical know-how for industrial development and technological up-gradation. Pakistan enjoys a unique opportunity, due to its demographic distribution, with 60 percent of the population under 25 years of age, promising over 100 million workforce available for the industrial revolution that is going to take place through these ventures. Pakistan needs to harness this opportunity and train the manpower through purposeful education and technical training in order to reap the maximum benefits from the project. At the same time, the indigenous industry should also be supported to learn from the experience of Chinese and foreign firms in order to modernize its own technology and encourage local entrepreneurship to create a competitive environment, instead of relying on the foreign technology.

The Social Dimension

The economic benefits in the form of accelerated economic activities in the region are no doubt one of the most loudly quoted advantages of SEZ, especially in counties like China, India, Singapore and Bangladesh. However, the negative social impact that SEZ has had on the local population in the form of labour exploitation, ethnic and racial tension, social mal-adjustment, economic inequality, unplanned urban development and changing demographic ratio and cultural aspects etc, can also not be overlooked. Industrial development, even outside SEZs, is bound to bring along these social challenges, because of the resultant migration. One of the most important requirements is to maintain equilibrium between industrial development, which will be accelerated with the establishment of SEZs, and social policy that aims to address the social concerns in the wake of increased industrialization.

Pakistan is likely to see a huge shift in population ratio from rural to urban in the coming years and the establishment of SEZs is going to catalyze this social change. The resultant exodus accompanied by all the challenges will require a vibrant social protection policy on the part of the government. Quoting the negative social outcomes of the very successful SEZ, Shenzen writes that seven million people out of Shenzhen's total population of 12 million are migrant workers, with almost no legal or social protection and a very high death rate among industrial workers. Other challenges like very high rate of child labour (5,00,000 cases), less than minimum wage, labour abuse and a very high rate of crimes like smuggling and sexual abuse are also reported in Shenzhen. In such a scenario, SEZs can be seen as progress only insofar as aggregate investment is concerned; socially it is nothing but regression.

If the project does not provide opportunities for quality employment and resorts to exploiting low-wage workers, SEZs will not achieve the desired results and would rather prove a nightmare for the people of Pakistan. Any economic enterprise of this magnitude need to cater for the upward mobility of trained employees, recognizing the value of skilled workers and providing for their social uplift, by taking into consideration issues like appropriate housing, health and education initiatives and other recreational amenities.

Notwithstanding the special incentives and the relative operational freedom accorded within the SEZs, Pakistan will have to adopt clear labor policy guidelines with regard to the protection of workers' rights, with respect to union memberships, child labour, minimum wages, working conditions and safety measures etc, in order to deal with these challenges. In addition, the increasing number of Chinese and foreign nationals working in SEZs and CPEC are likely to cause some friction between the local population and the foreign nationals. Measures to expand people-to-people contacts between Pakistani and foreign nationals in order to promote understanding of each other's culture are also required. Academic curriculum will also have to cater for training and grooming the students in the light of new milieu, arising out of industrialization, urban migration and globalization, as to how coming generations would adjust themselves in new world order, keeping our core values intact.

SEZs Location Considerations

The nine SEZs have been planned along the CPEC routes, falling within all federating units starting from GB, AJK, Punjab, and Federal Capital territory, KP, Sind and Balochistan, in order to ensure that all the political units of the country get advantage out of the project. The nature of SEZ in different regions has also been planned in line with the availability of natural resources and raw material in that region. Dr. Zafar Mehmood, while addressing a conference in connection to SEZs, underscored the need of extra care in selecting the sites for SEZs, as it may generate competing claims of the local stake holders. He is of the view that all SEZs should be integrated into the wholesome development planning to contribute towards the overall growth strategy of the country. Dr. Salman Shah, a prominent economist, however, thinks that cost effectiveness rather than political considerations should determine the location of SEZs. When it comes to the establishment of the SEZ, the characteristics of a particular region and the type of SEZs, being established in that region, should be complementing each other.

A very important consideration in deciding the location of the zones is availability of communication infrastructure. SEZs in China are mostly located in the coastal region or near cities that are linked to the international market through trade and business. They have usually good communication networks, like ports, airports, and railways. Pakistan will have to develop a strong communication infrastructure to link them with the overall CPEC routes. Apart from communication network, factors like local market condition, industrial base, supply chain, business environment and land and labour supply are other very important considerations in planning a zone. SEZs need to build on local comparative advantages and have local suppliers/clusters as part of their value chains. Unlike many African countries, Chinese zones are mostly well integrated into the existing local clusters, so that they reinforce each other through business linkages. Evidence from China and East Asia shows that zones with strong linkages to the local economy tend to be the very successful ones, because of their potential for backward and forward linkages, leading ultimately to maximize spillover effects on the economic benefits for the local population beyond the zones. Granting 'equal footing' to local suppliers of capital and intermediate goods and the use of subcontracting mechanisms from zone investors to local producers are very effective measures for the success of SEZs and their overall advantage for the country.[11]

Environmental Considerations

The greatest cost of industrial development is incurred by the environment, as the ecological considerations are usually put aside, while planning industrial activities and economic development. However, while implementing CPEC and particularly SEZs, we must take into consideration not only the economy but also the ecology. Examples of environmental devastations in China and India as a result of SEZ must alert our concerns for the mother earth. According to the World Bank estimates, environmental costs of industrialization in China is about 8% of GDP, though China has since then started taking active measures and tougher environmental standards to force firms to adopt 'green technologies'. An excellent example of these measures for protecting and cleaning the environment is the Shenzhen SEZ. In year 2000, Shenzhen was called as the 'World Garden City' and was awarded UNEP's Global-500 Roll of Honor for the environmental achievement. Despites these awards and efforts, the economic activities have badly affected the environment of the area.

The imminent environmental disaster, as a result of unplanned and rapidly increasing industrialization and urbanization, has created greater awareness and concern about the global climate change and environmental sustainability, particularly in European and other developed countries like the US, Japan, South Korea and Canada. These countries have been trying to find out ways to create an integrated solution globally, to introduce new trends in low-carbon or green growth practices that involve restructuring of policies in collaboration with domestic institutional frameworks, industries and communities.[12] In South Korea, measures like concept of Eco-Industrial Zones or Parks (EIP) have been introduced that focus on reducing waste and improving the environmental performance of firms, using industrial symbiosis - an association between two or more industrial facilities or companies, in which the wastes or by-products of one become the raw materials for another. In these developed countries, EIP concepts, partially or fully, incorporated in their design of industrial zones, where an estimated one dozen EIPs are under construction. There are other similar concepts like Low-carbon Zones or Parks, Green Zones, Sustainable Industrial Areas, Eco-town, Circular Economy Zones (or Circular Transformation of Industrial Parks), which are being practiced the world over to deal with the environmental concerns.[13]

In Pakistan, the environmental protection and ecological sustainability track record is not very impressive; rather in some areas, it has touched catastrophic levels. The major cities of Pakistan, like Karachi, Lahore, Faisalabad, Peshawar etc are known for their poor, unhygienic and even dangerous pollution index, despite the fact that Pakistan is far behind the developed and some developing countries as far as industrialization and economic development is concerned. The reason can definitely be attributed to the lack of environmental concern at both the government level, in devising proper environmental policy measures, and the people, in showing absolute apathy towards a cleaner environment for their living. The proposed SEZs should be planned in such a manner that they should not add further to the miserable state of affairs as far as ecological conservation and environmental protection is concerned. All stakeholders including Pakistani governments, private institutions, public agencies, industries, communities and academia need to be involved in concerted and integrated efforts to coordinate and cooperate with each other, so that the SEZs cope with the environmental and social distress likely to be caused by the industrial waste and un-planned urban and industrial developments around the SEZs.

Conclusion

If we compare the contribution of industrial development of Pakistan with other developing countries of the region, the contribution of industries in the GDP of those countries is 38 to 40 percent, whereas, in Pakistan, it was standing at 19.4 percent in 2016. CPEC and the proposed SEZs are a fresh air for the ailing economy and poor industrial base in Pakistan. It came at a time, when even the existing industries were shifting abroad, due to power shortage, terrorism, security concern, poor communication network, absence of a conducive business environment and lack of clear and favourable investment policy from the government. Pakistan has all the potential for a new industrial revolution with the availability of a huge energetic and young human capital (60% of the whole population), raw agricultural and mineral resources and strategic location for trade with the Middle East, Central Asia, East Asia, Europe and Africa.

The development of communication network and Gawadar port are going to be the lifeline for industrial development and enhancing exports and trade for Pakistan. The accompanying power projects under CPEC are also going to remove the hurdle of power shortage in industrialization. Security situation in the country has improved substantially in the past few years and development of CPEC routes and ushering in of economic activities in the region will further improve the security concerns in the region. In such a scenario, getting maximum benefits from CPEC through strengthening our industrial and export base through SEZs is need of the time. Currently, the glaring and substantial challenges for Pakistan are the gigantic unemployment problem, low foreign reserves, massive loans, poor GDP growth & trade and budget deficit. CPEC and SEZs, if properly executed and monitored, can be a great contributor in solving many of these issues, including employment generation, increase in foreign exchange earnings, growth in exports and enhancement of revenues. By adopting a suitable development model in the light of global experience, with SEZs through strategic planning and industrial positioning and avoiding the pitfalls faced by the African SEZs, we can rejuvenate our sick economic infrastructure while, at the same time, protecting our already existing local industries through policy measures. A Chinese official based in Islamabad, while commenting on SEZs, stated that it is not a cash cow, but a form of development, investment and learning advanced experiences. It is up to the Pakistani leadership to rise up to the occasion and exploit maximum benefits from this unique opportunity. CPEC is emerging as a new instrument of effecting and all embracing change. Are we really ready for such a change, as a nation, and that too to our advantage, keeping our values and culture intact, is a big question mark.

Endnotes

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CPEC– Corridor to Lasting Progress

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Abstract

Since its inception, China Pakistan Economic Corridor (CPEC) has gained considerable recognition amongst academicians, scholars, researchers as well as analysts, policy makers, and investors around the world. Therefore, it is pertinent that the project–which serves as the flagship and primary project of the larger and futuristic Belt & Road Initiative (BRI) by China–is discussed in depth. This chapter seeks to do just that by first briefly introducing what BRI and CPEC is and then taking a deep dive into what CPEC consists of, including overall portfolio and details of projects that include energy, infrastructure and Gwadar projects. The chapter then discusses the opportunities in CPEC vis-à-vis industrial development, trade and cross-cultural people-to-people interaction. It then briefly sheds light on the immediate and direct benefits to Pakistan. Before concluding, common myths raised with respect to CPEC in domestic as well as international media are addressed.

Key Words: CPEC, BRI, Energy, Industrial Cooperation, Development, Gwadar, Cross cultural interaction.

Introduction

In a transforming world where new initiatives are being taken and new alliances are being built, Asia is on the rise to become the continent of opportunity and sustainable development, courtesy of futuristic initiatives like "Belt and Road" that aim to strengthen and transform the entire region.[1] The Belt & Road Initiative (BRI) is an opportunity for the entire region that primarily aims at leveraging trade routes for deepening mutual growth and enhancing transport channels for development. It opens up new vista of corresponding opportunities for the whole region and Pakistan will be one of the prime beneficiaries through China Pakistan Economic Corridor

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(CPEC). BRI is rooted in the Silk Road spirit of peace, cooperation, openness, inclusiveness, mutual learning and mutual benefit, and follows the principle of extensive consultation, joint contributions and shared benefits.[2]

A fair assessment of BRI's projected impact can be realised through analysing its reach. It currently involves more than 68 countries, constituting 65% of global population (4.4 billion), three quarters of global energy resources and 40% of global GDP.[34] With a project of such a vast scale, it is perhaps not a surprise that China has already committed one trillion dollars to BRI projects in all countries collectively.[5] Therefore, it is fair to say that BRI is not merely an economic project, but rather something revolutionary that seeks to transform not just the economies that are part of it, but the way of life in Asia, as a result of positive socio-economic benefits, technological innovation, improved healthcare and better education.

CPEC

The dawn of the new century has seen the rise of the Chinese dragon, with clear signs of Chinese economy becoming second to none in the past few decades. Due to its large size of population, enormous economic resources, location, diversity and development, China is in a position to offer much more to not just its own citizens, but to its neighbours as well. Like all robust economies, China has advocated and pushed for global connectivity by using its resources through projects like BRI. CPEC serves as the flagship project of BRI and is anticipated to be a game changer for Pakistan, while steering the friendship of both countries and level of cooperation to a new and higher level.[6]

Since its inception, CPEC has gained considerable attention of researchers, policy makers, academicians, analysts, investors and stakeholders from around the world. As a result of strengthening bilateral relations between the two countries, Pakistan Economic Survey 2014-15 states an increase in the trade volume between Pakistan and China to $16 billion.[7] CPEC aims to strengthen and support the infrastructure, agriculture, manufacturing, energy, IT, real estate, tourism, and other industries through a comprehensive and strategic approach.[89]

Pakistan and China friendship is historically developed through largely military and political cooperation and is a friendship that both nations are proud of. CPEC is the first economic project on such a big scale that both countries have embarked upon. Due to the bilateral and multilateral nature of the projects within CPEC, it will engage cross-cultural work force and leadership at all levels. As a result, CPEC, like other cross-culture ventures, will also face leadership as well as project management challenges and risks.

CPEC is the most significant cross-border and cross-cultural project that both countries have undertaken since 1947. While it is important for Chinese to establish their connectivity with the West, it is enormously important for Pakistan to stabilize its economy and restore peace with its current state of economy, but untapping resources, especially HR. Both China and Pakistan along with the people of the surrounding regions will be able to reap the benefits of CPEC. China is boosting its trade ties with rest of the world, including West and CPEC is going to play a major role in this regard. The Chinese underdeveloped regions will get a chance to play their role. On the other hand, Pakistan will get new technology, knowledge transfer, and industrial zones and parks to boost its economy and trade.[10]

Coming into the limelight in 2015 during President Xi Jinping's visit to Pakistan, wherein, MOUs worth $46 billion were signed.[11] CPEC will provide an integrating platform for over three billion people in Central, West and South Asia, as well as the Middle East and Africa.[12] Currently, 22 projects worth $28.6 billion in CPEC portfolio are under implementation phase, out of which 15 are energy projects worth $22.3 billion that will help Pakistan address the energy shortages, hence, helping the futuristic competitiveness of our industry, particularly the Special Economic Zones (SEZs).[13]

The increase in trade, investment and financial flows would bring peace and prosperity not just in Pakistan, but also the region through enhancement in the competitiveness of the economies of the respective countries. Moreover, it will contribute to reducing regional disparities and social inequality as well as improve life expectancy and quality of life in Pakistan and in the adjoining region. In just a span of five years projects under implementation stage are stimulating the economic growth of Pakistan and transforming the all-weather strategic relationship into economic partnerships which aims to uphold and steadily build strong diplomatic, economic, trade, cultural and military relations for both friendly nations.

In 2018, CPEC Projects have entered critical phase, wherein, early harvest projects are to be completed and will soon remove bottlenecks from our economic growth.[14] This will set the stage for a pragmatic industrial cooperation. Through CPEC, trade, industrial development and industrial cooperation have been flagged as the main gains from CPEC.[15] These will serve as a driving force for economic growth and shape new industry clusters, by taking the fruits of CPEC to the lesser developed regions of Pakistan.

CPEC Portfolio

China and Pakistan are jointly collaborating towards unified development of CPEC projects for supporting economic and social development. Both countries have a bilateral cooperative mechanism to promote the development of external channels. In this regard, Long Term Plan,[16] Transport Monographic Study and respective MoUs serve as guides toward the policy articulation for CPEC. Overall breakdown of CPEC projects is as follows:

Table 8.1: CPEC Overall Portfolio

Projects	Estimated Cost (USD M)	Percentage
Energy (IPP financing mode)	34,746	72%
Transport and Infrastructure		
Roads (Government Concessional Loan)	4,179	9%
Rail Network – ML-I (GCL under discussion)	8,212	17%
Gwadar Port (Grant/GCL/Interest free loan)	776.62	1.9%
Others (GCL/Grant) Fiber Optic Cable and Gwadar City Master Plan	48	0.1%
Total	**47,961***	**100%**

**Estimated total cost may increase upon addition of new projects*

Source: *cpec.gov.pk*

CPEC Energy Projects

Addressing the energy shortages of the country is a key priority for CPEC, and thus, remains a key cooperation area in CPEC Long Term Plan.[17] Recognizing the growing energy needs of Pakistan, and to overcome the existing deficits, CPEC has allocated a major proportion of its funds to energy generation and transmission. Presently, 65% of Pakistan's energy is being produced from thermal power, which includes oil, natural gas and coal. The remaining 30% comes from hydro, and 5% from nuclear.[18] Thus, the shifting of reliance from imported fuel to indigenous sources of energy through completion of hydel, solar, wind and Thar coal mining projects under CPEC projects will ensure energy security, reduce our import bill of fuel and will also provide cheaper electricity.[19] The energy projects stated below are part of the CPEC portfolio and will contribute toward the sustainable growth of industries and unhindered electric supply for domestic consumption in Pakistan.[20]

Table 8.2: CPEC Energy Projects

No.	Energy Projects	Location	Fuel/Technology	Capacity (MW)
1.	Port Qasim Coal Power Project	Port Qasim, Sindh	Imported Coal/ Super-critical	1,320
2.	Sahiwal Coal Power Project	Sahiwal, Punjab	Imported Coal/ Super-critical	1,320
3.	HUBCO Coal Power Project	Hub, Balochistan	Imported Coal/ Super-critical	1,320
4.	Gwadar Coal Project	Gwadar, Balochistan	Imported coal/ Sub-critical	300
5.	EngroThar Coal Power & Mine Project & Coal Mine Extraction	Thar Block-II, Sindh	Thar Coal/ Sub-critical	1320
6.	SSRL Coal Power & Coal Mine Extraction	Thar Block-I, Sindh	Thar Coal/ Super-critical	1,320
7.	Oracle Thar Coal Power Project & Mining	Thar Block-VI, Sindh	Thar Coal/ Super-critical	1,320
8.	Matiari-Lahore HVDC Transmission Line	Sindh & Punjab	HVDC	
9.	SukiKinari Hydropower Project	River Kunhar, KP	Hydro	870
10.	Karot Hydropower Project	River Jhelum, Punjab	Hydro	720
11.	Quaid-e-Azam Solar Power Park	Bahawalpur, Punjab	Solar/ Solar PV	1,000
12.	Hydro China Dawood Power Ltd.	District Thatta, Sindh	Wind/ Wind Turbine	50
13.	UEP Wind Power Pvt. Ltd.	Thatta, Sindh	Wind/ Wind Turbine	100
14.	Sachal Energy Development (Pvt.) Ltd	Thatta, Sindh	Wind/ Wind Turbine	50
15.	Three Gorges Wind Farms (2x50MW)	Thatta, Sindh	Wind/ Wind Turbine	100

Source: *cpec.gov.pk*

Following are the actively promoted energy projects that are under discussion:

Table 8.3: CPEC Actively Promoted Energy Projects

No.	Project Name	Location	Fuel/Technology	Capacity (MW)
1.	Rahimyar Khan Coal Based Power Project	Punjab	Coal	1,320
2.	Kohala Hydro Power Project	River Jhelum, AJK	Hydro	1,124
3.	Cacho 50MW Wind Power Project	Sindh	Wind	50
4.	Western Energy (Pvt.) Ltd. 50MW Wind Power Project	Sindh	Wind	50

Source: *cpec.gov.pk*

Infrastructure Projects

Connectivity on land through roads and highways is a cornerstone of regional economic cooperation and integration. It has become a major priority for Pakistan and other developing economies of Asia, especially in the context of efforts to find new drivers of regional economic growth, and to create additional domestic and aggregate regional demand. In order to fully utilize the potential of interlinked value chains and production networks, a new holistic perspective on connectivity is required. A perspective that doesn't restrict the idea of establishing connectivity to specific and isolated sectors, but rather encompasses different sectors such as energy, ICT and trade into an integrated network that complements economic development.[21]

Significant part of the infrastructure projects is the reconstruction and upgradation of the Karakoram Highway from Rawalpindi to Khunjerab. This along with 1,100-kilometre motorway from Karachi to Lahore, will significantly enhance road connectivity within Pakistan to sustain trade activity and transportation of goods.[22]Another milestone of CPEC is the planned Main Railway Line 1, that will connect Karachi and Peshawar, passing through key nodal cities, thereby changing the connectivity landscape of Pakistan. Discussion on the financial and technical aspect of ML-1 up gradation project is in progress stage. Following are the key infrastructure projects currently in CPEC portfolio:[23]

Table 8.4: CPEC Infrastructure Projects

No.	Infrastructure Projects
	Roads
1.	KKH Phase II (Raikot – Islamabad Section)
2.	Peshawar-Karachi Motorway (Multan-Sukkur Section)
	TOTAL
	Rail Sector Projects
3.	Expansion and reconstruction of existing Main Line-1
	Havelian Dry Port (450 M. Twenty-Foot Equivalent Units)

Source: *cpec.gov.pk*

Table 8.5: CPEC Mass Transit Projects

No.	Mass Transit Projects
1.	Greater Peshawar Region Mass Transit
2.	Quetta Mass Transit
3.	Orange Line – Lahore
4.	Karachi Circular Railway

Source: *cpec.gov.pk*

Development of CPEC Western Route in full swing and following are the Western Route projects:

Table 8.6: CPEC Western Route

No.	Section
1.	Hakla-D.I. Khan Motorway (285 km)
2.	D.I. Khan (Yarik) –Zhob (N-50) 210 km
3.	Zhob-Quetta (N-50) 331 km
4.	Khuzdar-Quetta– Chaman Section (N-25) 431 km
5.	Surab-Hoshab (N-85)
6.	Gwadar – Turbat – Hoshab (M-8)

Source: *cpec.gov.pk*

Following are the newly added projects that were approved in 6th JCC held in Beijing in December 2016, and are currently at feasibility stage[24]:

Table 8.7: CPEC Projects Approved in 6th JCC

No.	Project Details
1	Khuzdar-Basima Road N-3 (110 km) BALOCHISTAN
2	Upgradation of D.I.Khan - Zhob, N-50 Phase-I (210 km) KP-BALOCHISTAN
3	KKH Thakot-Raikot N35 remaining portion (136 Km) KP-GB
4	Capacity Development of Pakistan Railways (All PAKISTAN)
5	Havelian Dry Port, KP
6	• Keti Bunder Sea Port Development Project, SINDH • Naukundi-Mashkhel-Panjgur Road Project connecting with M-8 & N-85, BALOCHISTAN • Chitral CPEC link road from Gilgit, Shandoor, Chitral to Chakdara, KP-GB • Mirpur – Muzaffarabad - Mansehra Road Construction for connectivity with CPEC route, AJK
7	• Quetta Water Supply Scheme from Pat Feeder Canal, Balochistan • Iron Ore Mining, Processing & Steel Mills complex at Chiniot, Punjab

Source: *cpec.gov.pk*

While more projects are being discussed, currently the following two communication projects are part of the existing CPEC portfolio[25]:

Table 8.8: CPEC Communication Projects

No.	Name of Project
1	Pilot Project of Digital Television DTMB (Digital Terrestrial Multiband Broadcast)
2	Cross-border Fiber Optic Project (Khunjerab-Rawalpindi)

Source: *cpec.gov.pk*

Gwadar

'Gwadar' is referred to as the 'Jewel of CPEC' is expected to promote the economic development of Pakistan by becoming a new gateway of trans-regional trade for not just Pakistan and China, but Central Asian Republics such as Afghanistan, Kazakhstan, Tajikistan and Uzbekistan, linking them to international markets. Being the gateway of CPEC, Gwadar is experiencing rapid development positively transforming the lives of people in Baluchistan and on the way of becoming a hub of regional transshipment. A significant milestone earlier this year (January 2018) in Gwadar was the hugely successful Gwadar Expo which formed part of the development of Gwadar Free Zone. Other major developments include the Chinese Shipping Company COSCO starting regular shipping from Gwadar. Even the UK-based Telegraph has acknowledged the change taking place in Gwadar and highlighted the government's plan for a rail and airport links.[26] Following are the nine Gwadar projects currently in the CPEC portfolio:[27]

Table 8.9: CPEC Gwadar Projects

No.	Projects	Mode of Financing
1	Eastbay Expressway	Chinese Interest Free Loan
2	Gwadar International Airport	Chinese Grant
3	Construction of Breakwaters	N/A*
4	Dredging of berthing areas & channels	N/A*
5	Infrastructure for Free Zone & EPZs port related industries	Chinese Investment
6	Necessary Facilities of Fresh Water Treatment and Supply	N/A*
7	Pak-China Friendship Hospital at Gwadar	Chinese Grant
8	Technical and Vocational Institute at Gwadar	Chinese Grant
9	Gwadar Smart Port City Master Plan	Chinese Grant

**These are long-term projects whose mode of financing is yet to be decided.*
Source: *cpec.gov.pk*

Industrial Development & Cooperation

The industrial development phase of the CPEC has already commenced. Our investment policy is quite liberal and comparable to the best in the region. Government of Pakistan has initiated several steps to improve the investment climate in Pakistan. China's experience in development and success of Special Economic Zones (SEZs) and their robust industrial development serves a good example for us.[28] Given this, industry cooperation between China and Pakistan compounded with the support of Chinese experts, will provide excellent opportunity for Pakistan to strengthen industrial capability and national domestic economy. To achieve the vision of economic, structural transformation and sustainable poverty alleviation, it is being endeavoured to work on the Industrial Cooperation under CPEC by developing SEZs, and by attracting local and foreign investors. The incentives have been prepared and Joint Ventures (JVs) are being encouraged.

The main driver of gains from CPEC remains to be the industrial development, cooperation and trade. Both countries are pursuing this initiative aggressively in order to shape a new international logistics network in the region, which will promote regional economic integration through well-diversified industry and well-diversified trade.[29]A diversified and expanded portfolio of exports is a necessary prerequisite in order to attract Foreign Direct Investment (FDI). Furthermore, in order to increase FDI, Pakistan must endeavour to have a better ranking in ease-of-doing-business scale that essentially determines whether foreign investors turn towards Pakistani market or not.

Industrial Cooperation under CPEC is entering into implementation stage. Currently, nine potential sites in all provinces and areas, including AJK, GB and FATA have been approved.[30] Each economic zone will target specific products and services, based on the availability of local raw material, workforce and other such factors. Following is the list of 9 SEZs currently approved and part of CPEC:

Table 8.10: CPEC Special Economic Zones

No.	Province	Location
1	Sindh	China Special Economic Zone – Dhabeji (Thatta)
2	Sindh	Industrial Park on Pakistan Steel Mills Land at Port Qasim near Karachi
3	Punjab	Allama Iqbal Industrial City (M3), Faisalabad
4	KP	Rashakai Economic Zone on M-1
5	KP	Mohmand Marble City
6	Balochistan	Bostan Industrial Zone
7	Gilgit Baltistan	Moqpondass, Gilgit SEZ
8	Federal	Model ICT Zone
9	AJK	Special Economic Zone at Mirpur, AJK

Source: *cpec.gov.pk*

Benefits to Pakistan

Following from what has been discussed in the preceding section CPEC aims to enhance Pakistan's industrial capacity by creating new interconnected business and industry clusters, while at the same time balancing the regional socio-economic development.[31] This will, in turn, lead to better livelihood of the population and hence increase prosperity. As discussed before, regionally CPEC will assist the Asian countries, especially landlocked ones, by serving as an effective logistical hub, with networks to global markets. At the same time, it will elevate the status of South Asian and Central Asian countries in labour division of global economy, promote regional economic integration through stable trade growth, international economic and technological cooperation and personal exchanges.[32] Besides the multilateral dimensions, on a bilateral level, CPEC will also help Pakistan consolidate and further deepen its friendship with China.

Another key benefit of CPEC to Pakistan is that with increase in investment and increase in GDP growth by 2% to 3%[33], the economic activity will spur and lead to creation of around 700,000 jobs by 2030.[34] However, in order to bring these projections to life, Pakistan also needs to focus on sound macro-economic policies, optimum utilization of the country's physical and human resources, full exploitation of the technological potential of its industry, agriculture and services sectors. Better infrastructure will also facilitate the mobility of workers from rural villages to non-agricultural activities and provide them with better chance of finding productive employment in nearby cities.

Moreover, the establishment of a consortium of business schools between top 10 universities/institutions is the stepping stone towards further engagement and collaboration in the field of research and policy formulation.[35]

Myths & Realities

CPEC is in the national interest of Pakistan, thus it is our responsibility to protect it from those nay-sayers, both domestic and international, who want to disrupt it for their ulterior motives. However, the progress of CPEC and benefits it offers nullifies the narratives and myths of detractors.

One of the most commonly raised myths relates to loan repayments and debt burden caused by CPEC. Firstly, it should be clarified that most of the CPEC loans are interest free or government concessional loans, as outlined above in the respective lists of projects. Out of the $28.6 billion investment for projects under implementation,[36] $22.3 billion is allocated for energy projects. These energy projects are being financed under Independent Power Producers (IPPs) mode. This means that financing of energy projects are mainly undertaken by the private companies from China Development Bank and China EXIM Bank, therefore, the debts are borne by the respective companies and not by the Government of Pakistan.[37] Out of the remaining $6.3 billion for infrastructure and other projects, the repayment period has been scattered over a very suitable period of 20 to 25 years, with a grace period of 5 years.[38]

Another matter of myths often raised by the nay-sayers is with regards to the development of Gwadar Port. It must be reiterated that the Gwadar Port is under grant-based Built Operate Transfer (BOT) agreement in contrast to the Hambantota Port in Sir Lanka.[39] What this means is that the Government of Pakistan is not liable to repay the loans undertaken by the company, which is responsible for building and operating the port until 2048, after which the port with all its developed assets will be transferred to the Gwadar Port Authority.[40]

Last but not the least, in addition to the two most common myths highlighted above, another one that often keeps circulating in the media is regarding the cultural implication of CPEC, naming it as a 'cultural invasion'. Around 10,000 Chinese are working on CPEC projects, while a similar number are engaged in non-CPEC initiatives.[41] As compared to Pakistan, millions of Chinese are living in US, UK and other countries without significant cultural transformation of their respective local societies. So, how a mere 20,000 Chinese nationals would altogether transform Pakistan traditional and historical society? Hence, the argument of a 'cultural invasion' is irrational and contrary to the evidence available.

Conclusion

As CPEC moves beyond the first phase of early harvest, Pakistan seeks to capitalize on the opportunity created. It also looks forward to extending partnership and cooperation in areas such as agriculture, tourism, oil & gas, HR capacity building, people to people and cultural interaction and knowledge-sharing. In order to realize the dream of a prosperous Pakistan and a flourishing region, we need to work with other participating parties to push forward the initiative and create a solid foundation for deepening cooperation that will facilitate long-term development and usher in a better future for populace. Just like with any other project, whether on a small-scale or massive, such as CPEC, challenges do exist. However, with determination and resolve to work for the betterment of Pakistan, these challenges can be converted into opportunities and capitalized upon.

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Appendix

Roundtable on CPEC - A Reality Check
Held at NDU on 19th February 2018

Executive Summary

CPEC is envisaged as major initiative by China and Pakistan in the region, which is contemplated as an economic game-changer on one hand and an arena of geo-strategic power politics of the region once again on Pakistani soil, on the other hand. Since the terms and conditions of CPEC agreement have not been made public, most part of the debate in print and electronic media is based on perceptions and speculations, rather than facts. Moreover, CPEC has triggered heightened reaction from US and its strategic allies in the region. They perceive it as a part of Chinese strategic expansionist designs and look at Pakistan as a willing accomplice.

Keeping in view the significance of CPEC and its impact on Pakistan, ISSRA NDU, organized a Roundtable, titled 'CPEC - A Reality Check', on 19 February 2018 at NDU. The following speakers and policy experts participated in the Roundtable:-

a. **Speakers**

(1) Dr Shahid Rashid, Executive Director, Centre of Excellence on CPEC, PIDE

(2) Mr Ali Toqueer Sheikh, CEO, Lead International Pakistan

(3) Ms Qurat ul Ain, Research Associate, ISSRA

b. **Policy Experts**

(1) Dr Ishrat Hussain, Ex Governor State Bank of Pakistan

(2) Dr Ashfaque Hassan Khan, Dean, NUST

(3) Dr Kaiser Bengali, Dean SZABIST, Karachi

(4) Dr S. Akbar Zaidi, Professor, Institute of Business Administration Karachi

(5) Mr Haroon Sharif, Ex-Advisor World Bank

(6) Dr Farrukh Saleem, Journalist

(7) Mr Ahmad Bilal Mehboob, President, PILDAT

(8) Mr Zahid Hussain, Journalist

(9) Mr Abid Qayoum Suleri, Executive Director, SDPI

c. **Participants**

Roundtable was sponsored by Distinguished Faculty Member, Brigadier Shaukat Qadir (Retired), whereas, DG ISSRA, Major General Muhammad Samrez Salik, presided over all the sessions.

a. **Major Arguments and Key Findings**. From the arguments and views expressed by speakers, policy experts and participants, the following key findings emerged:-

(1) CPEC is, indeed, an important initiative, which can really become an economic game-changer and milestone in the development of the region, provided Pakistan and China are able to offset aspersions expressed against it and neutralize power politics in the region.

(2) CPEC agreements have not been made public, which cause misperceptions about the entire program.

(3) CPEC has not shown any discernible reduction in unemployment.

(4) Chinese are getting rid of redundant industries and dumping the same in Pakistan.

(5) The pace of completion of infrastructure projects is slow, which will result in substantial increase in costs and interest.

(6) Chinese projects related to CPEC are not DFIs, rather loans with interest. However, the rate of interest has not been made public.

(7) There is a likelihood of Chinese cultural intrusion. Involvement of Chinese citizens in bank dacoities in Karachi and other places indicates that criminal elements from China are making ingress into Pakistan.

(8) Gwadar as a seaport can help attract a large scale trade through Pakistan, provided it is not leased out on cheap terms.

(9) Pakistan has to be watchful about geo-strategic power politics in the region and must avoid laying all eggs in one basket.

(10) The list of stakeholders in such a gigantic program like CPEC is very thin. No important country of the region has been included in this project, including KSA, Turkey,

Malaysia, Indonesia, Sri Lanka, Iran, Afghanistan, CARs and Russia.

(11) While discussants and speakers agreed that more needed to be done to identify specifics of what should and/or should not be done by Pakistan, there was a general agreement on two key points:

(a) China may be getting a better deal out of CPEC and part of this better deal may be out of Pakistan's share. The fault is not China's but our own, if that is, indeed, so.

(b) Pakistan's systemic weaknesses, corruption, mismanagement and bureaucratic hurdles are impediments to growth and progress. China has expressed its concerns on these frequently. If we fail to correct ourselves, we will lose out on a priceless opportunity and, the fault will be ours.

b. **Recommendations**. Foregoing in view, the following is recommended:-

(1) CPEC agreements should be made public.

(2) All projects related to CPEC must be completed in time to reduce costs and, thereby, accruing interest.

(3) More countries from the list mentioned above should be incorporated in CPEC.

(4) A joint parliamentary committee of both the houses, assisted by experts, should oversee the deals of CPEC and monitor regularly the progress of CPEC projects.

(5) Foreign office should work out a comprehensive plan to allay the misconceptions / aspersions of US and its allies.

(6) Pakistan should try to enter in similar type of ventures with US in projects like TAPI and also explore avenues for joint ventures with Russia, Japan, EU and Gulf Countries, in order to counter-balance negative impacts, if any, from CPEC agreements.

(7) There is a dire need to expand knowledge base in the society, particularly technical know-how of the masses, in order to keep pace with the development and progress in the world in general and in the region in particular.

List of Publications by National and Military History Cell, ISSRA, NDU

1. Armed Forces War College History, 2010
2. Pakistan – India Wars 1965 & 1971, 2012
3. Selected Reading in Military History: Napoleonic Art of Warfare, Battles of Tannenberg & Masurian Lakes – 1914, 2012
4. Evolution of Military Thought, 2012
5. Post-Workshop Report on Balochistan Situation, 2012
6. World War -1: The Western Front, 2013
7. Afghanistan 2014: The Decision Point, 2013
8. 'Kashmir: Looking Beyond the Peril', 2014
9. NSP: Non-Kinetic Challenges to the State of Pakistan, 2012
10. Urdu Translation of Art of War by Sun Tzu, 2013
11. Evolving Dynamics of FATA: Reflections on Transformations, 2014
12. 'World War–I and Its Impact on South Asia' - 02 Dec 2014, Post Symposium Report, 2014
13. World War – II: An Analytical Study, 2016
14. CPEC - A Reality Check, 2018
15. ISSRA Papers (Six-monthly) – 9 Volumes

CPEC – A Reality Check

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