CPEC:

Macro and Micro Economic Dividends for Pakistan and the Region

Islamabad Policy Research Institute (IPRI)

Hanns Seidel Foundation (HSF)

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Dr Salman Shah, former Finance Minister of Pakistan also presented his views as did Dr Sultan Ali Adil and Dr Jahangir Khan. However, they were unable to submit formal papers. Their presentation summaries are shared in the Preface.

The various panels saw significant attendance of scholars, students and professionals, without whom the Question/Answer sessions would not have been so thought provoking. The successful completion of the Conference also owes much to the efforts and logistical support provided by IPRI and HSF staff. ■

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National Conference

CPEC: Macro and Micro Economic Dividends for Pakistan and the Region

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Acronyms

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
BoI	Board of Investment
BDB	BRICS Development Bank
BCIM	Bangladesh-China-India-Myanmar Corridor
BRICs	Brazil, Russia, India and China
CAB	Current Account Balance
CARs	Central Asian Republics
CAD	Current Account Deficit
CBM	College of Business Management
CDB	China Development Bank
CPEC	China-Pakistan Economic Corridor
EU	European Union
EPZs	Economic Processing Zones
FDI	Foreign Direct Investment
FD	Fiscal Deficit
GDP	Gross Domestic Product
GoP	Government of Pakistan
GGS	General Government Services
HDI	Human Development Index
HEC	Higher Education Commission
ICAC	International Cotton Advisory Committee
ICBC	Industrial and Commercial Bank of China Ltd
IoBM	Institute of Business Management
IPP	Independent Power Producers
IRR	Internal Rate of Return

IT	Information Technology
ITC	International Trade Centre
KPK	Khyber Pakhtunkhwa
MFN	Most Favoured Nation
NTDC	National Transmission and Dispatch Company Limited
NAFTA	North America Free Trade Agreement
NPV	Net Present Value
OBOR	One Belt, One Road
O & M	Operations and Maintenance
PHDEC	Pakistan Horticulture Development and Export Company
PIA	Pakistan International Airlines
PKR	Pakistani Ruppee
PPP	Purchasing Power Parity
PR	Pakistan Railways
PSEs	Public Sector Enterprises
ROI	Return on investment
SAARC	South Asian Association for Regional Cooperation
SEZs	Special Economic Zones
SMEs	Small and medium sized enterprises
SMEDA	Small and Medium Enterprise Development Authority
SREB	Silk Road Economic Belt
SAFTA	South Asian Free Trade Agreement
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TDAP	Trade Development Authority of Pakistan
USD	United States Dollar
WPO	World Packaging Organization

Preface

Ambassador (R) Sohail Amin,
Muhammad Hanif and Khurram Abbas

China and Pakistan celebrated the 65th anniversary of their diplomatic ties in 2016. Over the past six and a half decades, friendly relations between the two have evolved into an all-weather geostrategic and economic partnership. Both substantially enhanced their geoeconomic relationship in July 2013, when senior officials of both countries signed a Memorandum of Understanding (MoU) in Beijing in the presence of the Chinese Premier, Li Keqiang and the Pakistani Prime Minister, Nawaz Sharif. The MoU was aimed at enhancing regional economic integration via investments in infrastructure, energy, trade, and communications aimed at facilitating economic activity within the framework of the China-Pakistan Economic Corridor (CPEC).

After lengthy deliberations between the governments of China and Pakistan on financing and the construction of CPEC-related projects, during the state visit of Chinese President Xi Jinping to Pakistan in April 2015, both signed a formal agreement to commence work on the USD 46 billion mega project. CPEC is a 15-year plan and will be completed in four phases, i.e. Early Harvest Projects (EHPs) in 2018, short-term projects in 2020, medium-term projects by 2025 and long-term projects by 2030. The mega project at present includes 21 energy projects with the capacity of producing 16,400 megawatts of electricity costing USD 34.5 billion. Out of these, 14 projects are likely to be completed by the end of 2018, and these will add 10,400 megawatts of electricity to Pakistan's national grid. While it will make up the existing shortage of 4500 megawatts of electricity in Pakistan, it will provide an additional 5900 megawatts of electricity, which will be crucial in covering the country's needs in the short- to medium-term as the growth rate of electricity consumption is forecast at 8.8 per cent. CPEC also includes two transport infrastructure projects involving construction of roads and railways costing USD 10 billion, Gwadar Port expansion projects, including construction of an international airport which will cost USD 1 billion and laying of cross-border optical fibre cable from the Chinese border to Islamabad, will cost USD 500 million.

CPEC-related projects and the Corridor connecting Kashgar city of China with Pakistan's Gwadar Port by road, air and optical fibre cable has been termed as a 'game changer' for Pakistan and the region, since it links China, Central, South and West Asia, North Africa and Gulf states through economic and energy integration. Completion of CPEC will not only connect these regions but also facilitate regional connectivity in South Asia, thus, giving significant strategic, macro and micro economic advantages to Pakistan and to regional countries like Afghanistan, Iran and India.

China stands to gain enormously from CPEC. Firstly, in terms of an enlarged and streamlined trade supply route, as it mainly relies on the shipping route that passes through the Strait of Malacca and it takes some 45 days to reach Europe via the Middle East. When CPEC is completed, it would take approximately ten days for Chinese shipments to reach their destination, as the Kashgar-Gwadar route will play a pivotal role in reducing the staggering amount of time and distance. This route will also be helpful in the development of China's Western regions as a shorter distance from Western China to a shipping port would significantly decrease transportation costs. Secondly, in strategic terms, this route is likely to act as a viable alternative to the route passing through Malacca Straits, providing China a strategic advantage in case of tensions in the Asia Pacific and South China Sea.

The major strategic advantages of CPEC to Pakistan would be further consolidation of the existing partnership with China on a long-term basis and enhancing its strategic importance as a bridge between the European, Asian and African continents. The macro and micro economic advantages of CPEC will accrue to Pakistan due to heavy Chinese investment leading to creation of new jobs, addressing power shortages, and increasing production with the availability of power to agriculture, manufacturing and service sectors. National income will also increase due to production from the new industrial zones along CPEC, increase in Pakistan's trade and income in the form of transit charges on other countries' trade passing through CPEC.

Completion of CPEC would also be of great benefit to Afghanistan, Iran, India and other SAARC countries in terms of trade and transportation of oil and gas from Iran, Central Asian Republics (CARs) and the Gulf countries. It appears that, in view of its future requirements of enhancing trade with the CARs and importing energy from Iran and Gulf countries using cheaper land route through Pakistan, CPEC would be of special advantage to India. If India decides to join CPEC, it would prove to be a much shorter and cheaper route for its trade with CARs as compared to carrying out its trade through Iran using the Chabahar Port. Indian decision to join CPEC may also prove conducive to resolving its bilateral disputes with Pakistan.

The major macroeconomic advantages of CPEC to Pakistan would be manifold, such as enhancement of economic growth, measured in terms of Gross Domestic Product (GDP), an increase in employment opportunities and rise in domestic and foreign direct investment, with the accumulating effect resulting in growth of trade volume and foreign exchange reserves. With increased revenues, budget deficit will reduce and the economy of Pakistan will become stable. This will also help in reducing inflation, increasing wages, incomes, and reducing poverty.

Favourable macroeconomic conditions would lead to numerous microeconomic advantages of CPEC to Pakistan. Rising wages, higher employment and lower inflation would lead to higher savings for individuals, increasing disposable income for households, greater ability of firms to invest in innovation (R&D), higher quality of goods and services at lower prices achieved through greater levels of competition. These are among the many positive outcomes of stronger economic growth.

Since signing the CPEC agreement and the commencement of work on various projects, a debate has started among domestic stakeholders and civil society regarding the economic benefits of this project to Pakistan and the regional countries. In this context, many questions have been raised regarding the projected macro and micro economic benefits accruing as a result of the completion and subsequent use of CPEC.

A two-day National Conference titled 'CPEC: Macro and Micro Economic Dividends for Pakistan and the Region' was, therefore, organised to expand on this debate. It was organised by the Islamabad Policy Research Institute (IPRI) in collaboration with Hanns Seidel Foundation (HSF) from 20-21 September 2016 in Islamabad, Pakistan. The Conference comprised of four working sessions in addition to the inaugural and concluding sessions. The presentations made by the eminent scholars covered various themes ranging from 'Cumulative Advantages of CPEC to Pakistan and China' to 'Economic Advantages of CPEC to the Region' and from 'Macro Level Economic Advantages of CPEC to Pakistan' to 'Micro Level Economic Advantages of CPEC to Pakistan.'

This edited volume consists of the essays, thought pieces and papers that were shared at this two-day event.

The inaugural address was delivered by ***Dr Mujahid Kamran***, Vice Chancellor, Punjab University, Pakistan. He was of the view that two strategic regions are emerging in the world, which can become the potential centre of a great strategic clash: the CPEC region and Eurasia. He opined that while the strategic location and the resource wealth of Pakistan is a great blessing, the country has not been able to fully benefit from it. Successive governments have failed to give proper attention to education, research and development, health and manpower development which has led Pakistan into a complicated situation. 15 years ago, an effort was made to train the manpower in Pakistan, but it was not sustained. In such circumstances, initiatives like CPEC give Pakistan an opportunity not only to achieve an economic turnaround but to use this project as a knowledge corridor.

He suspected that some powers might try to undermine the completion of CPEC. Nevertheless, he alluded that terrorism has been used as a tool to intervene in energy rich countries. In this regard, terrorism can be promoted by regional powers such as our traditional adversaries, to disrupt the development of CPEC. CPEC, for Pakistan is a golden opportunity, but at the same time, it is a great challenge. Besides, US influence and partisanship in the region cannot be ignored. He reiterated that there is a military disparity in this region, which needs to be rectified and felt that Gwadar Port, may be able to address that imbalance in the region. Moreover, he suggested that Chabahar Port must be developed parallel to Gwadar and Russia must be allowed to use it in order to maintain a balance in the region.

He identified backwardness in knowledge as one of the biggest challenges faced by the Muslim world. Even Pakistani governments have been allocating only 2 per cent of GDP to the education sector. China is spending USD 200-300 billion per annum on education, while the US spends around USD 540 billion per annum on research and development. To ensure Pakistan's progress at a faster pace, Pakistani governments must focus on the education sector, including the enhancement of budget allocations to this sector, he concluded.

Mr Asad Ali Shah, Assistant Chief CPEC from the Ministry of Planning, Development and Reform, Government of Pakistan spoke on *CPEC: Project Details and Plan of Construction.* He highlighted that the MoU signed on 5 July 2013 contains the basic elements for the establishment of CPEC. The objectives of CPEC include deepening policy coordination between the two countries alongside enhancing economic activities, improving infrastructure connectivity, increasing trade, investment and financial flows, reducing regional disparities and social inequalities, enhancing people-to-people connectivity and fostering peace and prosperity. He stated that principles for construction will be guided by the two governments, ensuring joint construction and economic development.

While discussing the institutional framework of CPEC, he said that there is a Joint Cooperation Committee, which will administer the joint working groups of planning, energy, transportation infrastructure, Gwadar and industrial parks and economic zones. He explained that the transport corridor is not restricted to a single alignment; all provincial capitals are included as nodal points along the route. The basic vision behind the transport corridor is to connect the main cities. Construction companies would be selected through the bidding process and would be offered a commercial contract. In the energy sector, CPEC aims at active development and utilisation of hydro, wind and solar power in order to optimise the energy structure and to improve self-sufficiency. Moreover, projects in different fields such as education, training and healthcare will be built and promoted alongside the development of the Gwadar Port.

Further, there are three main routes of CPEC such as western, central and eastern route, each of which consists of several trunk railways and highways. The eastern, central and western passages would traverse Punjab, Sindh, Khyber Pakhtunkhwa (KPK), Gilgit-Baltistan and Balochistan, respectively. Besides, there are 16 priority energy projects being set up in all the provinces. Also, cross-border optical fibre cable worth USD 44 million will be laid from Khunjerab to Islamabad.

Mr Khalid Rahman, Director General, Institute of Policy Studies (IPS) spoke on overall economic advantages of CPEC to China. He said that the impact of this multidimensional and long-term plan would not remain confined to Pakistan and China only, rather has the potential to affect the regional economic environment as well as the overall global dynamics of trade and economic relations. There exists broad consensus in Pakistan and China about the significance and importance of the project as well as a determination to implement it. Expressing his views on the CPEC's economic benefits to China, Mr Rahman said that the fundamental principles of harmony, shared destiny and win-win approach reflect the basis of CPEC and provide assurance to China that its trade and economic interests would be fully protected. The economic benefits of CPEC to China need to be studied with three different yet entwined contexts; first, a bilateral context; second, in the context of One Belt, One Road (OBOR); and third, in the larger context of China's changing role on the world stage.

Mr Rahman highlighted CPEC's economic advantages to China and said that Chinese investors would also face minimum risks while earning good returns on their investments as the investment is being arranged by the Chinese banks under the sovereign guarantee of Government of Pakistan (GoP). He further said that CPEC projects will also be a source of employment for the Chinese having expertise in related fields. CPEC, he said, is a key component in the Chinese strategy to develop Kashgar into a regional economic hub as a part of their development plans for their Western region. Under current arrangements, the operation of the Gwadar airport and economic zones will also be a source of substantial economic benefits to China. He stated that CPEC has provided an additional impetus to nuclear and defence cooperation between Pakistan and China. The deal of eight submarines worth USD 6 billion is just one example. Similarly, the railway or nuclear power reactor projects are an opportunity for China to use and test its technology. In the end, Mr Rahman said that China has now adopted an outward-looking approach and wants to present itself as a dynamic key player in global economic affairs.

Dr Ather Maqsood Ahmed, Head Department of Economics, National University of Sciences and Technology (NUST), Islamabad briefly highlighted the contours of CPEC projects. He talked about five functional areas that would be established according to the regional development plan including industry, infrastructure, resource and environmental bearing capacity, and growth potential. While highlighting the current trends of Pakistan's economy, he presented sectoral analysis of its three components: agriculture, industry and services. He said that principles of comparative advantage and mutual benefits have been enunciated in the CPEC document regarding agricultural development cooperation, and said that future agricultural growth can only be substantially enhanced if projects are completed timely.

He highlighted that under CPEC industrial parks in and around node cities would be established, and identified that the textile, household appliances, cement, automobile, mineral exploration and steel industry may gain from cooperation, but at the same time, he stressed that the process of industrial engagement lacks clarity as the engagement would be in areas where Pakistan either has comparative advantage like textiles and household appliances or sun-set industries from China may be re-parked. He said that the share of services sector in GDP is around 59 per cent and all major banks and local insurance companies are likely to benefit from CPEC.

He concluded that CPEC is expected to contribute significantly to each component of the GDP by enhancing economic growth at least by 2 per cent by 2020 and an additional 1.5 per cent by 2030, but at the same time he cautioned that Pakistan's current accounts deficit would widen initially due to high import growth and stagnation of exports. He also highlighted that economic dynamics cannot be understood and explained without the availability of first-hand information.

Dr Salman Shah, Chairman, Pakistan-China Centre for Economic Cooperation, Lahore and Pakistan's former Finance Minister, discussed how China is just starting, moving from an investment-driven growth strategy to a consumption-driven growth strategy. He said that China can be a one-stop shop for Pakistan, but that we need a national agenda for economic integration. Being a western Indian Ocean rim country makes Pakistan truly the heart of Asia, a region rich in natural, undeveloped resources and minerals. But on the other hand, Pakistan has a USD 300 billion economy growing at an anaemic rate of 4 per cent, mainly due to governance issues, corruption, lack of investment, capital and poor Human Development Index (HDI). He was of the view that Pakistan's population is its biggest asset. In market size, the country is ranked 25th in the world. It needs to change in a major way to advance its economy by exploiting its potential strengths, particularly its young workforce. 'Free trade is critical in a globalised world which means one needs to have new technology, skilled people, imaginative governance, goods and services need to be delivered without incurring penalties and costs that competitors don't have to pay. Pakistani businesses today have to pay a lot more than what other competitors are paying. Therefore, if Pakistan is going to be a victor in globalisation, then it has to make sure that it is competitive', he opined.

Prof. Dr Syed Irfan Hyder, Dean CBM and CES, Institute of Business Management (IoBM) Karachi discussed how to enable foreign and domestic investment in business ventures. He said that no specific information is available about CPEC, and what is there is general literature that is not helpful for investors to take financial decisions. He quoted a member of Chinese delegation who came to Karachi and complained about lack of specific data which could help Chinese to make investment decisions. He said that IoBM has been developing feasibility reports on marble and granite, fruits and vegetables, electrical appliances and garment industries. Their analysis of Pak-China trade items shows that Pakistan is exporting raw material while importing value added products. Prof. Hyder said that we need to analyse the socio-economic impact of any particular industry and in this context, the first element is the displacement or substitution of labour with machines as it happened in the 1960s. He cautioned that local investors are concerned about the future of their own units, in case huge foreign investments come in. He recommended that significant information about the cost of investment on economy, ecology and social fabric of the community was a prerequisite.

Dr Jahangir Khan*,* Associate Professor, Department of Economics, University of Balochistan, Quetta, while presenting his views on *'CPEC: Implications for Domestic and the Regional Trade,'* said that there has been a significant revival of regionalism in the world with the establishment of regional preferential trade agreements, but in South Asia, preferential trade agreements have shown limited success in boosting intra-regional trade among the member states mainly due to non-tariff barriers (NTBs) imposed by some countries. According to a World Bank study, the cost of trading across borders in South Asia is the highest in the world, he informed. In the context of Pakistan, regional connectivity is the seventh pillar under the Pakistan Vision 2025. According to this document, regional connectivity for trade and transit with the member states of SAARC, ASEAN, ECO and CAREC has been stressed as a development priority.

According to Dr Khan, improvement in the Logistics Performance Index (LPI) requires large-scale investments into transport and power infrastructure in the countries of the region that would directly impact domestic and regional trade expansion. For landlocked countries, developing regional infrastructure will provide transport corridors for trade within and outside the region. He identified that the investments made with the support of countries such as Iran, China, Russia and the international development organisations for projects such as construction of oil and gas pipelines from Kazakhstan and Turkmenistan to China, power lines from

Uzbekistan to Afghanistan, overhaul of the road corridors passing through almost all countries of the region would improve trade facilitation and result in significant gains in trade at the regional level.

***Dr Kamal Monnoo**,* Chairman Sumaira Fabrics, Lahore and Member Board of Governors, IPRI said that CPEC is an initiative to develop China's underdeveloped western region by linking it to 'Warm Waters' of the Arabian Sea through Gwadar Port since this route to world markets is the shortest and the cheapest. As projects under CPEC gather pace, both governments must address challenges such as the general lack of know-how on finances, public private partnerships and the extent of the benefit to both China and Pakistan, and then weighing them against each other. He highlighted that from the Pakistani perspective a general lack of clarity on some of the broader features of the projects and related finances to undertake heavy corresponding equity injections, where required, tend to be serious concerns for an economy heavily in debt.

While listing the statistics, he said that today, despite being the sixth largest country in the world on the basis of population, Pakistan ranks 126 out of 140 in Manufacturing Competitiveness, 90th in Innovation and Technology Sophistication, 150 out of 183 in Per Capita Income, 147th in the Human Development Index, 123rd in Education Facilities, a lowly 44th on GDP size, and finds itself heavily in debt. He suggested that Pakistan needs to be engaged, invested-in, and taken along both financially and technologically.

He highlighted the need to approach CPEC professionally and not emotionally, and to learn techniques needed to 'corporatise' economic propositions by overcoming concerns such as prevailing lack of transparency, ongoing political bickering, a general public mistrust, and competence related operational hazards. Regrettably, misplaced perceptions, innuendos and politicisation of CPEC seem to be taking root and unless (like in China) CPEC in Pakistan is also quickly put under professional control these emerging controversies carry the danger of undermining the entire programme. Political leanings (even by default) of executive management invariably lead to conflict-of-interest and controversy. Dr Monnoo suggested giving

CPEC's decision-making and its implementation control under an autonomous, non-political and professional Board.

He identified the need to be mindful of the emerging developments and on the very likely possibilities of altered global equations and new partnerships. Effectively countering India and at the same time maintaining a constructive relationship with the United States is going to pose a real challenge in the future. There is a need to convince India, Afghanistan and Iran that CPEC can work inclusively if everyone plays a fair role in it and can essentially benefit the entire region, Dr Monnoo emphasised.

It will be up to Pakistan to act proactively and chalk out policies and agreements that serve it well, even with altered global realities and shifting economic responsibilities. He said that Pakistan needs to meet the expectations of the Chinese government and should follow operational and financial discipline.

Dr Sultan Ali Adil, Director, School of Agricultural and Resource Economics, University of Agriculture, Faisalabad provided an overview of Pakistan's agriculture sector and said that it contributes around 19.8 per cent to the national economy, and has been a source of 80 per cent of foreign exchange earnings. He said that the sector has been experiencing negative growth rate by 1.9 per cent where crops have witnessed a decline of 6.25 per cent, while livestock, forestry and fisheries experienced a growth by 3.63 per cent, 8.84 per cent and 3.25 per cent, respectively. He also gave an overview of China's agriculture sector and said that China has been producing around 18 per cent of the world's cereal grains, 29 per cent of the world's meat and 50 per cent of the world's vegetables. He highlighted strengths of Pakistan's agriculture as having world's largest canal irrigation network, huge fertile land in the Indus Basin and availability of cheap labour. He outlined that the strengths of Chinese agriculture were renewable energy and huge investments in new technologies.

He said that under CPEC both sides have agreed to establish Pak-China Agricultural Demonstration Zones that would lead to exchange of knowledge and transfer of technology in the fields of agro-chemicals, pesticides, fertilisers, agro-engineering, biotechnology and livestock. Dr Adil was hopeful that Pak-China cooperation would provide enhanced opportunities for rural employment, establishment of agricultural science parks, establishment of value chains, possibilities of initiating joint ventures and corporate farming as well as opportunities for international agricultural trade. He said that to benefit from mutual cooperation conventional crops need to be replaced based on their competitiveness and there is a need to switch to oilseed crops such as soybean.

Dr Saima Shafique, Head Department of Economics, National University of Modern Languages (NUML), Islamabad, while speaking on CPEC's impacts on the services sector discussed the prospects for entrepreneurs and workers, and said that the relationship between highway and energy investments and regional economic growth is a complex one as these have both spatial and economic prospects. On the one hand, these have 'network properties', i.e. the extraordinary ability to shift market areas and affect communication channels, while on the other hand, they also provide input into the production of private and public sector goods and services. To explain the pattern of development, Dr Saima explained that there are three types of regions, i.e. competitive, urban spillover and uncompetitive regions. She said that because of the multifaceted nature of highway investment and its disparate causal links with economic growth, its influence is frequently broken down into three dimensions: temporal, industrial and spatial effects. She also mentioned that due to healthy growth rate of services, countries like the United States have transformed from a manufacturing to technologically advanced services economy. She concluded her presentation by recommending that new ideas should be created by enhancing the public sector entrepreneurial knowledge networks.

Dr Tugral Yamin, Associate Dean, Centre for International Peace and Stability (CIPS), National University of Sciences and Technology (NUST), Islamabad stated that the current India-Pakistan relationship precludes the possibility of India making a formal bid to join the economic corridor linking China and Pakistan within the framework of the Chinese OBOR policy. He opined that there are obvious economic advantages that India stands to gain, if it becomes part of this enterprise that has the potential of providing huge financial benefits to all stakeholders. He stated that linking India with CPEC will require immense political will and great diplomatic effort. The obvious advantages for India would be the upgraded communication infrastructure and easy access to markets in Central Asia and beyond, besides lessening of tensions in the region and bringing more prosperity to its people.

Moreover, if India joins CPEC, it would help in increasing dependencies required to promote regional stability. Dr Yamin in his presentation correlated the initiative of CPEC with the Golden Arches theory of Conflict Prevention which proposes that no two countries that have McDonalds franchises have ever gone to war. It was asserted that there are less chances of war if the two countries have vested interests in each other's economy. The Chinese initiative was also analysed from the perspective of the theory of complex interdependence which postulates that international politics has now been transformed by the concept of interdependence.

While looking at the regional triangle of India-China-Pakistan, he said that China is optimistic that India could benefit from the idea of regional connectivity offered by CPEC. However, it has apprehensions that the project will provide China a larger footprint in the region. India is the only country which has criticised CPEC and it is believed that India is likely to disrupt the Corridor covertly to dent the economic advantages that Pakistan and China can gain from this venture, which is a worrisome aspect. However, he suggested that given critical relations and huge economic benefits of CPEC, India should find a middle way to join for the greater good of the region.

He said that the trade volume between both Pakistan and India is USD 2.5 billion and the trade balance is heavily tilted in India's favour. India has been pursuing a policy of isolating Pakistan in the region by concluding bilateral and multilateral treaties with regional countries, which is not a healthy approach. Even on the provision of trade route, there is a lack of reciprocity from the Indian side as they are not willing to lower tariff and non-tariff barriers. Besides, security issues have remained the biggest concern in providing transit trade route to India. He said that in order to make CPEC a success for regional integration, there is a need to increase dependencies by improving communication and connectivity infrastructures, allowing transit trade routes, ending restrictive visa regime vis-à-vis enlarging financing and banking facilities for traders.

Dr Pervez Tahir, Chairman, Bank of Punjab, Lahore, Pakistan; and former Chief Economist at the Planning Commission, Government of Pakistan's paper was delivered in absentia by Dr Fazal ur Rahman. In his essay, he reiterated that among globally integrated economies and regions, the SAARC region falls in least integrated regions of the world. The Chinese vision of reviving the historic Silk Road through its One Belt, One Road initiative across Eurasia holds the prospects of revolutionising connectivity in terms of trade, energy and logistics. He explained that China's high growth can no longer be sustained by its own market; and exports to the markets of the countries pivoting towards Asia Pacific under the leadership of the United States, now seems to be difficult. China is, therefore, carving a new path towards the Indian Ocean where some of the largest potential markets are waiting to be connected to manufacturing. The geoeconomic dictates suggest maximum radiation of CPEC economic flows in the South Asia region. The smaller landlocked SAARC countries will be able to reach China through Gwadar. Bangladesh has the dual advantage of benefitting both from the Southern and Southwestern routes of the Silk Road. Similarly, Maldive's imports from China have doubled in five years but exports are low leaving the balance of trade massively in favour of both China and Pakistan. In case of Nepal and Sri Lanka, the trade ratio is heavily tilted towards China, whereas the exports from Pakistan to Sri Lanka have declined from USD 347.7 million in 2011 to USD 260 in 2015, while imports from Sri Lanka have remained below USD 100 million. Therefore, the trade ratio is tilted significantly towards Pakistan. However, in Pakistan-Nepal trade relations, both exports and imports are negligible and the trade ratio is in favour of Nepal.

It was shared that SAARC has not made much headway in terms of intra-regional trade due to bilateral disputes such as Pakistan-India tensions and poor connectivity. CPEC would prepare the region to take full advantage of any thaw in the relations between the two largest members of SAARC i.e. Pakistan and India. The hope is that 'geopolitics' will give way to 'geoeconomics'.

Mr Syed Ghulam Qadir, Associate Professor, Department of Economics, Ghulam Ishaq Khan Institute (GIKI), spoke on 'Economic Advantages of CPEC to Afghanistan and Iran.' He presented a comparative analysis of Chabahar, Gwadar and Karachi Port and said that these ports if used together will help in connecting regional countries. He said that China has become the largest exporter in the world and since last five years its exports have increased at an annual rate of 11.8 per cent.

He said that Iran is among the top ten countries having proven energy reserves and has interest in expanding its energy exports to neighbouring countries through pipelines. He said that China is the largest trading partner of Iran as around 50 per cent of Iranian exports go to China, while 45 per cent imports are from China. According to him both Gwadar and Chabahar can succeed if the areas they serve significantly increase their economic activities. A symbiotic relationship between these two ports is in the mutual interests of both Pakistan and Iran. Chabahar's future prospects can be significantly improved by integrating it with CPEC.

Mr Qadir identified Afghanistan as the largest trading partner of Pakistan, and ruled out any possibility of direct trade between Afghanistan and China despite sharing the narrow land link, Wakhan Corridor that is not suitable for trade. Afghanistan has to establish trade relations with China through third-party countries, either through Pakistan using CPEC or through its northern neighbours i.e. Central Asian Republics.■

PART I

Welcome Address

Ambassador (R) Sohail Amin
President IPRI

Honourable Dr Mujahid Kamran, Vice Chancellor, University of the Punjab, Lahore,
Excellencies,
Distinguished Scholars,
Ladies and Gentlemen,
Good Morning.

I welcome and thank Vice Chancellor Dr Mujahid Kamran for accepting our invitation to be the Chief Guest for this Conference. Recently, he has also been gracious enough to accept our request to be a member of the Board of Governors (BoGs) of IPRI. I am grateful to you, Sir.

I also warmly welcome the distinguished scholars, experts and those who know the subject on which this Conference is being held from various centres of excellence. I also welcome officials of the Chinese Embassy. We have been told that H. E. Ambassador of the People's Republic of China is out of the country, otherwise he would have also been present here today and addressing us. But his Deputy Ambassador will represent him.

It is a matter of great pride for the Islamabad Policy Research Institute and our partner, Hanns Seidel Foundation, for organising this Conference on the China-Pakistan Economic Corridor (CPEC) which is very important to the people of Pakistan and China and the political leadership of both sides.

The timing of this Conference is very appropriate, as the Government and the people of Pakistan, are very keen to see speedy progress on CPEC projects. Expected economic benefits of the Corridor are under discussion throughout the country. Many in Pakistan view CPEC as a 'game changer' and rightly so.

Pakistan's strategic location and its power potential make it an important country in the region which can play a significant role in maintaining peace and stability in South Asia and the neighbouring regions as well. However, to effectively play such a role, Pakistan needs to strengthen its economy.

Since March 2013, the current Government has been trying hard to gradually improve economic activity and growth by generating revenues by improving tax collection mechanisms and loans from the International Monetary Fund. During 2016, Pakistan achieved 4.7 per cent GDP growth. The Government is determined to address the issues of energy shortages by increasing power production necessary for enhancing production activities. But, to address the issues of huge power shortages and energy deficits, and to make up for budgetary deficits and to achieve the desired level of economic growth, Pakistan needs effective mobilisation of domestic resources and increased inflow of Foreign Direct Investments (FDIs).

As a leading economic power in Asia, China has shown interest in assisting other developing and emerging economies, especially in Southeast, South and Central Asia by investing in energy and infrastructure projects. We have a special relationship with China, which has strengthened over six decades. Hundreds of MoUs have been signed between the two countries. The successive leaderships of China and Pakistan have been nurturing the relationship and watering this plant for decades and the fruit has finally come. It is visible now that the actual strength of Pak-China relationship has been transformed into economic realities.

In this respect, President Xi Jinping has embarked upon One Belt, One Road (OBOR) initiative that would link China to the rest of the world through new roads, railways, ports, gas pipelines and other infrastructure development activities.

As part of China's OBOR initiative, Pakistan and China have signed an agreement to construct the China-Pakistan Economic Corridor (CPEC). We are proud that this Corridor has been declared a pilot project of the OBOR initiative by Chinese officials. The investment of China falls into two main categories. First, the Energy Projects with an investment of about USD 35 billion, and second, the

Infrastructure Development Projects, that include motorways & highways, railways and construction of special industrial and mineral processing zones, optic fibre connectivity and so on.

The infrastructure projects once completed would open up and connect the least developed districts of Balochistan and Khyber Pakhtunkhwa and integrate them into the mainstream national economy.

As part of the CPEC project, Pakistan is entering into a new era of trade expansion by promoting maritime and land-based connectivity in all directions. CPEC-related economic activities would also provide incentive to the SAARC countries and Iran in order to achieve greater regional economic integration that will enhance intra-regional trade. The Corridor would facilitate trade of these countries with the rest of the world linking China, South Asia, Russia and Central Asian Republics, West Asia, the Gulf States and North Africa through the Economic Belt and Maritime Silk Road. CPEC would offer almost similar advantages to Pakistan, India, Iran, Afghanistan, other South Asian countries and China in their bilateral and multilateral trade arrangements.

In view of the anticipated advantages from CPEC to Pakistan and the region, IPRI has organised this Conference where experts will present their views and ideas on its macro and micro economic advantages. I am confident that the deliberations would provide valuable policy inputs to the Government of Pakistan and China.

Thank you.■

Keynote Address

Mr Zhao Lijian
Chargé d' Affaires,
Embassy of the People's Republic of China in Pakistan

Today, our Chinese Ambassador to Pakistan, Sun Weidong is in Ürümqi, Xinjiang to receive your National Assembly Speaker, who is there to attend the China-Euro Expo. I am, being Deputy Ambassador, very glad to attend the closing ceremony of this Conference focusing on economic dividends of CPEC. I am also thankful to IPRI for hosting this event; and to the experts and scholars for their participation and contributions on this subject of vital importance. As of now, the recommendations of the Conference can be consulted by the two governments as we push forward for the construction of projects under the CPEC framework.

In 2013, Chinese President Xi Jinping, proposed the One Belt, One Road (OBOR) initiative. This initiative provides the important network and platform to achieve win-win cooperation in the countries along the proposed routes. It is the best reflection of the Silk Road Spirit, featuring peace, cooperation, openness, inclusiveness, mutual learning and prosperity. China is ready to share its development dividends with the countries along the Silk Road. CPEC is one major and pilot project of the OBOR initiative. It is the leading demonstration in the promotion of OBOR as it now enters the full implementation stage, making smooth and satisfactory progress.

The Chinese government is encouraging qualified and competent enterprises to invest in Pakistan and explore opportunities of industrial and practical cooperation. CPEC has helped both countries in diversifying their relations. As figures suggest, in 2013 when CPEC was announced, it was 16th on the global Foreign Direct Investment list, which China topped in 2015. Out of 30 Early Harvest Projects, 16 are under construction, one has been completed which is a Friendship School built in Gwadar. This school has already been inaugurated by Prime Minister Nawaz Sharif marking its completion.

The amount of investment involved in these 16 projects is about USD 14 billion. As we speak, eight energy projects have been built including the Sahiwal Coal Fired Power Plant where 70 per cent of the work has been done. The first unit of this project will be completed by June 2017. Then, there is Qasim Port, Coal Fired Power Plant, where half of the work is done. Also, Dawood Wind Power Project along with other wind farm projects in Sindh province will be completed in coming months. Karot Hydro Power Project was inaugurated in January 2016 and is now working in full swing. It is the first project sponsored by the Silk Road Fund announced by President Xi Jinping, worth USD 40 billion.

Two mega infrastructure projects are under construction, i.e. Sukkur to Multan section of Karachi-Peshawar motorway and KKH Phase II from Hawellian to Tharkot section. This Sukkur to Multan section is the most difficult part along the motorway due to small population and terrain issues. It is a mega project under the framework of CPEC worth USD 2.9 billion. Also, the company that is constructing this section is one of the largest and considered number one in the world. Moreover, it is the largest transport infrastructure project by the Chinese government in Pakistan, employing around 10000 local people. The KKH Phase II project is also underway and progressing smoothly. These projects are part of the EHPs which will be completed by the end of 2018. However, as hydro power plants are more extensive, the deadline for their completion has been extended till 2020. The focus of both governments is now on the Long-Term Projects covering wider areas.

The trend of economic cooperation set by Pakistan and China is encouraging. A recent report by the World Bank remarks that Pakistan has seen an increase in growth rate by raising manufacturing and industrial infrastructure. The Foreign Exchange Reserves of Pakistan’s State Bank have risen significantly from USD 2.8 billion in February 2014 to USD 22 billion now.

CPEC is also about projects related to people’s livelihoods aimed at bringing benefits that impart a sense of ownership. All the projects under CPEC have created thousands of jobs and further progress would create more training opportunities. All in all, the fundamental focus of CPEC is to achieve win-win cooperation. The ambitions of mutual development must be taken as part of common interest, giving momentum to the idea of shared destiny.

CPEC is a golden opportunity for both Pakistan and China. It is already proven that developing countries can take off economically by attracting more Foreign Direct Investment to accelerate industrialisation and modernisation. The promotion of CPEC today will sow seeds of hope for the grand forest of Pakistan-China friendship tomorrow. It is an unprecedented undertaking in the history of Pakistan-China relations. I am convinced that with the strong political ties and deep friendship, China-Pakistan will embrace a better future for the benefit of their people and the region.

Long Live Pakistan-China Friendship.
Thank you all! ■

Concluding Address

Engr Khurram Dastgir
Minister of Commerce, Government of Pakistan

It is my great pleasure to be here this afternoon and I thank Ambassador Sohail for inviting me to this vital subject of China-Pakistan Economic Corridor (CPEC), which is on the minds of many Pakistanis who are concerned about the future of Pakistan. The specific topic, looking at the macro and micro economic dividends of CPEC, is well-chosen

I would discard my written speech and speak directly in view of the comprehensive recommendations read out by the Stage Secretary and also of course the Chinese Charge de Affair's cogent summary of what is happening. I think the most important thing for us to understand is why we are consistently calling CPEC a 'game changer'. The reason is that it marks a very positive and welcome metamorphosis of Pak-China friendship into an economic partnership. This is happening for first time. We have had joint projects before like the JF-17 Thunder, but this is very unique.

CPEC addresses Pakistan's pressing need of investments and converts the fundamental nature of the relationship. Being higher than the Himalayas, CPEC puts on the ground evidence of its depth — moving it from a strategic alliance into an economic partnership. What President Xi Jinping eloquently said during his visit to Pakistan in 2015, of this being an 'iron' friendship makes both nations 'iron brothers'.

CPEC and many of its dividends have been discussed in this valuable and important Conference, but what CPEC has done is that it has come at the right time, when Pakistan is re-emerging. The country emerged once before in the 1960s, when our high growth rates and policies were quoted worldwide, as an example of a developing country. But that emergence phased out, unfortunately due to the radical nationalisation policies of the early 1970s. Since then, Pakistan faced many issues such as the Afghan war; and second, its economic growth became repressed by violent extremism and by the energy crisis.

Beginning in 2013, when the One Belt, One Road (OBOR) initiative was announced, the elected Government under Prime Minister Nawaz Sharif's leadership was grasping and confronted with a collection of simultaneous crises. The consequences of violent extremism and energy crisis were very precarious. Another challenge was low growth. Pakistan had been progressively cut off from the international world. Not only did airlines stop coming, exporters even now say that most buyers refused to come to Pakistan because of security issues and risk factors.

Those were dark nights which Pakistan faced. CPEC came at a time when Pakistan's democratic government began to address those issues. It is important to acknowledge that right at that time, China, our great friend stepped up and took the lead. It has been argued that China has its own strategic and economic imperatives, but at that time to come forward, it is a mark of true friendship between our two nations.

In 2016, four major news stories came out of Pakistan. The greatest one was that Pakistan grasped and tackled violent extremism and is now becoming more peaceful with each passing month. Yes, there are incidents of extremism, but their number and frequency is declining. The challenge in Karachi is different than Balochistan, different from religiously inspired violent extremism. To tackle all these challenges at once is a tremendous undertaking.

History will look back at 2016 as the year when Pakistan turned the tide, turned the corner. Pakistan has not only become peaceful, public finances have also stabilised. In three years, Pakistan will be concluding the International Monetary Fund (IMF) programme. This has never happened before. As mentioned by the Chinese Chargé d' Affaires, Pakistan's foreign currency reserves are stable and that sets us up for the growth coming from CPEC.

The third good news is that in industrial areas, there is zero load-shedding since October 2015 and since March 2016, there has been uninterrupted gas supply in Punjab. The impact of energy provision will be visible in the next few months.

The fourth good news is that CPEC infrastructure is a means for current and future connectivity in the region. International airlines are flying back into Pakistan's major cities, which is again a good harbinger for the economy. These major cities are now connected more conveniently to the world.

There are two important aspects of CPEC in terms of connectivity, one is the classic invisible ribbon which is going to tie Gwadar with Khunjerab, and which will pass through all four provinces. The symbolic nature of this is that major trade flows are expected to pass through it. Second, the development of the Gwadar Port and its future connection with Quetta and Chaman leading to Central Asia and Afghanistan will have tremendous benefits not only for trade but also strategically. We will see that trade will flow both ways.

Things that we are doing now, have not been done before. As a consequence of CPEC, the coal in Thar is being explored for the first time. Thar coal electricity production would be a gift for future generations of Pakistan.

Another aspect of CPEC is the learning from our Chinese partners and friends, in terms of management and technology. China's largest firm is building the Multan-Sukkur motorway. Pakistan's road construction industry is greatly indebted to the Lahore-Islamabad motorway. Its construction brought soil grading skill in the country. As a consequence of CPEC, not only will our construction capability increase, hydro and wind power potential will also be explored. In Sahiwal, 70 per cent work is complete making it one of the fastest built power plants in the world.

The only risk to CPEC, beyond the realm of budgets, is Pakistan's political stability which all of us ought to protect and treasure. This country saw peaceful transition of power for the first time in its young democracy's history. The next peaceful constitutional transformation will be in 2018. We all have a stake in peace and democracy in this country, not just for the sake of CPEC.

CPEC's scale is huge and one never attempted before. It presents implementation challenges not just for the Prime Minister's Government, but to those in the provinces as well. Great research needs to be done in this area and we welcome all kinds of support from the public, the media and think-tanks like IPRI alike.

CPEC is not a zero-sum game. It will not take money away from provincial governments or from health and education budgets. We ought to support it with our heart and minds because it is the foundation on which a prosperous Pakistan would be built. I am delighted to note that such a prosperous Pakistan would be built in partnership with our friend China. Chinese friends working in Pakistan will bring the people of these two countries together to move into the future with greater vigour and a shared vision.

Pak-China *Dosti Zindabad* (Long live Pak-China friendship).
Pakistan *Paindabad* (Long prosper Pakistan).■

Vote of Thanks

Ambassador (R) Sohail Amin
President IPRI

As we now conclude the Conference, I wish to state that holding this event in collaboration with HSF was a source of great satisfaction for the Islamabad Policy Research Institute. The support and assistance of HSF at all stages from conceptualisation to planning has been invaluable.

I am thankful to Minister Dastgir who very kindly accepted our invitation to be the Chief Guest on this last day of the Conference. I also thank the chairs and speakers who have made vital contributions on a very important and current subject. I also wish to thank all the participants who attended and enriched the Conference with their active participation through questions and comments.

As a result of the contributions made by the speakers and the participants, IPRI will finalise the recommendations and papers that have come out of this two-day discourse in the form of a book and share them with the policy-making circles of government and the academia.

I thank you all.■

Recommendations

Concerns about lack of transparency of CPEC-related projects, especially on the Pakistani side, was a recurrent theme in the Conference. Almost all speakers highlighted the need for and significance of maintaining transparency and information sharing in the projects at all levels. Specific recommendations vis-à-vis Pakistan are outlined below:

- Since CPEC is not only an opportunity but also a challenge, Pakistan needs to improve its infrastructure and strengthen its economy.
- CPEC is a strategic project having regional and global impact. Gwadar Port having direct access to the Middle East, Central Asia and South Asia could be a role model for the world provided efforts are made in the right direction. The Port would open vistas and opportunities for Pakistan and the region at large.
- The Government of Pakistan should establish working frameworks and agreements for financial, commercial, manufacturing, and knowledge alliance with China. CPEC would only become a 'game changer' if economic integration takes place between China and Pakistan in the future.
- Pakistan should protect its national interests so that Chinese market expansion does not overwhelm the local industry.
- Revisiting the Pakistan-China Free Trade Agreement (FTA) should play a role in the recovery of Pakistan's economy since it is discriminatory in nature. In addition, concluding new investment treaties to facilitate greater growth of Foreign Direct Investment (FDI) and bank financing from China may be needed.
- On the fiscal side, improving investment and trade facilitation; enhancing regulations for financial integration and cooperation; building currency stability and credit information systems; redefining and expanding the scope and scale of bilateral currency swap arrangements;

establishment of financial institutions, while ensuring transparency and checking corruption are crucial.

- Linking India with CPEC will require immense diplomatic and political efforts. India should put aside its objections to CPEC; and Pakistan will have to find ways to open transit trade with it in a manner that its goods can have access to CPEC highways.
- Effectively countering India and at the same time maintaining a constructive relationship with the United States is going to be yet another challenge.
- Pakistan needs to convince India, Afghanistan and Iran that CPEC can work inclusively, if everyone plays a fair role and can essentially benefit the entire region.
- Chinese generosity may not last forever. Already their patience is running thin with what they regard as slow progress and the inability of the Pakistani Government to keep CPEC 'non-controversial'. This coupled with a deteriorating Chinese economy carries the potential danger of affecting CPEC if Pakistan fails to live up to the operational and financial discipline China seeks in return. For this reason alone, Pakistan must act quickly to not only convince the Chinese that it has a sound CPEC management structure in place to judiciously use the allocated funds, but to also place a professional team at the helm of CPEC affairs to manage these investments prudently and sustainably, without being affected by politics or changes in political dispensations that may or may not take place during the short- and long-term implementation periods.
- Tax reforms should be introduced for augmenting Pakistan's economy.
- CPEC will ease Pakistan's energy crisis while connecting the country's economy with its neighbours. Though CPEC is an inclusive project but the focus should also be on indigenous efforts to generate coal, solar, hydel, and wind energy. The major portion of new energy generation capacity under CPEC will be coal-based plants. This essentially neglects the

environment conservation emphasis and implications of climate change. All CPEC-related projects should take environmental consequences into consideration.

- The structural challenges confronting CPEC must be identified by the Government of Pakistan and tackled in time to address problems in project implementation. Targets should be spelled out and timelines for smooth implementation made clear. Also, for better management, 'CPEC Development Authority' consisting of civil and military stakeholders should be established henceforth. Pakistan should learn from China, which is expert in running and managing public sector projects.
- Pakistan should increase the percentage of GDP allocation for the education sector for sustaining economic growth in the future. It should invest in capacity building to train and turn its population into technical manpower.
- In Gwadar, social sector projects in the areas of education and health should be developed.
- Pakistan should focus on both soft and hard aspects of CPEC simultaneously. Role of CPEC in the social sector is not clear yet. Pakistan should request the Chinese government to assist it in social sector development.
- Pakistan must make efforts in creating cold storage facilities for fruits, vegetables, and dairy products so that these products can be preserved for export abroad. Efforts may be made to include a project related to this in the CPEC agenda.
- Instead of growing excessive wheat, Pakistan should grow crops like soy bean, which China imports from abroad. This will help to increase Pakistan's exports to China.
- The Government must come up with clear plans as to where the industrial parks need to be developed as it still remains unclear which areas need or are more suitable for the development of these parks.
- The perception that Punjab is the only province which is going to benefit from CPEC should be corrected to avoid divisions. The Federal Government needs to address the

grievances and concerns of other provinces like Balochistan on a priority basis, as delay might provide grounds to anti-state elements to exploit the situation to their advantage. To make CPEC a unifying force and to avoid discontent, disharmony and discomfort, finances should be provided by the Government of Pakistan for projects outside CPEC.

- D. I. Khan should be connected with Lahore and Multan with Quetta to make a real grid of road networks within CPEC's three main routes.
- Pakistan needs to get preferential market status in Chinese economy. The country's business community and private sector need to come forward and play their role in making CPEC a success.
- There is a need to determine and highlight the opportunities for local business and investors in CPEC by conducting in-depth feasibility studies for potential investors and entrepreneurs.
- There are 450 think-tanks in China. Pakistan needs to network with them. Since technology transfer and human capital development are the weaker links in CPEC for Pakistan, these aspects should be prioritised.
- When assuming a debt burden as large as USD 46 billion, policy-makers need to be cognisant of questions like: what if oil and energy prices crash internationally? How prudent is the choice of coal as the main fuel in a potentially USD 34 billion investment proposal and what possible financial repercussions could Pakistan face if the power tariff drops to a point that can no longer justify the returns being promised to investors? How does Pakistan work and compete with China at the same time? How will Pakistan maintain a balance in relations with the Western economies who still represent the bulk of global consumption – after all, Pakistan does not want to end up being another North Korea with merely a singular friend to depend on.

- CPEC is a business proposition and needs to be looked at as such. Like the Chinese, Pakistanis also need to approach CPEC professionally and not emotionally.
- Pakistan has limited trade relationship with South Asian states. A somewhat significant trade relationship exists with Bangladesh and Sri Lanka, with a perceptible tilt towards Pakistan in the balance of trade. Trade with Bhutan, Maldives and Nepal is insignificant. If diplomacy removes political barriers and secures peace and good neighbourly relations between Pakistan and India, geographical distance reduced by CPEC are likely spur larger trade flows between Pakistan and other SAARC countries.■

PART II

CPEC Dividends for Pakistan

- **The Geonomics of CPEC**
- **Implications of CPEC on Domestic and Foreign Investment: Lack of Feasibility Studies**
- **Sectoral Impacts of CPEC on Pakistan's Economy**
- **CPEC's Role in the Services Sector: Prospects for Pakistani Entrepreneurs and Workers**

The Geonomics of CPEC

Dr Kamal Monnoo*

Introduction

CPEC, for the first time, was proposed by the Chinese Premier, Li Keqiang during his visit to Pakistan in May 2013. The proposed project would link Kashgar in northwest China with Gwadar Port on the Arabian Sea coastline in Balochistan. The initiative is driven strongly by China's quest for warm waters. Mindful of the underdevelopment of its western provinces which are a soft belly and ongoing Uyghur movement, China wants speedy modernisation of Xinjiang; and of its other under developed provinces to bring them at par with its eastern provinces. For the accomplishment of these dreams, China needs access to 'Warm Waters' in the Arabian Sea through Gwadar since this route to world markets is the shortest and the cheapest. CPEC envisages developing Gwadar into a free trade zone with a modern airport on the model of Singapore and Hong Kong, and as the largest deep seaport overshadowing Chabahar and Dubai, in the process turning it into a gateway for China's One Belt, One Road (OBOR) initiative. The Silk Road Economic Belt (SREB) will not only connect and develop China and Pakistan, but also the region for the first time on such a wide scale.

CPEC investments will be spread over 15 years with a total outlay of USD 46 billion, more than USD 35 billion on the energy front in an IPP (Independent Power Producers) mode, with the balance going to infrastructure development. Though initially CPEC cooperation will come in two main sectors: infrastructure development and energy generation; going forward, the scope will be extended to other fields such as finance, science and technology. These hold paramount importance in order to reap more social and economic gains for the mutual benefit of people in both countries. As projects under CPEC gather pace, broader

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* Dr Kamal Monnoo hails from a business family that now has its fifth generation in industry and commerce. He sits on various private and public sector corporate Boards, including that of IPRI. His second book *Economic Management in Pakistan*

synopsis of the short-term and long-term plans from the Corridor also slowly begin to unveil. Both Pakistani and Chinese governments need to be careful about a number of risks in smooth implementation of the partnership framework. Much of the concerns about CPEC projects focus on the general lack of know-how on finances, public private partnerships and the extent of the benefit to both China and Pakistan, and then weighing them against each other. From the Pakistani perspective, a general lack of clarity on some of the broader features of the projects and related finances to undertake heavy corresponding equity injections, where required, tend to be serious concerns for an economy heavily in debt.

Today, despite being the sixth largest country in the world on the basis of population, Pakistan ranks 126 out of 140 in manufacturing competitiveness, 90th in innovation and technology sophistication, 150 out of 183 in per capita income, 147th in the Human Development Index (HDI), 123rd in education facilities, a lowly 44 on Gross Domestic Product (GDP) size. No-one is saying that we ourselves are not to be blamed for this rather dismal showing, but what it really means is that today more than ever, Pakistan needs to be engaged, invested-in, and taken along both financially and technologically. With West closing its doors and suddenly turning exclusionary, the choice for us has become quite straightforward – all roads lead to China! Naturally, with little options in hand and Pakistan in desperate need to up its economic game, at times, it almost appears overeager to make CPEC happen at any cost; even if that cost in some areas threatens to be unsustainable for the country's economic health in the long-run. And this, unless prudently checked can be dangerous. Everyone from politicians to bureaucrats to military hierarchy and some self-styled business experts are busy singing endless praises of China's generosity as if some divine windfall is headed Pakistan's way, in the process making CPEC a sacrosanct initiative where even slight or rational criticism is being regarded as a sin. While not denying, even for a minute, China's long-standing friendship, its support to us in difficult times and its favour to put investment per se back at the centre of our economic plate – especially at a time when most Western investors are treating Pakistan as an investment pariah - the reality remains that at the end of the day, CPEC is a business proposition and needs to be looked at as such. Like the Chinese, we also need to approach CPEC professionally and not emotionally. Basically, we need to learn from them how to 'corporatise' economic propositions in order to overcome concerns on: prevailing lack of transparency, ongoing political bickering (joint satisfaction of all provinces will always be the key to CPEC's success), a general public mistrust, and competence related operational hazards. Regrettably, misplaced perceptions, innuendos and politicisation of CPEC seem to be taking root and unless (like in China) CPEC in Pakistan is also quickly put under professional control, these emerging controversies carry the danger of undermining the entire programme. While surely this Government is committed and arguably has some competent ministers in its rank, the trouble is that political leanings (even if it is by default) of executive management invariably leads to conflict-of-interest and controversy. The only solution is to give CPEC's decision-making and its implementation control under an autonomous, non-political and professional Board.

Economic decisions and their outcomes cannot be frozen in a time warp. 15 years is a long time and local, bilateral, regional and global economic events will keep on evolving during this period. We need to be mindful of the emerging developments around us and on the very likely possibilities of altered global equations and new partnerships.

Effectively countering India and at the same time maintaining a constructive relationship with the US is going to pose a real challenge in the future. We need to convince India, Afghanistan and Iran that CPEC can work inclusively if everyone plays a fair role in it and can essentially benefit the entire region. India, which openly airs its reservations and negative sentiments about CPEC should be engaged and convinced that like pre 90s, it is once again aligning itself with the wrong economic theme. India's economic progress only came when it shunned the closed socialist policies of the Iron Curtain and connected with the world. Today, it is making the same mistake by opting to shun Asian economic inclusiveness and instead allying itself with the West's newly found mindset on pursuing exclusionary and protectionist policies.

However, to succeed amidst all these challenges, the onus lies on us. It will be up to us to act proactively and chalk out policies and agreements that serve us well even with altered global realities and shifting economic responsibilities. When assuming a debt burden as large as USD 46 billion, we need to ask questions like: what if oil and energy prices crash internationally? How prudent is our choice of coal as the main fuel in a potentially USD 34 billion investment proposal and what possible financial repercussions could we face say if the power tariff drops to a point that can no longer justify the returns being promised by us to our investors? How do we work and compete with China at the same time? How do we maintain balance in our relations with the Western economies who still represent the bulk of global consumption and account for our main exports – after all, we do not want to end up being another North Korea with merely a singular friend.

Lastly, Chinese generosity may not last endlessly. Already their patience is running thin with what they regard as slow progress and the inability of the Pakistani Government to keep CPEC 'non-controversial'. This coupled with a deteriorating Chinese economy carries the potential danger of affecting CPEC if we fail to live up to the operational and financial discipline China seeks in return. And for this reason alone, we must act quickly to not only convince our Chinese friends that we have a sound CPEC management structure in place to judiciously use the allocated funds, but to also in turn satisfy ourselves that a professional team is indeed in place to manage these investments prudently and sustainably, without being affected by politics or changes in political dispensations that may or may not take place during the short and long-term implementation periods of CPEC. Failure is just not an option!

Understanding CPEC

CPEC, as mentioned earlier, was proposed for the first time by Chinese Premier, Li Keqiang during his visit to Pakistan in May 2013. The proposed project of linking Kashgar in northwest China with Gwadar Port on the Arabian Sea coastline in Balochistan was approved on 5 July 2013, during the visit of Prime Minister, Nawaz Sharif to Beijing, which also included the construction of a 200km long tunnel en-route. Furthering this, in December 2013, China in addition committed USD 6.5 billion for the construction of a major nuclear power project in Karachi. In May 2014, another agreement was signed to supplement the

Orange Line metro train project in Lahore worth USD 1.27 billion. In November 2014, the two countries signed 19 agreements related to CPEC and the Chinese firms commenced work on six mega hydel power projects in Gilgit-Baltistan such as Dassu, Phandar, Bashu, Harpo and Yalbo to tackle Pakistan's energy crisis. At the same, the initiative is also driven strongly by China's quest for 'Warm Waters'. Mindful of the under development of its Western provinces which are a soft belly and ongoing Uyghur movement, China wants speedy modernisation of Xinjiang and of its other underdeveloped provinces to bring them at par with its Eastern provinces. For the accomplishment of these dreams, China needs access to 'Warm Waters' in the Arabian Sea through Gwadar since this route to world markets is the shortest and the cheapest.

This access as we know has always been sought by Russia as well, but it never succeeded in getting it. The visit of President Xi Jinping to Islamabad on 20-21 April 2015 was with this exact objective in mind. It was during this visit that he upped the ante for CPEC by increasing the level of investment from USD 26 billion to USD 46 billion. 51 agreements/MOUs worth USD 28 billion were signed, with USD 17 billion worth more to come. His visit literally kick-started the CPEC process with the groundbreaking of the historic 3,000 km long strategic CPEC road network.

Three Routes Earmarked

1. The Western route originates from Gwadar and will pass through Turbat, Panjgur, Naag, Basima, Sohrab, Kalat, Quetta, QilaSaifullah, Zhob, Dera Ismail Khan, Mianwali, Hasanabdal and Ibad.
2. The Central Route originates from Gwadar and Quetta, and will reach Dera Ismail Khan via Basima, Khuzdar, Sukkar, Rajanpur, Liya, Muzaffargarh, and Bhakkar.
3. The Eastern Route that again originates from Gwadar and will cover Basima, Khuzdar, Sukkar, Rahim Yar Khan, Bahawalpur, Multan, Lahore, Faisalabad, Islamabad and Mansehra.

Gwadar was until recently one of the least developed districts of Balochistan province. It sits strategically near the Persian Gulf and close to the Strait of Hormuz, through which nearly 40 per cent of world's oil passes today. In 2013, management of its seaport was taken away from Singapore PSA International, and handed over to China's Port Holdings. CPEC envisages developing Gwadar into a free trade zone with a modern airport on the model of Singapore and Hong Kong, and as the largest deep seaport overshadowing Chabahar and Dubai, in the process turning it into a gateway for China's OBOR initiative. The SREB will not only connect and develop China and Pakistan, but also the region for the first time on such a wide scale.

Figure-1
Map of CPEC

Source: Mountain TV, 'Federal Cabinet Approves Pak-China Economic Corridor', accessed 3 January 2017, <http://mountaintv.net/federal-cabinet-approves-pak-china-economic-corridor/>.

CPEC is unique in the sense that it ultimately has the potential to not only connect China, but also Central Asia via the quickest route to sea. As already mentioned, it is envisaged to be the pivot to China's OBOR concept that aims to connect 60 countries on the Asia and European land mass. To realise this plan, China intends to build a web of networks such as the Southern Silk Road, the Central Asia Silk Road, the 21st Century Maritime Silk Road, and CPEC.

Projects under CPEC

CPEC investments are proposed to be private sector investments coming under the National Energy Policy and open for all. The projects are aimed at not only reducing Pakistan's energy's deficit, but also at bringing down the cost of generation with cheaper power. For the first time in 70 years, a foreign investment initiative, CPEC, will be actually looking to harness the commercial potential of Pakistan's indigenous coal in Thar to produce electricity.

Further, the Chinese investment portfolio under CPEC includes both long-term and short-term projects. Specifically, these projects will help Pakistan to overcome its energy crisis, develop the Gwadar Port, Gwadar International Airport, dry ports, roads, industrial zones and Special Economic Zones (SEZs). The industrial and SEZs will be created at strategic points alongside all the three routes so that they can be of optimal benefit in promoting industrial activity by utilising the new power generation capacities, in creating jobs and promoting industrial activity judiciously all across Pakistan. Some important projects under implementation are listed below:

1. Havellian Dry Port – Total investment in this Port will be USD 40 million. Broader scope also contains establishment of industrial and SEZs across all provinces.
2. High Speed Railway Link – This will involve completion of a state-of-the-art, modernised railway system ML-1, where the speed of commuting trains will be doubled from 80km per hour to 160 kms. Total covered area will be 1,736 kms, with total investment worth USD 3.65 billion.
3. Modern highways and motorways across all provinces. These include construction of the 120 kms long motorway from Havellian/Thakot to Burhan; and the 340 kms long section of Karachi-Peshawar Motorway to be completed by 2018. Total investment is likely to be USD 4 billion.
4. The Pak-China Optic Fiber network starting from Khunjerab to Rawalpindi-Islamabad via Gilgit-Baltistan and Khyber Pakhtunkhwa (KPK) will modernise Information Technology

(IT) in Pakistan and take it to new heights. Stretching over 800 kms, total investment will be USD 44 million.

5. 24 large-scale energy projects having a total capacity of 17,000 MW are planned with an investment of USD 35 billion.
6. Development of Gwadar city per se at a cost of USD 1 billion.
7. Near completion road networks include the 66km long Gwadar to Sohrab/Quetta section of Western Route; completion of another 285 km long Dera Ismail Khan to Burhan/Hakla section of Western Route costing PKR 129 billion; and establishment of more than a dozen industrial parks and SEZs in all provinces in collaboration with China.

How Does CPEC Work?

As explained in the official Chinese website, the initial thrust of CPEC cooperation will come in two main sectors: infrastructure development and energy generation. However, going forward, the scope will be extended to other fields of finance, science and technology, which would hold paramount importance in order to reap more social and economic gains for the mutual benefit of people in both countries. All 'priority projects' - as listed under the CPEC plan – will be operational in the next four years, while most of the early harvest projects will be completed by 2018. According to a project factbook, which was released at a recently held CPEC Summit in Islamabad, the USD 1.5 billion Engro Surface Mine in Block-II project, the USD 1.3 billion worth Sino-Sindh Coal mine Thar project, the USD 1.94 billion Hubco Coal-based power project and the USD 2 billion Engro Thar Coal fired plant are scheduled to become operational by 2019. The USD 1.8 billion Suki-Kinari power plant, the USD 1.42 billion Karot hydropower project and the USD 3 billion Matiari-Lahore Power Transmission line projects are listed to be operational by 2020.

Also unveiled at the Summit was the CPEC Long-Term Plan for the period 2025-30. The China Development Bank (CDB) prepared a draft of the long-term plan, specifying the timing for development of the economic corridor. As mentioned earlier, CPEC is part of China's strategic OBOR initiative, which envisages connecting 64 countries in three continents. The long-term plan talks about establishing a bilateral payment and settlement mechanism to reduce the need for third-party money and ease the pressure on Pakistan's foreign exchange. Central banks will put in place a relatively stable exchange rate mechanism and continue to implement and expand the scope of bilateral currency swap agreements to PKR 520 billion. Most of the pillars of the long-term plan will deal with the provincial projects and the contribution of provinces will be critical for its success. The plan identifies key areas and major projects including the development of an integrated transport system, IT connectivity, energy cooperation, industrial parks, agricultural development and poverty alleviation.

The other areas of cooperation will cover livelihood, water resources, livestock, people-to-people communications and financial matters. Under the plan, an agriculture information project, storage and distribution of agricultural equipment and construction, agricultural mechanisation, demonstration and machinery leasing and fertiliser production projects for producing 800,000 tonnes of fertiliser and 100,000 tonnes of bio-organic fertiliser will be implemented. Some other areas of intervention will include livestock and poultry breeding, livestock and poultry product processing centres, disease prevention and control systems, planting and breeding and agricultural product processing.

According to the estimates of the Planning Commission, the long-term plan once under implementation can positively affect the GDP by adding to its growth rate by around 1.50 per cent initially and by another 1 per cent after 2020. Pakistan's annual average trade will increase 24 per cent from 2016 to 2020 and 16 per cent from 2020 to 2030. The annual average investment growth rate is forecasted to be as high as 25 per cent from 2016 to 2030. In this, the contribution of industry as a percentage of GDP will increase by 1.5 per cent, creating 800,000 new jobs.

Advantages for China

As already mentioned above, while CPEC is surely monumental for Pakistan, it at the same time also carries a number of advantages for China. Primarily, it constitutes an integral part of China's broader vision to assert itself as the leading economic power through the OBOR initiative that seeks to physically connect China to its markets in Asia, Africa, Europe and beyond. The New Silk Road will link China with Europe through Central Asia and the Maritime Silk Road to ensure a safe passage of China's shipping through the Indian Ocean and the South China Sea. CPEC will in effect connect China with virtually half the population of the world.

Access to the Indian Ocean via Gwadar will enable China's naval warships and merchant ships to bypass Malacca Strait and overcome its 'Malacca Dilemma'. In fact, development of Gwadar Port and improvement of the infrastructure in the hinterland would help China sustain its permanent naval presence in the Gulf of Oman and the Arabian Sea.

While the new silk roads are bound to intensify ongoing competition between India and China – and to a lesser extent between China and USA – practically they will always be assets on the ground benefitting all regional stakeholders; and thereby strengthening and cultivating increased Chinese influence in Central Asia in particular and the Asian continent and the world in general.

Advantages for Pakistan

Foremost, CPEC brings much needed investment in the Pakistani economy, which if harnessed prudently will the harbinger of new opportunities and help it in spurring inclusive growth, creating jobs and reducing poverty. The scale of capital investment coupled with Chinese expertise of undertaking large-scale projects makes CPEC a potential 'game changer' indeed and cements China's role in securing Pakistan's stability and security.

Chinese investment under CPEC will not only expand the GDP, but also act as a catalyst to Pakistan's GDP growth. A consistent inflow of large-scale Foreign Direct Investment (FDI) will greatly help Pakistan to improve its perception cum image with other investors. It will signal that the country is open for business and a safe and productive place to do business in.

With the economic Corridor becoming functional, Pakistan's geostrategic security interests will become directly aligned with those of China, thereby releasing much of the pressure currently being exerted from next door South Asian countries. Pakistan may be in a better position to engage other developed economies once its own economy is performing better. CPEC is also likely to have a natural rollover effect on further improvement in Pak-China defence and nuclear cooperation.

The success of Sino-Pak partnership is also likely to attract Afghanistan into the CPEC fold and if this happens, development can have a positive impact on relations with Afghanistan. China, Pakistan and Afghanistan, all have a shared interest in stabilising Kabul, because the main threat to the realisation of the OBOR vision comes from terrorist groups operating out of the Af-Pak domain.

CPEC in the long-term may also kick-start SAARC, as other South Asian economies are bound to get attracted to the benefits of connectivity to this expanding economic train.

In many ways CPEC provides the advantage of being an 'early harvest' programme where people of Pakistan will not have to wait too long to see its positive results. A significant chunk of people-centric projects such as the Orange Line, Yellow Line, power plants and road networks will be operational before 2020 and as their outcome starts pouring in and improving lives of Pakistanis, the public belief in CPEC will strengthen giving it more impetus and longevity. CPEC if dealt judiciously can be a big unifying force for Pakistan.

It is also God-sent opportunity for Pakistani businesses and the corporate sector to meaningfully connect to perhaps the most robust economy of the world and that too with one with whom we share borders. China today has a GDP of USD 18 trillion on PPP (Purchasing Power Parity) basis. It has one of the largest foreign currency reserves of USD 3.6 trillion that gives it the strength to create its own resources for investments home and abroad. It is the largest exporter in the world with USD 2.34 trillion annual exports and the third largest importer with annual imports worth USD 1.96 trillion. It is the largest trading partner with more countries than any other economy of the world, including

USA. China today leads as one of the main financiers of the developing world – recently creating the AIIB (Asian Infrastructure Investment Bank) – and its overseas investments today exceed USD 20 trillion.

The fact that China is opting to place its bets on Pakistan as one of the key pivots in its OBOR vision, effectively means that with the right management and leadership skills Pakistan can emerge as the main corridor to not only China and Central Asia, but also the aspiring South Asian economies. If we can get our house in order, access to the rich Chinese market comprising of 1.5 billion people, immense knowledge and innovation, and world's largest pool of capital deployment, can provide us with the opportunity we have always dreamed of.

CPEC provides Pakistan with a chance to learn from the Chinese and to even involve them, where necessary, in order to resurrect state-run enterprises. China today presents the best model on how to combine private sector entrepreneurial juices with state power and resources.

According to a Gallup survey, China's staggering economic growth has been fuelled not only by the attempt to replace a socialist 'command economy' with one built along market lines, but also by an extraordinary commitment to hard work among the people of the Middle Kingdom. Harvard theologian Michael Novak argues that certain Confucian values are similar to those analysed by Max Weber in the *Protestant Ethic and the Spirit of Capitalism* (1904). In a Pakistani society, which is overtly ritualistic, introduction of Confucian values and Chinese work ethics can be extremely beneficial in driving operational efficiencies.

Concerns and Way Forward

At a CPEC Summit in Islamabad in August 2016, experts from Pakistan and China cautioned governments on both sides by highlighting the risks to smooth implementation of the partnership framework. Much of these concerns on CPEC projects focus on the general lack of know-how on finances, public private partnerships and the extent of the benefit to both China and Pakistan, and then weighing them against each other. From the Pakistani perspective a general lack of clarity on some of the broader features of the projects and related finances to undertake heavy corresponding equity injections, where required, tend to be serious concerns for an economy heavily in debt. Further, fears lie on contribution coming from the provinces and meeting financing needs of these rather investment heavy projects. China's concerns, on the other hand, stem from a general lack of stability within Pakistan, accentuated by its political and security situation. Reports so far highlight slow progress on CPEC projects that pre-dominantly fall within provincial domains. There seems to be a general lack of communication among stakeholders and a general air of disharmony between the provinces and the Centre that seems to be adversely affecting these projects, which needs to be addressed quickly.

Having said this, the reality is that with USD 46 billion under CPEC promised to trickle into Pakistan in the coming years, the excitement here is quite understandable. For right or wrong reasons, comparison is being drawn with the colonial (European and primarily British) infrastructure and corporate investments in the country post-Partition (1947) and with similar neo-colonial (USA) investments post-1958, which for a long time went on to serve as incubators in our manufacturing sector's growth and as the mainstay of our infrastructure development.

Now China, the latest economic success story of the world, wants to assume the mantle of Pakistan's economic patron – a strategy that also fits well with its larger vision aimed at reviving the oriental glory days of the silk route trade. In fact, the Chinese vision is even much broader than this. It presents an antidote to the recent Western policies that post-2008's financial crisis have been bordering on protectionism and de-globalisation, instead of their previously held beliefs of connectivity and shared global development. Brexit, trends of the 2016 US election, rise of the 'far-right' in most Euro-zone economies, recent shunning of liberal trade deals by quite a few developed economies, etc., all point in this direction. China, on the other hand, is advocating a totally opposite path where it still believes in enhanced engagement, cross-investment to help capital starved developing economies, and increasing of economic linkages to set the world on an inclusive path of shared progress and development.

For Pakistan, which has literally been starved of any real big-ticket financial investment for almost three decades now – partly owing to evolving regional geopolitical developments and partly due to being abandoned by the West – the choice has been simple. In hindsight, the close alliance with the West (for more than 50 years) has little to show for itself in Pakistan.

Naturally, with few options in hand and Pakistan in desperate need to up its economic game, the reality remains that CPEC is a business proposition and needs to be looked as such. The reason, 'business', because the projects do not involve outright grants or aid, but instead relies on business principles of interest-based lending and borrowing, driven by attractive returns on investment and underwritten by payback collaterals, which in most cases happens to be the sovereign guarantee by the State of Pakistan. Meaning, no dodging them and no bankruptcy laws, chapter eleven, arbitration, blame game, etc. If the project fails, Pakistan pays up, regardless. So, naturally if things were to go wrong, the implications can be grave. A failure would not only deprive Pakistan of a rare opportunity to post significant growth and development, but also leave us in a financial quagmire, proving right those 'nay-sayers' who doubt this country's ability to commercially manage national projects.

A sovereign guarantee is tantamount to external debt and at the end of the day a fiscal burden. And these loans - from the little information that has been released - carry a rather healthy ROI (return on investment) and tend to be frontloaded. Meaning before we know it, we can be confronted with huge obligations on external foreign exchange outflows.

China is Pakistan's well-meaning, time-tested friend, but at the same time it is also the new global economic force that has rewritten management books with its peculiar successful business model of combining state might and resources with corporate professionalism. Not doubting its sincerity towards Pakistan, but in this new Chinese corporate culture, the fiduciary duty of safeguarding China's interest before anyone else's is taken quite seriously by its modern day economic managers.

Pakistan needs to learn to approach CPEC professionally and not emotionally. As discussed in the Introduction, political leanings invariably lead to conflict-of-interest and controversy. The only solution is to give CPEC's decision-making and its implementation control under an autonomous, non-political and professional Board. The selection of an effective Board of Directors for an initiative of this magnitude is going to be a challenge in itself. Assuming responsibility of USD 46 billion is no mean task, because the process entails critical management which ensures that:

A) When it comes to industrial and business cooperation, the rights of Pakistani private businesses are also protected. Already, the Government of Pakistan is acceding to CPEC-specific requests by the Chinese authority on providing security at the state's expense; overlooking certain local labour laws; reduced oversight; relaxation in property laws; and extensive long-term concessions to rationalise costs for the Chinese companies operating in Pakistan. While these might have been done in the right spirit, such special measures are bound to create market distortions unless the local entrepreneurs are also offered matching facilitation.

B) The ensuing economic activity from CPEC is not limited to or dominated by Chinese companies. It needs to be ensured that Pakistani companies also get a fair share and that business-to-business networking between Chinese and Pakistani counterparts somehow becomes an integral part of the CPEC initiative. Joint ventures between private enterprises of both countries will hold the key to expanding joint frontiers of innovation, technology, trade and development. In this, the placement (location) and nature (governing rules) of the announced industrial and SEZs is going to be important, as they will ultimately determine the judicious use and equitable distribution of the fruits of CPEC on a national scale.

C) Climate change and resultant legislations after the Paris Accord (to which China is also a signatory) have assumed renewed significance. The Paris Accord aside, Pakistan owes a clean environment to its future generations. Currently, our coal portion in the overall generation mix stands at less than 5 per cent, which after CPEC will suddenly jump to more than 50 per cent. Managing the environmental fallout from this will be tricky, and only a professional, independent and autonomous apex board can optimally carry out the type of comprehensive oversight required: evaluating project costs, guaranteed returns and equipment sourcing from an arm's length to not only ensure maximum value for money, but also minimising project costs. In addition, details on the type, technology, cost and nature of the equipment (flexibility on indigenous and imported coal, emission levels, efficiency, etc.) to be installed will all be critical to the long-term sustainability of such heavy capital outlays. Balancing development with energy investments needs and mix (perhaps more emphasis on hydro and renewables) with the new evolving climate change responsibilities will be critical.

D) Producing power is one thing, but producing it at a globally competitive level is another. The tariff at which our industry ultimately gets power from CPEC projects will be of paramount importance in determining competitiveness. Today, there are a number of concerns on the tariff rate being agreed between the Pakistani Government and Chinese companies. It is understandable that Chinese companies want to optimise their returns, however, Pakistan has to see that at the end of the day it will be liable for the entire cost of the investment, and therefore, it needs to be commercially viable. One does not want to be stuck again with power costs that render us uncompetitive. Tariff stories of the Quaid-i-Azam Solar Park and some coal power projects are a cause of concern and need to be carefully re-negotiated.

E) When CPEC-related decisions are taken purely on economic grounds by a completely non-political Apex Board, it will put an end to any provincial disharmony and mistrust.

F) A big chunk of CPEC outlay that is going into communication projects of Pakistan Railways (USD 3.6 billion), Orange Line, and others, should not be lost to operational inefficiencies and corruption. While these projects are surely essential, since for example without upgrading railways' transport capacities the coal power projects would be non-starters, we have a painful history of public sector mismanagement and corruption not just in railways, but in virtually all sectors.

G) In order for CPEC to reach its optimum potential, we have to re-visit our existing free trade agreements, bilateral investment treaties, visa free travel arrangement, tourism protocols and human skill development agreements. In other words, the entire framework for harmonising and integrating the economies of Pakistan and China in a way that is a win-win for businesses and industry on both sides.

H) Last but not least, we need to prioritise and control the pace of spending in a way that safeguards sustainability of each investment project separately. History tells us that it does not take long for unmonitored inflow/loans to turn from joy to pain - Greece, Portugal, and Spain are all recent examples. Before we know it, the chicken will come home to roost and significant foreign outflows in the shape of debt re-payments, profit repatriation and simple import requirements on imported coal will put an unprecedented burden on our CAB (current account balance). Currency swap arrangements are one good way of mitigating this risk, but the future swap arrangement plans as being advised are inadequate. Not only do we need to expand their ambit from the stated PKR 500 billion to at least six times the size, but also work out swap rates going forward to cover the major portion of outflow that can surely be worked out even now. Unless we prudently plan for future cash flows and instill the element of sustainability in all capital outlays under CPEC, the results on the contrary could turn out to be quite damaging. The recent example of Sri Lanka and Indonesia are right in front of us where similar Chinese investments today are causing more pain than joy.

I) In creating a professionally sound and independent apex governance structure, the real challenge will also be to select a Board of Directors which has the skill set to achieve all the above. As it is imperative that we do not repeat past mistakes of appointing merely 'trophy' boards - An error that over the years has played havoc with our public sector enterprises, in turn, reducing them to naught. The Government this time will, therefore, be well advised to avoid politicians, bureaucrats, friends, relatives, bankers and ex-multinational executives (often devoid of true spirit of nationalism) and instead opt for clean and competent private sector entrepreneurs from home who not only understand the role of a Board in a modern enterprise, but are also able to distinguish between different codes of governance and possess the expertise to add value to the true CPEC vision. No major investment can yield its due dividends unless its management (Board) has the ability to identify the fundamentals for an effective performance, learn through global networking to add exceptional value, and to always put itself up for performance measurement to instill continuous excellence.

Conclusion

Like it or not economic decisions and their outcomes cannot be frozen in a time warp. 15 years is a long time and local, bilateral, regional and global economic events will keep on evolving during this period. We needful to be mindful of the emerging developments around us and about the more than likely possibilities of altered global equations and partnerships. For example, how big a danger to CPEC is China's own rising debt?

The global economy is full of risks right now and some of the biggest economic dangers may actually be in China itself. The Chinese economy is in the midst of one of the biggest borrowing binges in recent history. Its debt load reached USD 26.6 trillion in 2015 – about five times what it was about a decade ago, and more than two and a half times the size of the country's entire economy. Most of this debt belongs to the big Chinese companies and the fear for countries too closely connected with China (like ours) can be that if a financial crisis hits Chinese banks and once consumption in China further slows down, the pressure on projects under CPEC will grow stronger. Not only will returns be viewed very strictly, but we could also face increased demands on providing further concession to incoming Chinese investment, in the process endangering our domestic industry and putting it at increased risk. Already unbridled Afghan transit trade and unchecked influx of Chinese industry has crippled Pakistan's small and medium sized enterprises (SMEs), rendering millions jobless.

Effectively countering India and at the same time maintaining a constructive relationship with USA is going to be yet another challenge. We need to convince India, Afghanistan and Iran that CPEC can work inclusively if everyone plays a fair role and can essentially benefit the entire region. India, which openly airs its reservations and negative sentiments about the CPEC, should be engaged.

To succeed amidst all these challenges the onus lies on us. It will be up to us to act proactively and chalk out policies and agreements that serve us well keeping in view the above mentioned altering global realities and shifting economic responsibilities.■

Implications of CPEC on Domestic and Foreign Investment: Lack of Feasibility Studies

Syed Irfan Hyder[*] and Tazeen Arsalan[**]

Abstract

CPEC promises to provide economic advantages to countries of the region including Pakistan and China, and to their various trading partners. There are promises of 'dividends' at the macro scale and there are promises of dividends at the 'micro' level. This paper is based on the contrast of this perception of promise and potential with the sentiments of potential investors from China and those in Karachi who are interested in starting business ventures in CPEC, but are worried about lack of necessary information for investment decision-making. It reports the experience of working with a CPEC-related investor group in developing ten pre-feasibility reports that analyse the potential of specific industries and some specific product categories. It identifies weaknesses of the current literature and the need for development of in-depth industry and product category specific feasibility studies. The paper provides a list of analyses required for helping investors in their decision-making developed through intensive interactions with potential investors. It also highlights the need for integration of similar work done by different departments of the government and for their feasibility studies to be more detailed, consistent, current and reliable. This study stresses that it is important to identify investment categories that would have positive socio-economic impact versus those that would affect negatively. Tax and other incentives need to be linked with such categories.

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Introduction

CPEC promises to provide economic advantages to many countries with 'dividends' at the macro scale and at the micro level. This is borne out by a cursory look at the topics of this Conference (Appendix A) and can be seen from the topics of research papers obtained from a search for CPEC on ResearchGate (Appendix B). This paper is based on the contrast of this perception of promise and potential with the sentiments of potential investors from China and those in Karachi who are interested in starting business ventures in CPEC. These investors are interested in identifying ventures that will provide value addition to raw materials or that will provide value-added services. This paper does not focus on concerns of mega infrastructure projects for which big money and big investors are already in the field and eyeing public money. Focus of this paper is on individual or group investors who would like to invest in setting up medium enterprises or medium-to-large size enterprises. The reality of the gap can be seen from the words of an expert during a visit by a Chinese delegation to IoBM in Karachi:

> I am a frequent visitor to Pakistan. I have made over 50 visits and I have yet to find someone who can give me solid figures that can help me in deciding whether to invest in a particular venture or not!

The pain of foreign investors is visible from this statement.

In early 2015, the authors were approached by a company that is providing consultancy to potential foreign investors. It was at that time involved in the process of evaluating over 50 industries, but their work was being hampered by the lack of reliable, current, and precise data focused on the requirements of foreign investors and feasibility studies at a deeper level of analysis that can provide help in decision-making.

IoBM's faculty members have been closely involved for over a year in developing specific feasibility studies from the point of view of foreign investors. They have worked on ten specific industries, and focused on specific products and commodities of each industry. The studies involved collection of secondary and primary data through interviews, questionnaires and focus groups. The primary data was compared and used in conjunction with published figures. This exercise revealed several gaps in the existing information and tasks that need to be tackled.

Local investors are also keen to differentiate between the hype and the reality of CPEC, and want feasibility studies that would help in deciding its impact on their current investments and the potential for future investments. IoBM's College of Business Management (CBM) is now developing a project that will involve analysis of over 20 industries and specific product categories.

The paper first overviews the general and macro sweep of the current spate of CPEC-related research papers and identifies the area where future research needs to be directed. It briefly describes the areas and industries in which IoBM has been focusing on developing pre-feasibility studies to help investors. It identifies the gaps in the available feasibility studies and industry overviews that are available from various government bodies. The concerns of foreign investors are different from those of local ones and feasibility studies should include concerns of both. There is also a need to focus on the socio-economic costs and externalities of investment in virgin areas and implications for the local industry.

Online Academic Research and Literature on CPEC

Much of CPEC-related research being presented at conferences and being published in journals relies on broad sweeps and often consists of macro-economic generalisations. This can be seen from the use of the following phrases in the topics of such research papers:

Table-1
Broad Generalities and Sweeps in CPEC-related Literature

Economic Advantage	Cumulative Dividends
Growth and Employment Opportunities	Implications of Trade
Economic Dividends to Agriculture	Geopolitical Ambitions
National and International Law Policy	Economic Corridor Benefits
Potential Threats and Challenges	Fostering Stability
A New Hope	New Look on Grand Strategy
China's Pakistan Plan	Fostering Stability in Balochistan
Development Strategy	Economic Belt

Source: Authors' own.

The phrases in Table 1 have been obtained from the research papers given in the appendices. Appendix 1 consists of the topics of research papers being read at the IPRI national conference (of which this paper is one) and Appendix 2 consists the papers on ResearchGate[1] accessed in September 2016. The search string used was 'CPEC' and 'China-Pakistan Economic Corridor'.

The literature appears to be largely inspirational and motivational, but is not helpful for the potential investor about to make hard decisions i.e. when the investor is about to put his money into specific projects. It is essential that resources are dedicated to providing necessary feasibility- related information that can inspire the confidence of investors and help him put his finances into this venture.

Gaps in Existing Government Feasibility Studies and Industry Information

Available studies on the websites and archives of Pakistan's public organisations such as the Board of Investment (BoI), Small and

1 Editor's Note: ResearchGate is a social networking site for scientists and researchers to share papers, ask and answer questions, and find collaborators.

Medium Enterprise Development Authority (SMEDA), Trade Development Authority of Pakistan (TDAP), and others are either too old, generic, superficial, or too shallow. They do not go into details that are required for CPEC-related investment decisions. More specifically:

- Current and relevant data is not available and if available is often difficult to find. No one portal gives all the available data.
- The studies do not focus on various stages of the supply chain. They need to provide insights on issues that can only be obtained through interviews with stakeholders at every stage of the supply chain. After all, 'a supply chain is only as strong as its weakest link'.
- They often do not provide the international context of the business. The studies need to highlight the potential for growth that can be determined by the gaps in the international supply and demand of specific products, and an analysis of top producer/exporter countries and top importer countries and their relative strengths and weaknesses.
- The implication of the word 'Corridor' in CPEC needs to be clearly defined in terms of strengths, weaknesses, opportunities, and threats (SWOT) analysis done for each major country.
- The studies need to provide potential for value addition at each stage of production and at each stage of the supply chain. The studies also need to identify the impact on local businesses and displacement in employment on account of foreign and local investment.

Feasibility Reports for Investors: Necessary Information

IoBM's research is focusing on the development of pre-feasibility reports that contain (at a minimum) the following information for selected industries:

1) Market Overview (Global as well as Local)
    a) Import and export statistics of the last five years (at least)
    b) Major import and export countries of the last five years (at least)

   c) World production (in the last five years)
   d) Global growth rate
   e) Reasons for lows and highs globally
   f) Major consumption countries
   g) Top five brands

2) National and Province-wise Production (in the last five years)
   a) Import and export (as a country and province-wise)
   b) Top five export countries and top five import countries
   c) Local growth rate
   d) Reasons for highs and lows
   e) Top five local companies and brands

3) Products and Product Categories
   a) Different products which industry can produce
   b) Prices of products locally and globally
   c) Growth rate in prices and reasons

4) Production Process
   a) Raw material requirement
   b) Availability of raw material (local & international) with prices

5) Value Chain Analysis
   a) Costs and value added at each stage
   b) Major areas of wastage

6) Supply Chains
   a) Local supply chains
      i) Grower/Mining-Middlemen-Processing/Assembly/Packaging-Wholesaler-Distributor-Retailer-Consumer
      ii) Pricing and challenges at each stage
      iii) Competitive context of each stage using Michael Porter's competitive strategy models. There is a need to study the bargaining power of suppliers, bargaining power of customers, entry barriers, etc.
   b) International supply chain

   i) Quality control and quality requirements for importers
   ii) Inspection regimes, time delays and issues of compliance
   iii) Logistics: time, efficiencies, delays and risks
   iv) Value addition at each stage (value lost or gained through strategic interventions)

7) Financial Plan
   a) Basic financial statements with breakeven analysis
   b) Net Present Value (NPV) and Internal Rate of Return (IRR)
   c) Other risks and returns

8) SWOT to analyse gaps in the industry

9) Licensing requirements with costs.

Areas and Industries Explored

The CBM faculty has been working on ten pre-feasibility reports, a few of which have been completed. Some general information about the issues identified for these industries is given here as an introduction.

Methodology

The research was conducted by reviewing secondary literature available online. In each industry at least three industry experts who have businesses in the same industry were interviewed in detail as well as two industry research experts. The secondary data was validated by the industry research experts. In-depth industry analysis including industry dynamics, problems and opportunities were discussed and analysed with the help of published articles, research and interviews.

The feasibilities also conducted consumer surveys to understand the gaps in various industries. Similarly, apart from in-depth interviews with manufacturers, interviews were also conducted with wholesalers, retailers and in some cases assemblers.

Financial feasibilities with forecasted basic financial statements were developed with the help of industry experts. NPV and IRR were calculated to understand the return and payback period in a particular industry.

Denim Fabric and Garments

Pakistan is the second largest denim fabric exporter in the world, while the first position is held by China. There are about 40 major players in the denim industry of Pakistan producing about 50 million square metres of finished denim fabrics monthly. The denim industry is contributing substantially towards exports and creating job opportunities. According to Dr Noor A. Memon, it has invested more than PKR 30 billion in the denim sector. The investment in a medium sized denim mill is about PKR 1 billion.

The global market for denim jeans is forecast to reach USD 64.1 billion by 2020, driven by increasing disposable income, Westernisation of work culture and the ensuing rise in popularity of denim jeans as business casual wear, as per the International Cotton Advisory Committee website. 70 per cent of jeans' consumption is between the European Union (EU), America and China. After the EU granted GSP Plus status to Pakistan, demand for Pakistan's denim has increased by approximately 50 thousand pieces per month. The country's share in global trade in denim garments has now reached more than 2.1 billion in foreign exchange earnings (approximately 18 per cent) of total denim made-up exports of Pakistan. The denim market has increased by an annual average of 17 per cent during the last five years. Cotton is the main raw material for denim fabric which then becomes the raw material for the denim garment industry. According to the survey among different denim fabric and garment companies, Pakistan gets approximately (approx.) USD 1.74 per piece of denim fabric, whereas it gets approx. USD 10.5 per piece of denim garment. In most countries, branded jeans cost between USD 50-225 (NationMaster n.d.) depending upon the brand image and quality. Instead of exporting denim fabrics, if Pakistan converts it into a finished garment and develops its brand, the country can earn 98 times more than what it is earning at present.

Domestically, Pakistan is facing shortage of electricity, gas and a deteriorating law and order situation. On the other hand, increasing cost of utilities has also troubled the denim industry. Despite

Pakistan's domestic access to good quality raw material, the country has been unable to develop any reputed brand in the industry. The export of denim fabric without value addition also restricts Pakistan to weak profit margins.

Fruits and Vegetables

At present, Pakistan produces more than 29 types of fruits and 33 types of vegetables throughout the year. Fruits, vegetables and juice exports showed continuous growth from USD 154 million in 2005-06 to USD 671.5 million in 2014-15. However, the share of Pakistan in these three categories was just 0.56 per cent of USD 114 billion of global exports in 2014 (Khan 2015). There is wastage of one-third post production yield due to improper of handling of crops. According to Pakistan's Ministry of Food Security and Research, many fruits and vegetables have high perishability nature and require proper handling, harvesting and post-harvest storage. However, lack of adequate cold storage facilities in the country results in 20- 40 per cent wastage.

The production of different fruits and vegetable varies on the basis of seasons, and are grown in different geographical areas, which are not available during the whole year or in all regions. According to the Pakistan Horticulture Development and Export Company website, due to poor or limited storage and transportation infrastructure, 40 per cent of post-harvest losses reduce the supply of fruits and force an increase in prices as lost quantities of produce never reach end consumers. Pakistan International Airlines (PIA) is the only air transportation medium which provides cargo storage space for export in its passenger planes, and there is lack of customised cargo shipment operations at the national level. Pakistan Railways (PR) which is the only national land transportation medium is not providing any transportation facilities for inland (regional) transportation of refrigerated containers.

Marble/Granite

Pakistan has major deposits of export quality marble, granite and onyx in wide range of colours, shades and patterns. It is the sixth largest extractor of marble and granite in the world and its reserves of these stones are estimated at around 297 billion tonnes. Currently, there are 30 units in Pakistan with appropriate machinery and equipment for cutting, sawing, grinding, polishing and sizing, which mostly produce raw material or semi-finished products related to marble. These units employ approx. 30,000 workers (Siddiqui 2014). Khyber Pakhtunkhwa (KPK) is the largest producer, followed by Balochistan. Sindh and Punjab are mostly involved in marble processing which is bought from KPK and Balochistan.

Estimates show that the five-year average percentage gain in world's marble exports was 17 per cent; and the total world exports of marble were USD 2.6 billion in 2014. China imports approximately 61.8 per cent of the world's total marble imports (ITC 2015). According to the World's Richest Countries' website, despite being rich in natural resources, Pakistan's contribution to the total world exports remains 1.9 per cent. The state mainly exports marble and granite in its raw form as marble chips and slabs, thus losing revenue by not selling finished products. It exports marble slabs mainly to China, but the market needs to be further explored since export margin in marble slabs is extremely small as compared to finished marble in the international market.

The major obstacle to the marble sector is loadshedding, outdated quarrying techniques, inconsistent supplies of raw materials, law and order situation and lack of production of value added items. Outdated mining methods, such as blasting practices, are causing very high wastage losses (nearly 85 per cent) to Pakistan as compared to the rest of the world where the percentage is around 45 per cent (Maqbool 2015).

Printing and Packaging

Rising exports and increasing local consumption of packaged food have pushed up demand for packaged products that is attracting foreign investment. Pakistan's packaging industry is divided into two segments: one is meeting the requirements of domestic clients such as Unilever, English Biscuit Manufacturers, National Foods, Kolson and others; while the other caters to international demand from Dubai and South Africa. Packaging industry of Pakistan meets only part of the domestic demand which indicates that this industry has the potential to grow further. International client requirements also have room for expansion.

The global packaging market is estimated to grow by USD 1 trillion by 2020. Moreover, Asia's population alone is expected to grow by 38 per cent till 2050 (WPO n.d.). More population means more demand of retail products which will need further packaging and printing. Looking at the global level, BRICs – Brazil, Russia, India and China markets comprise of approx. 30 per cent of the global demand of this sector, which keeps increasing further as their economies develop. There are around 112 units for manufacturing of paper & paper board for packaging industry in Pakistan. Approximately 70 per cent mills are located in Punjab, 20 per cent in Sindh and ten per cent in KPK. A number of Pakistani exports are unable to earn profits because of poor packaging. These sectors mainly include fruits, vegetables, and seafood items etc.

Household Electrical Appliances

The export market for air conditioners (ACs), refrigerators, washing machines and televisions have seen healthy growth rates over the past 15 years. Average growth rates for the four sectors have been 8.59, 8, 7 and 0.40 per cent, respectively. Major exporters of ACs are China, Thailand, Mexico, USA and Czech Republic; major exporters of refrigerators are China, Mexico, USA and Korea; major exporters of washing machines are China, Korea and Thailand, and those of televisions are China, Mexico, Slovakia, Poland and USA.

Most of the commonly used brands in Pakistan are either partially manufactured or imported. Despite the fact that Pakistan's consumption of household appliances has increased tremendously, local industry is unable to cater to the demand and around 70 per cent of the household electrical appliances are being imported from China, based on the International Trade Centre statistics.

Mismatch of Value Addition from Trade with China

Table 2 shows that the top ten Pakistani exports to China are all raw materials, while the top ten Pakistani imports from China (Table 3) are all value-added items. Pakistani exports to China amounted to

USD 2.7 billion or 10.6 per cent of its overall exports, while imports from China amounted to USD 6.6 billion or 15.1 per cent of its overall imports.

Table-2
Top 10 Pakistani Exports (in USD) to China (2015)

No.	Exports	Amount
1.	Cotton	1.9 billion
2.	Cereals	144.1 million
3.	Ores, slag, ash	129.2 million
4.	Salt, sulphur, stone, cement	63.5 million
5.	Raw hides (excluding fur skins)	57.1 million
6.	Plastics	43.1 million
7.	Food waste, animal fodder	37.8 million
8.	Copper	36.6 million
9.	Fish	35.8 million
10.	Gums, resins	29.7 million

Source: Pakistan Defence 2015.

Table-3
Top 10 Pakistani Imports (USD) from China (2015)

No.	Imports	Amount
1.	Electronic equipment	1.8 billion
2.	Machines, engines, pumps	836.8 million
3.	Organic chemicals	378.3 million
4.	Manmade filaments	367.8 million
5.	Iron and steel	324.8 million
6.	Iron or steel products	252.4 million
7.	Plastics	232.4 million
8.	Fertilisers	229.4 million
9.	Manmade staple fibres	170.7 million
10.	Rubber	163.4 million

Source: Pakistan Defence 2015.

Pakistan is exporting commodities or raw materials at a fraction above the mining or growing costs, whereas we are importing high-value added items. This has been the story of all third world countries and their trade relationship with advanced countries through shipping routes, train routes and other corridors. Why should raw material go all the way to China and come back to Pakistan as value-added products? The economic advantage for Pakistan lies in identifying opportunities for value addition in the local industries, set up over here and then export the value-added products elsewhere.

Problems Faced in Developing Industrial Feasibilities

The biggest problem faced is that there is no one portal that provides all the information about a product and its industry. Credibility of the data available is also another problem. Hardly any two sites have the same data figures. A lot of websites give information according to the product code of that particular country which at times is difficult to find. Most of the sub-categories e.g. denim fabric and denim garments are categorised as one.

Product details with prices as in the local market are also difficult to find in published data. Supply chain of the industry is also not prominent in the feasibilities prepared. Revenue earned through value addition is also not discussed.

Certification needed to export in a particular industry is not discussed, nor the cost and procedure mentioned. Industry associations are not active or do not have current data. Industry consultants are another weak area in Pakistan as there are none. Ideally, there should be industry consultants in industry associations.

With no websites that serve as one-stop windows to foreigners interested in investment in Pakistan, the data available also emphasises weaknesses and threats, rather than strengths and opportunities. It fails to address how to utilise the strengths to exploit the opportunities. Each source of information needs to be referenced, dated and corroborated with published sources or primary research.

Studies Required on Socio-economic Impacts

There is an urgent need to identify product categories and supply chain stages where foreign and local investment would be beneficial for socio-economic impact. There are other categories where investment may lead to negative impacts. In the long-term, blind investment in certain areas and ignoring interests of specific groups can be counterproductive. Social impact research in the following areas is urgently needed vis-a-vis CPEC:

- Labour substitution with high end machines
- Displacement of labour
- Big players taking up the space of small producers
- Big investors taking over means of production of the informal sector and displacing it
- Virtualisation of supply chain stages
- Foreign players taking over property and exploiting the ecology for short-term gains

- Exports at the expense of local food shortages
- Impact on water and other natural resources.

Recommendations

IoBM has several groups working on many feasibility studies, but in many cases what has been achieved can only be called 'pre-feasibility' work. For the extent of detail and data required for a business to make an investment decision, a major thrust in documenting the specifics of each relevant industry down to its product category level is required.

The Government also needs to establish credible sources of information that have currency, consistency and reliability, and these should be regularly updated with current information through the coordination of relevant public institutions.

There is also an urgent need to identify the socio-economic impacts of various relevant industries, pertinent to CPEC so that industries and their product categories that need to be encouraged and those that need to be discouraged may be done so through regulatory and incentive regimes.

Conclusion

The paper presents a framework that moves the CPEC debate from the general to prescriptive statistics that can help business leaders in making sound, practical and profitable investment decisions. Based on extensive interactions with potential foreign investors, it identifies gaps and proposes an outline to be followed for analysing CPEC-related investment decisions.

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Appendix -1

Topics of IPRI Conference 'CPEC: Macro and Micro Economic Dividends', 20-21 September 2016, Islamabad

1. Economic Advantages of the CPEC to the Region
2. Micro Level Advantages to Pakistan Economy
3. CPEC: Macroeconomic Dividends to Pakistan
4. CPEC: Project Details and Plan of Construction
5. Overall Economic Advantages of CPEC to China
6. Cumulative Dividends of CPEC to Pakistan
7. Impact of CPEC on Pakistan's Growth and Employment Opportunities
8. Implications of CPEC on Domestic and Foreign Investment and Fiscal Position
9. Implications for Domestic and International Trade
10. Economic Advantages to Industrial Sector, an Industrial Unit and Labour
11. Economic Dividends to Agriculture Sector, a Farm Owner and Farm Workers
12. Economic Advantages to Services Sector, an Entrepreneur and Worker
13. Economic Advantages of CPEC to India
14. Economic Dividends of CPEC to other SAARC Countries
15. Economic Advantages of CPEC to Afghanistan and Iran

Appendix -2

CPEC-Related Research Papers on ResearchGate

Following is the list of papers relevant to CPEC accessed from Research Gate on 11 September 2016. The search string used was 'CPEC' and 'China Pakistan Economic Corridor':

2016

1. Prospects of Pakistan-China Energy and Economic Corridor – Faheemullah Shaikh, Qiang Ji and Ying Fan
2. China-Pakistan Economic Corridor: Will it Sustain itself? – Ejaz Hussain
3. Analysis of Public Opinion About China-Pakistan Economic Corridor – Huang Deling, Li Diren and Huang Tiantian
4. China-Pakistan Economic Corridor and Challenges of Quality Labor Force – Habibullah Magsi
5. Where is the China-Pakistan Relationship Heading: Strategic Partnership or Conditional Engagement? – Meena Singh Roy
6. The Strange Tale of Sino-Pakistani Friendship – Daniel Markey
7. China-Pakistan Relationship: A Game-changer for the Middle East? – Mordechai Chaziza
8. Deltoid Analysis of Pakistan-ASEAN-China Free Trade Agreements and Opportunities for Pakistan – Muhammad Saqib, Qi Xin, Li Xuan and Hamza Arshad
9. Road Safety Challenges in Pakistan: An Overview – Ejaz Nazir, Faisal Nadeem and Simon Véronneau

2015

- CPEC: Regional Dynamics and China's Geopolitical Ambitions –Louis Ritzinger
- China-Pakistan Economic Corridor: A Critical National and International Law Policy Based Perspective – Asif H. Qureshi,
- The China-Pakistan Economic Corridor (CPEC): An Analysis of Potential Threats and Challenges – Mehmood Hussain

- One Belt and One Road: Dose China-Pakistan Economic Corridor benefit for Pakistan's Economy? – Muhammad Saqib Irshad, Qi Xin and Hamza Arshad
- China-Pakistan Economic Corridor: Towards a New 'Heartland'? – Omar Alam
- Fighting Fire with Water: Evaluating a CPEC-Based Human Security Approach to Fostering Stability in Balochistan – Omar Alam
- China-Pakistan Economic Corridor: Benefits and Challenges – Hina Amir and Zahra Sikandar
- Towards Greater Integration? Legal and Policy Directions of Chinese Investments in Pakistan on the Advent of the Silk Road Economic Belt – A. Ghouri
- Belt and Road Initiative of China: A New Hope in the Region – Nafees Imtiaz Islam
- 'March Westwards' and a New Look on China's Grand Strategy – M. Zhao
- A Path to the Sea: China's Pakistan Plan – Claude Rakisits
- How China could become Two Ocean Power (Thanks to Pakistan) – Claude Rakisits
- Sino-Pakistan Economic and Trade Relations: Status Quo and Challenges – Xu Wang

2014

- Research on Corridor Development Strategy of 'The Silk Road Economic Belt' Railway - Z.M. Wang ■

Sectoral Impacts of CPEC on Pakistan's Economy

Dr Ather Maqsood Ahmed*

Introduction

The ambitious project currently propagated by the name CPEC – an acronym for China-Pakistan Economic Corridor, started with the signing of the Memorandum of Understanding (MoU) between Pakistan and China in 2015, even though the spadework was carried out much earlier in 2014.[1] It aims at enhancing regional economic integration in investment, trade, and communication by establishing communication links and developing economic and trade corridors via a network of highways, railways and pipelines between northwestern region of Xinjiang, China and the port city Gwadar, Pakistan. CPEC is part of the bigger One Belt, One Road (OBOR) initiative designed to provide connectivity to China with rest of the world.

The exponents of CPEC consider it to be a 'game changer' for Pakistan and the region. It includes 36 projects to be completed in 15 years costing around USD 45 billion.[2] According to Pakistan's Ministry of Planning, Development and Reform, the development of Gwadar seaport is the main driver/gateway costing USD 800 million and includes eight projects. 24 energy related projects will have the highest cost of nearly USD 34 billion. Both thermal and renewable energy related projects are included in this category. Four

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1 One may argue that the National Trade Corridor (NTC) initiated by the Government of Pakistan earlier in 2005 with public sector financing of around USD 9 billion was the precursor of CPEC. This project had also proposed to integrate Pakistan's economic potential in the form of better connectivity and linkages through a north-south road infrastructure, and the development of Gwadar as an alternative commercial seaport to Karachi. Despite its significance, it is rather strange that the promotion of NTC was never a priority by the subsequent governments.

2 This amount has recently been raised to over USD 51 billion.

infrastructure up-gradation projects will be worth nearly 10 billion US dollars.

Many observers and academicians believe that CPEC will have direct and indirect impact on agriculture, industry, and service sectors of Pakistan's economy. The entire initiative is expected to promote growth through productivity enhancement, market access, and competition. It is also projected to generate employment opportunities for the masses, thereby, reducing poverty and regional inequality. The objective of this study is to provide an 'educated guess' on cumulative benefits to Pakistan at the aggregate level.

A Brief Overview of Belt and Road Initiative

The Belt and Road is an elaborate network of land-based Silk Road Economic Belt and sea-based 21st Maritime Silk Road (also known as OBOR) that will link China with the rest of the world (Mitrovic 2016). Six corridors and a maritime route are planned under this initiative. The land-based corridors are *New Eurasian Land Bridge* linking China with Kazakhstan, Poland and Russia; *the China-Mongolia-Russia Corridor* linking China with Mongolia and Russia; *the China-Central and West Asia Corridor* linking China with Turkmenistan, Uzbekistan, Kazakhstan, Iran, and Turkey; *the China-Indochina Peninsula Corridor* linking China with Cambodia, Laos, Myanmar, Thailand, and Vietnam; *the Bangladesh-China-India-Myanmar Corridor* linking China with Bangladesh, India, and Myanmar; and the *China-Pakistan Economic Corridor* linking China with Pakistan. The sea-based route will ensure China's connectivity with Association of Southeast Asian Nations (ASEAN), South Asian, African, and European countries. The graphical connectivity of OBOR is as follows:

Figure-1
One Belt, One Road

Source: Hayes 2017.

A Brief Overview of CPEC[3]

As indicated above, within OBOR, CPEC provides direct connectivity of China with Pakistan. The initiative within itself is quite elaborate and has seven pillars of development:

1. Spatial Planning
2. Communications
3. Industrial Parks
4. Agriculture
5. Coastal Tourism
6. Water Resources, and
7. Finance.

[3] The discussion relies on NDRC/CDB(2015). See also Khan (2016) and Sial (2015).

Time Frame and Sequencing

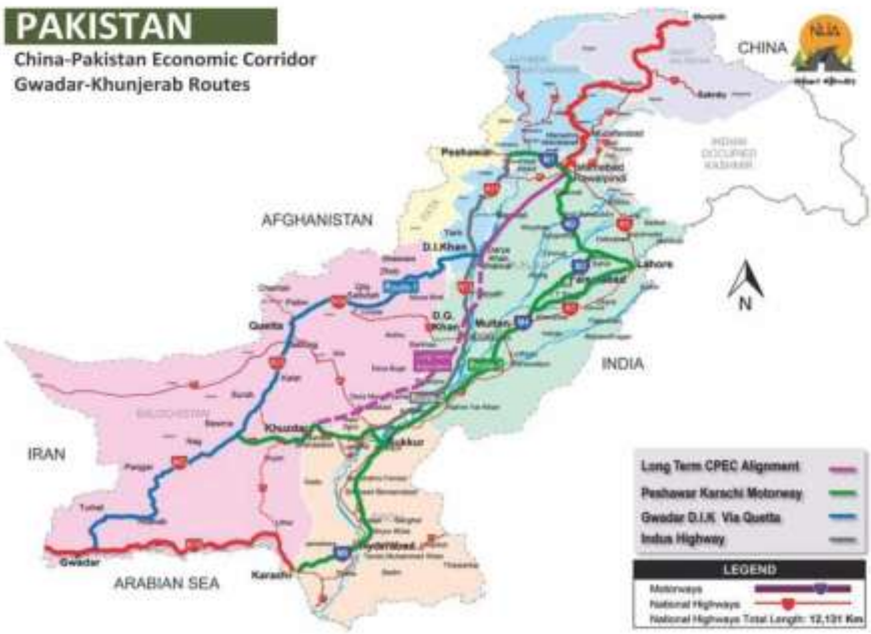
Achievement of these development goals will be through a phased strategy stretched over 15 years, starting from 2015 and going up to 2030. The time span during 2015-20 is labeled as the short-term plan that also includes the Early Harvest Period. During this period, the Corridor construction will begin to take shape and major bottlenecks restraining Pakistan's economic growth and social development will be removed.The plan also envisages that the signs of regional economic development will begin to emerge along the Belt, both in China and Pakistan. The medium-term plan stretches from 2020 to 2025 when the Corridor will be established with a more complete industrial and functional economic system. It is hoped that the living standards of the population will have improved significantly, and uneven regional development issues addressed. During the final phase, termed as the long-term plan (2025-30), the Corridor will be fully functional, self-generating growth momentum would have taken shape, and it should start playing a radiating and leading role in Central and South Asia. Given the above, under ideal conditions, CPEC should become an international economic zone of global influence by 2030.

The spatial layout of CPEC consists of one Belt, three Passages, two Axes and five functional Zones. One Belt refers to the belt that consists of the zone area of CPEC and the economic cluster area of industries, population and cities. It runs from Kashgar to Karachi and Gwadar on the Arabian Sea. The three Passages refer to the eastern, central and western routes. The eastern Route consists of railway-highway network from Islamabad to Karachi via Lahore, Faisalabad, Multan, Sukkur and Hyderabad – the main traffic artery of the Corridor. The Central Route starts from Islamabad to Karachi via Darya Khan, Jacobabad and Khuzdur through N25 or to Gwadar through M8. The Western Route starts from Islamabad to Gwadar via D.I.Khan, Quetta, Basima and Hoshab.[4] The two Axes refers to two

[4] Even though all three routes have distinct advantages but as Bengali (2015) has pointed out the cost of land acquisition and cost of displacement will be highest for the Eastern Route.

east-west development axes in the corridor: 'Lahore–Islamabad–Peshawar' and 'Karachi-Gwadar' development axes.

Figure-2
CPEC (Gwadar-Khunjerab Routes)



Source: Current Affairs of Pakistan 2016.

Finally, the five Functional Zones refer to the division of the Corridor into zones according to the regional development level, industrial structure, resource and environmental bearing capacity, and growth potential. These are:

1. Southern Xinjiang Zone of Industry, logistics and economic development (Kashgar – Atushi – Tumshuq – Khunjerab)
2. Northern Pakistan Zone of border logistic channel, resource exploration and ecological conservation (Islamabad – Khunjerab)
3. Central Pakistan Zone of industrial and economic development (Karachi – Sukkur – Multan – Lahore – Islamabad – Peshawar)

4. Western Pakistan Zone of logistic channel, mineral exploration and ecological conservation (Gwadar – Quetta – D.I. Khan)
5. Southern Pakistan zone of energy, logistics, trade and business development (Gwadar – Karachi).

These five functional zones cover major node cities, traffic passages and industrial cluster areas.

Economy of Pakistan: An Overview

For better understanding of the economic benefits of CPEC, it may be relevant to present a brief overview of the economy of Pakistan. According to various Government of Pakistan (GOP) documents,[5] the downward trend in growth has been arrested. For 2016-17, projected real growth has been set at 5.5 per cent which will be higher from its current rate of 4.5 per cent and last year's growth rate of 3.5 per cent. The growth is expected to be broad-based as the agriculture sector is projected to grow by 3.9 per cent from its current rate of 2.9 per cent; industrial sector at 6.8 per cent from 3.6 per cent; and the services sector at 5.7 per cent from its current growth rate of 5 per cent. The drivers of growth in 2015-16 were livestock, construction, and general government services besides transport, storage and communication and banking and insurance sub-sectors. The expected drivers for 2016-17 are agriculture, large-scale manufacturing, and transport, storage and communication and banking and insurance sub-sectors.

The GoP documents also highlight that major economic indicators are improving. Among them inflation is at its lowest level, Current Account Deficit (CAD) has narrowed, Fiscal Deficit (FD) is declining gradually, the tax revenue target has been met after 8 years, foreign exchange reserves have reached the highest level in many years, debt burden has reduced as the ratio of public debt to GDP has declined from 63.8 to 63.5 per cent. The maturity profile of domestic

[5] These documents include the Pakistan Economic Survey (2014-15), Quarterly Report of State Bank of Pakistan (2015-16), Fiscal Policy Statement (2015-16), and the Debt Policy Statement (2015-16) issued by the Debt Policy Coordination Office, Ministry of Finance.

debt has also improved because refinancing and interest rate risks have reduced; and finally external debt sustainability is improving due to increase in debt carrying capacity.

While eulogising the economic gains, these documents do not forget to mention that there are some spoilers that continue to haunt economic managers. These are: low tax effort as reflected by low growth in tax collection and nearly stagnant Tax/GDP ratio, the continuous bleeding of the Public Sector Enterprises (PSEs), the below par performance of the textile sector, the under-performance of the export sector where the decline is being registered both in price and quantity terms, no respite from power theft and huge distribution and transmission losses, and the deep-rooted concerns about security and terrorism despite some improvement in the situation.

Impact of CPEC on Various Sectors

Based on various estimates, CPEC will have wide ranging positive impact on economic growth. How Pakistan benefits from CPEC will depend on how it continues with economic policies and reforms to remove structural weaknesses and tackles the problems of corruption and bad governance. In an effort to evaluate the macro-level dividends, we have adopted the sectoral analysis approach in the present study. To recap, the three major components (sectors) of GDP are: Agriculture, Industry and Services. The expected impact of CPEC on each of these three sectors is analysed as follows:

Agriculture Sector

According to the Pakistan Economic Survey (2014-15), share of the agriculture sector in GDP is around 21 per cent, it accommodates roughly 44 per cent of the labour force, and its share in exports is 65 per cent. The four sub-sectors of agriculture are: crops, livestock (animal husbandry), fishing and forestry. The share of livestock in agriculture is nearly 56 per cent, which is about 12 per cent of GDP. It is followed by the crop sector which is 40 per cent in agriculture. Cotton, wheat, rice, and sugarcane are the four major crops in the country. The remaining share in agriculture (roughly 4 per cent) goes to forestry and fishing sub-sectors. Even though the agriculture sector faces many problems, the key concerns are low yield (low output per acre), below potential output of livestock (meat and milk), and absence of a cold chain storage system for fishery and fruit and vegetables. As a result huge value addition either remains untapped, or it is wasted.

CPEC Impacts

The CPEC plan of activities highlights that agricultural development of China and Pakistan will take place on the principle of comparative advantage and mutual benefit. The economic and technical cooperation between the two countries will aim at:

- Improving Labour Productivity
- Resource Utilisation and Land Productivity
- Agricultural Industrialisation
- Extension of Industrial Chain
- Improving Competitiveness of Agricultural Products
- Increasing Local Employment Opportunities
- Improving Farmers' Income and Reducing Poverty.

The plan has highlighted ten areas of interventions: engineering research, production, processing, storage and transport, infrastructure construction, disease prevention and control, water resource utilisation, land reclamation, agricultural information, and agriculture product-market development. To ensure that objectives are met, seventeen projects are proposed with details on development idea, function and positioning, project layout, and development content. These are:

1. Biotechnology-based Seed Breeding Demonstration Project
2. Grain, Fruit and Vegetable Processing Project
3. Storage and Distribution Equipment Construction Project
4. Water-saving Modern Agriculture Demonstration Area
5. Livestock Breeding Project
6. Livestock and Poultry Breeding-base Cleaning Project

7. Livestock and Poultry Product Processing Centre Project
8. Fishery Production Demonstration Project
9. Aquatic Product Processing Centre Project
10. Fishing Port Infrastructure Upgrading Project
11. Agriculture Mechanisation Demonstration & Machinery Leasing Project
12. Fertiliser Production Project
13. Disease Prevention and Control System Project
14. Water Resource Utilisation Project
15. Land Reclamation Project
16. Agricultural Information Project
17. Agriculture Market Development Project

The NDRC/CDB 2015 document provides the time sequence of construction and hints about G to G (Government to Government) and B to B (Business to Business) collaboration requirement. The impact analysis crucially depends on how quickly counterpart experts in specific areas are assigned, public-private partnerships developed, and alignment of federal and provincial governments takes place. The demonstration projects alone, unless replicated, are not expected to raise agricultural growth in any substantial way.

Industrial Sector

The share of industrial sector in GDP is around 20 per cent. The four sub-sectors within the industrial sector are mining and quarrying, manufacturing, electricity/gas generation and distribution, and construction. The manufacturing sub-sector has the largest share of 65.5 per cent in the industrial sector. Its share in GDP is 13.3 per cent and it employs 14.2 per cent of the labour force. The contributions of mining and quarrying and construction sub-sectors in the industrial sector are 14.4 per cent and 12 per cent, respectively and in GDP their shares are 2.9 per cent and 2.4 per cent, respectively. Even though Pakistan has a large and diversified industrial base, yet the share of basic and high-tech industries that represent modern industrial strength is quite small.

CPEC Impacts

The CPEC plan document has identified establishment of Industrial Parks in and around node cities. Even though many industries are expected to gain from this undertaking, the gains in the following industries are expected to be substantial:

Textile Industry: The garment and textile industry will be developed in Kashgar Economic Development Zone through importing raw materials from Pakistan. On the other hand, textile and garment centres or EPZs (Economic Processing Zones) will be built in Lahore and Karachi. To enrich cotton textile varieties, investment is expected to focus on producing top grade cotton yarn, printing and dyeing fabrics, jean fabric and knitted fabric.

Household Appliances Industry: As a result of improvement in living conditions of Pakistani people, the demand for refrigerators, freezers, washers, air-conditioners, TV sets, and microwave ovens etcetera will improve gradually. A Chinese household appliance industrial park is already operating in Pakistan and anther one is proposed to be established within the short-term plan through joint ventures. The objective is to move away from assembling imported parts to producing them locally.

Cement and Building Material: According to an estimate, approximately 4 per cent of total project cost of CPEC is expected to be spent on cement. This translates into PKR 190 billion, which is 19 m tonnes for the life of CPEC (Hashemy 2016). Similar gains may accrue to marble and granite industries.

Automobile Sector: Assuming current road density of registered motor vehicles, CPEC road projects may result in additional demand for 800 thousand automobiles over the next 15 years.

Petroleum and Petrochemical Sectors: Large quantities of bitumen/asphalt will be required in CPEC road construction/ restoration projects. The refinery sector will benefit as the current local production of bitumen/ asphalt is around 180 thousand tonnes. The demand for petroleum products is also expected to increase substantially.

Steel Industry: The usage of steel in civil works, rail tracks, pipelines (LNG) is expected to be high during the construction phase of the projects. Cable and electrical goods and optical fibres will also be required during the construction phase. Refineries and oil and gas marketing firms supplying fuel stand to gain. A continuous need for vendor and repair outlets will encourage local participation and some segment of the population may gain from new economic activity.

Mineral Exploitation: Two projects (Saindak Copper-Gold Mine Project, and Dudder Zinc-Lead Mine Project) already have Chinese involvement, others may follow as the Corridor gets materialised.

Notwithstanding the foregoing discussion and the probability that industrial development in Pakistan will greatly benefit from EHPs in energy and transportation and there are further gains to be made through the establishment of Industrial Parks, the entire process of industrial engagement lacks clarity. Despite the need for medium to high-tech industries, there is no strategy or plan to fill this vacuum in the country. Engagement is in areas where Pakistan either has comparative advantage, like textile and household appliances, or it is re-parking sunset industries from China. This may nullify the mutual gain concept so aptly mentioned in agricultural sector development.

Services Sector

Share of the services sector in GDP is around 59 per cent. Its six sub-sectors include wholesale and retail trade (WS&RT), transport, storage and communication (TS&C), finance and insurance (F&I), housing services, general government services (GGS), and other private services. The WS&RT sub-sector has the largest share (31 per cent) in the services sector, followed by TS&C (23 per cent), other private services (17 per cent), and GGS (13 per cent) etc. Despite the significance of this sector in the modern day world and its enormous potential in Pakistan, we have yet to exploit its full potential and accrue benefits from it. In fact, some of the recent tax policy initiatives have adversely impacted the growth momentum of these sub-sectors (GoP 2015).

CPEC Impacts

Banking and Insurance: Financial cooperation among banks and other financial institutions is critical under CPEC as USD 51 billion are expected to be financed mainly from Chinese banks. Deposit base of local banks is USD 90 billion. Loans outstanding are USD 46 billion. Loans by local banks to CPEC are likely to be USD 8-9 billion. CPEC spread over 15 years can result in direct additional 2-3 per cent per year loan growth of the banking system. Indirect impact can be over and above this due to increased economic activity. All major Pakistani banks are likely to benefit from CPEC but those which have already established links with Chinese banks would gain more. Approximately USD 30 billion worth of projects will be insured locally and internationally. All local insurance companies are likely to benefit as additional insurance premium of PKR 2 billion annually, which is 4 per cent of total gross premium of insurance industry is expected (Hashemy 2016).

Communication: CPEC has huge investment plans for development of infrastructure including a network of highways, railways, airports and sea ports. Fibre-optic connectivity is also part of the programme. This sector stands to gain the most.

Domestic Trade and Commerce: Though the project design is not forthcoming on trade and commercial activities, it is perceived that domestic commerce will gain from the network of roads and railways.

Ownership of Dwellings (Housing): Construction of housing units along the economic corridor has vital importance.

Coastal Tourism: This area has enormous potential under CPEC. Coastal tour line is Keti Bundar-Karachi-Somiani-Ormara-Gwadar-Jiwani. Similarly, building landmark hotels, golf courses, high-end nursing homes, race courses and a hot air balloon facility along coastal city tourism zone hold tremendous potential.

Overall Impact on Pakistan's Economy

It is evident that CPEC is expected to contribute significantly to each of the components of the GDP. According to GoP estimates, CPEC is expected to enhance economic growth at least by 2.0 percentage points by 2020 and an additional 1.5 percentage points by 2030. Higher economic growth will create additional jobs in the range of 1.5-2.0 million per annum; will increase per capita income and tax revenues.

Even though Chinese estimates in the NDRC/ CDB report on GDP growth and employment are on the lower side, yet they also point to substantial gains to be made from this initiative. Besides growth and employment, the impact of CPEC on infrastructure development will be more pronounced. The length of newly built or upgraded roads and railways would reach 3,871 km and 1,530 km, respectively by the end of the project in 2030. Power generation by newly built sources will reach 19.785 million kW. The length of optical-fibre cable will reach 2,084 km. Gwadar port and airport will go through extensive up-grading. However, technology transfer and human resource development will be weaker links in the whole scenario, as these aspects are mentioned but not well elaborated in planning and strategy documents.

Finally, despite up to 25 per cent improvement in trade transactions with China, the risk on the balance of payments side will be high. High import growth initially and stagnation of exports along with less than bright prospects for remittances means Pakistan's current account deficit will widen initially. FDI prospects are better but only from one source, i.e., China. Diversification is a more attractive option, but prospects are not bright at the moment. Debt situation is likely to worsen, albeit only slightly.

Concluding Observations

There is no doubt that global economic dynamics have far reaching implications for socio-economic prospects of an open economy like Pakistan. Such dynamics highlight the need to re-strategise policies. CPEC is one such initiative that will force Pakistan to adjust its policies in various dimensions to extract maximum gains. However, economic dynamics cannot be clearly understood and explained without the availability of first-hand knowledge and information. Unfortunately, CPEC is a well-guarded secret and with little information that is available, it is not possible to separate myth from reality. Using the sectoral approach, this brief study has offered the best impact evaluation that could have been done.

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CPEC's Role in the Services Sector: Prospects for Pakistani Entrepreneurs and Workers

Dr Saima Shafique*

CPEC - A Brief

Economic corridors have emerged across the world like the Union of European countries and North America Free Trade Agreement (NAFTA), but South Asia is considered one of the least integrated regions. To enhance regional growth, development and compatibility in world markets, China has announced its 'One Belt, One Road' (OBOR) policy through landlocked countries of south and central regions of Asia which it has termed as the New Silk Road. At the same time, China is taking initiative to create linkages between Asia and the rest of the world through waters and created the 21st Century Maritime Silk Road to achieve the overall objective of developing Silk Road Economic Belt (SREB).

According to the Board of Investment of Pakistan, China is almost completely financing CPEC and has entrusted USD 45.6 billion to finance energy and highway projects over the next six years. Commercial loans worth USD 10 billion will be provided, while the remaining is export credit and non-reimbursable assistance by the China Development Bank, the Export-Import Bank of China, the Industrial and Commercial Bank of China Ltd (ICBC) and other financial institutions. A roadmap of industrial parks and economic zones under CPEC has been announced starting with Karakoram Highway with six lanes along the ancient Silk Road from Xinjiang to Gwadar through Gilgit-Baltistan, Khyber Pakhtunkhwa, Punjab and Balochistan.

At the same time, a public transport system, including metro train and bus services in six main cities has either started or is about to start in near future. A free trade zone similar to that in Hong Kong, Dubai and others in Asia is being developed in Gwadar. Governments of China and

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Pakistan have agreed to undertake and complete projects of high priority perceived to boost local economic development and growth.

These Early Harvest Projects (EHPs) include two power generation projects generating 10400MW and 6645MW, respectively; construction of expressway and airport to facilitate linkage of Western Chinese border with Gwadar worth USD 6 billion, and; development of Gwadar to attract investors to establish production facilities. The five agreed upon basic principles for prioritisation of EHPs are to enhance bilateral connectivity; delivering socio-economic impact on an urgent basis to boost future growth; put sincere efforts to complete all these projects in time; try to achieve good economic returns on the money being invested, and; ensure a quick completion time.

Economic Impact of Highway and Energy Investments

Whenever an investment is made in main highways and energy infrastructures, there is particular emphasis on determining the economic effects of these projects on non-metropolitan cities, spatially isolated rural areas, and also on urban fringes. Theoretically, the conceptual link between highway and energy investments with regional economic growth is a multifaceted one as these have both spatial and economic outcomes (Bateman and Zeithaml 1993). At the same time, there is a network of association that results in shifting areas of economic activity through developing new communication channels. These investments are also an input that generates opportunity to produce private and public sector goods and services. For the purpose of empirical assessment, the impact of such investments is measured in terms of planned and evolutionary industrial linkages and communication structures relatable to relevant industries, household location decisions, costs of commuting to and from these newly developed economic centres, and the location decisions of firms (Andersson, Anderstig and Harsman 1990).

Researchers trying to assess the temporal impacts of such investments generally divide them over construction and post-construction analyses. But it is generally understood that it is relatively more difficult to accurately assess the duration and timing of post-construction economic effects as many studies have spread their evaluation periods even up to two decades. Some of the effects are immediate and provide the basis for determining the direction of economic activity, its intensity and distribution, over extended future periods. In some empirical studies, a lag from four to seven years has been significantly identified for such investments to influence the economic change for the United States (Isserman, Rephann and Sorenson 1989).

In order to understand development patterns due to such investments, regions may be classified as competitive, urban spillover and uncompetitive regions. In competitive regions, those cities are located where new highway linkages and communication channels bring about or enhance a competitive advantage that is especially seen in the development of tertiary industries. Urban spillover regions located near large metropolitan regions with an established industrial base experience residential and employment decentralisation due to improved communication linkages. The isolated rural regions gaining insignificant economic advantages from highway investments are uncompetitive regions. As impact of highway investments are multifaceted, they are assessed generally over three dimensions: effects occurring over time (Temporal Effects); effects by industry (Industrial Effects), and; effects by region (Spatial Effects).

Temporal effects due to construction and energy development expenditures stimulate the region during the highway construction phase. Employment of local labour and use of local building supplies in construction process provide impetus of growth to the regional economy. But the continuity of this positive impact largely depends on inter-industry linkages, innovations occurring at local level, regional linkages, amount and duration of investments, and extent of social displacement effects. During the times of recession, there is no empirical evidence that regions along main highways perform better than regions off the main highways. But the main reason to explain temporal variation is because of weak government policies especially during recessions when public investment availability is low to pursue the policy goals for infrastructural projects. Other factors like variations in availability of natural resources like seasonal water availability in arid areas increase inter-regional mobility to nearby urban areas that do not face the same problem. Same is true for labour mobility between winters and summers (Stephanedes and Eagle 1986).

Industrial effects are due to distribution of industries over different locations in a region that is different in construction and post-construction phases of these investments. An exogenous rise in capital inflow till the completion of a project results in introduction of new technology and ways of doing activities previously not known to the local community. Therefore, primarily it results in boosting construction and allied industries but government, farming, and agricultural services are not affected in this phase. The highway projects have a mining effect due to the use of construction material like stone, gravel, sand, and asphalt. Once the construction phase is complete or nearing its completion, services of the tertiary sector like trade, finance, insurance, real estate, transportation and public utilities start to develop (Broder, Taylor and McNamara 1992). The impact of highway projects on degree of openness of a regional industrial structure is different due to the response towards knowledge spillovers.

The construction phase of highways is followed by the activities confined to maintenance services like surface repair, and policing, but the impact of energy investments lasts relatively over longer periods of time. The main economic effects are seen in the location decision of firms and households in the form of migrations of labour and investors. The analysis of this impact is mostly centred on manufacturing, retail trade, and services. Generally, it takes three to four years for retail trade and manufacturing to grow to maturity. Immediately after the completion of projects, the primary industries i.e. farming and mining are generally unaffected due to requirement of long-run sustained innovation and new market development. Increased traffic through a region can create demand for travel and tourism services.

Spatial effects are seen in terms of creating a region-wide central place of economic activity. Highways and Energy projects spatially effect development at local and regional levels. Heavily travelled interchanges, in addition to development of traffic related services may also become centres of economic activity. This depends largely on several geographical and economic factors like topography, distance from cities, distances from adjacent interchanges, age of interchange, volume of traffic, and existing development near the highway. The distance from the highway along with provision of energy for industrial development becomes a source of competitive advantage for urban development and growth. Similarly, the rural communities along the highway gain better market access than spatially distant areas. The effects of highways become weak on rural or urban areas that are located off a 25 mile radius.

Services Defined

Due to healthy growth rate of services, even economies like the United States are transforming from manufacturing to technologically advanced services economy. According to the American Marketing Association, services are 'activities, benefits, or satisfactions which are offered for sale, or are provided in connection with the sale of goods'. Services are a highly competitive sector generally due to their intangibility, heterogeneity, 'perishable' nature, and simultaneity. Michael Porter (1985) conceptualises five sources of competition in commercial activities i.e. rivalry among existing intra-industry firms; new entrants; substitutes; suppliers; and buyers. There is a need to particularly assess the factors that have contributed over the past few decades to limit the growth of labour-intensive businesses, especially manufacturing activity. Service enterprises require lesser investment as compared to manufacturing, wholesale, or retail businesses that need investment in inventory, warehousing, and operations and production management. Similarly, the threat of competition from multinational corporations is very minimal for service enterprises. Low to modest investments are needed to start services providing bookkeeping, building painting, childcare, housekeeping, and lawn care. Similarly, modest to heavy upfront investment is needed for services of attorneys, doctors, and other professionals. It needs extensive investment for facilities and equipment needed for hotels, car rentals, nursing and medical care facilities. Nevertheless, specific skills and knowledge is essential to launch a service-based business to meet requirements of at least one of the two markets: individual consumers or other businesses/organisations.

Developed countries have seen enormous rise in service industries, especially in the past 50 years or so. The increased affluence due to higher growth of firms and management jobs led to higher standard of living and a rise in leisure time causing higher demand for services like travel agencies and resorts, specialised professional trainings, health and sports clubs, etc. This has also changed the workforce demographics and with increasing numbers of women in workforce raised the demand of childcare, housekeeping, dry cleaning, etc. Improved environmental conditions and healthcare facilities has resulted in greater life expectancy in developed countries giving rise to increased demand for numerous services like medical services in the healthcare industries. With innovative products entering the markets every day, the associated complexity and technological advancements have created demand for maintenance of products like computers, cars, electronic equipment, etc. Life is becoming complex and many services toward helping individuals and businesses like tax consultants, psychiatrists and counselors, and legal advisors have evolved as a necessary component of society. Increased awareness about the environment, ecological sensitivity and natural resource management has created demand for waste management, recycling, environmental advocacy etc. Over past few decades, the consumer product industry has grown enormously with development of new products and their authenticity services like computer programming, product lab testing etc.

The key to success of services industry is solely dependent on the skills of the services' supplier. These skills are distinguished at two levels: first, technical product/service knowledge level; second, customer relationship level where the customer is treated as a unique, important entity to be served (Lidsky 2001).

Entrepreneurship

An entrepreneur is generally a person who is a 'risk-taker, capitalist, innovator, decision-maker, industrial leader, manager, coordinator of resources, owner, contractor, and arbitrageur'. The role can be summed up in seven 'I's of entrepreneurship i.e. inspire, ideate, individual, incubate, innovate, invest, and internationalise to discuss and deliberate on innovation and entrepreneurship. A private sector entrepreneur willingly takes risk in the face of uncertainty, and faces uncertainty in the face of risk. The motivation of the private sector entrepreneur is the desire to create and achieve out of its innovativeness and also earn profits. Entrepreneurship is primarily concerned with ability to innovate. Innovative process converts acquired knowledge into useful economic wisdom and intelligence having commercial value.

Business models differ in terms of the expected outcomes between manufacturing and services, and among different industries. But the basic elements for consideration in the service industries for creating a business model are: categorising customers for specific service outcomes, approaches in which customers use the service, market competition assessment and client satisfaction, marketing campaign, operations and resources management, financial controls and investments.

Information Technology has a strong bearing on design of business models especially for service industries. The transformation of firms from 'bricks-and-mortar' to 'clicks-and-bricks' has changed the physical existence of a firm. Service providers use subscriptions that generate recurring revenues generally for phone companies, newspapers, internet and cable providers, and health clubs etc. Similarly, the 'bait and hook' strategy hooks customers to purchase supplemental products (i.e. software, airtime, internet MBs, razor and blades, etc.). Managers also use multi-level or network marketing models that involve middlemen who access customers. But at the same time, direct sales eliminate the middleman and increase the sale-to-delivery speed. Auctions also provide an opportunity to trace the highest possible price per unit, but it is generally not a very swift mode to expand the consumer base.

A construction project is generally divided into five phases and each has within it opportunity for the service firms to provide their expertise. First, during the feasibility phase, service firms provide input in the form of development of new feasible ideas. Then conduct the feasibility studies to assess needs for infrastructure, cost estimation, procurement scheduling, and environmental and social impact assessment. Second, during the design phase, these firms are employed to establish design basis and study of geographical conditions, conduct geotechnical assessments, durability studies of construction design, and conduct operational risk assessment. The third is the tender phase in which services are acquired to develop and manage tender design and procedures, conduct value engineering, and also perform necessary tasks to chalk out details of a construction contract. It is followed by the construction phase that require services to manage construction quality, environmental quality, contract and claims, safety and risk assessment, interface coordination, capital budgeting and financial control, and site supervision. Once the project is completed, final phase of the project starts i.e. operations and maintenance (O & M). This phase requires an efficient O & M management system that includes achievement of tasks like inspection of constructed structures, assessing maintenance and reinvestment needs, and repairs. In this phase, efforts are made to strengthen the institutional base by imparting training to the staff to ensure project sustainability and quality management.

Public Sector Entrepreneurship

Essential characteristics of public sector entrepreneurs are the same as the private sector entrepreneur as they are also innovators willing to take the risk associated with uncertainty. But the main difference between them is their institutional environment that has an impact on the motivation and desire to create and achieve. Public sector entrepreneurs have to thrive within a legal constitutional environment laden with political constraints. The regulatory and procedural environment also puts restrictions on access to resources and ability to act freely to achieve goals (Wong and Bird 2008).

Public service entrepreneurship has internal and external manifestations. The internal or direct public sector entrepreneurship is concerned with increasing public revenues, innovate to deliver public services with minimum opportunity cost, and enhance output of public services through novelty and innovation. On the other hand, external or indirect public sector entrepreneurship is to provide consultancy to promote private sector action for provision of services envisioned by the policy-makers.

Proposed Service Sector Activities Linked with Early Harvest Projects (EHPs)

Early Harvest Projects of CPEC are related with enhancing communication networks and energy provision to support regional growth activities. Once completed, it will create an environment for urban as well as fringe development through private and public sector interventions.

The services related to highway construction projects can be services related to field surveys and investigations for project preparation and planning roads (highways and motorways, urban roads, and feeder roads), traffic terminals, road facilities, pavements, electrical installations, and environmental, occupational, health and safety facilities.

Similarly, for power generation projects, services can comprise of those related to survey of connection lines to grid, assessment of actual consumption by the community and type (i.e. domestic, industry, etc.), assessment of internal losses, assessment of operations and quality management for distribution, and risk assessment for distribution, consumption and appropriate use.

It is important to understand the creation of Special Economic Zones (SEZs) and plan ahead to reap their benefits to the fullest. Generally, there are at least four theoretical underpinnings regarding the regulatory environment that hinders the development and growth of service-improving innovations and entrepreneurial actions. First, the increase in cost faced by entrepreneurs due to regulations; creating regulations that favour the old firms in comparison with the new entrants in an industry, and; by creating complex regulatory procedures (i.e. 'compliance learning curves') that are difficult for new entrants to comply with.

In the context of creating an environment for enterprise development, the Government of Pakistan (GoP) has announced certain measures for SEZs that will ensure equal opportunity for the new entrants in terms of market access. The GoP has announced tax concessions and other concessions like rebates on technology imports. But still there is a need to create an environment that will not only encourage innovations but also manage such startups to minimise the incidence of non-success. The Government has proposed 12 cities for SEZs in Balochistan and Khyber Pakhtunkhwa that are: Turbat, Khuzdar, Dasht, Bostan, Qila Saif Ullah, Mansehra, Nowshera, Hattar, Ghazi, Dera Ismael Khan, Kohat / Karak, and Bannu.

Recommendations

The study proposes the following general policy recommendations:

- Create opportunities for regional growth by empowering public sector entrepreneurial spirit and encourage them to expand their knowledge networks to the private sector.
- Create possibilities by allocating resources for promoting a culture of innovation and creativity in entrepreneurial incubators with the help of Higher Education Commission (HEC) and universities.
- Create the ability by providing the authority to act on part of the public as well as private sector entrepreneurs.
- Educate the public regarding benefits linked with innovations and newness, and enable information dissemination to create a conducive environment to accept risks in the face of uncertainty.
- Enact a mechanism to 'Listen to the Entrepreneur'.
- Map the Entrepreneurial Ecosystem as per the needs of the region (community, resources, labour skills, communication etc.).
- Prepare for 'crises' and create a social insurance environment for businesses and workers.
- Prepare a skill-based workforce to cater for future needs of businesses and entrepreneurship.
- Support fast growing firms and their needs to access resources and clients.
- Enact a framework for Urban-Fringe Development by ensuring provision of services like water, sewerage, housing,

roads & transit, city education, health, parks, protection of wildlife and habitats, firefighting and other services.

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CPEC Dividends for China and South Asia

- **What Does China Get Out of the Corridor?**
- **To Join or Not to Join: The Corridor Conundrum for India**
- **Pak-China Ties with Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka: Doubling Trade Dividends**
- **Afghanistan and Iran: On Board CPEC's Lucrative Train**

What Does China Get Out of the Corridor?
An Essay

Khalid Rahman*

Introduction

To begin with, let us recognise that the China-Pakistan Economic Corridor (CPEC) is a prominent issue now among policy circles in most parts of the world. The reason is simple: the impact of this multidimensional and long-term initiative would not remain confined to the two countries (Pakistan and China) directly involved, rather the plan has the potential to affect the regional economic environment, as well as mark its print on the overall future global dynamics of trade and economic relations among various countries.

A cursory look at the ongoing discourse in China and Pakistan, regarding CPEC suggests an almost across-the-board consensus about its significance and importance as well as a determination to implement it in letter and spirit. One of the oft repeated themes being presented in this discourse, particularly in Pakistan, is the perception that the future of 200 million Pakistanis is now totally dependent on CPEC. This is understandable in view of the critical situation Pakistan is going through these days and the high status China has now achieved in terms of economic development and political influence in regional and global affairs.

Nevertheless, an overemphasis on this theme has not only pushed many other important factors related to national development, including other important dimensions of Sino-Pak relations in the background, but has also made the discourse a one-sided affair. In this situation, the context of shared destiny and win-win approach, which serves as the driving spirit in any such project, is getting blurred as perceptions are being targeted by adversaries who

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are promoting various negative themes to create mistrust within and between the two countries.[7]

A focus on the topic 'Economic Advantages of CPEC to China', while extremely important and timely, when seen in this backdrop, gains additional significance. It would help in clarifying perspectives which would in turn create a better environment for making policy decisions and implementation.

A simple, yet extremely important point in this regard relates to the conceptual logic – harmony, shared destiny and win-win approach – which the Chinese leadership presents as the basis of CPEC and other such initiatives (MoFA-PRC 2015). While these fundamental principles reflect a kind of assurance to the other party that its interests would be protected, it clearly recognises that China would also like its interests to be fully protected in any joint venture and plan. It would, therefore, be naïve to think that a project like CPEC would be conceived and implemented at a loss to Chinese interests in which economic and trade development enjoys primary position. Similarly, it would also be inadequate to study the advantages of CPEC to China as an isolated event, which, of course, it is not.

In this overall context, CPEC benefits to China need to be studied with three different yet entwined lenses, i.e., as a bilateral project; as part of the One Belt, One Road (OBOR) initiative; and in the larger context of China's role in a changing world. While a discussion from all three angles will follow here, it needs to be stressed that, in spite of ever increasing significance of, and emphasis on economic development in contemporary global affairs, nothing happens in isolation in human life. This is particularly true in today's 'global village'; political and strategic affairs as well as other elements of power go hand-in-hand with economic power. The discussion here, however, is confined to the economic advantages.

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[7] 'Another East India Company is in the offing; national interests are not being protected. We are proud of the friendship between Pakistan and China, but the interests of the state should come first,' Senator Tahir Mashhadi, Chairman Senate Standing Committee on Planning and Development, when some committee members raised the concern that the Government was not protecting the rights and interests of the people (Raza 2016). See also, Shams 2015; and Khan 2015.

Advantages to China: Bilateral Context of CPEC

Investment Opportunities

CPEC, if perceived merely as a project of connectivity between Pakistan and China, would have remained restricted to developing some infrastructure projects and facilities on the borders of the two countries. Yet, as is well known, it has in its fold a network of projects and activities including, but not limited to, the construction of roads, communication infrastructure, economic zones as well as the port of Gwadar and its related facilities. Energy projects have also been made part of the CPEC initiative.

All such projects require investment and offer an opportunity to earn profits to those who would be investing in them. This has brought a chain of economic advantages to China in a number of ways:

- In most cases, the investment for all these projects is being arranged under the sovereign guarantee of the Government of Pakistan by Chinese companies through Chinese banks (ECS-PRC in Karachi 2016). This is purely an economic arrangement where the investing banks as well as companies will make substantial profits.
- The engagement of Chinese companies in Pakistan is a source of employment for them, having expertise in related fields. The increasing number of Chinese employed in Pakistan has also led to a rising number of travellers between the two countries (Nation 2016). Consequently, the business potential for Chinese Airlines is increasing.[8] As the process moves on, not only will the number of Chinese in Pakistan increase, their diverse needs will open new areas and ways for more of them to engage in the country.

Development of Regional Economic Hub

Chinese development plans for its Western region include among others, a long-term vision of making Kashgar a hub of economic activity for the

[8] The number of tourism visa applications to Pakistan submitted by Chinese in the first half of 2016 jumped 37 folds (Nation 2016).

region (Khan 2013). CPEC would not only serve as a key component to make Kashgar a hub for larger areas, but would increase its economic significance manifold. In view of the potential opportunities, offered by CPEC, flow of Chinese companies opening their setups in this border city of China is naturally on the rise (KPMG 2015).

Gwadar Port

At present, 60 per cent of China's oil is transported by sea from the Persian Gulf to China's eastern and south-eastern coasts, covering more than 16,000 km and this journey takes two to three months, while ships are at risk – not only in the Indian Ocean and Strait of Malacca, but increasingly so due to the tensions in South China Sea (Hirst 2014). Through CPEC, it will take 4-5 days by land route and even less if the planned rail-link and pipeline is realised, with a much lesser risk level (Fatima and Jamshed 2015). Thus, as the Gwadar operation progresses and the CPEC components get in place, China will gain huge economic benefits, in terms of transport, insurance cost reduction and time saved, for, not only, Chinese imports but also for its exports through this route.

It is also important to recognise that China will not just be using the Gwadar Port, its operation has also been outsourced to the Republic for forty years (Ibid.:79). Since world trade is heavily dependent on sea routes, of which the Indian Ocean has a substantial share, the operation of the port will also be a source of substantial economic benefits to the country. Import of oil from the Middle East will become tranquil as it will be stored in refineries in Gwadar and will reach China through roads, pipelines and railways (Teizzi 2016). China will have an edge over Middle East economically as it will be a gateway to Strait of Hormuz, since the landlocked Caspian region will have improved links for trade purposes. In addition, it will reduce China's trade vulnerability to piracy, bad weather, political rivals and other risks. It is a viable alternative trade route in case of strategic intervention by United States or India in the Strait of Malacca. Keeping an eye on any adverse activities in and around the Persian Gulf, the Gulf of Aden, Central Asia and South Asia will also be more convenient and economical for China.

Apart from the operation of the port, all other related developments, including the construction of an international airport (Dawn 2016) also has Chinese involvement. Once the airport becomes functional, it would generate another set of economic activities involving the services sector as well. Potentially, Karachi will become a major economic hub in the area, with Gwadar one of the major ports in the region, having the economic might of China behind its back.

Mineral and Economic Zones

Notwithstanding, the slow progress on this important component of CPEC, Economic Zones would also offer considerable commercial openings to Chinese companies. Investment opportunities for Chinese companies, consultancy and employment prospects for Chinese people with relevant expertise and experience, and import of Chinese machinery will be natural potential economic benefits. With funds available and investment avenues in a kind of saturating state in China's own domestic manufacturing sector, chances for establishment of joint ventures[9] with Pakistani counterparts and phasing of some industry here are also an area which will benefit Chinese industrialists and enterprises in these Economic Zones. Chinese business leaders are already showing interest in investment in many new areas in Pakistan, including small and medium enterprises. Entrepreneurs from different areas like international logistics, building materials, high-end clothing production, supply-chain process, furniture, steel structure and the export-import business have already shown keen interest in joint ventures.

CPEC as Catalyst

Sino-Pak relations have remained multidimensional where nuclear and defence cooperation is also quite prominent. This cooperation has its own dynamics and will continue, yet CPEC has provided an additional impetus to such cooperation which inherently have

[9] 'Overseas investments are helping more Chinese companies from more sectors access new markets, and acquire the experience, technology, brands and human capital necessary to become more competitive' (KPMG 2016).

economic dimensions as well. Pakistan's deal of purchasing eight modified diesel-electric attack submarines from China is one such example. It is one of the largest arms' deal the country has made (Express Tribune 2016). The deal is valued at around USD 5-6 billion. The first four submarines will be delivered by 2023 from China and four will be assembled in Karachi, Pakistan (Globalsecurity.org 2016). Similarly, the railway or nuclear power reactor projects are not only an opportunity for China to use its technology, but also bring economic benefits to the country.

Advantages to China: The OBOR Dimension

Chinese advantages in CPEC cannot be fully understood if the latter is not seen in the context of One Belt, One Road (OBOR) initiatives. OBOR, in its final shape, would connect 65 countries of the world. According to Korean scholar Jae Ho Chung, when completed, the OBOR will include [more than] 60 countries, with two-thirds of the world's population, 55 per cent of the global GDP and 75 per cent of global energy reserves (Chung 2016). It will consist of 900 infrastructure projects, valued at about USD 1.3 trillion (Ibid.). Primary funding for projects will be provided by Chinese banks, financial institutions and special funds. The Hong Kong-based South China Morning Post (2015) described the OBOR as 'the most significant and far-reaching project the nation has ever put forward'. China, being the mastermind and the originator, will obviously have a key role in these initiatives in all stages, starting from conception to implementation. It should, therefore, not come as a surprise if it also eyes reaping the maximum benefits accruing from these great economic connectivity projects.

While essentially a bilateral arrangement, CPEC's significance in this landscape is quite obvious. It serves as the backbone for the OBOR, being the virtual connection between 'the Belt and the Road', thus, making the two-way connectivity between Middle East, Gulf and Africa and South and Central Asia, easier, cost-effective and efficient. Without this important link the two projects would remain disconnected from each other and lose much of their significance.

Development of infrastructure and institutions are the hardware side of CPEC which would require finances as well as technical knowledge, skills and expertise. However, the software side of CPEC makes it even more vital for the greater OBOR initiatives.

What do we mean by the software side? Such mega projects require enhanced policy communication between countries. Frequent consultations are needed for making plans and adopting measures for different phases of cooperation. Regulations and rules related to customs' clearance, formulating compatible and standard transport rules so as to realise international transport facilitation, communication and information mechanisms and networking, are supposed to be integrated parts of such consultations.

Similarly, improving investment and trade facilitation, and removing investment and trade barriers, financial integration, regulations and financial cooperation as well as efforts for building currency stability and credit information systems, redefining and expanding the scope and scale of bilateral currency swap arrangements, establishment of financial institutions for cooperation; strengthening people-to-people exchanges to promote understanding and friendship with each other are also supposed to be essential parts of negotiations. Likewise, ensuring transparency and checking corruption are also important areas which need to be addressed in such mega projects.

All such negotiations taking place with regard to CPEC would help lay a framework for consultations related to other such projects. It is pertinent in this context to quote here what the head of China's anti-corruption watchdog Vice Minister Liu Jianchao while visiting Pakistan stressed that 'making CPEC a success is important for China as its success would help implement the One Belt, One Road initiative' (Abrar 2015).

Thus, CPEC is serving as a pilot exercise for China for developing frameworks and dealing with the difficult questions which any project of connectivity may face. This is important, keeping in view that while negotiations with each country may be based on specific issues and on the specific nature of relationship between the countries (which might seldom match the deep level of trust that Pakistan and China enjoy), a sort of similarity of issues and processes would certainly be there which would work as a guideline for consultations, negotiations and implementation plans.

It is also pertinent to note here that among the six proposed connectivity projects, currently in progress under OBOR strategy, CPEC is the only bilateral project, the rest are multilateral. This means lesser chances of complications in their mutual interactions. Therefore, it is not surprising that Beijing, while issuing the first data report on OBOR, declared Pakistan as one of the 'most cooperative' country included in OBOR with Russia, Kazakhstan, Thailand and Indonesia (SCIO 2016). Thus, apart from reducing the cost and distance of China's maritime trade activity, CPEC gives China the distinctive benefit, owing to the unique geostrategic position of Gwadar, of easy access to almost all the regions that China is targeting for its booming markets through OBOR. The Middle East, Africa, West and Central Asia as well as Europe will become an easy entrée for China (MoFA-PRC 2014).

Advantages to China: The Larger Context

While studying the Corridor's economic advantages to China, the larger context, which includes both the domestic situation in China as well as its global role also needs to be kept in mind. An important aspect of this context is the transformation of China's approach from inward to outward-looking.[10]

The world is changing, and one of the known realities of these changing dynamics is that China – in the not very distant future – will be taking over the most powerful place in the global economic edifice.

[10] Highlighting this Chinese approach, President Xi in his keynote address at the 2016 G-20 Summit stated 'To pursue a win-win strategy of opening-up and open up China in a more comprehensive, profound and diversified way is a strategic choice of ours. China's opening-up will not stall, still less will it reverse course. We will continue to be fully involved in economic globalisation and support the multilateral trading regime. We will expand access for foreign investment, facilitate such investment to promote fair and open competition and create a sound business environment. We will also accelerate negotiation on FTAs and investment treaties with relevant countries and the development of high-standard pilot free trade zones in China' (Bingxin 2016).

Under the strategy known as 'Going Global', which was initiated by the government in 2001, Chinese companies were stimulated to look for overseas opportunities. This was further encouraged in 2013 by adjusting the regular framework for outward FDI to facilitate Chinese firms to be more competitive in international markets (Dobbs, Leung and Lund 2013). In this emerging scenario, it is naïve to expect that China would remain a spectator in global economic affairs and would not prepare and present itself as a dynamic key player (Bingxin 2016). The way Chinese leadership looks at the situation was articulated by President Xi in the following words:

> China's development has benefited from the international community, and we are ready to provide more public goods to the international community. I have proposed the initiative of building the Silk Road Economic Belt and the 21st Century Maritime Silk Road to share China's development opportunities with countries along the Belt and Road and achieve common prosperity. Major progress has been made in launching key projects and building the economic corridors of the Silk Road Economic Belt, and the building of the 21st Century Maritime Silk Road is well underway. The Asian Infrastructure Investment Bank initiated by China has already started its positive role in regional infrastructure development (Ibid.).

Yet, it is also logical to acknowledge that any single country in this increasingly globalised world, irrespective of its economic might, can influence the world only to a certain extent.

In this overall setting, by introducing and leading with the concept of shared destiny, China aims to both increase its economic power as well as have a greater role in the global economic system. Along with connectivity and infrastructure projects, establishment of institutions such as Asian Infrastructure Investment Bank (AIIB), New Development Bank, Shanghai Cooperation Organization (SCO) financing arrangements, SCO Inter-Bank Association, and Equity Investment Funds as well as initiatives such as Silk Road Fund and China-ASEAN Inter-Bank Association, are a reflection of this approach. It should not be surprising in this context that CPEC is one of the first few projects which has benefited from AIIB (Panda 2016).

The current economic strategy of China also reflects the 'Chinese Dream' with targets set for 2049 (Johnson 2014) when China would be celebrating 100 years of its independence. A successful CPEC means a solid foundation in this overall scenario. Some of the specifics in this regard are as follows:

- Not only to achieve new and higher targets, but also to maintain the current level of economic development, China needs a secure and sustainable energy supply chain. CPEC, as mentioned earlier, makes this possible.
- China has abundant capital and is looking for diverse options to make the most productive use of it. The Republic can play a very vital role as global financial balancer being the world's largest saver. This is becoming increasingly important in the wake of low returns on investments such as bonds (Dobbs, Leung and Lund 2013).[11] The infrastructure projects allow China, on the one hand, to invest its large foreign currency reserves, while ensuring goodwill with its neighbours, and at the same time, the strategy ensures additional work for its state-owned and private enterprises. It is significant to note in this regard the outflow of FDI from China has now reached to the levels of FDI inflow into China (UNESCAP 2015). CPEC and similar long-term projects are, thus, an opportunity to invest on a good rate of return and in a long-term perspective.
- Other similar issues which are motivating China to move in this direction include over-capacity in some sectors (Fulco 2016) as well as a growing need for raw materials,[12] as of now it is facing shortages in 11 metals that are critically important for gearing up Chinese economy - increasing labour costs (Plumer 2014); regional re-balancing; increasing consumerism in the wake of a rising middle class; slowing growth rate as well as domestic restructuring and social

[11] 'China's corporate-bond market is also developing. Bonds outstanding from nonfinancial companies have grown by 45 per cent annually over the past five years, bonds from financial institutions by 23 per cent... there is ample room for further growth, since China's levels of bond-market borrowing are significantly below those of advanced economies' (Dobbs, Leung and Lund 2013).

[12] 'It was announced openly by Chinese Government officials that by 2020 China will encounter serious shortages in twenty five different raw materials' (Plumer 2014).

implications. CPEC has the potential to play an important role in most of these areas.

- It has been indicated earlier that the freight volume through sea is substantially higher in global trade as compared to other means. Figures for 2010 in this regard (more than 60,000 bn. tonnes KM) suggest that the ratio was 300 times higher in case of air, ten times in case of roads and 15 times in case of railways (GoP n.d.). Studies suggest an increase in sea freight by another 327 per cent by 2050 (more than 250,000 bn. tonnes KM) which would include a substantial portion of trade (more than 50000 bn. tonnes KM) through the Indian Ocean (Ibid.). With Gwadar operation in their hands, until 2047 under the current arrangement (Ibid.), China would have a considerable role in the trade through the Indian Ocean.

To conclude, one may restate the oft quoted phrase that CPEC is a 'game changer'. The game changer offers economic advantages to all the stakeholders and perceptibly to the most important as well as proactive player in the game.

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To Join or Not to Join: The Corridor Conundrum for India

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Abstract

From the poor relationship existing between India and Pakistan, it is highly unlikely that the former will make a bid to join the economic corridor linking China and Pakistan within the framework of the Chinese One Belt, One Road (OBOR) policy. Political problems notwithstanding, there are obvious economic advantages that India stands to gain should it become part of this enterprise that has the potential of providing huge financial benefits to all stakeholders. Linking India with CPEC will require immense political capital and great diplomatic tact. India will have to put aside its objections to CPEC and Pakistan will have to find ways to open up transit trade with India in a manner that its goods can access CPEC highways without undue hindrance. The most obvious advantage that India will have in linking up with CPEC would be an upgraded communication infrastructure and easy access to markets in Central Asia and beyond. Hopefully such collaboration would lessen tensions in the region and bring more prosperity to its people. The purpose of the paper is to highlight the economic advantages that India will reap by investing in CPEC.

Introduction

CPEC is part of the larger Chinese economic strategy based on inter- and intra-regional connectivity. The vision of building a Silk Road economic belt and Maritime Silk Road was developed

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by the Chinese National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce (NDRC 2015). With five layers of connectivity including policy, physical, economic, financial and human, the concept aspires to revive the once vibrant Silk Route connecting ancient civilisations of Asia, Africa and Europe. Marked by the theme of peace, development, cooperation and mutual benefit, the idea of building the Silk Road Economic Belt and 21st Century Maritime Silk Road (also known as One Belt, One Road or OBOR) was proposed by President Xi Jinping in 2013 during his visit to Central and South Asia (FMPRC 2013).

The concept of Belt in OBOR has a northern dimension as shown in Figure 1 (Rudolf n.d.). Originating from Xian in central China, it goes through Central Asia, with one branch going through Kazakhstan, and the other one through Mongolia, linking up with Trans-Siberian Railway, only to branch off again with one artery going to Moscow, another one to Rotterdam in Netherlands and a third one to Venice in Italy. The geostrategic nature of this road encompasses a system of highways, rail links, oil and gas pipelines along with other infrastructural projects. There is a maritime dimension to it consisting of a series of ports and allied maritime infrastructure. Originating from Eastern China, meandering through South China, South East Asia, South Asia, the Gulf, East Africa, the maritime silk route passes through the Mediterranean, terminating at ports in Mombasa (Kenya), Piraeus (Greece), Venice (Italy) and northern European port of Rotterdam in The Netherlands. Besides these major economic corridors, a number of linking loops have been planned to connect Belt and Road. In this complex maze of OBOR, Gwadar Port plays the role of a lynchpin. Within this maze of über-connectivity, there exists a gaping hole and that is the absence of any or very little links between Pakistan and India. CPEC promises to bridge this gap and create a net of dependencies that can auger well for the two countries.

Figure-1
One Belt, One Road - The Silk Road

Source: Rudolf n.d.

Theories of Dependencies

Within the existing corpus of international relations and economics, two theories make a case for linking economies to improve foreign relations. The first one is the theory of Complex Interdependence that suggests that the fortunes of states are inextricably tied together through the instrument of economy and trade. Robert Keohane and Joseph Nye were the foremost advocates of this theory in the realm of international relations.

The second theory was propounded by Thomas Friedman in his book *Lexus and the Olive Tree.* In his theory of the Golden Arches, Friedman suggested that rapid globalisation has decreased the chances of war. He gave the example of the Mcdonald franchise. Characterised by its iconic golden arches, Friedman suggested that no two countries with the Mcdonalds international chain have gone to war (Friedman 2000). As an economist Friedman's panacea for preventing conflict was to become part of the globalised world. Unfortunately, these theories of dependencies have eluded India and Pakistan because they continue to examine their mutual relations with suspicion and mistrust.

One Belt, One Road (OBOR)

OBOR involves almost 60 per cent of the world population (4.4 billion people), with one third of the global collective wealth and a GDP of USD 21 trillion (Rolland 2015). This grand initiative involves 60 countries and links three continents. Extending from Pacific to the heart of Europe, it is predicted to generate USD 4 trillion in investment over the next three decades and draw in countries that account for 70 per cent of world's energy reserves (Luft 2016). According to Zhang Gaoli, the first Vice Premier of China and head of the group piloting this project, the main objectives of the OBOR are:

- Enhancing policy coordination across the Asian continent
- Trade liberalisation
- Financial integration
- Connectivity, including people-to-people links (Saran 2015).

China's grand economic strategy for the 21st Century involves creation of six economic corridors:

- New Eurasian Land Bridge
- China – Mongolia – Russia Corridor
- China – Central Asia – West Asia Corridor
- China – Indochina Peninsula Corridor
- China – Pakistan Economic Corridor
- Bangladesh – China – India – Myanmar Corridor (Ge, Christie and Astle 2016).

India is also investing in transnational infrastructure plans such as BCIM (Bangladesh, China, India, and Myanmar). The path of this corridor is shown in Figure 2. It is worth noting that that this route passes through troubled Eastern India.

Figure-2
BCIM (Bangladesh, China, India, and Myanmar)

Source: Hasib 2015.

Indian Dilemma

Geopolitical scholars tend to make their analysis through the lens of economy and strategy (Cohen 2015). In this context, it is pertinent to note that traditionally in the Western Hemisphere, America dominates the North Atlantic and North Pacific Ocean – a maritime realm around European Union. A land-based Eurasian region is dominated by Russia. OBOR initiative by China has altered this notion significantly. Economic space will now have to be shared between the traditional contestants. While China has clearly stated this to be an integrative and inclusive initiative, some nations will certainly view it with a degree of suspicion. India is no exception. With such large capital and political investment, China has little option for India to exert itself as a regional competitor.

Indian policy-makers have expressed their concerns about this project. In a conference organised by Indian Ministry of External Affairs and think-tank Observer Research Foundation, held in New Delhi in March 2016, Indian officials openly expressed their suspicions and worries about the Chinese initiative of such large proportions. In her speech stating the challenges and opportunities for India, at this forum, Indian External Affairs Minister Sushma Swaraj without mentioning China stated that such projects involving inter-connectivity should not be undertaken unilaterally. Instead it should be based on a spirit of cooperation, after creating an environment of trust and confidence (Swaraj 2016). India continues to see OBOR primarily as a Chinese initiative and has complained about not being engaged in extensive dialogues on the issue. Speaking at another public forum in Singapore, Indian Foreign Secretary Subrahmanyam Jaishankar expressed his concerns by stating that one could not ignore that initiatives with regional and international scope have national interests embedded in them. Therefore, he would like greater consultations with India on this subject, which had not happened thus far.

Besides many other issues hindering Indian acceptance of this inevitable reality, a major issue is that by enthusiastic involvement in the OBOR project, India would implicitly accept Pakistan's claim on portions of Kashmir that CPEC passes namely the Gilgit-Baltistan region. India is also wary of the Chinese presence and influence in the Indian Ocean, thereby shrinking space for larger Indian designs to remain a key player partnering with USA to counter China. For the same reason, India has shown its skepticism to allow Chinese-led Asian Infrastructure Investment Bank to smoothly finance OBOR projects (Krishnan 2016).

Confusion persists in Indian policy quarters, whether to view OBOR as an opportunity or as a challenge. There have been suggestions to tick both boxes and move on because there has been no worthwhile decision in this regard by Indian policy-makers (Saran and Passi 2016). Foreign statesmen friendly to India insist that their country stands to benefit by linking up with the neighbours through the Chinese connectivity regime. Prominent among those suggesting such a course of action are former Presidents of Sri Lanka and Afghanistan Chandrika Kumaratunga and Hamid Karzai (Madan 2016). It is a difficult decision for India to make. India is suspicious of the growing Chinese influence on smaller countries in its neighbourhood. Its current position is to prevent the Chinese from doing so.

China, on the other hand, wants India to join various regional ventures e.g. it has welcomed both India and Pakistan into the Shanghai Cooperation Organization (SCO). Chinese officials have held talks with their Indian counterparts at different forums in order to engage with them and to dispel their worries and explain China's good intentions encompassing their entire economic progress strategy for the region. Nonetheless, India eyes all this activity with suspicion. Simultaneously, USA is investing in India in order to balance out the expanding Chinese economic initiative.

For China, involving more than 60 countries in a mega project involves a great deal of diplomacy and capital investments to outbid any potential competition by a single nation or a combination of countries. In January 2016, Iran was the first port of call as President Xi Jinping of China embarked on a tour of the Middle East. The timings of the visit were significant because Iran had just come out of a debilitating sanctions regime. In a clear display of impartiality and peace for all, he proceeded to Saudi Arabia and Egypt.

There has been abundant criticism of the Chinese project from USA and that could be one possible reason for Indian indifference to this initiative. Some China watchers in USA have made light of the Chinese move as a publicity stunt to depict itself as a benevolent power, and to add gloss to the legacy of Xi's legacy, as he struggles to control his unwieldy country (Luft 2016).

India has a lot to level up with China, as shown in Table 1 i.e. it had the largest trade deficit with China amounting to over USD 48 billion in 2014-15:

Table-1
Top 5 Trade Partners of India (2013-14)

Rank	Country	Exports	Imports	Total Trade	Trade Balance
-	**All Countries**	**310,338.47**	**447,964.38**	**758,301.08**	**-137,625.92**
1	China	11,934.25	60,413.17	72,347.42	-48,478.91
2	United States	42,448.66	21,814.60	64,263.26	20,634.05
3	UAE	33,028.08	26,139.91	59,167.99	6,888.17
4	Saudi Arabia	11,161.43	28,107.56	39,268.98	-16,946.13
5	Switzerland	1,068.58	22,133.16	23,201.74	-21,064.58

Source: Government of India n.d.

India is already using Sri Lankan ports developed by China (Samaranayake 2015). However, in order to redraw its lines of economic benefit and influence, India needs to think long-term and act short-term.

India's Economic Aspirations

India has been working hard on increasing its domestic economic outlook as well as inviting foreign investments. To this end, it has developed multiple bilateral and multilateral economic alliances within the immediate region and beyond. Besides affording India a reasonable degree of economic advantage, it has accrued multiple political and commercial advantages. The general trend of Indian economic activity gives the drift of its aspirations and ambitions. Some of these tendencies have been identified as excluding Pakistan and concluding bilateral and multilateral treaties with other countries of the region:

Indian Ocean Rim Association (IORA)

India is very possessive about the Indian Ocean. It considers it its preserve. Pakistan has been kept out of this association. The Indian Ocean Rim Initiative was launched in March 1995, and the creation of the Indian Ocean Rim Association (then known as the Indian Ocean Rim Association for Regional Co-operation) two years later, in March 1997. IORA has currently 21 Member States and seven Dialogue Partners, including countries as far away as South Africa and Australia. This organisation has been created with a view of undermine the potential influence of SAARC.

Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)

BIMSTEC is the second initiative that excludes Pakistan. It joins countries of South and South East Asia. These are Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal.

Chabahar Port Project

The Modi government has promised to invest a sum of USD 500 million in the Iranian port of Chabahar. The India – Afghanistan – Iran agreement of trade through this port can actually benefit both India and Pakistan through the Chabahar – Gwadar connection (Sachdeva 2016). Many in Pakistan interpret this as a bid to belittle the Pakistani port of Gwadar. At the highest official levels the feeling is different. Pakistan would like Chabahar – Gwadar to develop as sister ports (ANI 2016). This concept was proposed by Balochistan Chief Minister Nawab Sanaullah Zehri in a meeting with the Iranian delegation (Zafar 2016). At a recent UN summit, Iranian President Rouhani had assured the Pakistani Prime Minister that the Chabahar Port is not meant to rival Gwadar but to complement it. There is already a proposal to link the Iranian port with the Pakistani port through a railway line.

International North – South Transport Corridor (INSTC)

INSTC was proposed in 2012 to enhance trade and transportation between the Central Asian States, Russia, Iran and India. As shown in Figure 3, the hub of activities will be the port of Bandar Abbas (Dikshit 2012). While the timing was not good from the Iranian point of view at that time because it was heavily sanctioned by USA and the European Union etc., the proposed agreement took place despite US pressure.

Figure-3
INSTC

Mekong – Ganga Project

India’s Look East policy is symbolised by a number of ventures. Arndt has stated in his 2013 book *India’s Foreign Policy and Regional Multilateralism* that India seeks cooperation for economic development beyond South Asia and its immediate neighbours. Mekong – Ganga project is one such example which involves the nations of Ganga and Mekong Rivers. This project has been ongoing since November 2000. For the development of tourism, culture, transportation and education, India has partnered with Thailand, Myanmar, Cambodia, Laos and Vietnam. Multiple meetings are held on regular basis to promote and continue the cooperation.

Project Mausam

Indian maritime project *Mausam* (literal meaning season or weather) derives its name from age-old traditional maritime trade practices. In pre-modern times, sailors moving west from Indonesia etc. heading to Africa, and the Middle East and others moving towards the eastern edge, made use of the so-called trade winds blowing steadily towards the equator from the north-east in the northern hemisphere or the south-east in the southern hemisphere. In an effort to reach their destination, they used to stop at Indian ports to wait for the next monsoon with a new crew to sail to the other side (Pillalamarri 2014). This allowed sailors to reside in India, conduct business and exchange culture. Project *Mausam* is an effort to revive that old cultural and trade practice. China's new proposed maritime route envisions Gwadar as a trade hub, allowing other nations to utilise existing and newly developed infrastructure. The India project seems to fit into this option and increase its economic activity on the ocean front.

Regional Comprehensive Economic Partnership (RCEP)

This is a free trade agreement (FTA) between ten member states of ASEAN (Brunei, Cambodia, Indonesia, Laos, Myanmar, Malaysia, the Philippines, Singapore, Thailand and Vietnam) and the six states with which ASEAN has existing FTA relationship (Australia, China, India, Japan, South Korea and New Zealand). As trade intensifies under this agreement, India fears that China, being better placed economically and in a position to use this integration to its advantage, might start arm twisting other nations. In any FTA venture, countries need to pay attention to tariff barrier reduction, impact of FTA non-trade issues such as labour and the environment. Finally, an FTA can only flourish and benefit a nation if special attention is paid to medium, small and micro enterprises and regulations are updated accordingly. China is best placed in this regard with abundance of production (at times production overflow and reduced consumption) and desirably lesser markets – a major driving factor behind OBOR. India has a long way to go in its domestic industrial capacity building to be able to compete with China. This forum is also viewed as an alternative to the

Trans-Pacific Partnership (TPP) in which India and China are not included. According to *The Economic Times*, multiple rounds of negotiations have been held so far making improvements on issues of contention.

Asia Pacific Economic Cooperation (APEC)

For years, India has been struggling to be part of the forum comprising rim of 21 Pacific nations. This forum has clearly refused to allow India in for multiple reasons, the major one – India is not part of the Pacific Rim. Due to immense economic activity involving few major economies of the world, India has (unsuccessfully thus far) been aspiring and pushing for membership as late as June 2016 (Business Standard 2016). The forum on the whole has been a target of criticism as well (Gerhardt 2011). The forum for promotion of free trade infringes on national and local laws which regulate and promote labour rights (usually absent and appalling in India), environmental protection and safe and affordable access to medicine (debatable issues in case of India).

Eurasian Economic Union (EAEU)

Russia, Kazakhstan and Belarus formed this economic union in 2014. Some view this as a Russian effort to counter balance the economic impact of EU and USA in the region (Hauslohner 2014). Russia has joined the Chinese OBOR initiative and will capitalise on already existing trade pacts such as this one. In face of US sanctions against Russia, this has been a robust initiative on Putin's behalf. India opened negotiations aspiring to join EAEU in July of 2015 (India Briefing 2015). Indian aspirations to make EAEU–India a free trade zone can get a major economic boost if the country joins OBOR/CPEC projects.

Shanghai Cooperation Organization (SCO)

SCO is the joint initiative of China and Russia to basically address counterterrorism issues, but it has ventured into the fields of economics as well. China, Kazakhstan, Kyrgyzstan, Russia and Tajikistan are members of this organisation, while Pakistan and India have been principally added to the forum (AFP 2016). This forum provides an excellent opportunity for India to link up with Pakistan and Central Asia. Perhaps it can become a platform for India to eventually join OBOR.

South Asian Association for Regional Cooperation (SAARC)

Unlike other regional organisations, SAARC has failed to realise its full potential. It has been marred by very high political and very low economic activity due to traditional rivalry between India and Pakistan. The organisation involving eight South Asian nations of Pakistan, Afghanistan, India, Bangladesh, Bhutan, Sri Lanka, Maldives and Nepal, has failed on one of the major goals to achieve economic integration. Bilateral politics has fostered creation of smaller groups within the larger SAARC region such as the South-Asian Sub Regional Economic Cooperation (SASEC) including Bhutan, Bangladesh, Nepal and India. Another such group is BIMSTEC (Yamin 2013). These platforms aspire to achieve a free trade zone by 2017.

SAARC capacity to boost any trade or economic relationship has been visible by failure and non-implementation of terms adapted under South Asia Free Trade Agreement (SAFTA) in 2006. A major goal of SAFTA has been to make the region a Free Economic Trade Zone by 2020, a rather long shot given existing relationships. Indian involvement in CPEC as a trading partner will certainly be an immense lift to all these and many other existing treaties and organisations.

India – Pakistan Trade

Historically, trade between both neighbours has been low or insignificant because of poor relations. Immediately after Partition, trade almost stopped. The 1965 War brought another low in bilateral relations. Another dip in activity was observed after the Indian Parliament attack of 2001 and yet another was seen in 2013 due to cross-border exchange of fire. Currently, India and Pakistan are again experiencing a deep freeze in their economic relations.

Overall trade relations between the two have remained far from substantial. In 2012–13, total trade amounted to USD 2.4 billion which is a fraction of total business they conduct around the globe

(Kumar n.d.). Transit trade has limited Pakistan's use of Indian land for trading with Nepal, Sri Lanka, and Bangladesh, while India's ability to access Afghanistan through Pakistan has been limited by reciprocal hindrance. While India granted Most Favoured Nation (MFN) status to Pakistan in 1996, the favours Pakistan could receive have been seriously limited because of excessive tariffs, unnecessary delays at check points and other political reasons. Pakistan is yet to reciprocate the status of MFN to India. Immense potential in trade of textiles, automobiles, IT, health and entertainment has been identified if trade is allowed to be liberalised.

CPEC is a golden opportunity for India to tap the 180 million consumer market in Pakistan, while the latter can access almost 1.2 billion buyers. Such trade and bilateral dependence will certainly benefit both nations. Indian envoy Gautam Bambawale has expressed eagerness to conduct business with Pakistan (Siddiqui 2016). While the timings of such gestures match perfectly with India on the defensive due to its brutalities in Kashmir being internationalised and pressure being intensified globally by Pakistan, desire for genuine economic cooperation cannot be completely ruled out.

CPEC Advantages for India

As mentioned above India is eager to join RCEP and APEC for the reasons of robust economic activity, simultaneously it refuses to give space to the Chinese initiative as a whole and more specifically to CPEC. While India is willing to give up some of its domestic laws and economic liberties aspiring to join other fora, it refuses to do same in case of CPEC. It needs to consider advantages that it can accrue by joining.

India's geographical location and territorial expanse is ideally suited for enhanced connectivity through modern communication infrastructure in which it may not have to invest much. Using the newly conceptualised CPEC project, India can have faster, cheaper and increased access to Afghanistan, Central Asia, China and Middle East.

Iran – Pakistan – India Pipeline will be completed on Chinese expense and will benefit India both economically as well as politically in regional affairs. China – Iran railway project further extended to link with CPEC would allow India to connect to Iran increasing bilateral trade and geopolitical cooperation. The China – Iran railways' expense will be borne by China so India would hardly need to make huge investments on this link. Moreover, India has been aspiring to extend its rail link with Iran but has been unable to do so due to resistance from Islamabad.

India can use Chinese influence over Pakistan effectively and expand its trade activity westwards. Due to heavy Chinese investment in Pakistan through CPEC and the existing political goodwill, China is in an influential position to alter the Pak–India economic equation. This will certainly benefit both economically as well as politically.

The existing economic reckoning involving Asia – EU activity is likely to be intensified. By joining the CPEC enterprise, India in collaboration with China can significantly alter the existing Asia – EU trade activity and secure a greater portion of the EU economic pie. This is also likely to modify dependence and power shift from existing US–EU relations in favour of a stronger EU–Asia economic alliance.

Russia, a traditional Indian partner is integrating into OBOR. With the realisation that the Chinese project will benefit the larger Asian continent, they have allowed the linkages with Trans-Siberian railway, Moscow and passage deep inside the EU. Existing Russian–Indian partnership can further strengthen through active Indian involvement in the project, economically benefitting them and the neighbourhood. Moreover, closer Russia–China–Pakistan ties are not a beneficial scenario from Indian point of view and would only drive India further away from Russia while Pakistan seizes the opportunity to strengthen its new-found bond with the latter.

Increase in Indian–Afghan trade relationships by using CPEC instead of bypassing Pakistan is obviously a better option. By safeguarding their vital national interests, both India and Pakistan would be very well placed economically if such a venture materialises. Economic dependence and involvement of other nations could certainly bar both nations from frequent military stand-offs or other such misadventures.

India should not sit silent as China invests in Pakistan, Sri Lanka, Myanmar, Bangladesh and its other neighbours. Resistance to this call (and Chinese invitation) would only harm and to some extent isolate India economically. The sole reason that since CPEC passes through what the Indians claim to be Pakistani occupied Kashmir is insufficient for India to miss such a robust economic option. Moreover, India cannot allow unchecked Chinese influence to increase with its traditional South and South East Asian partners.

USA has been investing in India on nuclear, political, economic and military fronts for over a decade now in order to harness Chinese influence. There has been an increase in this indirect economic advantage to India since announcement of CPEC. However, OBOR involves more than USD 200 billion to be invested by AIIB (Luft 2016). USA has no plans to match such investments in India alone. While USA continues to support Indian influence in the region to keep a check on China, they would certainly not want India to become too big for its boots. India needs to realise this aspect and joining the Chinese venture would be an economically viable option.

Indian Prime Minister Modi’s flagship *Project Mausam*, can seamlessly be integrated into Chinese maritime dimension of the OBOR. Building on the ports being developed by China, India can significantly add on to maritime trade through its proposed enhancement and improvement of Andaman and Nicobar Island ports. This will allow the South East Asian maritime economic flow to benefit India and others participating in OBOR. Pakistani deep seaport of Gwadar can further enhance Arabian Sea linkages.

Using Gwadar Port, India can transport its goods to Iran, Afghanistan, China and Central Asian markets which are a much more economically viable option than the existing means of transportation. The only reason that India does not want Pakistan to benefit in the economic field is a short-sighted approach and will only harm Indian economic interests.

The Digital India programme (Indian Express 2015) can benefit significantly from fibre optics linkages being developed through CPEC and within the larger gambit of OBOR. These linkages are going to significantly add on to the existing undersea cables with enhanced speed and connectivity between Asia and Europe. It reduces the dependence on limited means of digital communication and provides alternative means of faster broadband connections, something India can not afford to miss.

'Fragile Five' is a term coined by a researcher from Morgan Stanley for economies that have been too dependent on skittish foreign investment to finance their growth ambitions. These countries include Turkey, India, Indonesia, South Africa and Brazil (Thomas 2014). India has been desperate to shed this impression and wants large-scale direct foreign investment and sale of its goods and services. In yet another step to promote manufacturing within India and allowing enhanced foreign investment, Prime Minister Modi announced the 'Make in India' project. The project is designed to transform India into a global design and manufacturing hub, it has been a response to the lowest levels of growth rate in Indian economy when Modi took office. By linking up with OBOR infrastructure, India will be better placed to link with developed economies of Europe transporting goods and services much faster and cheaper. Delinking border tensions with Pakistan and China, India can capitalise on this opportunity to expand its economy.

India cannot compete with China in developing its offshore assets as well as infrastructure in countries doing business with the former. However, its aspirations of being dominant in the Indian Ocean are being curtailed to a great extent by Chinese investment in BCIM, and smaller nations such as Maldives. By being an active part of OBOR, India can safeguard its interests better rather than remaining out of it. It will also have better prospects to negotiate its existing maritime influence in the Indian Ocean with China. Instead of placing all its eggs in the American basket, India should consider China as a reliable trading partner instead of a hostile competitor. Development of Andaman and Nicobar Islands within the framework of Project Mausam can certainly be a positive step towards alternate entry point ports into Indian sphere of influence.

Indian involvement in the affairs of immediate Chinese neighbours dates back years, as is clearly visible in the Mekong–Ganga Project. By becoming part of the OBOR initiative, India will gain even more economically by utilising the existing institutional and cooperation infrastructure. Chinese BCIM and China – Indochina Peninsula Corridor, both amply cover the region and are open for Indian engagement. Economic benefits accrued would only enhance if they decide to give up the egocentric approach and shake hands with China.

The Chabahar–Gwadar connection will definitely enhance trade activity between Iran and Pakistan. While, some analysts have viewed India–Iran–Afghanistan trade deal through Chabahar as a counter measure to CPEC (Sachdeva 2016), the fact remains that both cannot be compared due to the investment disparity. However, there has been a realisation in Indian quarters that geoeconomics of CPEC project and linking it with Chabahar will only improve economic activity and India should not miss this opportunity. To be economically and strategically viable Chabahar and Gwadar will have to be eventually linked. Even if India refuses to utilise CPEC, China remains the largest trading partner in the region.

Yet another reason for India to gain economically would be linking INSTC to CPEC through Iran. India over the years has developed multiple trade and economic ventures and some of them are still under discussion. Prime Minister Modi in his speech at SCO meeting in Ufa, Russia had expressed his interest in lending support to improving transportation and communication networks in the region. He envisioned the creation of a vast network of physical and digital connectivity extending from Eurasia's northern corner to Asia's southern shores. He suggested that INSTC was the right step in that direction (Roy 2016). Modi's interest in improving the INSTC connectivity should convince Indians to tap into a more supportive CPEC. If the Afghanistan–Pakistan Transit Trade Agreement (APTTA) is opened to India it will be an economic boon for regional countries. In any case, there is a proposal to extend APTTA upto Tajikistan (Sachdeva 2016). Pakistan obviously needs to guard its own national interests before opening APTTA to India. It also needs to demand reciprocity for doing transit trade with Nepal and other countries.

China has roaring bilateral relations with India upto a tune of nearly USD 80 billion, but the balance of trade is heavily tilted in favour of China. It has border disputes with India which it tends to downplay. In fact, China will be more than happy to let India connect with CPEC. In the words of Chinese scholar Hu Weijia:

> The CPEC is not a zero-sum game where Pakistan gains and India loses. If economic cooperation between China and Pakistan can improve infrastructure in the region, including in the Kashmir area, India will have an opportunity to expand trade routes to Central Asia (Weija 2016).

Conclusion

Interdependence has eluded Pakistan and India, however, this is not to say that it is not possible. Mega projects in the nature of OBOR and CPEC, by virtue of their size can bring together odd bedfellows. Inclusion in the project will accrue economic benefits for India that have otherwise been stalled due to weak political will, absence of requisite funding, sluggish progress on building and improving infrastructure etc. In this case, China is serious in building six economic corridors and multiple maritime structures through OBOR. India seemingly has little options but to join in. Development of infrastructure in all directions bypassing India will only limit its economic space and a wise option for its policy-makers would be to think strategically and act immediately.

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Pak-China Ties with Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka: Doubling Trade Dividends

Dr Pervez Tahir*

Introduction

In these days of globally integrated economies and regions, the South Asian Association for Regional Cooperation (SAARC) falls in the group of the least integrated in the world. The Chinese vision of reviving the historic Silk Road through its One Belt, One Road initiative across Eurasia holds the prospects of revolutionising connectivity in terms of trade, energy and logistics. China's high growth can no longer be sustained by its own market nor by exporting to other countries pivoting towards Asia Pacific under the leadership of the United States. She is, therefore, carving a new path of pivoting towards the Indian Ocean where some of the largest potential markets are waiting to be connected to manufacturing centres. With a policy of economic integration without political interference, China aims to achieve its strategic objectives and promote stability and progress in its large neighbourhood. To 'concretise' its vision, multi-trillion dollar infrastructure programmes have been started to rebalance geoeconomics of the region. A new financial architecture has been raised in the form of the Asian Infrastructure Investment Bank (AIIB), the New Development Bank (the old BRICS Development Bank) and the Silk Road Fund of the Chinese government (Biswas 2015).

There are three routes of the Silk Road - the Northern Route, the Southern Route and the Southwestern Route. The China-Pakistan Economic Corridor (CPEC) covers the Southern Route. In its essence, CPEC is a geoeconomic project, with economic implications not just for the two direct participants, China and Pakistan, but also for those countries that are not part of the USD 46 billion investment agreement signed in April 2015 to develop infrastructure, energy, and

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communications. Road, rail, air and optical fibre links between Kashgar in China and Gwadar port in Pakistan would produce pressures and incentives for trade diversion and creation, giving space to China's industrial surplus and providing outlets for the chain of industrial zones being planned along the Corridor in Pakistan. The CPEC would link the entire Belt consisting of China, Central Asia, South Asia, West Asia, North Africa and the Gulf states.

The geoeconomic dictates suggest maximum radiation of CPEC economic flows in the South Asia region since it would link the two largest economies - China and India. The absence of this link would restrict India-China trade to USD 71 billion (GoI MoCI n.d.), and India-Pakistan trade to USD 2 billion (GoP PBS 2016). The India-Pakistan tensions keep the intra-SAARC trade in the low range of 4-6 per cent of GDP. The absence of the link with India seriously constrains trade volumes of other SAARC members. These countries - the subject matter of this essay - include Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka. Their dividend would remain limited unless India fully partakes of CPEC. Goods from the landlocked Bhutan and Nepal cannot access the Pakistani markets through the shorter land route passing through India. These countries cannot transit their goods through Pakistan to Central Asia and China. Similarly, Bangladesh cannot access the shorter land route through India to Pakistan and onward to China or West Asia, North Africa and Gulf states. Maldives and Sri Lanka present a different story. These island nations will be able to reach China through Gwadar. It must be noted that Bhutan and Nepal can directly link with China, while Bangladesh lies on the Southwestern Route of the Silk Road. China has an observer status in SAARC and her full membership is under consideration.

Foreign trade is the most important driver of regional integration. In the following paragraphs, the paper looks at the trade of Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka *vis-a-vis* China and Pakistan to gauge the possible gains from CPEC.

Bangladesh

Following India and Pakistan, Bangladesh is the third largest trading partner of China in the SAARC region. China is also its largest export destination. However, since her India-supported independence in 1971 until 2001, India was its largest trading partner. By 2002, China replaced India. This shift occurred despite the Indian concessions extended under the Asia Pacific Trade Agreement, the South Asia Free Trade Agreement (SAFTA) and the zero tariff on all non-Sensitive List products for the least developed members of SAFTA. Since establishment of diplomatic relations in 1975, the two countries have enjoyed close cooperation. In 1984, they granted each other the Most Favoured Nation (MFN) status. Bangladesh has strong economic, strategic and cultural ties with China. It has also pursued the idea of BCIM - a collaborative arrangement between Bangladesh, China, India and Myanmar. This economic corridor was proposed during the visit of the Chinese premier to India. If Gwadar provides China access to the Indian Ocean through the Arabian Sea, Chittagong provides access to the same through the Bay of Bengal.

In 2000-01, Bangladesh's total exports to China were just USD 11.67 million and imports were USD 708.94 million, a ratio of 1:61. The ratio improved to 1:36 by 2008-09 and further to 1:10 by 2013-14. In absolute terms, the exports are three-quarters of a billion dollars compared to the imports of seven and half billion dollars (GoB DCCI 2016). Table 1 shows the growth of Bangladesh-China trade over time. It can be seen that the annual exports from Bangladesh to China increased substantially between 2008-09 and 2013-14, or more than seven-fold in the period under review. Against this, the imports from China doubled. However, the balance of trade is overwhelmingly in favour of China. The period starts with an extremely high trade ratio of 1:36. It has come down to 1:10, but is still heavily tilted against Bangladesh. The major export items are frozen foods, leather, raw jute, jute goods, knitwear, and woven garments. Among the major import items are cotton, cotton yarn, cotton fabrics, machinery and related equipment.

Table-1
Bangladesh-China Trade (USD million)

Year	Exports	Imports	Trade Ratio
2008-09	97.1	3,451.5	1: 36
2009-10	178.6	3,819.3	1: 21
2010-11	319.7	5,912.6	1: 19
2011-12	401.9	6,433.2	1:16
2012-13	458.1	6,324.0	1:14
2013-14	746.0	7,540.0	1:10

Source: GoB DCCI 2016.

In terms of trade policy, China has removed tariffs on 84 items under the Asia-Pacific Trade Agreement (APTA), but tariffs on jute and textiles remain high. However, there are plans to allow duty-free access to over 90 per cent of Bangladeshi exports. There is an attempt by China to invest part of the surplus it earns in areas of vital interest to Bangladesh. These include nuclear energy, natural gas and fertiliser industry. There is agreement to establish an air link between Dhaka and Beijing via Kunming; and an understanding to build a road linking Kunming with Chittagong through Myanmar. This is the Southwestern Route of the old Silk Road linking Sichuan, Yunnan, Myanmar and Bangladesh. Oil exploration rights have been offered to China at Barakpuria. With naval access to Chittagong and sale of submarines to Bangladesh, China is in close proximity to oilfields of Myanmar. Bangladesh has an active relationship with the dynamic economy of the Chinese province of Yunnan.

While there is a thriving trade, investment and strategic relationship between Bangladesh and China, trade between the former and Pakistan has been declining. Table 2 shows a fluctuating pattern in Pakistan-Bangladesh trade over time. From just under a billion dollars in 2011, exports from Pakistan came down to USD 700 million. Imports from Bangladesh have been well under a hundred million dollars. There is, thus, a heavy tilt in trade balance against Bangladesh. In 2015, the trade ratio was 1:12, worse than in the case of China.

Table-2
Pakistan-Bangladesh Trade (USD million)

Year	Exports	Imports	Trade Ratio
2011	947.2	82.7	1: 11
2012	696.0	59.5	1: 12
2013	718.4	57.3	1: 13
2014	687.6	60.7	1:11
2015	700.6	60.2	1:12

Source: UN Comtrade Database 2015; GoP PBS 2016.

Bangladesh has the dual advantage of benefitting both from the Southern and Southwestern Routes of the Silk Road. Her opportunity frontier extends to both Kasghar and Kunming; the two economic corridors, CPEC and the Southwestern Route, converge if India and Pakistan let peace prevail. As a result, Bangladesh's falling trade with India and Pakistan is likely to pick up.

Bhutan

Landlocked Bhutan has a limited economic relationship with the outside world. In 2014, 89 per cent of her trade was with India, her southern neighbour. Though China is the northern neighbour, Bhutanese exports to China are negligible and imports very small. Table 3 shows Bhutan-China trade over time. The trade balance is hugely in favour of China, as the trade ratios over the years indicate:

Table-3
Bhutan-China Trade (USD million)

Year	Exports	Imports	Trade Ratio
2011	0.076	17.4	1: 229
2012	0.013	15.6	1:1200
2013	0.009	17.4	1: 1933
2014	0.104	11.1	1:107
2015	0.350	9.9	1:29

Source: UN Comtrade Database 2015.

Trade relationship with Pakistan is practically non-existent as Table 4 shows. Any future gains from CPEC are limited by India's policy towards CPEC in general, the bilateral relationship between Bhutan and India, and the bilateral relationship between Bhutan and China.

Table-4
Pakistan-Bhutan Trade (USD million)

Year	Exports	Imports	Trade Ratio
2011	-	0.130	-
2012	0.000,500	0.120	-
2013	-	0.037	-
2014	-	0.009	-
2015	-	2.754	-

Source: UN Comtrade Database 2015.

As many as 14 countries have borders with China, an advantage the latter is now converting into economic corridors. All countries (except India and Bhutan) have resolved border issues with China. With a running border dispute, Bhutan is the only SAARC country that does not have diplomatic relations and has an unsettled border with China. Relations became strained after Tibet became part of China in 1951. In 2012, the Chinese and Bhutanese premiers met on the sidelines of the UN Conference on Sustainable Development (UNCSD) at

Rio de Janeiro. China has keenly pursued this initiative and 24 rounds of talks have been held to settle the border and establish diplomatic relations, the last as late as August 2016 (Indian Express 2016). While signs exist that Bhutan wants to reduce its dependence on India, opening up to CPEC depends on India's policy towards China (Saklani and Tortajada 2016). How these two countries react to the proposal to extend full membership of SAARC to China would have been known at the SAARC Summit in Pakistan in November 2016. The Summit, however, was postponed with Bhutan following India in the boycott. China on its part wants the 21st Century to be the century of economic progress and seems to be making concerted efforts to resolve this triangular issue peacefully through a negotiated settlement.

Maldives

Unlike Bhutan, the small island nation of Maldives has pursued an independent foreign policy. It has close and growing relations with China (GlobalSecurity.org n.d.). As Table 5 shows, its imports from China have doubled in five years. 5.7 per cent of the total imports are from China. Exports are, however, negligible, leaving the balance of trade massively in favour of China. In case of Pakistan, Maldive's exports are negligible and Pakistan's exports small. The trade ratio is overwhelmingly in Pakistan's favour. Table 6 shows Pakistan-Maldives trade over time.

Table-5
Maldives-China Trade (USD million)

Year	Exports	Imports	Trade Ratio
2011	0.001	73.3	1:73300
2012	3.881	68.5	1:18
2013	0.133	81.5	1: 613
2014	0.079	105.1	1:1330
2015	0.037	140.3	1:3791

Source: UN Comtrade Database 2015.

Table-6
Pakistan-Maldives Trade (USD million)

Year	Exports	Imports	Trade Ratio
2010	4.0	0.174	1:33
2011	5.5	-	-
2012	5.7	0.099	1:58
2013	8.5	0.050	1:2125
2014	8.4	0.004	1:2100

Source: UN Comtrade Database 2015.

For Maldives, the top export destination is Thailand and import origin is United Arab Emirates. Only 3.3 per cent of its exports are to India and 8.6 per cent of the imports are from India. Her other major SAARC partner is Sri Lanka. Maldives exports to Sri Lanka are 6.1 per cent and imports from Sri Lanka are 6.3 per cent of the total.

Nepal

China is the second largest trading partner of Nepal and their trade is growing. The share in total exports is 3.9 per cent and the share in total imports is 15 per cent. Table 7 shows Nepal-China trade over time. Imports from China are approaching a billion dollars. Exports are low and the trade ratio is heavily tilted towards China. However, India is Nepal's largest trade partner, both in exports and imports.

Table-7
Nepal-China Trade (USD million)

Year	Exports	Imports	Trade Ratio
2011	10.2	689.9	1:68
2012	21.9	696.6	1:32
2013	20.2	603.6	1:30
2014	28.0	939.5	1:34
2015	11.5	920.0	1:80

Source: UN Comtrade Database 2015.

Table 8 shows Pakistan-Nepal trade over time. Both exports and imports are negligible and the trade ratio is in favour of Nepal.

Table-8
Pakistan-Nepal Trade (USD million)

Year	Exports	Imports	Trade Ratio
2011	1.3	2.0	1:1.5
2012	1.3	1.6	1:1.2
2013	0.613	0.636	1:1.0
2014	0.844	0.946	1:1.0
2015	2.3	0.455	-

Source: UN Comtrade Database 2015.

There is a visible increase in investment in infrastructure by China at the border with Nepal. This is likely to boost cross-border trade. Nepal is landlocked like Bhutan. Transhipment opportunities can improve if access is developed to the Mongla port in Bangladesh Prasad (2016).

Sri Lanka

Sri Lanka and China enjoy an expanding relationship in many areas of cooperation. In 2005, the two countries granted each other the MFN status. Economic assistance and concessional credits support growing trade flows. China also has a presence in oil exploration at the Mannar Basin and is developing port, bunker facilities and an oil terminal at Hambantota located on the southern coast. Norochcholai Power Station, Puttalam Coal Power Project and Special Economic Zone near Colombo are some of the major examples of China's economic presence in Sri Lanka (Deyshappriya 2016). Table 9 shows Sri Lanka-China trade over time. Sri Lankan exports have grown three times between 2011 and 2015. Imports from China, however, are several times larger than exports to the Republic. Although the balance of trade has increasingly improved, the trade ratio continues to be heavily tilted towards China.

Table-9
Sri Lanka-China Trade (USD million)

Year	Exports	Imports	Trade Ratio
2011	104.0	2134.8	1:21
2012	120.8	2567.9	1:21
2013	121.6	2959.7	1:24
2014	177.6	3414.3	1:19
2015	304.5	3727.4	1:12

Source: UN Comtrade Database 2015.

Table 10 shows Pakistan-Sri Lanka trade over time. Exports from Pakistan to Sri Lanka declined from USD 347.7 million in 2011 to USD 260 in 2015. However, imports from Sri Lanka are far less and remain under USD 100 million. Trade ratio is tilted significantly towards Pakistan.

Table-10
Pakistan-Sri Lanka Trade (USD million)

Year	Exports	Imports	Trade Ratio
2011	347.7	61.1	1:5.7
2012	300.9	83.4	1:3.7
2013	316.4	63.5	1:5.0
2014	266.2	63.0	1:4.2
2015	260.0	72.3	1:3.6

Source: UN Comtrade Database 2015.

India is Sri Lanka's largest trade partner, with trade balance heavily tilted towards the former. Exports to India are 5.7 and imports are 28 per cent of the total. With 16 per cent share in the total, China ranks second in terms of imports. Exports to China, however, constitute just 1.8 per cent of the total.

Conclusion

Foreign trade is the most important driver of regional integration. In the preceding paragraphs, the paper has looked at trade of Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka *vis-a-vis* China and Pakistan to gauge the possible gains from CPEC. In addition to deepening as well as widening economic relations, China has also become Pakistan's biggest supplier of weapons. Bangladesh's water disputes and political tensions with India, meanwhile, have made it look north to China, which has been its biggest trade partner since 2005. China has also become a key political and economic player in Nepal, especially after relations with India soured when a new king came to power in Kathmandu in 2005. Bhutan is the last country in the region that still looks to India instead of China, although Beijing has been trying to establish full diplomatic ties with Bhutan for years. Improved ties with Bhutan and Nepal could also help promote legitimacy of China's Tibet policy in the eyes of the world.

Beyond expanding trade and diplomatic relations, China wants to connect South Asia to its relatively underdeveloped southern provinces. The China-Pakistan Economic Corridor to the west, the Bangladesh-China-India-Myanmar corridor in the east and expanding rail and road routes across the Tibetan plateau along Nepal, Bhutan and northern India, are all efforts to better connect the region as a whole. China's outreach to South Asia is constrained by India's resistance towards all these initiatives and the growing interest of the United States and Japan in the region. The domestic political instability in Pakistan, Afghanistan, Nepal, Bangladesh, Maldives and even Sri Lanka is another issue limiting China's outreach. In recent years, India's wariness of China has affected Beijing's relationships with Sri Lanka, Nepal and Bangladesh, who have sought more balanced relations with both India and China. India effectively sees these countries' neutrality towards India-China dynamics as a preference for China.

CPEC is a geoeconomic project, with economic implications not just for the two direct participants, China and Pakistan, but also for those countries that are not part of the 2015 investment agreement to develop infrastructure, energy, and communications in order to link the entire belt consisting of China, Central Asia, South Asia, West Asia, North Africa and Gulf states. As stated earlier, the geoeconomics suggests maximum radiation of CPEC economic flows into the South Asian region, eventually linking China and India. However, the absence of a CPEC-India link would seriously constrain trade flows of the other SAARC members.

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Afghanistan and Iran: On Board CPEC's Lucrative Train

Syed Ghulam Qadir*

China's History, Geography and Economy: An Overview

China is on the eastern end of the Eurasian landmass which is the largest contiguous landmass of the planet. It borders 14 countries, eight of which have populations exceeding 25 million. Countries bordering China include India, Pakistan and Russia - three of the top ten most populous countries in the world. To its east in close maritime proximity are huge populations of Indonesia, the Philippines and Japan. China, including its own, has easy and short distance access to markets of more than half of the world's population.

In 2014, China exported USD 2.37 trillion worth of goods and services, making it the largest exporter occupying a major part of retail space in markets all across the globe. Chinese exports have increased at an annual rate of 11.8 per cent over the last five years from USD 1.35 trillion in 2009 to USD 2.37 trillion in 2014. Given its location, coupled with its export capabilities and the trajectory of its export growth, it is natural for China to desire and develop trade routes to countries in the region and beyond.

Silk Roads

China has a 2000 year history of strong trade links with regions and countries to its west. The Silk Road which was an intercontinental network of trade routes is evidence of China's historical role in promoting east-west trade on the Eurasian landmass. The Han Dynasty of China formally established the Silk Road which was used almost regularly (with a few interruptions) from 130 BCE, when the Han officially opened trade with the west, to 1453 CE, when the

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Ottoman Empire boycotted trade with the west and closed all trade routes including the Silk Road.

The present day Xinjiang Uyghur Autonomous Region is China's gateway to Eurasia. It has a long history of trade and cultural exchange with parts of Asia to its west: Central Asia and South Asia. The historic Silk routes passed through Xinjiang to inner China so it has the potential for becoming a major trading and cultural interchange hub for countries and regions to its west.

One Belt, One Road (OBOR)

Inspired by the ancient Silk Road China has developed an overarching and broad initiative to support and develop land and sea routes that will eventually connect it commercially to most of the world. These routes will provide economical and efficient ways for China to trade its goods worldwide.

In 2013, China announced two major initiatives to develop international land and sea routes. These initiatives were initially packaged and labeled under the overarching term 'One Belt, One Road' (一带一路) or in short 'Belt & Road'). More specifically, the initiative includes the Silk Route Economic Belt (SREB) and the 21st Century Maritime Silk Route (MSR). The SREB or the land routes that are being developed to link China to countries to its west are of greater interest because they paint a much bigger picture of which the China-Pakistan Economic Corridor (CPEC) is a small part.

China's Motives behind OBOR and CPEC

In simple terms, China's motives in initiating OBOR and developing CPEC can be summarised as follows:

1. Find new and expand existing export markets for its products.
2. China has developed a huge infrastructure development industry and now it is finding it difficult to keep them occupied at home (it can't go on building ghost cities). CPEC will give them immediate building contracts of roads, rails, ports and power stations. It will

also help develop markets for Chinese infrastructure development companies and capabilities.
3. Create conditions so that in future Chinese companies can open offshore facilities, employ cheap foreign labour and have profit earning potential abroad.
4. Have direct and short access to the waters of the Indian Ocean and its maritime trading routes.
5. Have short access through roads and pipelines to the energy resources of the Middle East.
6. Help develop its western region, including Xinjiang, and leverage its central Asian linkages to develop trade and commerce through its western borders to other countries of Asia and Europe - greater Silk Road.
7. Develop goodwill among its neighbours and trade partners.
8. Possibly internationalise its currency.

CPEC - Some Basics

CPEC is so far China's single biggest ever overseas investment commitment. It is a 3,218 km long route, consisting of highways, railways and pipelines that will connect Pakistan's Gwadar Port to the Chinese autonomous region of Xinjiang. The route and other infrastructural facilities, including ports and power plants, will be built over 15 years. The project is estimated to cost USD 75 billion, of which over USD 45 billion will be spent to make the Corridor operational by 2020. Table 1 summarises the number of projects identified so far along with their estimated cost under CPEC:

Table-1
CPEC Project Sectors and Costs

No.	Sector	No. of Projects	Estimated Cost (USD million)
01	Energy	21	33,793
02	Transport Infrastructure	4	9,784
03	Gwadar	8	792.62

Source: BOI n.d.

Looking at the breakup of these projects, it is easy to see that currently the predominant part of CPEC is the financing of a number of infrastructure and related projects in Pakistan. From a purely financial perspective, most of these projects are simply a sale of products and services by China to Pakistan.

For example, the power projects will be primarily built by Chinese companies for Pakistan with BOOT (build-own-operate-transfer) type contracts backed by sovereign guarantees from Pakistan. In other words, the Government of Pakistan is guaranteeing purchase of electricity from these power plants and also guaranteeing availability of raw materials and other inputs at certain prices.

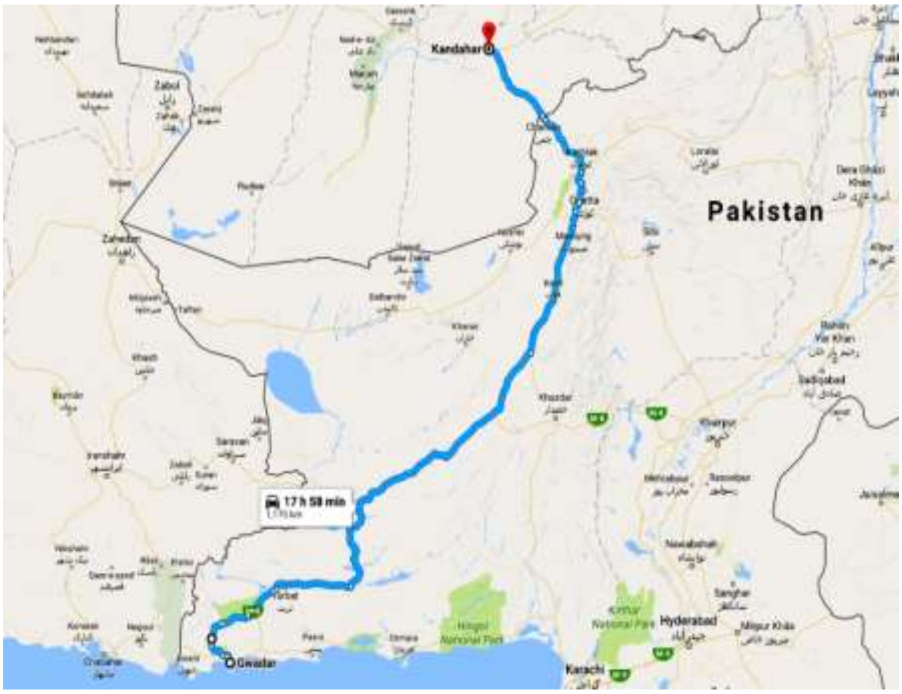
The road and rail segments of CPEC are also being built by China and can be looked at as sale of services from China to Pakistan. With the probable exception of Gwadar Port, returns on most of the other investments being made by China are guaranteed by Pakistan.

Although road, power and other infrastructure projects are very likely to positively affect the long-term outlook of the economy, but lasting change will come from economic zones and related economic institutions and activities that are being planned for the economic Corridor. CPEC planned and inspired economic zones are discussed separately in the following sections.

Gwadar Port

Though Gwadar is being presented as a port that will serve Afghanistan and other Central Asian countries, its location may not be the most competitive for such purposes particularly given that Karachi and Chabahar (Iran) ports also exist. The following route maps show that Karachi is better located to serve Kandahar, Kabul and even Mazari Sharif as compared to Gwadar:

Figure-1
Gwadar to Kandahar



Source: Google Maps.

Figure-2
Gwadar to Kabul

Source: Google Maps.

Figure-3
Karachi to Mazari Sharif

Source: Google Maps.

Figure-4
Karachi to Kabul

Source: Google Maps.

The data below gives distances between the ports of Karachi, Gwadar and Chabahar and likely destination cities of Afghanistan and Turkmenistan:

Gwadar – Kabul	1646 km
Chabahar – Kabul	1834 km
Karachi – Kabul	1401 km
Gwadar – Kandahar	1179 km
Chabahar – Kandahar	1338 km
Karachi – Kandahar	925 km
Gwadar – Mazari Sharif	2225 km
Chabahar – Mazari Sharif	2187 km
Karachi – Mazari Sharif	1814 km
Gwadar – Ashgabat	1934 km
Chabahar – Ashgabat	1851 km
Karachi – Ashgabat	2357 km

It is clear from the travelling distances that Gwadar Port is not located at the closest distance from the main cities in Afghanistan and Turkmenistan compared to that of Karachi and Chabahar. Therefore, the location of Gwadar Port may not be the best argument for CPEC and its benefits for the region. Since Chabahar (Iran) Port is within 100 kms of Gwadar on the same side of the Persian Gulf, Iran gets little logistical benefits from the Gwadar Port. The benefits of CPEC for Afghanistan and Iran have to be found in areas other than Gwadar Port.

Economic Zones

The port, energy and surface transport projects are intended to change the market dynamics of Pakistan's economy. Through these infrastructure projects, Pakistan would be able to create a range of economic zones, each zone focusing on one or a few kind of businesses, thus, achieving specialisation in those businesses, e.g. textiles, heavy machinery, electronics, semi-conductors, and solar panels etc. Each of these zones will create an environment for developing a particular industry and its ancillary industries. The technological and business support services available here will be catalysts for development of businesses and related activities. They are opportunities for businesses in the region to join and benefit from the economic activities in the zones.

The biggest boost will come from Chinese companies and expertise coming to Pakistan. We have seen the success of multinational companies in Pakistan and in other countries of the region. Companies and businesses with experience and capital have been and continue to be a major source of development and economic growth in developing countries.

Not only do we expect Chinese companies to bring capital and expertise, but to also bring about positive externalities for other businesses in the region. Building a chain of support services and infrastructure are examples of positive externalities for a particular industry or industries. China's modern supply chains and expertise in managing the complexities of this chain are, for example, some of the positive externalities that will help Pakistani businesses. In other words, Chinese companies will not only help in production of goods and services but in a large number of cases will also help producers in their marketing activities.

It is in the interest of Pakistan and local and regional businesses that Chinese companies also produce their products here and market them. This will ensure that a full range of ancillary and support services are developed in the area which will benefit local businesses. Following in China's footsteps, Pakistan may become a major global exporter of goods and services.

China-Pakistan Economic Integration

China is now the second largest economy of the world in terms of GDP. The top three economies of the world and their respective GDPs are: USA 18,558.130, China 11,383.030 and Japan 4,412.600. China is now 15.38 per cent of world GDP. The spectacular growth in Chinese GDP has translated into rising standards of living and rising wages in the country. Consequently, Chinese manufacturers are moving parts of their operations to low cost locations including Vietnam and Bangladesh. China has started to shed some of its low wage industries which in rapidly industrialising economies are typically referred to as sunset industries. The Chinese government has ordered manufacturers in 20 industries, including steel, cement, aluminum, copper smelting, chemical fiber and papermaking to cut production capacity (Songwanich n.d.). There are plenty of sunset industries in China that will benefit Pakistan if relocated here. Pakistan has so far not benefited from this economic relocation.

Integration with Xinjiang Region

Trade between China and Pakistan through Xinjiang remains small; partly to blame are poor roads and towering heights of the highway and passes. In 2014, trade between Pakistan and Xinjiang was USD 147 million. Compare that to Xinjiang's USD 12.2 billion trade with another neighbour, Kazakhstan. In 2015, Pakistan imported goods worth USD 11 billion from China and exported goods worth USD 1.93 billion. In light of these numbers and the potential for trade growth between the two countries, it can be said that the volume of trade through the Xinjiang region has huge potential for growth. CPEC should help realise this potential.

Business-to-Business Integration

Business-to-business integration between China and Pakistan is disappointingly low at this stage. Chinese companies have been mostly interested in executing construction and heavy engineering projects. Very few Chinese companies have invested equity in Pakistani enterprises or established joint ventures with them. Pakistani companies and entrepreneurs, on the other hand, remain heavily oriented towards Europe and America and unfamiliar with China. Chinese private sector delegations frequently return disappointed from their interaction with Pakistani companies. To derive full advantage from the Corridor, Pakistan’s private sector needs to establish a much closer relationship with China’s public and private sector companies.

To achieve their economic and commercial ends, Pakistan and China should promote greater cultural interaction between people and businesses of the two countries. The Silk Road was a major driver of cultural integration between trading partners. Art, religion, philosophy, technology, language, architecture, and every other element of civilization was exchanged through the Road, along with the commercial goods the merchants carried from country to country. Pakistan and China should have similar goals for CPEC.

CPEC and its Significance for Afghanistan

Afghanistan lies in the north of Pakistan. It is 652,864 km^2 in area and Pakistan is 796,095 km^2. Its population is approximately 32 million, whereas Pakistan’s is approximately 200 million. In short, Afghanistan is a little smaller in size than Pakistan, but only about one sixth of its population.

According to the Observatory of Economic Complexity (OEC) data, GDP of Afghanistan was USD 20 billion and its GDP per capita was USD 1.93k in 2014. In the same year, Afghanistan had a very low ranking of 158th in the world in terms of its export size; and the value of its imports were USD 6.42 billion and that of its exports was USD 770 million; resulting in a negative trade balance of USD 5.65 billion. Afghanistan has a long way to go in terms of its economic performance. Its international trade, particularly exports, needs to increase significantly just to balance the volume of its current imports.

Afghanistan is also a landlocked country. It borders Iran and Pakistan in its south and southwest, its closest access to major maritime trading routes is through these two countries. Tajikistan, Turkmenistan and Uzbekistan are in the north, which are practically landlocked countries themselves. To the east, its extremely narrow border with China through the Wakhan Corridor does not provide any usable trading route, even to China much less to the rest of the world. The Republic does not have a seaport and relies heavily on Pakistan for its trade by sea. Pakistani ports are at the shortest distance to most Afghan cities (as shown earlier).

Afghan Exports

According to OEC data, the top exports of Afghanistan in 2014 were grapes (USD 113 million); scrap iron (USD 79.2 million); coal briquettes (USD 78.8 million); raw cotton (USD 69.9 million); and tropical fruits (USD 66.4 million). Top export destinations of Afghanistan in 2014 were Pakistan (USD 373 million), India (USD 242 million), China (USD 21.3 million), Iran (USD 18.1 million) and Turkey (USD 16.4 million). Total exports of Afghanistan were worth USD 770 million. In 2014, Afghanistan's exports to Pakistan were 49 per cent of its total exports. Table 2 shows Afghanistan's export destinations with percentages and export value:

Table-2
Export Destinations of Afghanistan (2014)

Countries	Per cent	Export Value USD m
Pakistan	49	374
India	32	243
China	2.8	21.3
Iran	2.3	18.1
Turkey	2.1	16.4
Germany	2.0	15.8
Russia	1.6	12.4
Finland	1.3	10.1
United States	1.0	7.87
Italy	0.86	6.64
France	0.62	4.77
Spain	0.52	4.01
UK	0.46	3.53
Kazakhstan	0.40	3.07
Central African Republic	0.34	2.6

Source: OEC Afghanistan n.d. <http://atlas.media.mit.edu/en/profile/country/afg/#Destinations>.

Afghanistan Imports

Afghanistan's top imports are refined petroleum (USD 537 million), peat (USD 454 million), raw sugar (USD 445 million), wheat flour (USD 413 million) and ornamental trimmings (USD 272 million). The country's top imports come from Pakistan, China, Iran, - India and Russia. Table 3 shows Afghanistan's imports:

Table-3
Import Origins of Afghanistan (2014)

Countries	Per cent	Import Value USD
Pakistan	34	2.2 billion
China	11	709 m
Iran	7.0	450 m
India	6.8	439 m
Russia	6.4	408 m
United States	6.2	399 m
Kazakhstan	5.2	333 m
Azerbaijan	4.3	276 m
Turkey	2.9	186 m
Belgium-Luxembourg	2.2	140 m
Malaysia	1.2	78.3 m
Indonesia	1.2	77.4 m
South Korea	0.92	58.7 m
Thailand	0.73	47 m
United Kingdom	0.68	43.5 m

Source: OEC Afghanistan n.d.
<http://atlas.media.mit.edu/en/profile/country/afg/#Imports>.

The largest share of Afghanistan's imports comes from Pakistan. It imports 34 per cent of its products from Pakistan, 11 per cent from China and 6.8 per cent from India.

Afghanistan's Trade Relationship with Pakistan

Pakistan is by far Afghanistan's largest trading partner. 49 per cent of its exports go to Pakistan and 34 per cent of its imports come from there. Afghanistan relies on Pakistan for most of its maritime business with other countries. Afghanistan's economy is highly intertwined and in some ways dependent on Pakistan.

Afghanistan's Trade Route to China

Afghanistan has substantial trade volume with China; most of which is in the form of imports. Given the increasing competiveness of Chinese goods it is likely that Afghanistan's import trade with China will grow.

Unfortunately, Afghanistan has a huge trade deficit, therefore, it needs to increase its exports and export base. Given the nature of its exports and likely destination regions e.g. Xinjiang, Afghanistan will be well served to establish a land-based trade route with China. This would not only lower import costs, but would also help improve its competiveness since it really needs to develop substantial export trade with China.

Wakhan Corridor with China

Even though Afghanistan has a small border with China, it is not suitable for developing a trade route. The Afghan-Chinese border passes through the Wakhan Corridor which is a long and narrow strip of land carved to separate the British Empire from the Tsarist Empire in the late 1800s. Its 350 km length only has about 13000 residents.

This Corridor is not being used as a trade route for any substantial Afghan trade with China. Even drug traffickers find alternate routes through the Pakistan-China or the Tajikistan–China borders more preferable. The economics of a trade route through the Wakhan Corridor will probably never work for Afghanistan because there are slim chances of maintaining a 500 km road that would connect a small town in Afghanistan to another in China.

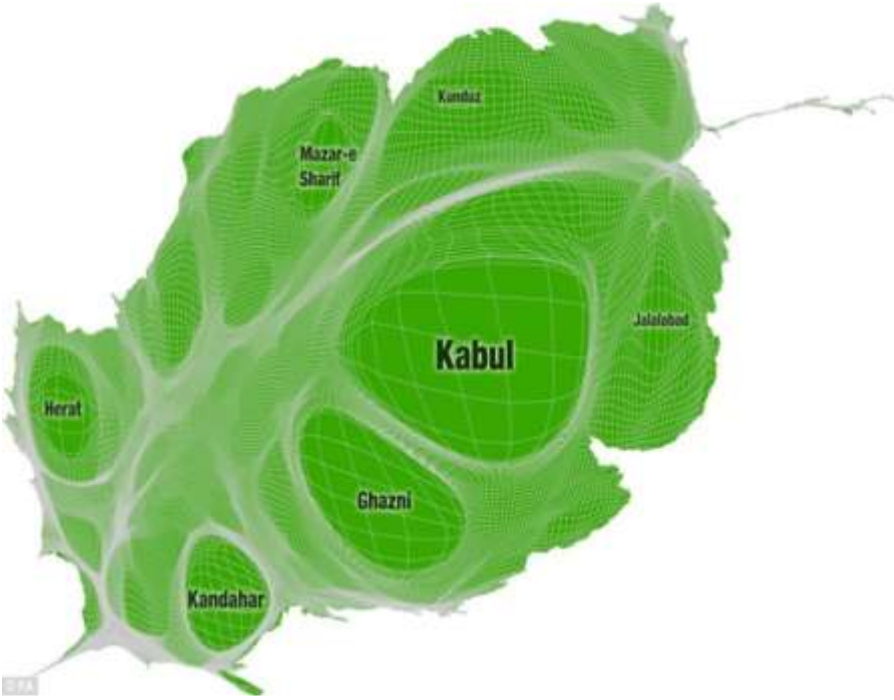
Neighbours to the North and to the South

Given the poor viability of trade through the Wakhan Corridor Afghanistan has to trade with China either through its neighbour to the north, Tajikistan, or through its neighbour to the south, Pakistan. As shown earlier, Afghanistan's trade with Pakistan is substantial as compared to its trade with Tajikistan which is hardly one per cent. Afghanistan also uses Pakistani seaports for its trade with the rest of the world. Given the small volume of trade with Tajikistan, it is quite obvious that Afghanistan's preferred option should be to trade with China through Pakistan.

China-Central Asia-West Asia Corridor

Under the One Belt, One Road initiative, there are other roads and routes being built by China in the Central Asian region, one of which is the China-Central Asia-West Asia Corridor. It passes mainly through Urumqi (China)-Almaty (Kazakhstan) - Bishkek (Kyrgyzstan) - Samarkand (Uzbekistan)-Dushanbe (Tajikistan) - Tehran (Iran). This route enters China through the Kazakhstan – China border of Huoerguosi (also known as Khorgas) which is far north of Afghanistan. The road distance between azari Sharif, the northern most city of Afghanistan and Khorgas, Kazakhstan is approx. 2000 km. To use this route, goods will have to pass through at least two countries (Uzbekistan and Kazakhstan) to reach the Chinese border. Therefore, this route will never suit Afghanistan for its trade with China. Pakistan is the only viable trade route between Afghanistan and China.

Figure-4
Population Centres of Afghanistan



Source: The Telegraph n.d.

The above figure shows the major population centres of Afghanistan. Given that most industries and population centres are in its south, the China-Central Asia route would not work for most of its trade with China; and for the same reason, CPEC may be the best route for Afghanistan to trade with China.

CPEC - An Opportunity for Afghanistan

CPEC provides an opportunity for Afghanistan to develop its economy and integrate it with the region, including Pakistan and China. The development of industries both export driven and domestic consumption driven should be a major goal of the government of Afghanistan; and integration with CPEC should be major part of that goal. Afghanistan's strategic effort to develop and modernise its industrial base should, therefore, include CPEC.

Iran

The country to the west of Pakistan is Iran. It is 1.648 million km^2 in area and Pakistan is 796,095 km^2. Its population is approximately 80 million, whereas Pakistan's is approximately 200 million. In short, Iran is more than twice the size of Pakistan in area and less than half its population.

Iran is a country in the Middle East or Southwest Asia; it borders Iraq and Turkey to its west; Armenia, Azerbaijan, Turkmenistan and the Caspian Sea to its north and Afghanistan and Pakistan to its east. In its south is the Persian Gulf and it borders the United Arab Emirates, Bahrain, Kuwait, Oman, Qatar and Saudi Arabia by sea. The Persian Gulf is one of the major arteries of global trade, particularly in oil and gas.

In 2014, the GDP of Iran was USD 425 billion and its GDP per capita was USD 17.3k. Iran is the 56th largest export economy in the world. In 2014, it had negative trade balance of USD 2.78 billion; its import costs were USD 53.8 billion and its exports were around USD 51 billion.

Iran Exports

According to OEC data, Iran's top exports include crude petroleum (USD 37.2 billion), ethylene polymers (USD 2.7 billion), iron ore (USD 1.58 billion), acyclic alcohols (USD 1.23 billion) and others including fruits and nuts (USD 921 million). The top export destinations of Iran are China (USD 24.9 billion), India (USD 10.3 billion), Japan (USD 5.55 billion), South Korea (USD 4.12 billion and Turkey (1.48 billion). Total exports of Iran were worth USD 51 billion in 2014. Table 4 provides a percentage and export value breakup:

Table-4
Export Destinations of Iran (2014)

Countries	Per cent	Export Value USD
China	49	24.9 b
India	20	10.3 b
Japan	11	5.555 b
South Korea	8.1	4.12 b
Turkey	2.9	1.48 b
Italy	1.1	546 m
Hong Kong	1.0	523 m
Afghanistan	0.88	450 m
Russia	0.67	341 m
Oman	0.65	331 m
Germany	0.60	307 m
Kuwait	0.44	226 m
Armenia	0.38	195 m

Source: OEC Iran n.d. <http://atlas.media.mit.edu/en/profile/country/irn/>.

Iran Imports

Iran's top imports include wheat (USD 2 billion), rice (USD 1.31 billion), corn (USD 1.19 billion), soybean meal (USD 1.08 billion) and light fixtures (USD 1.07 billion). The top origins of its imports are China (USD 24.1 billion), India (USD 4.4 billion), South Korea (USD 4.17 billion), Turkey (USD 3.82 billion) and Germany (USD 3.07 billion). Total imports of Iran are worth USD 53.8 billion.

Table-5
Import Origins of Iran 2014

Countries	Per cent	Import Value USD
China	45	24.1 b
India	8.2	4.4 b
South Korea	7.7	4.17 b
Turkey	7.1	3.82 b
Germany	5.7	3.07 b
Italy	2.8	1.52 b
Brazil	2.7	1.44 b
Russia	2.5	1.33 b
Argentina	1.7	929 m
Kazakhstan	1.7	892 m
Malaysia	1.2	663 m
Switzerland	1.2	656 m
France	1.1	589 m
Netherlands	0.92	495 m
Spain	0.73	392 m
Australia	0.60	325 m
Thailand	0.60	322 m
Lithuania	0.58	310 m
Sweden	0.57	307 m
Austria	0.50	269 m

Source: OEC Iran n.d. <http://atlas.media.mit.edu/en/profile/country/irn/>.

In short, in 2014 Iranian exports to China were 49 per cent of its total exports, while its imports from China were 45 per cent of its total imports. Given the volume and the share of its trade with China, it is clear that Iran will be well served to have a direct trade route to China. Since most of its exports to China are oil and gas and related products, it is logical for Iran to explore ways to transport them through efficient means such as pipelines. If there ever is a gas or oil pipeline to China from Iran it is very likely that it will run through Pakistan.

Gas/Oil Pipeline

With 10 per cent of the world's proven oil reserves, Iran has serious interest in extending its gas/oil pipelines to countries in the region. It has even invited Bangladesh to join its planned pipeline to India. It has also invited China to join the gas pipeline project. It has completed its portion of the Iran Pakistan gas pipeline which is a 900 km long segment. Pakistan is yet to complete its section of the pipeline.

In June 2016, Pakistan finalised a contract whereby China would lay the previously planned gas pipeline from Gwadar Port, 80 kms from the Iran border, to the Pakistani city of Nawabshah. This segment will be part of CPEC and potentially give Iran direct access to gas markets in Pakistan. The fact that CPEC can be instrumental in helping Iran extend its gas pipeline in Pakistan and to further extend it to China and possibly other countries should give it the incentive to join CPEC.

Chabahar Port

The Iranian port of Chabahar which is being developed by the help of Indians can only become commercially profitable if it develops economic quantities of traffic or takeoff transport load. If CPEC becomes a successful venture it will provide traffic to Gwadar Port as well as Chabahar Port. In fact, Iran can effectively make Chabahar Port an extension of CPEC by actively participating in the economic activities that are part of the Corridor. Cargo unloaded at Chabahar can easily be shipped through CPEC. Since Gwadar is a deep seaport i.e. it has the potential to conveniently handle the biggest cargo ships, therefore, it may be in the commercial interest of Chabahar Port cargo handlers to have a working relationship with Gwadar Port cargo handlers.

Both Gwadar and Chabahar can succeed if the areas they serve significantly increase their economic activities. A symbiotic relationship between these two ports is in the mutual interests of both Pakistan and Iran. Chabahar is being built after CPEC became a reality. Chabahar's future prospects can be significantly improved by integrating it with CPEC.

Economic Integration with Pakistan

Iran also needs to broad base its economy; reducing its reliance on the oil and gas sector is one of its major objectives. One of the obvious ways to effectively do this is to integrate it with other economies of the region, particularly Pakistan which is a potentially large economy with 200 million people. Economic development and growth is a function of many factors. One of the most important development factors is business exposure and competition local businesses face in the conduct of their businesses. CPEC will provide the necessary conditions for Iranian, Afghani and Pakistani businesses to absorb and understand the international business dynamics of a particular industry and will prepare them to compete in the global markets.

Economic Integration with China

On 24 January 2016, the breaking news was that 'Iran and China agree on a USD 600 billion trade deal after sanctions lifted.' Beijing and Tehran agreed to increase bilateral trade and expand multidimensional ties tenfold in the next decade. This agreement was reached during a visit to Iran by Chinese President Xi Jinping. Iran's Supreme Leader Ayatollah Ali Khamenei called for closer economic and security ties with China and said Iran would never forget Chinese cooperation during the sanctions. The fact that both agreed on forming strategic relations as reflected in the 25-year comprehensive document is a significant development for both countries (The Nation 2016). Iran's desire for closer economic and security ties with China can become reality through its active participation in the CPEC. In fact, it is in the interest of both Pakistan and China to draw Iran into the CPEC equation. Iran's participation will give CPEC the economic flows, traffic, markets and other economic incentives and trade volumes that will enhance the financial and economic feasibility of most of its components. For example, roads and pipelines will have traffic volumes to justify their existence and upkeep. With Iranian participation, economic zones will be able to attract Chinese entrepreneurs who may be looking for Iranian markets and financial partnerships to leverage their access to cheap Pakistani labour. CPEC will provide Iranian entrepreneurs opportunities to expand their business in an environment they can understand and compete in easily. Competition between Pakistani and Iranian entrepreneurs will be healthy for both. The level of integration that Iran can achieve between its businesses and Chinese businesses cannot be matched by any other means besides CPEC.

This Corridor is a win-win for all: Afghanistan, Iran, Pakistan and China.

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ANNEXURES

Conference Speakers and Authors' Biographies

Mr Asad Ali Shah is Assistant Chief in International Trade and Finance (IT&F), Ministry of Planning, Development and Reform, Government of Pakistan (GoP). Previously, he served in the Ministry of Industries and WTO Wing of Ministry of Commerce, GoP. Currently, he deals with matters of regional connectivity within the Economic Cooperation Organization (ECO), South Asian Association for Regional Cooperation (SAARC), Shanghai Cooperation Organization (SCO) and China-Pakistan Economic Corridor. Mr Shah has done M.A.S. from Applied Economics Research Centre, Karachi University, Pakistan.

Dr Ather Maqsood Ahmed is Professor and Head of Economics Department at the School of Social Sciences and Humanities at the National University of Sciences and Technology (NUST) in Islamabad, Pakistan. He has held several prestigious positions including Member Fiscal Research and Statistics at the Federal Board of Revenue, Chief of Research at the Pakistan Institute of Development Economics in Pakistan, and Senior Research Scientist at Kuwait Institute for Scientific Research. Prof. Ahmed has 35 years of research and teaching experience in the fields of macroeconomics, fiscal policy, applied econometrics, statistics, and economic demography. He has published over 60 research articles. He holds a PhD in Economics from Johns Hopkins University, USA, and Masters from University of Waterloo, Canada.

Dr Jahangir Khan is currently serving as Associate Professor in the Economics Department at the University of Balochistan in Pakistan. He has 26 years of teaching/research experience at the university level, as well as working with international organisations like the UNDP, UNICEF, USAID, World Bank, Asian Development Bank, European Union, and the Dutch government. Dr Khan has authored more than 30 research publications in journals of international repute, along with 15 research reports.

Dr Kamal Monnoo hails from a business family that now has its fifth generation in industry and commerce. He sits on various private and public sector corporate Boards, including that of Islamabad Policy

Research Institute (IPRI), Islamabad, Pakistan. His second book *Economic Management in Pakistan* was published in September 2013. Dr Monnoo's first book, *A Study of WTO*, was widely received, both at home and abroad. Having done his schooling from Aitchison College, Lahore, Pakistan, he holds academic qualifications from the International School of Management, Yale University, Crummer School of Business & Management and Syracuse University, USA.

Mr Khalid Rahman is Director General, Institute of Policy Studies (IPS) in Islamabad, Pakistan. He is one of the pioneers of the Institute, and initially served as the Institute's Director. The main focus of his research has been national and regional politics, religious education institutions and China. He has 19 publications and a number of papers to his credit. He is also Editor of the IPS Journal *Policy Perspectives*. Mr Rahman is on the boards of a number of social and development organisations and writes frequently on current affairs. He earned his Masters degree in Economics.

Dr Pervez Tahir is the Chairman, Bank of Punjab in Lahore, Pakistan. He has also been Chief Economist at the Planning Commission, Government of Pakistan. He was the Joan Robinson Memorial Lecturer at the Faculty of Economics, University of Cambridge, Mahbubul Haq Professor of Economics at the Government College University (GCU), and Head of the Department of Economics at Forman Christian College University (FCCU) in Lahore, Pakistan. Dr Tahir also served on the Statistical Advisory Panel of UNDP's Human Development Report. He earned his PhD and MPhil degrees in Economics from the University of Cambridge, UK.

Dr Saima Shafique is Head of the Department of Economics at the National University of Modern Languages (NUML) in Islamabad, Pakistan. Previously, she served as Assistant Professor at NUML. She has published six research papers and participates in national conferences. Dr Shafique earned her PhD and MPhil in Economics from Quaid-i-Azam University, Pakistan.

Dr Salman Shah served as Pakistan's Finance Minister from 2004-08, a period of extensive economic reforms and changes. His tenure was significant for the development of the private sector, large FDI flows into the country and a successful return to international capital markets with the issuance of global depositary receipts, Eurobonds and Islamic Sukook bonds. He has been member of numerous committees at major national financial institutions such as the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan (SECP), the National Institute of Banking and Finance, among others. As Finance Minister, he negotiated with international finance institutions, investment banks, foreign investment houses, hedge funds, rating agencies and multinational corporate investors, besides other national governments and major trading partners. Dr Shah has a doctorate in Finance from Indiana University, USA, and has also taught at the University of Toronto, Canada, Indiana University and the University of Michigan, USA.

Dr Sultan Ali Adil is currently working as Director and Professor at the Faculty of Social Sciences, Institute of Agricultural and Resource Economics, University of Agriculture, Faisalabad, Pakistan. His research interests include exploration and resolution of problems encountered by the farming community using linear programming (LP) and goal programming (GP) models. Dr Adil has published six articles.

Mr Syed Ghulam Qadir is the Associate Professor of Practice at the Department of Management Sciences, Ghulam Ishaq Khan Institute of Engineering Sciences and Technology in Topi, Pakistan. He is a former Wall Street executive with over ten years of international experience in finance, investment banking and financial engineering. He has developed the Pulse method for computing portfolio risk, and has also authored a book which proposes a set of concrete free market economic solutions for the ongoing economic crisis which is caused by an inherent flaw in capitalism.

Dr Syed Irfan Hyder is currently Dean, *College* of Business *Management* (*CBM*) and *College* of Engineering & Sciences (*CES*) at the Institute of Business Management (IoBM) in Karachi, Pakistan. He has wide experience in academic leadership, consultancy, entrepreneurial ventures, trainings, and research. He previously served as Vice President and Dean Academics of the Karachi Institute of

Economics and Technology. Dr Hyder has been a regular speaker and session chair at scores of national and international conferences and workshops. He has carried out extensive long-term and short-term consulting assignments for a number of public and private sector organisations. Dr Hyder holds MS and PhD from the University of Texas at Austin, USA.

Ms Tazeen Arsalan is currently enrolled in the doctoral programme at the Institute of Business Management (IoBM) in Karachi, Pakistan. She has done numerous prefeasibility studies on different Pakistani industries including marble and granite, denim fabric and garments, electrical appliances and leather; and her expertise is in consultancy projects with financial institutions and markets. She is part of the team which handles industrial consultancy projects at Institute of Business Management (IoBM). With her industrial experience and research background, she is working to bridge the gap between industry and academia. Ms Tazeen has an MPhil from Institute of Business Management (IoBM), Karachi, Pakistan.

Dr Tughral Yamin is the founding member and Associate Dean of the Centre for International Peace & Stability (CIPS) at the National University of Sciences and Technology (NUST) in Pakistan and has been instrumental in establishing the Centre. He is a recognised PhD supervisor and member of the Higher Education Commission (HEC) curriculum committee for Peace & Conflict Studies. He was the 2013 Research Fellow of the International Program at the Cooperative Monitoring Center (CMC), Sandia National Laboratories (SNL) Albuquerque, New Mexico, USA. Dr Yamin was awarded his PhD from the Department of Defence and Strategic Studies, Quaid-i-Azam University, Pakistan.

Mr Waseem Iftikhar Janjua is a PhD Scholar at the National University of Sciences and Technology (NUST), Institute of Peace and Conflict Studies, Centre for International Peace and Stability in Islamabad, Pakistan.■

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