

An Introduction to China Pakistan Economic Corridor (CPEC)

and CPEC Centre of Excellence in PIDE

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FDI data of China and South Asia

- ▶ Inflows in South Asia: \$ 41 Billion
- ▶ Inflow in India: \$ 34.4 Billion
- ▶ Indian Outflow: \$ 9.8 Billion
- ▶ Inflow in China: \$ 129 Billion
- ▶ Chinese Outflow: \$ 116
- ▶ Chinese Investment in South Asia: \$ 6 Billion
- ▶ South Asian Investment in South Asia: \$137 M

[Source: UNCTAD. Data Period: 2014]



Recent FDI inflows in neighbourhood

S. No.	Country	Total Country FDI Inflow	Period
1	Bangladesh	\$ 10.4 Billion	1997–2013
2	India	\$ 214 Billion	2000–2014
3	Pakistan	\$ 29.5 Billion & \$ 5.5 Billion	2000–2013 2010–2013
4	Vietnam	\$ 53 Billion	2010–2014
	Philippines	\$ 16 Billion	2010–2014

Trade flows in China and South Asia

- ▶ South Asia: less than 5 % regional trade, standing at present at \$ 28 Billion [Both Goods & Services]
- ▶ Exports to China: [From 2001 to 2014]
 - ASEAN: \$ 16 B to \$168 B
 - EU: \$ 27 to \$ 217
 - India: \$ 922 m to \$13.4 B
 - Pakistan: \$ 250 M to \$ 2 B
 - Bangladesh: \$ 10 M to 500 M
 - Sri Lanka: \$ 5 M to \$ 177 M

FINANCIAL MUSCLE BEHIND CHINA'S INITIATIVES

Paving the Way

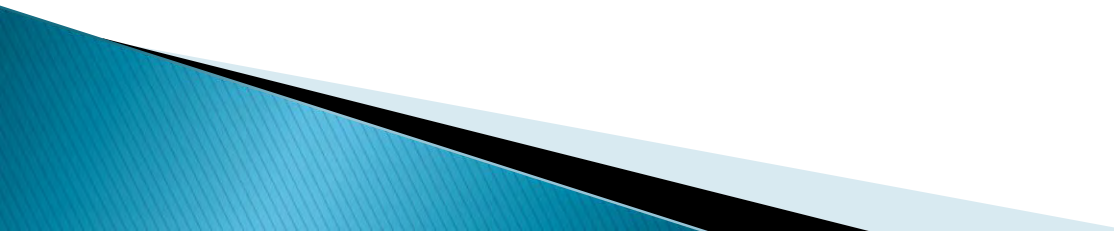
Prominent funds and banks contributing to the New Silk Road policy

Infrastructure Investment Funds	Billion \$	Established/Announced
Asian Infrastructure Investment Bank (AIIB)	50.0	October 2014
Silk Road Fund	40.0	November 2014
New Development Bank (BRICS Bank)*	30.0	July 2014
China Development Bank (CDB)	16.3	November 2014
ASEAN Infrastructure Connectivity Funds (Managed by CDB)	20.0	November 2014
Total Funds	156.3	

* Initially capitalized at \$50 billion but Brazilian and South African capital contributions exempted from figure of \$30 billion

Source: *CKGSB Knowledge research, Bloomberg, Xinhua*

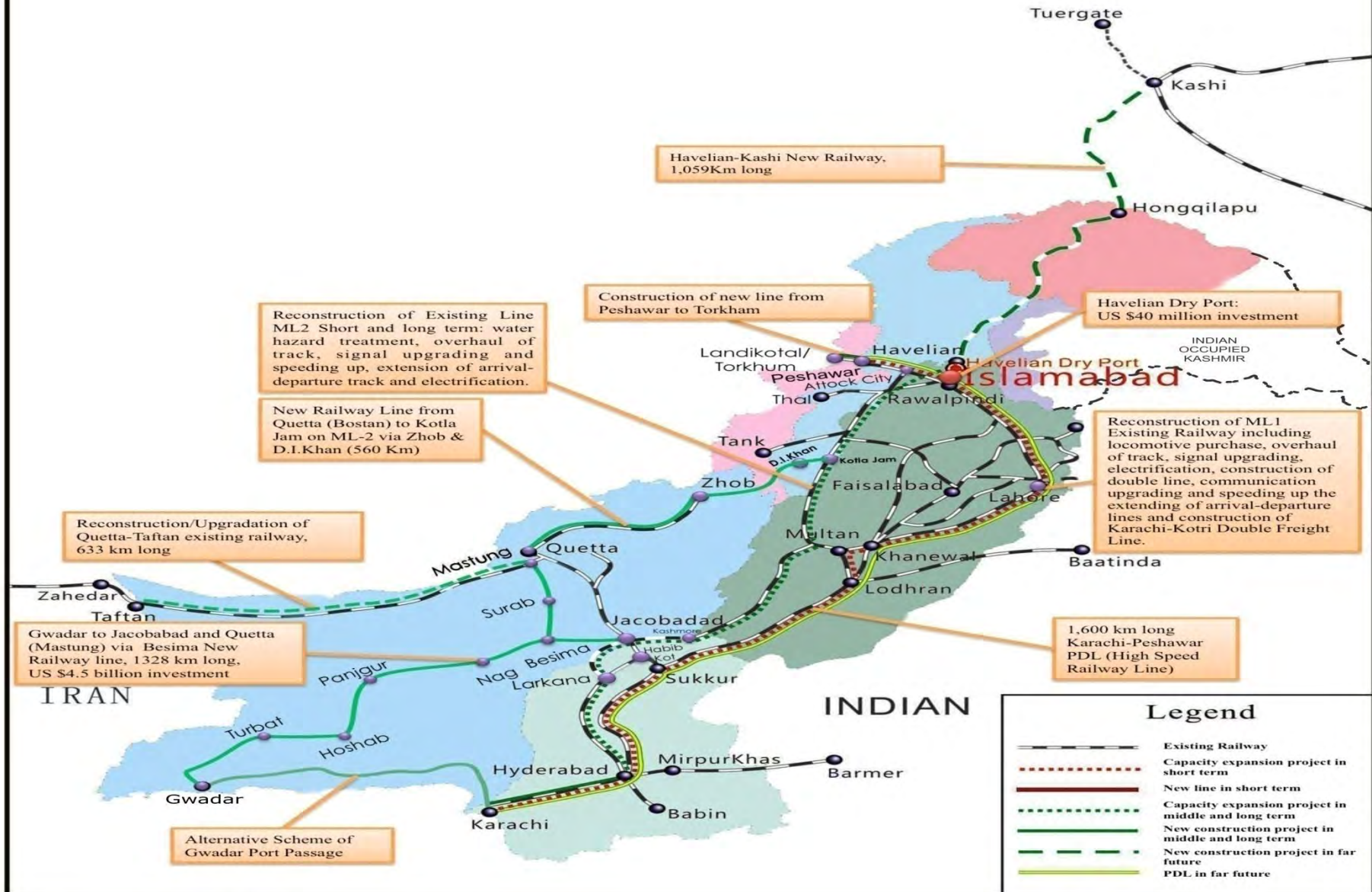
China Pakistan Economic Corridor [CPEC]

- ▶ Highway Network
 - ▶ Railway Network
 - ▶ Fiber Optic project of CPEC
 - ▶ Other networks
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Attached Figure 1: CPEC Transportation Planning—Highway Construction Program



Attached Figure 2: CPEC Transportation Planning —Railway Construction Program



CPEC Fiber Optic Project

Federal

• 18.204 Km 2.22%

GB

• 466.584 Km 56.7%

KPK

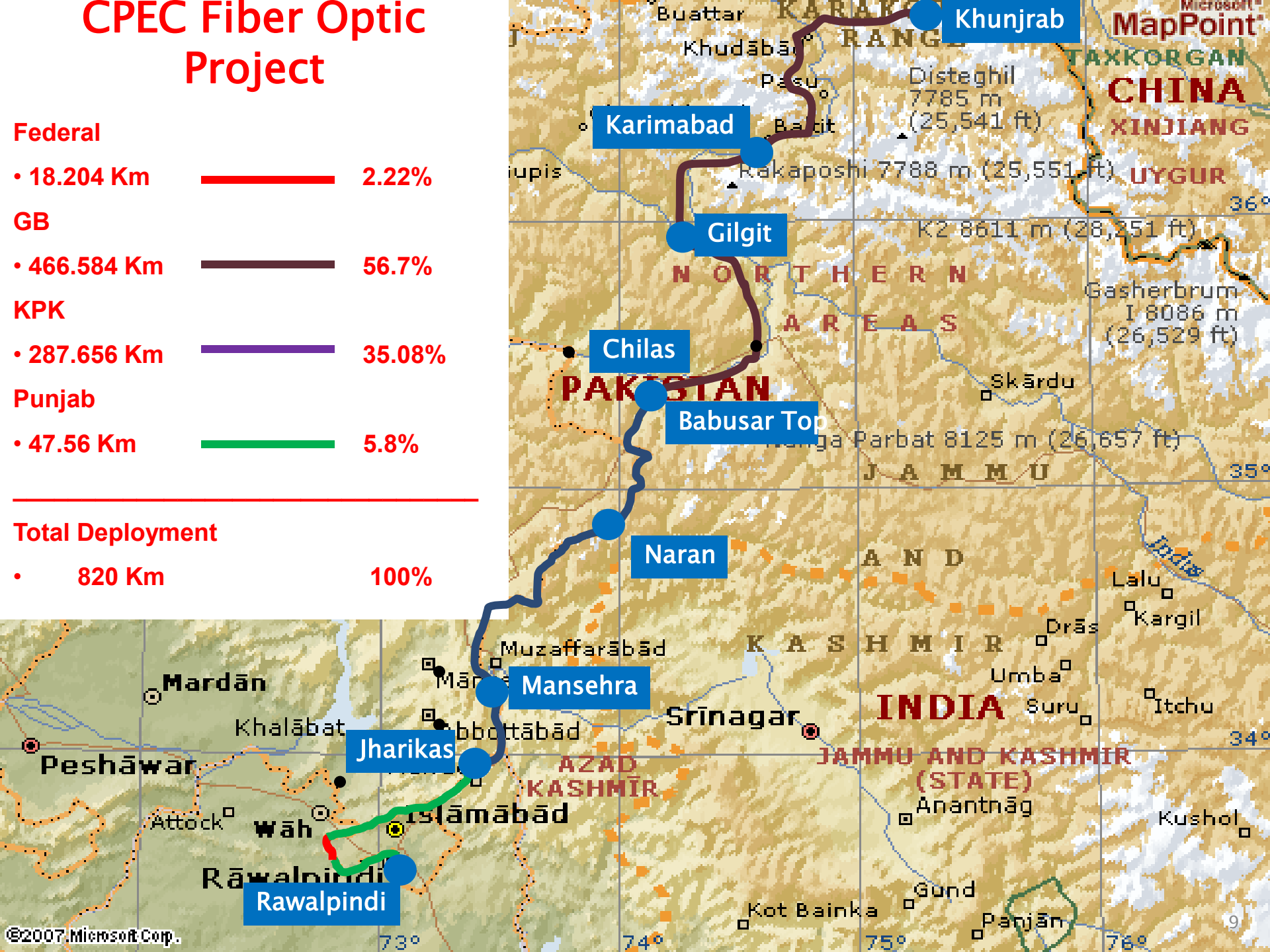
• 287.656 Km 35.08%

Punjab

• 47.56 Km 5.8%

Total Deployment

• 820 Km 100%



CPEC

▶ China

- Promote West China's economic and social development
- Speed up “One Belt and One Road” Initiative, CPEC is flagship project
- Give greater play to China's advantage of capital, technology and project operating capacity, and form new open economic system

CPEC

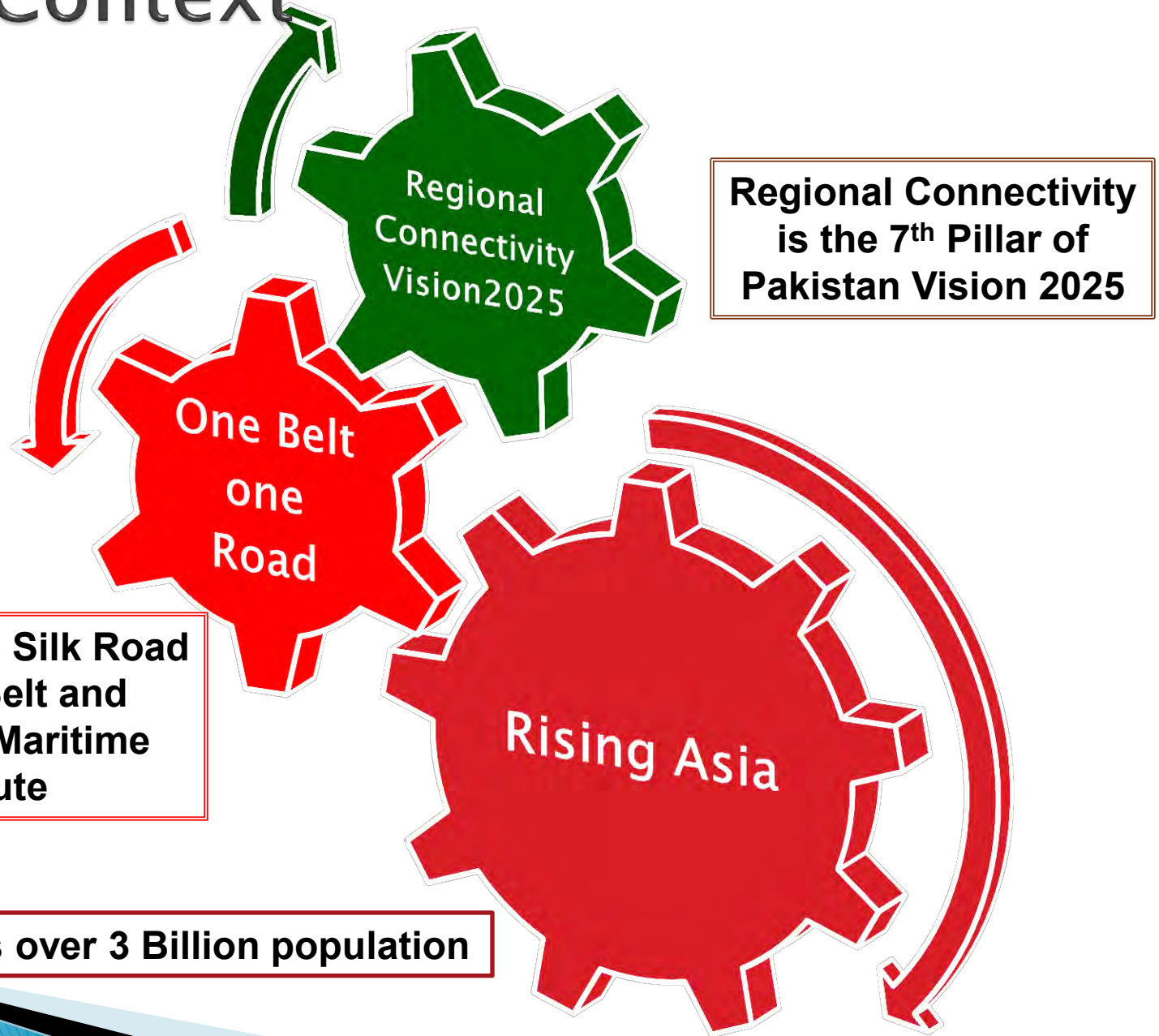
► Pakistan

- Form a new driving force for economic growth
- Remove key bottlenecks in infrastructure
- Shape new industry clusters
- Balance regional economic growth
- Enhance domestic stability

CPEC – Regional Connectivity

- ▶ New International logistics network and better industrial distribution
- ▶ Improve status of South Asia and their division of labour within the global economy of industrial investment
- ▶ Promote regional economic integration through stable trade growth, international economic and technological cooperation and people exchanges

CPEC – Context



CPEC Framework 1 + 4

- ▶ Energy Cooperation
 - ▶ Infrastructure Development
 - ▶ Gwadar
 - ▶ Industrial Cooperation
- 

IMPLEMENTATION FRAMEWORK

Joint Cooperation Committee

(Co-Chaired by Minister PDR and Vice Chairman NDRC)

Planning

Joint Working Group

Energy

Joint Working Group

Transport Infrastructure

Joint Working Group

Gwadar

Joint Working Group

Industrial Parks/Economic Zones

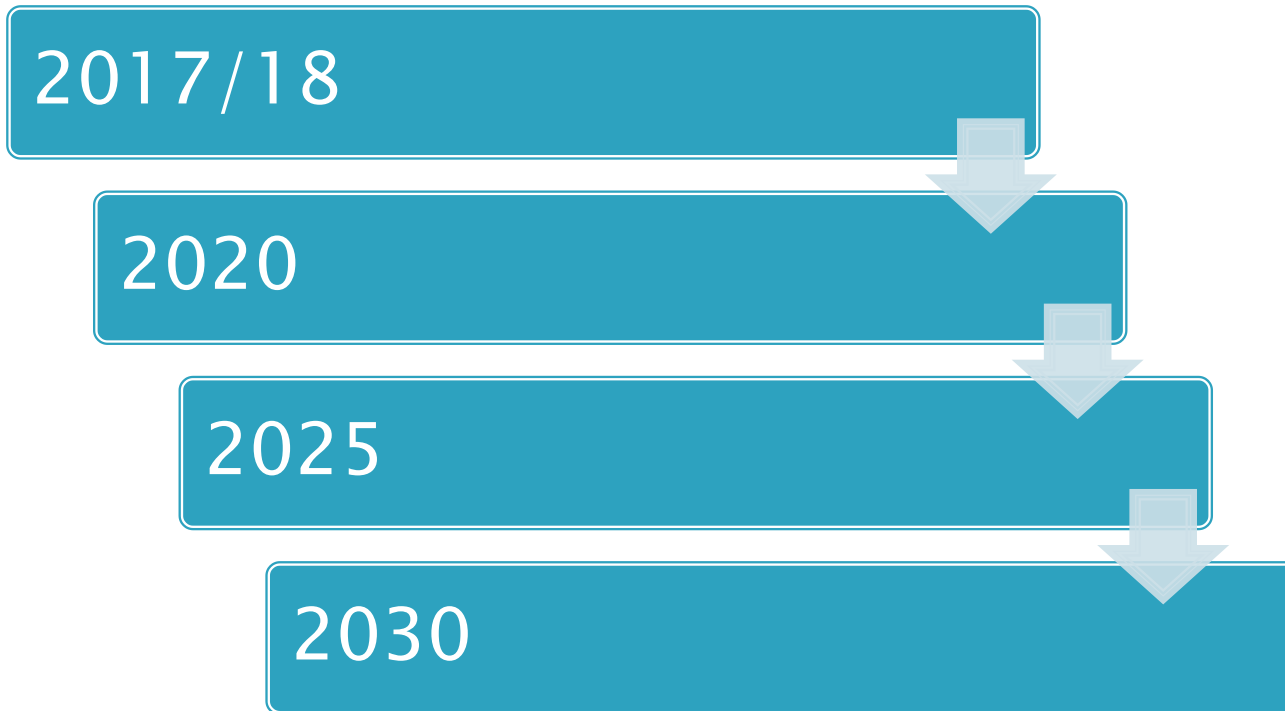
Joint Working Group

INVESTMENT ENVIRONMENT CONTINUOUSLY IMPROVING

- ▶ **Security has improved significantly and special arrangements done for the security of work force/investment**
- ▶ **Special concessional packages for the investors in SEZ framework**
- ▶ **Investment Environment(Positive : Endorsed by International Agencies)**

- **IMF:** Pakistan is on road to progress
- **World Bank:** Pakistan world's least expensive country
- **Standard & Poor's** and **Moody's** have both upgraded Pakistan's ranking
- **UN-ESCAP:** Pakistan's economy is improving and is expected to increase by 5.1% during 2015
- **Goldman Sachs' Next 11:** The list includes Pakistan along with Indonesia, Mexico, South Korea, Turkey and Vietnam.
- **OICCI:** Business Confidence Index improved from 16% (Sept. 2014) to 48% (March-2015)
- **Bloomberg** ranked Pakistan
 - a) 3rd Amongst top ten Best Performing Markets in 2014
 - b) 14th Amongst top potential investment locations in 2016

CPEC Long Term Plan




CPEC Portfolio: Early Harvest Projects

Projects	Estimated Cost: US\$ Millions
Energy	34,413
Transport and Infrastructure	
Roads	6,100
Rail Network	3,690
Gwadar Port	793
Others	44
Total	45,040

November 2014 MOU on CPEC Long Term Plan

The China– Pakistan Economic Corridor would contain the following elements in its development:

- **Significant nodes/growth Centers:** Kashi, Taxorgan, Khunjerab Islamabad, Lahore, Multan, Sukkur, Karachi, Peshawar, Quetta, Gilgit and Gwadar and such other nodes/growth centers, identified in future
 - **Connectivity:** transport and trade facilitation, dedicated freight corridors, energy corridor, telecommunications corridor.
 - **Functional Zones** and their areas of influence: Industrial Parks, special economic zones, integrated hub areas along the economic corridor, new population centers in the area of influence of the economic corridor.
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Planning Vision for CPEC LTP

Vision of China for the Region with OBOR

Improve the International and regional integration in the global economy

Form new International Logistics networks and industrial layout;

Promote regional economic development through the steady growth of trade, investment

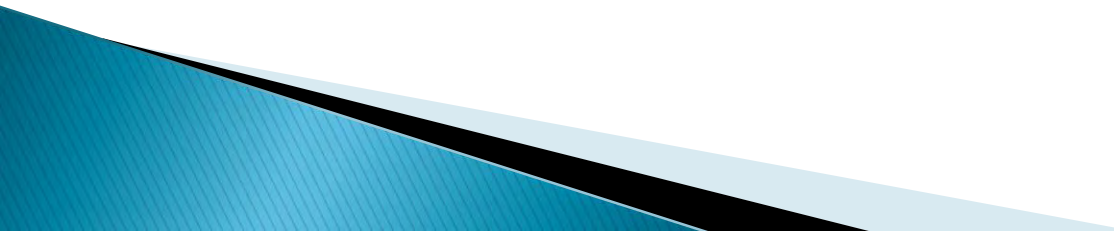
Establish new benchmark for deepening economic cooperation in the new situation

Vision of China for CPEC:

Accelerate the implementation of the Silk Road Economic Belt and Western Development Strategy

Further exploit China's advantage of funds, technology, production, engineering and operational capability for mutual development

Promote long-term social stability in Pakistan and prolonged political stability in Xinjiang



Planning Vision for CPEC LTP

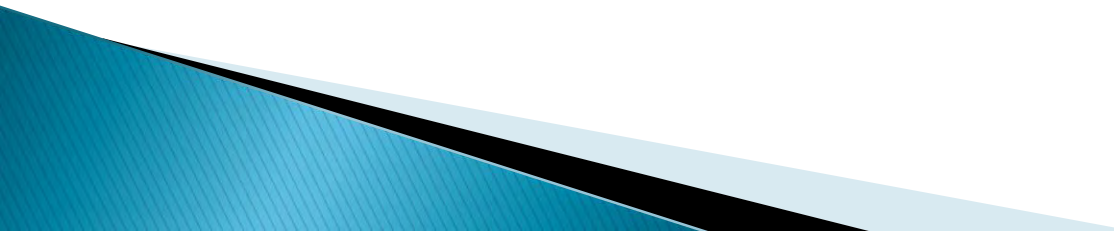
Vision of Pakistan:

Modernize infrastructure and break critical bottlenecks in infrastructure which constrain long-term growth and development
Connect major economic regions of Pakistan to reduce regional economic development gaps
Enhance the competitiveness of the economy
Promote exports of goods and services, growth in industrial production and employment; better integration with more complex global value chains; strengthen and form new industry clusters
Enhance people to People contacts

The above would result in a high growth trajectory, would ensure food, water and energy security and improve the quality of life of the people and promote peace and stability in the region.

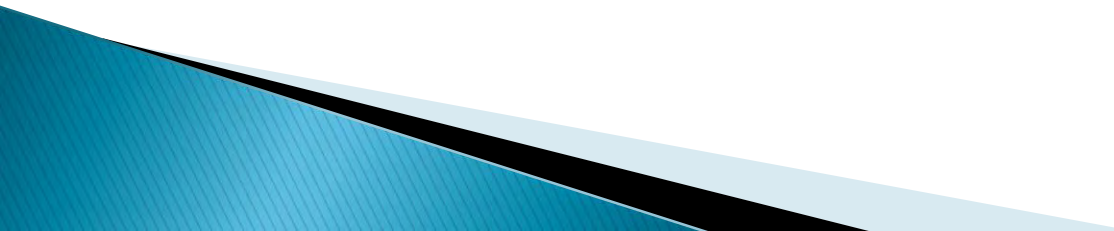


Guiding ideology

- ▶ Government guides and competitive markets operate
 - ▶ Industrial and production integration
 - ▶ Construct together and share the fruits
 - ▶ Keep openness and inclusiveness, competitiveness and transparency
 - ▶ Orderly development
- 

Key areas of the long term plan

Spatial structure and functional zones

- ▶ Relying on node cities along the economic corridor, port towns, to rationally develop the trade and logistics infrastructure, to facilitate the convenient good circulation between regions, and to promote economic and trade cooperation between the enterprises in two countries. Vigorously promote the construction and up-gradation of special economic zones like Kashgar Economic Zone, Haier-Ruba Economic Zone, Gwadar Port, and other Special Economic Zones/Industrial Parks
 - ▶ Development of Key functional zones or integration and development hubs (in China and Pakistan)
 - ▶ Development of ports including Gwadar Port
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China–Pakistan Industry Cooperation: Development Strategy

- ▶ Adherence to equality and mutual benefit and achieve complementary advantages
- ▶ Giving full play to preferential policies for industrial parks and improve investment environment
- ▶ Conduct cooperation in production expansion in Pakistan
- ▶ Promote Engineering Technical Services, including Project Contracting

China–Pakistan Industry Cooperation: Development Strategy

- ▶ China will optimize the bilateral trade structure, strive to improve trade imbalance, and actively mobilize powerful enterprises to invest in Pakistan
- ▶ Construct China–Pakistan industrial parks along with energy, transportation and infrastructure to increase earnings and realize complementary advantages of industrial resources and joint development

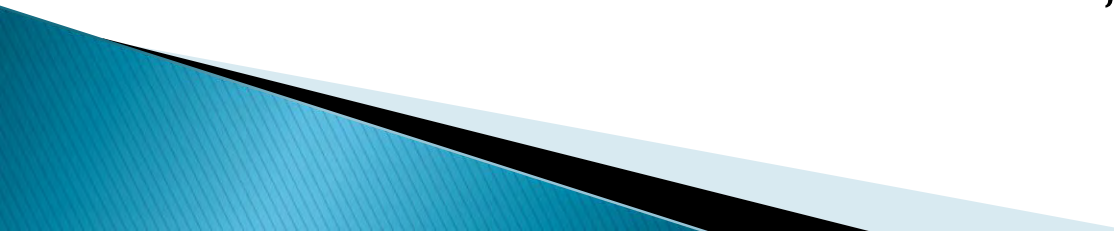
Industry Cooperation as a part of CPEC LTP: current status

- ▶ Agenda of Consultations: identifying priority sectors; strategy for the re-location of Chinese industry; financing; aligning re-location strategy with revival of sick units policy; enhancing Pakistan's exports to China; alignment with other national and provincial policies; legitimate protection of local industry
- ▶ Consultations in Islamabad almost complete. Consultations with Chambers and Provincial governments would be complete in about 2 weeks

Development of Industrial Parks/SEZs: status and direction

- ▶ Location of Industrial Parks identified
- ▶ Model Industrial Parks, built by the Chinese, initially, one in each province
- ▶ Development of model Node cities along CPEC routes under a unified framework of industrial and urban development
- ▶ Industry cooperation continues expanding in parallel with CPEC LTP

Key Sectors for development

- Manufacturing: (Including textile and apparel, household appliances, motor vehicles, auto components and other transport equipment and vehicles, electrical machinery, light engineering industries, fabricated metal products, leather products, construction material industry (Including marble granite cement and other minerals etc.
 - Agriculture, Water Resource Management, Coastal Development including Tourism
 - High and new technology: (Including IT, Bio Tech, Pharmaceutical, R&D, clinical research, etc.)
 - Other fields: Financial Sector, Services Sector
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Consultation of Draft CPEC LTP: current status

- ▶ Ongoing Consultations with provinces: Agriculture, Water Resource Management and Coastal Tourism
- ▶ Consultations with federal and provincial governments on Financing, cross cutting issues
- ▶ Consultations with Private Sector: Financing of CPEC and Financial Integration between the two countries

▶ **IMAGINING THE RESEARCH
AND DEVELOPMENT
AGENDA OG CPEC CENTRE**

Battle of Narratives

- ▶ **National Narrative of positive socio-economic impacts of CPEC versus an international narrative underscoring risks such as:**
 - **Viability of the Projects**
 - **Strain on public finances**
 - **Governance capacity of Pakistani counterparts**
 - **Political Controversies: Routes as a site of conflict and conspiracy or a question of apportionment of a promising pie?**
 - **Anxieties regarding the possible emergence of a somewhat different geo-economic balance in the region**
 - **General risks related with Chinese DFI [African and Latin American examples]**
 - **Exclusion of neighbours from CPEC**

Major Issues and Challenges

Set I: Questions of Strategy

- ▶ Effectiveness of FDI and Trade in development in a developing country
- ▶ Role of Industrial Parks in Industrialization

Set II:


Governance capacity

Structural problems with Pakistan's Development Model

Set III:

- ▶ Inclusiveness of development
 - ▶ Questions of Equity in a Federation
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Addressing the issues related to Socio-economic impacts and distribution of benefits

- ▶ More efficient and competitive markets produce more balanced socio-economic impacts
 - ▶ State–Market Relations in Pakistan
 - ▶ Implications of Pakistan's Development Model with continuously falling effectiveness of public expenditure, in particular in smaller provinces
 - ▶ Inclusiveness of development through intensification of domestic commerce and integration in regional supply chains
 - ▶ Subsidiarity versus Market: Challenges for any federation
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Centre of Excellence: Response to the Challenges

To provide high quality policy support and governance capacity support to different implementers of CPEC based on scientific research, presented in suitable formats for maximum benefits for the decision makers and opinion makers.

To highlight the principle importance of CPEC i.e., as a precursor of closer economic integration between Pakistan and China and prepare Pakistan economy for a mutually beneficial economic integration with China.

Establish in Pakistan an efficiently run Think Tank counterpart for Chinese Policy and Research Community for a mutually beneficial deeper integration between the two economies

CPEC Centre of Excellence at PIDE: A Planning Commission Project

- ▶ Centre of Excellence on CPEC is a Rs.1.2 Billion Planning Commission Project affiliated with PIDE
 - ▶ It has five research divisions and funds for outsourcing research, financing Ph. D. students and exchange of scholars with China
 - ▶ The Centre would have its own building in the new PIDE Campus. It would have the researchers from PIDE as well as the talent hired from the open market on competitive salaries. The 37 strong Centre would initially be housed in a rented building
 - ▶ CPEC Centre
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