12th Annual Report 2019

THE STATE OF THE ECONOMY
Pakistan's Development Strategy in a Rapidly Changing Environment

BIPP
The Shahid Javed Burki Institute of Public Policy at Netsol - Lahore

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The Institute aims at synergizing the research, education, and think tank functions to become knowledge hub and centre of excellence in Public Policy. BIPP's mission is to improve welfare of the citizenry with particular emphasis on identifying policy measures that will lead to inclusive growth, socio-economic stability, and sustainable development besides fully harnessing the potential for regional and global integration. BIPP's areas of interest are social, economic, environmental and political development, trade and foreign policy.

BIPP's Board of Directors comprises eminent economists, experts, members of academia and development practitioners from private, public, and non-governmental sectors who are committed to improving public policy development and implementation in Pakistan.

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Foreword

As has been the practice in the past, I use the opportunity to write the foreword to the annual report not only to focus on the main areas covered. I also say a word or two on some of the important activities of The Shahid Javed Burki Institute of Public Policy at NetSol (BIPP).

First, a word about the report. In the twelfth annual report written and released by the BIPP, we have extended our reading of the external environment in which Pakistan must live and operate. Of Pakistan's five neighbors -- counting Kashmir as a full-fledged neighbor along with Afghanistan, China, India and Iran -- Afghanistan and India are the ones that have affected the country the most. The cost has come in several ways, some of which are hard to quantify. In the case of Afghanistan, the country has unsettled the tribal belt that borders Afghanistan, making it a breeding ground for extremists who were recruited to create disruption in the political and economic order of country. Millions of refugees crossed the border and came from Afghanistan to Pakistan to escape war in their country. The effort to repatriate them has not succeeded in a significant way. Pakistan will have to absorb them in its population and economy. The continuing war in Afghanistan has already affected Pakistan's relations with all neighbors as well as with the United States. We place this year's discussion in the context of Pakistan's relations with the world. The way we precede with the China Pakistan Economic Corridor (CPEC) -- once again the main subject of the report -- will be impacted on and be impacted by the CPEC investments.

This time, following our established practice, we have included several chapters by the people associated with the BIPP. Farrukh Iqbal has updated his assessment of the Pakistani economy, focusing in particular on International Monetary Fund (IMF) program which provided timely assistance to the country in the expectation that the new government would adopt the policies that would set Pakistan on a trajectory of a reasonably high rate of growth. Dauad Ahmed provides an update on the progress made by CPEC focusing on what has been achieved by the Chinese investment program in the sector of energy. Shahid Najam and Atr-un-Nisa look at China's growing demand for food and agricultural products. They noted that rapid urbanization and rising income levels have had a significant impact on moving domestic demand towards high value-added products. These could be supplied by Pakistan--they were to bring about changes in the structure of agriculture sector. This theme is developed further by Mahmood Ahmad who gives special attention to food demand in China's western provinces. Asad Ejaz Butt emphasis that despite several important announcements made during the review of the CPEC program, the concern those broader plans was not supported by fully developed by both Pakistan and China. The chapters by me focus on the world in which we live laying down that Pakistan has a better future if some of its not-to-difficult problems can be solved.

One of the important preoccupations of the BIPP during calendar 2019 was to work on project entrusted to us by the Urban Unit of the Government of Punjab. It was aimed at understanding the economic environment around three urban corridors in and around the city of Sialkot. This was done to plan the development of these areas so that they provide employment and enhance the incomes of the citizenry. Connectivity helps to promote economic development by improving the flow of goods and services not only in the areas covered but also with potential markets. I visited Sialkot twice in 2019 once in the company of Shahid Najam, BIPP's Vice Chairman, who very ably led the team that worked on the corridor project. There are several things that are unique with Sialkot. "Self-reliance" is the phrase that comes to one's mind in trying to understand how the city has become one of the most dynamic industrial places in the country. It has used private initiative to become a dominant player in the world in a number of industries including sports goods, surgical appliances and leather products. The city's entrepreneurs used their resources to build an international airport that connects the city with the world outside and to improve the road infrastructure in the areas in which enterprises are located. The connectivity project we have worked on for the Government of Punjab will help the city to move forward.

In the foreword to the BIPP’s 2018 report, I mentioned some of the work I was doing on the Pakistani economy. Following that report, we at BIPP have published a collection of essays under the title of *Pakistan at Seventy*: *A Handbook on developments in economics, politics, and society.* The book was published in London by Routledge and will be launched by the World Bank in Islamabad in late January. The book has essays by a score of scholars who have studied different aspects of Pakistan's history. It was edited by Asad Ejaz Butt and me. Asad was on the professional staff of the BIPP before he joined the government and moved to Islamabad. This book has twenty-six chapters--too many to summarize in a brief foreword. That said, some of them should be noted. For instance, Shirin Tahir-Kheli has done a remark-able job in summarizing Pakistan's turbulent seventy years political history in twenty pages. However, no political history can be told without reference to the role played by the military. This is done by Jehangir Karamat in his essay; he focuses on how the army's culture works and adopts in helping the Pakistani state and its citizenry. Aziz Ahmed Khan who held several senior diplomatic positions provides a highly readable review of Pakistan's foreign policy. Farah Jan adds another dimension to the story by stating how Pakistan's relations have evolved with Saudi Arabia. Shaid Najam provides his understanding of Pakistan constantly changing bureaucratic system and how it has served the country. The very important subject of the environment situation in Pakistan is treated thoughtfully by Kulsum Ahmed. Related to the subject is the way Pakistan has handled its energy problems. This is done by Ziad Alahdad in his chapter. This chapter provides a good link with the theme of the 2019 BIPP report.

We are also at this time working on the possibility of using the BIPP as the focal point for training and educating Pakistan's ample human resource to enter modern services. We believe that Pakistan needs to define a new development paradigm to make use of its abundant but not fully exploited potential for achieving higher rate of economic growth and bringing about social progress.

In the end I would like to thank Nauina Asim Khan who very competently handled the editing of the report. This is never an easy task since she had to work with a number of different styles of composition by authors who write about a verity of subjects. I also wish to acknowledge the hard work put in by BIPP staff notably Atr-un-Nisa, Kainat Shakil, Samra Naz, Ammar Hayat and Awais Khalid in the production and publication of this report.

Shahid Javed Burki
January 13th, 2020

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(in alphabetical order)

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Mr. Shahid Javed Burki

Mr. Burki is a prominent Pakistani economist and the Chairman of the Shahid Javed Burki Institute of Public Policy at NetSol (BIPP). He held high level prestigious positions during the course of his professional career with Government of Pakistan and the World Bank including the Finance Minister of Pakistan (1996-1997), Chief Economist, Planning and Development Department, Government of the Punjab, the first Director World Bank for the China Department (1987-1994) and the Regional Vice President for Latin America and the Caribbean during 1994-1999. He retired from the Bank in 1999. He has also been a member of the faculty at Harvard University, USA. Mr. Burki has authored a number of world renowned books besides regularly contributing to international journals and newspapers.

Mr. Shahid Najam

Mr. Najam is the Vice Chairman of BIPP. He has four Masters including LLM and MSc. Public Policy form London School of Economics, UK and MSc. Rural Development from Wye College London. He has more than 40 years of experience with Government of Pakistan and the UN System in policy and strategy formulation; development planning and programming; and implementation of large scale programmes for sustainable development. He joined the Pakistan Administrative Services in 1974 and held important assignments including Commissioner Lahore Division (1999-2001), the first Chief Operating Officer, of the Punjab Board of Investment and Trade (2009). Mr. Najam held senior positions with the UN System as FAO Representative, Iran (2007-2009) and Resident Coordinator/Resident Representative of the UN system in Turkey (2009-2013).

Dr. Daud Ahmad

Dr. Daud Ahmad has to his credit PhD in Civil Engineering (Hydraulics) from Colorado State University, USA. He is a senior development professional and practitioner who worked for nearly 35 years with the World Bank on large scale international development projects in different countries, mostly in Asia. Since his retirement from World Bank in 2000, Dr. Ahmad has been working as an independent International Development Consultant. He is also a member of BIPP's Board of Directors.

Dr. Farrukh Iqbal

Dr. Iqbal has more than thirty years of Research and Management experience in the World Bank across a diverse range of countries and sectors. He has worked on Korea, Philippines, Indonesia, China, Iran, Egypt, and the Gulf Cooperation Council (GCC) involving various aspects of economic development including growth, poverty, small and medium enterprises, trade and foreign investment, health insurance, local government development, and political economy issues. He has been the Executive Director of the Institute of Business Administration, Karachi since August 2016. He holds a Bachelor's degree from Harvard University and a Ph.D. in Economics from Yale University, USA.

Dr. Mahmood Ahmad

Dr. Ahmad is internationally renowned expert on agriculture and water policy. He did his PhD from the University of Massachusetts in Resource Economics (1979). He carries an experience of around 40 years, including 24 years with the Food and Agriculture Organization of the United Nations, working in more than 15 countries. He led the formulation of FAO programmes on agriculture and water policy for the Near East countries; supported member countries in preparing agriculture strategies under water scarce conditions; spearheaded the World Bank assisted Regional Initiative on Water Scarcity of the FAO Regional Office in Cairo; and assisted in formulating the ECO national and regional food security policies and strategies. He is a member of BIPP's Advisory Council.

Mr. Asad Ejaz Butt

Asad Ejaz Butt is a development economist trained in Canada. His career started with ICF International where he modelled energy efficiency products for ICF's demand-side management programs. He has provided energy consultancy as well as advisory services to a number of multilateral and bilateral donors and funding agencies including the UN, USAID and state-owned utilities in the US. He moved to Pakistan to join the BIPP as a Research Fellow, to later become its Director, Research and Coordination. In the last two years, most of his work has revolved around mainstreaming and localizing SDGs within the policy and institutional context of Pakistan. In the process he has worked with UNDP Pakistan and with the German development agency, GIZ for private sector engagement in the SDGs agenda. In late 2018, he joined the civil service of Pakistan and currently works for the Federal Government in Islamabad. He holds a Masters degree with double majors in Economics and International Development Studies from University of Guelph, Canada prior to which he completed his undergraduate studies in Economics at York University, Canada.

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List of Acronyms

ADB	Asian Development Bank
AICP	All-India Congress Party
AJK	Azad Jammu Kashmir
ASEAN	Association of Southeast Asian Nations
BIPP	The Shahid Javed Burki Institute of Public Policy at NetSol
BJP	Bharatiya Janata Party
BLA	Balochistan Liberation Army
BOI	Board of Investment
BRI	Belt and Road Initiative
BTI	Big-Ticket Item
CAA	Citizen's Amendment Act
CCTV	Closed-Circuit Television
CENTO	Central Treaty Organization
CIA	Central Intelligence Agency
CPEC	China-Pakistan Economic Corridor Investment
CPI	Consumer Price Index
ECNEC	Executive Committee of The National Economic Council
EODB	Ease of Doing Business
EU	European Union
FAO	Food and Agriculture Organization
FAOSTAT	Food and Agriculture Organization Corporate Statistical Database
FATA	Federally Administered Tribal Areas
FBBM	Frozen Bovine Meat
FBR	Federal Board of Revenue
FDI	Foreign Direct Investment
FMCG	Fast-Moving Consumer Goods
FY19	Financial Year 2019
FYP	Five Year Plan
GB	Gilgit Baltistan
GDP	Gross Domestic Product
GVC	Global Value Chains

IMF	International Monetary Fund
IOK	Indian Occupied Kashmir
IPM	Integrated Pest Management
IS	Islamic State
ISI	Inter-Services Intelligence
ISIS	Islamic State of Iraq and Syria
IT	Information Technology
JCC	Joint Cooperation Committee
JVs	Joint Ventures
JWG	Joint Working Group
KKH	Sukhi Kinari Hydro
KPK	Khyber Pakhtunkhwa
LTP	Long Term Plan
LUMS	Lahore University of Management Sciences
MOA	Ministry of Agriculture
MBS	Crown Prince Muhammad Bin Salman
MFN	Most Favored Nations
MW	Mega Watt
NRC	Nationwide Register of Citizens
OBOR	One Belt One Road
OECD	Organization for Economic Co-Operation and Development
OF	Organic Farming
PAI	Pakistani-American Initiative
PIA	Pakistan International Airline
PML (N)	Pakistan Muslim League Nawaz
PML (Q)	Pakistan Muslim League Q
PPP	Pakistan Peoples Party
PSM	Pakistan Steel Mills
PTAs	Preferential Trade Agreements
PTI	Pakistan Tehreek-e-Insaf
RAW	Research and Analysis Wing
RCA	Revealed Comparative Advantage
RCD	Regional Cooperation for Development
REER	Real Effective Exchange Rate

RSS	Rashtriya Swayamsevak Sangh
SAFTA	South Asia Free Trade Area
SBP	State Bank of Pakistan
SEZs	Special Economic Zones
SIGR	Special Inspector General for Afghanistan And Reconstruction
SRI/SCI	System of Rice/Crop Intensification
TDAP	Trade Development Authority of Pakistan
TRTAII	Trade Related Technical Assistance
U.S.	United States
UAE	United Arab Emirates
UK	United Kingdom
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USD	United State Dollar
UTH	Ultra-Heat Treated
VTA	Value Added Tax
WB	World Bank
WC	Western China
WIT	Water Informatics and Technology
WTO	World Trade Organization
YOY	Year-On-Year
GSP+	Generalised System Preferences Plus
PKR	Pakistani Rupee
5G	Fifth-Generation

Executive Summary

Pakistan since its inception nearly 72 years ago has witnessed and sustained many challenging events of extra-ordinary proportions: several wars with neighboring India, parting of its eastern part (now Bangladesh), strained civil-military relations, extremism and regional security threats, a decade-long army operation in the north, disruptive ties with all its neighbors (except China), fluctuating relations with major world powers such as Russia and the US, and periods of abnormally low economic growth. Surprisingly, it has not only survived through these circumstances, but has also rebounded to attain political stability, establishment of quasi-democratic political regimes and periods of rapid economic growth and recognition as a key geo-strategic player in the international arena.

More specifically on the external front, Pakistan has witnessed many vicissitudes in its relations with the major powers and its neighbors. The prime example is the volatile and transactional relation that it maintains with the United States (US) which has become more challenging especially ever since Trump became the US President and is perusing the "Trumpian Approach"-shaping the world political and economic order. With Iran, it enjoys "fraternal" relations thought at times strained owing to Pakistan-US engagement in the region; while complexity, turbulence and unease characterize our relations with Afghanistan; not to speak of hostility and enmity with India primarily owing to latter's perpetual antagonism towards Pakistan, resurgence of Hindutva ideology of the Modi led government and brutal denial of right of self-determination to Kashmiris. With China, however, the country continues to celebrate a trusted, stable and strong relationship. Each successive government no matter how proactively it has tried to estrange itself from the policies of the predecessor has endeavored to strengthen already existing close ties with China. The China Pakistan Economic Corridor (CPEC), the flagship project of the China's Belt and Road Initiative (BRI), has further cemented the bonds between the two countries. Contrary to the speculations as to the uncertainty of CPEC, being the initiative of the former Pakistan Muslim League-Nawaz (PML-N) regime, the Pakistan Tehreek-e-Insaf (PTI) government led by Imran Khan not only progressed on the CPEC projects but also expressed a strong desire to further expand the economic, strategic and cultural ties between the two countries and make this “all-weather friendship” a model alliance between any two countries of the world. The CPEC initiative in the wider BRI context and its focus in Phase II on the agriculture and industrial development with the accompanying Chinese investment in Pakistan, if prudently managed, will help the new government bring about the transformative change that it promised before coming into office in the middle of 2018.

Pakistan's New Government

It has been eighteen months since the Imran Khan-led PTI government, which represents major departure from the patron-client and dynastic politics, took over the reins of power. Though too early to pass a judgment, it so far seems to have fallen short of where it would have liked to be in achieving the development outcomes. Two broad policies of the government define its governance philosophy. First is accountability-led governance that has arguably crowded out investment by discouraging the private investor and the business community while the other is the government's austerity drive that has reflected in the reduction of the development expenditure and in the discretionary funds and supplementary grants provided to the line ministries and agencies of the government. These two unwritten policies of the government led to the decline in or at best stalled the public and private investment. And clearly, both have had a strong bearing on the rate of Gross Domestic Product (GDP) growth which has fallen below 3 percent from nearly 5.3 percent in FY 2018. Pakistan had recorded an impressive average growth rate of around 5 percent during the PML-N regime that was a significant progress over the average growth rate of less than 4 percent during the Pakistan People's Party (PPP) regime between 2008-2013. This growth however, was neither inclusive and participatory nor social sectors e.g., health and education oriented as it did not translate into better human development outcomes. The PML-N government also failed to include the investor in its trade plans, resulting in a decline of exports and an expanding current account deficit and lack of diversification in the country's export basket despite the availability of programs like the Generalized Systems of Preferences-Plus (GSP+), improvement in the energy sector and reduction in the global oil prices.

Exports stood around the US$ 21 billion at the close of the PPP regime in 2013 while they were US $ 18 billion in 2018. Foreign remittances especially from the Gulf countries and foreign direct investment both stood at levels in 2018 that were comparatively much lower than their levels in 2013. The decline in foreign remittances could be partly attributed to the Organization of the Petroleum Exporting Countries (OPEC) oil crisis that had reduced oil revenues in the Middle East and the artificial management of the dollar could explain the decline in the Foreign Direct Investment (FDI) during the PML-N regime.

As for the present, despite the increase in the external borrowing through the acceptance of an International Monetary Fund (IMF) programme, public debt overall has decreased as a percentage of the GDP, inter alia, due to the decline in the local borrowing of the state bank. Interest rates have risen while the PKR has taken a dip against the US dollar diving down to 152 PKR/1 US$ in the first week of 2020. Treasury bills of the government have recorded an unprecedented investment of Rs.398.4 billion in December 2019 against 3-month, 6-month and 1-year auctions on T-bills at interest rates averaging around 13.5 percent. These numbers show signs of progress towards a tighter monetary policy. The Consumer Price Index (CPI) inflation is expected to rise to 7.3 percent from 3.9 percent in FY2018 while fixed investment, both public and private will reduce to 13.8 percent from 15.1 percent in the FY2018. The negative developments on the macroeconomic front will reverberate in other sectors including the fiscal side of the economy where the overall budgetary deficit of the government is expected to rise to 8.9 percent of the GDP from 6.6 percent in the previous year. The only economic achievement of the government seems to have been made in terms of containing the current account deficit, that it did by disincentivizing imports to reduce it to 4.8 percent of the GDP from 6.3 percent in FY2018.

However, these few positives are not sufficient to make the government confident to chase growth as the IMF recipe that it currently seems to follow is largely geared towards stabilization and not growth.

Legacy of the BIPP

The Shahid Javed Burki Institute of Public Policy at NetSol (BIPP) has been producing a comprehensive report on the state of the economy regularly for more than a decade. BIPP has already focused on CPEC in its last two reports while the 2019 report would be the third in a row on the CPEC to facilitate evidence based policy and planning discourse for the government.

Earlier, BIPPs 2016 state of the economy report focused on agriculture and water primarily because of the negative growth in the sector reflected in 2015 and to highlight the enormous potential unfolded by CPEC, which the government could harness through pro-poor and farmer-centric agriculture policies and plans. At that time, agriculture was not a CPEC priority since the program only ventured into energy and road infrastructure. BIPP advocated integration of agriculture in CPEC and re-prioritization of the CPEC western route to link the local endowment and production systems in the deprived and poor areas to the markets. Building on this experience, the 2017 report provided a CPEC baseline, the 2018 did a review and analysis while this year, we focus on proposing a new development paradigm for Pakistan as it continues to engage with the Chinese on CPEC while also exploring new avenues of collaboration and engagement with countries in the region and outside.

The 2019 Report

This report comprises nine chapters each produced by a sector expert. Mr. Shahid Javed Burki, the Chairman of the BIPP has drafted four chapters in the report each taking a distinct view of the issues encircling the China Pakistan Economic Corridor. His first chapter takes a historical route to understanding the current economic situation of Pakistan to propose the formulation of new development paradigm for the country. His second chapter is about China itself, the strategic direction and aspirations of the country and how Pakistan can benefit from the Chinese investment that it is making under the CPEC. In his last two chapters, Mr. Burki takes an international perspective to appraise the current situation of the world within which he attempts to place Pakistan, China and the CPEC.

Mr. Shahid Najam, the Vice Chairman of BIPP, and Ms. Atr-un-Nisa have mapped the evolving demand of the Chinese agricultural and food products with Pakistan's agricultural production systems to take the attention of the government towards agri sub-sectors that it can focus onto fulfill existing and future demand in China. This work augments Dr. Mahmood Ahmad's research on agriculture and trade in China where he analyzes the trade potential in the context of the global value chains and how Pakistan's value chain, facilitated by CPEC connectivity can converge with the Chinese value chains.

Like each year, Dr. Farrukh Iqbal and Dr. Daud Ahmad bring a status update each on the state of the economy and the China-Pak economic corridor, respectively. Dr. Farrukh Iqbal does astocktake of the economy and looks at the numbers that the economy has produced over the last year or so focusing primarily on macroeconomic indicators. The first part of his chapter documents how the economy evolved during FY19 in terms of standard macroeconomic categories such as growth, inflation and internal and external balances. The second part reviews challenges associated with reducing the fiscal deficit, avoiding volatility in the current account deficit and raising the private investment rate to support growth along a higher trajectory than has been the case in the last three decades. He concludes that it has been a perilous year for Pakistan while not undermining some minor achievements that the country has made in a few areas. Dr. Daud Ahmad has provided a project-level progress update of the CPEC providing a quick overview of where do the CPEC projects stand in terms of completion.

Mr. Asad Ejaz chapter deals with CPEC information deficits that have emerged from the priority of two governments to maintain confidentiality and secrecy with regards to CPEC dealings and negotiations and how that reflects on poor investor participation in the program. It concludes by proposing a comprehensive communications strategy for CPEC that should include a set of information that private investor

The Table below attempts to capture the key findings and recommendations of the 2019 Report.

Summary Finding and Recommendations

Key Findings	Recommendations
Pakistan is still in its stage of infancy and has met with turbulent political challenges that have had a profound impact on its social, political and economic institutions. The government elected in 2018 has brought a fresh face in the leadership with high hopes. However, the task for this new leadership is every more grave in a complex and changing world. The current economic crisis makes the situation ever more challenging. General Ayub Kahn's period testifies of the potential Pakistan holds to develop economically. With right intervention the country can turn around its current state of affairs in the coming decades especially when endowed with an economy such as CPEC.	Pakistan requires a 'New Development Paradigm' that supports a sustainable rate of Gross Domestic Product (GDP) growth between 7 to 8 percent a year, the country needs to invest around 25 to 30 percent of its national income. For this, it firstly needs to focus energies on developing sectors that have been previously ignored with new frameworks. Second, considerable attention should be provided to moving products of these sectors into export markets. Third, the country should come up with approaches to serve and develop urban populations. Fourth, the large Pakistani diaspora should be made an important player in developing the country of their origin. Alongside these fiscal, urban and economic measures concrete steps need to be taken to provide a new narrative of Pakistan.
At the dawn of the third decade of twenty-first century the post-World War II global order is reshuffling. Amongst the changing tides of power events such as "Latin American Spring" and protests elsewhere are leading to challenging times for not only countries but whole continents. Near Pakistan there are tensions and at times conflict taking place at the doorsteps of its neighbors. Inside the country apart from economic issues, the rapid rate of urbanization coupled with environmental degradation of resources such as air are alarming issues. At the same time, the country is endowed with the opportunity of CPEC which can help it tackle for of its current and future challenges.	To be prepared to meet challenging times ahead, Pakistan needs preemptive planning and swift execution of these plans. The country needs a strategy to host possible Muslim migrants from India, which is increasingly turning into a religiously extremist driven state and society. In a highly connected but disengaging word, Pakistan needs to navigate its external policy to ensure its alliance with various regions around the globe e.g. play a positive yet calculated role in the Afghan exit strategy. It needs to develop a strategy to actively engage with and partner with countries who have solution for its environment related problems.
Pakistan, over the turbulent period of financial year 2019, has suffered huge economic blows. With an	Pakistan needs to focus on increasing its private investment. Improving its atrocious Ease of Doing

IMF loan, it now seeks for macroeconomic level interventions to balance it payments. The country has suffered chronically from a severe deficit of payments. As a consequence of successive IMF loans coupled with a history of deficits, the economy will take a few years to fully recover and show substantial growth.

China has been developing its One Belt One Road (OBOR) Initiative at an ambitious pace. It has been engaged not only in Asia but has made significant investments in Latin America, Africa and Europe. This investment has challenged the conventional US led hegemony around the globe. Today, China stands as the champion of globalization as America is limiting its engagement with 'Make America Great Again' policy with an inward focus. Thus, it is clear that CPEC is not only limited to Pakistan as China is interested in a connected South Asia and at large the world.

Since the beginning of the CPEC project under the PML-N led government billions of dollars of projects have been committed in form of 20 large projects. These projects include, but are limited to, development of land routes, Gwardar Port, transport projects, energy projects and agriculture ventures. The country has now entered its second phase of the CPEC project under the PTI led government that aims to use the second phase as a means of value-added exports and employment generation. At the same time completion of previous projects is also underway but at a slow pace.

The steady population growth, rapid urbanization and rising income levels in China since the late 1980s have brought about a transformation in the life style, consumers spending patterns and dietary habits of people. The per capita consumption of wheat, maize, rice and other coarse grains has declined while that of beef, poultry, mutton and dairy products has increased. Since 2007, Chinese

Business Rating (EODB) ranking is one key factor that can attract investment to the country. The country also needs to review its agriculture subsidies, management of public sector companies and taxation policies. A volatile current account balance calls for a flexible exchange rate policy to avoid exacerbating the amplitude of swings.

Pakistan should make use of the opportunity of CPEC and its allied projects as China's vision is global. The OBOR is the future of globalization; the dampened enthusiasm from Pakistan's end needs to be reignited. The leadership of the country needs to work on civil-military relationship for an untied presence in the international arena. At the same time, institutions need to ensure that the incidents like November 2018 (attack on Chinese Consulate) do not take place to make Pakistan secure for investment.

Expeditious development of Gwadar as a functional port hub is critical to success of CPEC. The proposed CPEC authority could only be beneficial, if set up with a clear mandate, adequate professional resources and protection from political interventions. It would need to manage the internal challenges of planning, financing and coordinating between institutions, provinces and agencies to build a momentum on speedy outcomes.

Transparency in selection of projects and award of contracts will need to be established. A properly designed “enabling environment” framework consisting of laws, incentives and supporting facilities will be critical for the socio-economic projects.

Pakistan should ensure that its policy framework takes into account the Chinese strategic priorities e.g., China's policy thrust in agriculture sector, "New Normal" and "Go-global" policy. The private sector should be given incentives to become part of regional/global production networks and value chain.

In the short–term (2020-2022): focus should be on global food trade has changed from a net food exporter to a net importer. It is anticipated that by 2050, China's food demand will increase to around US $2 trillion. There is thus an enormous scope for Pakitan to enlarge its share in the massive Chinese markets due to CPEC connectivity especially for those items which hold comparative and competitive advantage i.e., rice, cotton, sugar, meat and dairy products, fruits and vegetables.

To optimize the agri-export potential of CPEC, the idea of improving institutions and lowering trade costs alone is not enough.

The three provinces of western China show agriculture growth, but a production share of the national output range from a lower value. Pakistan exports commodities such as fruits, cereals, rice, meat and fruit juices to China due to its comparative advantage. At the same time, it can engage with GVCs of textiles, fisheries, minerals and automobile. However, rice holds the most potential for Pakistan. The SEZs should focus on manufacturing of export products such as oil seeds, food-processing products, value added textile, leather products and low cost agri-machinery.

The current state of information available on the CPEC is precarious as the Government has reserved information and maintains secrecy on the matter. The Government needs to provide information to ensure timely and sustainable participation in the program. CPEC's immense potential cannot be harnessed unless a communication strategy is developed and successfully implemented and information is provided to investors in a planned and systematic manner.

The fate of Afghanistan has always had its impact

relevant crops and horticulture (especially high value crops) and livestock breeding, production and processing; and joint research and technology development.

In the Medium-term(2022-2025) the focus should be on agro-industry development and industrialization using SEZs (Special Economic Zones); integration with regional value chain; agri-commercialization to increase income.

In the Long-term (2025-2030) the emphasis should be on joint investments and ventures and corporate farming; integration with Global Production Network; relocation of Chinese traditional manufacturing sector to Pakistan.

The Preferential Trade Agreements (PTAs) have proliferated and proved more congenial for deep integration. Thus, Pakistan needs to focus on PTAs.

Pakistan can capitalize on China's growing demand for high quality agricultural products by incorporating production of Chinese rice. Coupled with strategy a better governance structure is required as Global Value Chains (GVCs).Simultaneously, the prudent policy for decision makers would be to incentivize farmers to encourage them to develop climate smart agriculture. Moreover, policymakers should be mindful that certain value chains often have complex contract-intensive goods that involve many exchanges among different firms, each facing some risk of contract non-performance by others in the chain.

The government needs to develop a dedicated inclusive and actionable communication strategy for CPEC that discloses accurate information in the following areas: decisions taken during Joint Cooperation Committee (JCCs,) nature of, Chinese Investment (Loan or FDI), currency used to make Chinese investments, structure and functionality of the SEZs, CPEC plans for export diversification, information and criterions of authority to award projects, route priorities with rationales and employment generation plans.

Pakistan needs a dynamic foreign policy that can on Pakistan. With a slow move towards peace it is still unclear what is an exact exit strategy for America from the country. At the same time, Pakistan's eastern neighbor has been witnessing a transformative change from the world's largest democracy to a Hindutva driven governance system, which resembles the features of the Nazi party. Moves such as Citizens Amendment Act have sparked an array of protests that have been brutally dealt with by the state. The fabric of society and state is under transformation in India towards a more 'Hindu' society- with an anti-Muslim agenda. A little future, the Middle East is also showing escalation of conflict. In the midst of these realities, Pakistan requires diligence.

engage with and deal with the world we live in. Given its linkages with the Middle East (oil and employment) it needs to play a mediator's role between Tehran and Riyadh. For which Islamabad needs to improve relations with the Iran. The Afghanistan peace process will be tough- as it is unclear what the country's leaders have mapped out. In this context, Pakistan needs to navigate its way; peace and security at the eastern side of the border would benefit the country. The highly volatile India state is an increasing threat to the security of Pakistan and minorities (especially Muslims) within India. The US has a good working relationship with the country and Pakistan needs to focus on developing one.

Chapter 1

Pakistan's Favourable Future: Turning the Vision into Reality

Pakistan's Favourable Future: Turning the Vision into Reality

Shahid Javed Burki

This twelfth report of The Shahid Javed Burki Institute of Public Policy at NetSol (BIPP), follows the usual format. After providing a review of the economic situation in 2018-19, it touches upon a couple of subjects that should be of interest to the policymakers not only in Islamabad but also in the provincial capitals. For the third time in three years, we are examining the progress made in implementing the extraordinarily ambitious China-Pakistan Economic Corridor (CPEC) investment program. We also include a discussion of large-scale international migrations and how they have affected Pakistan's economy, its politics and social systems. The subject of migration is likely to acquire significant salience in Pakistan as the situation in the countries and places it borders becomes precarious. If the impending withdrawal of the United States adds to the troubled situation in Afghanistan, we may see another wave of migration into Pakistan from that country. We may also have to deal with likely flow of people from the Indian Occupied Kashmir (IOK), resulting from India's August 5, 2019 decision to change the political status of that area.

The report in various chapters also examines why Pakistan may be headed towards favorable time. If this turns out to be the case, it raises an important question: How would that affect the structure of the Pakistani economy, its politics, the working of society and the country's relations with the world outside. One important result of redefining the future would be to improve the narrative about the country. Why Pakistan is viewed poorly not only outside the country but also inside is one of the several questions we will try to answer.

We will touch upon several areas that together indicate the enormous change that is taking place in the country. One of these emanates from the results of elections held in July 2018. These put the reins of power in Islamabad in the hands of a new kind of politician who heads a new kind of political party that, we believe, could take Pakistan forward by developing a durable and inclusive political order. We will also discuss what kind of place policy makers would like Pakistan to occupy in the rapidly changing world. Pakistan's external relations, what they were in the first seventy years after it became an independent state and what they should be in the years to come is a subject we will touch upon here. This is the theme of the book to which several professionals associated with the BIPP contributed. *Pakistan at Seventy*, was published in early 2019[1].

The Current Pakistani Narrative

The coverage of Pakistan in the western press is generally negative. To take one recent example: *New York Times* in its issue of August 30, 2019 carried a prominently displayed story on how countless flies torment the 15 million citizens of Karachi, Pakistan's largest city. "First came the floods, as weeks of monsoon rains deluged neighborhoods across Karachi, sending sewage and trash through Pakistan's largest city. Then came the long power outages, in some cases for 60 hours and counting. And then it got worse: Karachi is now plagued by swarms of flies[2]. "Why should the narrative of Pakistan be an area of concern? There is an economic answer to this question. In the report last year, we laid out a new development paradigm for Pakistan. In this year's report we will suggest the adoption of new paradigm including the need to significantly increase the share of investment in the Gross Domestic Product (GDP). For a sustainable rate of GDP growth of 7 to 8 percent a year, the country needs to invest around 25 to 30 percent of its national income. Most of this should come from domestic resources; but some of it should also come from abroad, including possible investments by the well-endowed members of the Pakistani diasporas in North America and Britain. For this to happen, potential investors must have confidence in Pakistan. This is why improving the Pakistani narrative is vital.

Pakistan: A Nation Still in the Making

In a book published in 1986 titled Pakistan: *A Nation in the Making*, I suggested that Muhammad Ali Jinnah had succeeded in creating a state but not a nation[3]. His two-nations theory on the basis of which he succeeded in dividing British India on religious grounds did not result in creating Pakistani nationhood. He lived for only a year after creating Pakistan and becoming its first Governor General. The leadership of the Indian National Congress that fought for India's independence stayed in power for a number of years after the country gained independence. Jawaharlal Nehru, India's first prime minister and a prominent leader of the independence movement governed the new country for 17 uninterrupted years. During that time, he was able to give shape to what the historian Sunil Khilnani has called the “Idea of India.” This resulted in creating political and economic systems that accommodated a very diverse population[4].

It took a very long time for Pakistan to define the meaning of Pakistani nationhood -- a process that may have begun with the elections of 2018. In the interim, there were a number of missteps, including one by Muhammad Ali Jinnah. Pakistan's founding fathers -- Muhammad Ali Jinnah and Liaquat Ali Khan -- died a few years after the country came into being. Jinnah died in September 1948 of tuberculosis, a disease he had kept a secret in order not to compromise his campaign for the creation of an independent state for the Muslim population of British India. Liaquat Ali Khan was killed by an assassin as he was addressing a public meeting in Rawalpindi in October 1951.

During his brief tenure as Governor General, Jinnah visited Dhaka, the capital of East Pakistan. During the visit, he alienated the Bengali population by suggesting that Urdu should be Pakistan's national language. Urdu was not Jinnah's mother tongue; by suggesting that it should be the national language for independent Pakistan, he thought he was not treading on delicate ground. But that was not the case. The nationalist Bengalis, extremely proud of their culture and language, were unhappy at Jinnah's suggestion. That resentment continued to increase resulting in a bloody civil war and the creation of Bangladesh in December 1971 out of what was once the province of East Pakistan.

This experience indicated that ethnicity was a stronger binding force than religion. What was left of Pakistan continued the struggle to create a Pakistani nation. But that may have changed -- this will be one of the two subjects we will take up in the 2020 annual report. There is now a political system under development that provides diverse people the opportunity to handle their differences through discourse. They can use elected assemblies for this purpose rather than the street. One of the consequences of the elections of July 2018 is to provide a political basis for creating a Pakistani nation. One step in the development of such a system was taken on July 20, 2019 when the people of the region that was called the Federally Administered Tribal Areas, (FATA) voted to elect their own leaders as members of the Khyber Pakhtunkhwa (K.P) assembly. As the news-magazine, The Economist, wrote in its issue of July 20, 2019, "FATA has been starved of development and repressed for decades -- in part, presumably, because its people had little say in how it was run. The Frontier Crimes Regulations -- passed more than a century ago -- awarded a colonial official nearly absolute power. The set-up stayed in place after the British left because it suited the Pakistani authorities too[5]."

The FATA was used for years as a base by Islamist insurgents beginning with the operation launched by the United States to expel the Soviet Union from Afghanistan. The United States with help from Pakistan and Saudi Arabia succeeded in channeling the energies of the youth towards waging a jihad against the "godless" forces of the Soviet Union. The freedom fighters succeeded but were not absorbed in the Pakistani political and economic systems once they had won the battle to free Afghanistan from foreign invaders. That would have happened had there been mechanisms for inclusive systems of governance. The region became a heaven for jihadists who launched operations in both Afghanistan and Pakistan. The Pakistani Armed Forces got heavily involved in removing the insurgents from the tribal belt. The merger of the FATA region with K.P has changed the situation for the people of area.

The elections on July 20, 2019 completed the process of bringing the FATA into the political mainstream. Prime Minister's Imran Khan's PTI won six of the 15 seats that were contested. Independents won the largest number-- seven.

Fully integrating the restive province of Balochistan is the remaining nation-building problem. This too will require an active involvement of the Pakistani state in developing the relatively backward areas of the province. As we discussed in the BIPP's two earlier reports, a significant part of the CPEC investment program is directed at improving Baluchistan's physical infrastructure. One consequence of this would be to better integrate the relatively more isolated parts of the province with the rest of the country. This should also help to reduce the area's incidence of poverty, a subject discussed at some length in a chapter of the 2018 report.

The Elections of July 2018: A Game Changer in the Structure of Politics in the Country

The electoral contest of July 2018 produced political results that were different from those brought about by any held in the past. As was the case in the two previous elections, power was transferred from one political party to another. In 2008, the Pakistan People Party (PPP) led by Asif Ali Zardari, Benazir Bhutto's widower whose claim to power was based on family loyalty. He claimed that a will left by his wife before her assassination at a public meeting in Rawalpindi in December 2007, designated him as the leader of the party and thus her successor. He became the chairman of the party, appointing his son Bilwal Zardari as the co-leader. The son changed his surname to the hyphenated Bhutto-Zardari to make clear the familial link with Zulfikar Ali Bhutto, the PPP's founder. This is clearly not the way a modern political party should appoint its leadership. Once the PPP was in power after winning the 2008 elections, Zardari chose to move into the presidency. That way he played with the Constitution in which executive authority was assigned to the prime minister. The PPP did not govern well. It was replaced in the elections of 2013, by PML(N) that also governed for five years.

When President Pervez Musharraf stepped down in 2008 the party he had created and led ceased to have much of a presence in the country. How political parties have evolved in Pakistan is an important subject but can only be treated briefly in the opening chapter of the report that has other areas of focus. The Pakistan Muslim League Quaid (PML-Q) was a made-for-purpose political organization meant to keep the military leader Pervez Musharraf in power. The party did not have a base of popular support and once the military leader stepped down, it went into political oblivion. It was replaced first by the PPP and then the Pakistan Muslim League-Nawaz (PML-N), each coming to power by winning in elections.

The PPP had succeeded the PML-Q, a party manufactured by the military dictator General Pervez Musharraf to help him govern the country. In that he had followed the approach adopted by his military predecessors. Both Field Marshal Ayub Khan (1958-69) and General Zia-ul-Haq (1977-88) had gone in for the reincarnation of the original Pakistan Muslim League (PML) that under the leadership of Muhammad Ali Jinnah had successfully campaigned for the creation of Pakistan, a state for the Muslim population of British India. Given its campaign for the creation of Pakistan, the PML had broad appeal in the country. It was reincarnated by the military leaders for their own political survival. The belief that all that was needed to establish the credibility of a political party was to give it a recognizable name associated with a respected organization was a clear indication of the political underdevelopment of Pakistan.

As was the case with the PPP, the PML(N) also turned to the leading family members of the family -- the Sharifs, the sons of Muhammad Sharif, successful Lahore-based industrialist -- for providing leadership. When the courts barred three-times Prime Minister from holding public office, the place vacated by him was occupied by his younger brother, Shahbaz Sharif. His daughter, Mariam Nawaz, became the part's Vice Chairperson and its principal spokesperson. Both the PPP and the PML (N) were purely family affairs.

The PPP and PML (N) were not genuine political parties in the sense the term is understood in more developed political systems. The two organizations depended for their survival on family support and on the backing provided by political patrons who had client support. In a book titled Pakistan: *A Hard Country*, Anatole Lieven, a British journalist who had spent some time in Pakistan writing for his country's newspapers, provided useful insights into the way patron-client relationships worked in Pakistan. Lieven's Pakistan was a hard country not because it was hard to understand but because it was exceptionally hard to put down beat. It had dealt with dozens of serious crises successfully and had survived[6]. Patron-client relationships provided it with exceptional resilience. The patrons were mostly large landlords but more recently industrialists and business people as well. They were given loyal support by their clients in return for the government services they could get for them.

It is this structure that Imran Khan broke by his triumph in the elections of July 2018. The Pakistan Tehreek-e-Insaf (PTI), is not an organization that draws power from the patrons who receive support from their clients. The party has the support of the youth -- in particular the urban youth -- that have flocked to Imran Khan's camp in the hope that their aspirations for well-paying jobs in the new economy would be satisfied. They will also have the space in the political system that they can use to reflect their views and have the state provide them with the services they need. If we define the youth as those below the age of 30 years, they constitute two thirds of the country's population. The proportion is even larger in the urban areas, particularly in the country's large cities. The support of this large segment of the population is what distinguishes the PTI from the PPP and the PML(N). It is this factor that will determine how the PTI and Imran Khan will govern, a subject, as indicated, we will take up in the 2020 report. The PTI support base will need the government to provide services such as higher-education, health care, urban housing and transport. As we will discuss in a later section, this is where the Pakistani-American diaspora could step in and provide help.

Pakistan's Place in the World

Pakistan is located in an area that has now acquired strategic significance for some of world's major powers. It borders four countries and one quasi country, the last being Kashmir whose status remains undetermined. Two of its neighbors -- China and India -- are large economic and military powers. The United States, not a neighbor, is heavily involved with the remaining two. President Donald Trump's Washington is attempting to extract itself from Afghanistan after getting enmeshed in the country's affairs in 2001, following the Al-Qaeda engineered twin-attacks on New York and Washington. It is now seeking help from Pakistan to accomplish that goal. Trump has also picked up a fight with Iran, another Pakistani neighbor, at the urging of Israel its closest ally and also of Saudi Arabia, a sworn enemy of Iran.

Imran Khan's visit to Washington in July 2019 was the twenty seventh time a Pakistani head of the state had gone to the United States. Here too the prime minister broke with the past. In order to appreciate how he managed to do that we should put the visit in the historical context. Unlike the visits by previous heads of state, he did not seek financial support from the United States. His main purpose was to gain the respect of the United States and have his country recognized as a responsible player in the evolving international system. He also did not seek recognition as an equal to India, having recognized that the neighbor's size and considerably better economic performance over the last three decades had won it a place in international politics and economics that Pakistan could not -- and need not -- attempt to match.

Until the beginning of Pakistan's move towards establishing a democratic political order in 2008, Pakistan's relations with the United States were dictated by the interests of the country's military. Reading the content and substance of Imran Khan's Washington visit, it appears that this time around the civilian head of the state was in the driver's seat. He was accompanied by the heads of the Pakistan army and the military's intelligence services but there was little doubt that the prime minister was in control and calling the shots. [3]

Of the four military men who governed Pakistan as President, three paid visits to the United States. General Yahya Khan was the only one who was not invited to visit the American capital although his administration had contributed to the breakthrough in China -U.S. relations. It was from Islamabad that Henry Kissinger went to Beijing on a secret mission to arrange a meeting between President Richard Nixon and Chairman Mao Zedong. Kissinger then was the American president's national security adviser and the author of the realist school of foreign policy. This did not put much emphasis on ideologies but on the real situation with which a super power such as the United States had to deal with. The remaining three military presidents -- Field Marshal Ayub Khan, General Ziaul Haq and General Pervez Musharraf were in power for a total of 31 years. During their tenures, they were cultivated by Washington since the American presidents in power during these times recognized

Pakistan's strategic importance. In return for Pakistan's partnership, Washington provided large amounts of both economic and military assistance.

Ayub Khan's Pakistan was won over to the American side by President Dwight Eisenhower along with his secretary of State John Foster Dulles. They saw it as a vital link in the chain of defense alliances that were put in place to contain the spread of Communism into Asia. General Zia-ul-Haq was wooed by President Ronald Reagan for the same purpose. Pakistan became an important partner with the United States and Saudi Arabia to expel the Soviet Union from Afghanistan, the country Moscow had invaded in 1979. General Pervez Musharraf support was regarded as vital in the war against Islamic extremism after the attack on New York and Washington on September 11, 2001. Radical Islam rather than Communism was now the enemy. However, Imran Khan's Pakistan faced a very different and openly hostile America. President Donald Trump made no secret of his contempt for Pakistan, firing off a tweet in which he claimed that the authorities in Islamabad had made fools of a succession of rulers in Washington. They received billions of dollars of assistance but did not help America in particular in extracting itself from the unwinnable war in Afghanistan.

In his short visit to Washington in July, Imran Khan seemed to have turned around the American president's view of Pakistan. Trump was now prepared to antagonize the Indian relationship he had worked hard to cultivate by offering to play the go-between in resolving the decade's old India-Pakistan dispute over Kashmir. He didn't probably realize that it was the long-held Indian position not to internationalize the dispute. His claim like so many other claims made on different occasions for different reasons-- that the Indian Prime Minister Narendra Modi had asked him to intervene and help settle the Kashmir dispute - was challenged by India as a figment of the America president's fertile imagination.

A Telling Comparison with India

In thinking about the future as well as reflecting on the past, it helps to compare the Pakistani situation with India-its sister state. At the time of their birth, India and Pakistan were placed very differently. India had a functioning government with well-developed institutions. It had a fairly large entrepreneurial class owning and managing a fairly large industrial sector. It had good economic connections with the world. By contrast, Pakistan had to create a new capital and form a new government. There were only two industrial units of any size. The economy was basically rural with about two-thirds of the population of 32 million living in poverty. Perhaps most difficult was the task of settling 8 million Muslim refugees who had left their homes and possessions and moved to Pakistan. India tried hard to cripple Pakistan. And yet the country not only survived; by the 1960s its economy was growing at a rate twice as high as that of India's. This was the consequence of the economic paradigm followed by the military government that took over the reins of the country's administration in October 1958.

It was only once in the country's 72 year history that Pakistan followed a well-defined strategy for economic development. This was during Field Marshal Ayub Khan's eleven years in office as the country's first military president. To develop this strategy, the president requested technical assistance from the United States. That came in the form of dozens of economists and other social scientists who floated in out of the Planning Commission and the Planning and Development Departments in the provinces of East and West Pakistan during what Ayub Khan called the "decade of development." The advisers were affiliated with Harvard University's Development Advisory Service. The approach they developed was summarized by Gustav F. Papanek, the leader of the group in the title of his book, *Pakistan's Development: Social Goals and Private incentives*[7].

The strategy implemented by the Ayub Khan regime provided many incentives to the private sector to establish relatively large-scale consumer-goods oriented industrial enterprises. The idea was to satisfy the rapidly increasing demand for basic consumer goods most of which were imported from India. In 1949 India banned all trade with Pakistan. Unlike India that followed the Soviet Union model to establish large enterprises in the public sector to manufacture producer goods, Ayub Khan's Pakistan developed private enterprises. On the social side, the military regime launched a multi-tiered system of local government called the "Basic Democracies" that catered for the needs of the poor by allowing them to identify and implement small development schemes for their betterment. The schemes were funded by grants from the government.

While the regimes Ayub Khan's military government had replaced had also focused on industrialization, his government encouraged the farming community to adopt high-yielding seed technology to increase both productivity and output. High-yielding wheat varieties were imported from Mexico and high-yielding rice from the Philippines. The result was the "green revolution" which turned Pakistan from a food-importing country to the one that could off-and-on export grains surplus to its needs.

There was another feature of the Ayub Khan that should be noted. I labeled it as "Political Indigenization" in my first book on Pakistan[8]. In it, I devoted a long section to what I called the "Insiders and Outsiders." The insiders were the Pakistani indigenous population of some 24 million that had accommodated 8 million refugees who came into the country from India. Being more educated, urbanized and with greater knowledge of the modes of governance, they dominated the Pakistani political landscape during the decade before Ayub Khan. The military leader brought indigenous leaders back into the political arena. The Green Revolution helped in this move.

The Ayub Khan approach to economic development yielded impressive results. The rate of GDP growth more than doubled from 3.1 percent in the 1950s to 6.7 percent in the 1960s. This was to be highest rate of increase in any decade in Pakistan's seventy-plus years of history. Per capita GDP increased more than six-fold, from 0.6 percent to 3.8 percent a year. In 1964-65, the middle of the decade of development, investment as a proportion of GDP increased to 21.1 percent, half of which was financed from abroad, mostly from the United States[9].

The Ayub Khan development paradigm had four pronounced features; a prominent role for the private sector; emphasis on industrializing for feeding domestic markets; focus on developing grain-producing agriculture for meeting domestic demand; development of institutions of local governance for people meeting their needs with government assistance; and a high level of dependence on foreign flows. We believe that a significant departure is needed from this paradigm for Pakistan to achieve the country's full economic and social potential. We further believe that Pakistan's diaspora in North America could play an important role in moving the country forward by participating in implementing the new paradigm.

Pakistan's Current Economic Situation

As discussed in greater detail in a later chapter, Pakistan currently faces serious economic problems. The rate of GDP growth this year– the financial year 2019-2020-- is expected to decline to 2.4 percent, the lowest in history. This would be about half of the average achieved in the 72 years since the country achieved independence. It is one-third of what it could climb to in the next 5 to 10 years. The country is grappling with soaring inflation, a crippling balance of payments crisis, a depreciating currency and poor export performance. Looking at the experience of several countries in the developing world that faced similar crises suggests that with proper management and a dramatic change in the development paradigm, Pakistan could come out of this crisis and climb on to a growth trajectory that is near -- perhaps even equal to -- those followed by several Asian countries and like them sustain it over time.

We advised the Imran Khan government not go to the International Monetary Fund (IMF) for seeking relief. Such an approach would constrain the formulation of public policy that would make it difficult for the new prime minister to meet the aspirations of his large constituency. That advice may have slowed the move but the government signed a new agreement with the Fund that would bring in US$ 6 billion in several tranches over the next three years. Our other advice was that while Imran Khan had won the election on the basis of a strong anti-corruption platform, he should not promise that he could produce a clean government at all levels within a few months. He could -- and perhaps would -- succeed in eliminating corruption at the senior levels of government but it would take serious institutional development to provide people with clean governance at all levels. It was corruption by senior officials over the last several years that has contributed significantly to Pakistan's current economic malaise. According to some of prime minister's senior associates who have accompanied him on his trips abroad, several foreign leaders said that they were delighted to meet a Pakistani leader who was working hard for his country and not for himself, his family or his friends.

What could the country expect from the Fund program? The Fund in agreeing to provide US $6 billion of budgetary support is working on two objectives which the government in Islamabad shares. These are achieving macroeconomic stability and building institutional infrastructure that would support economic and social progress. On the macroeconomic side, the focus would be on improving domestic resource mobilization. This would be done by broadening the tax base, not by increasing tax rates. This would result in increasing the share of the population contributing to government revenue and by discontinuing exemptions, concessions and subsidies which have been a major source of leakages in the tax base. There will be emphasis on increasing social spending in areas such as public education and public healthcare. This change is already reflected in the budget for the year 2019-2020. On the external side, the aim would be to create a flexible market-determined exchange rate which would help to restore a degree of balance in external accounts.

The Fund expects that its program of US$ 6 billion would be at the core of a US $38 billion program of external flows from sources such as the World Bank, the Asian Development Bank (ADB), the Islamic Development Bank (IDB) and such bilateral sources as China, Saudi Arabia, the United Arab Emirates and Qatar. The United States is conspicuously absent from the list of finance providers.

The IMF would also like to ensure the independence of the State Bank of Pakistan from political pressure in carrying out its mandate to achieve stable, maintain low level of unemployment, and keep prices in check. The need for central banks to remain beyond the reach of political authorities was the theme of the discussion at Jackson Hole, Wyoming in the annual (2019) conference of the heads of central banks of developed countries. Several of those who spoke at the meeting were critical of the attempts by the United States President Donald Trump to have the Federal Reserve, his country's central bank to lower interest rates and be responsive to the objectives of those who held the reins of power in the executive branch of the United States government.

A New Development Paradigm

The subject of developing a new development paradigm for Pakistan would take a lot of space and time. That said, we will focus on a just four basics. The first is that we should devote the state's energies on developing not the sectors on which there was concentration while the old paradigm was being followed but some new ones. Second, there should be considerable attention given to moving the products of these sectors into export markets. Third, the country should come up with approaches to serve and develop urban populations. Fourth, the large North American Pakistani diaspora should be made an important player in developing the country of their origin.

The country should continue to provide space to private enterprise as was done during the days of Ayub Khan but private entrepreneurs should be encouraged to move into the sectors that have considerable potential for the country. Pakistan has a well-endowed agricultural sector, one of the more impressive in the world. It has the world's largest contiguous surface area in the world. However, this potential is not being used well; it has been devoted to the production of such water-intensive crops as rice and sugarcane. Instead, the farming community should be provided incentives and institutional backing to grow such high-value output as fruits, vegetables and flowers. There is a good market for these products in Pakistan's neighborhood; in China and the Middle East, in particular. The large China-Pakistan Economic Corridor investment program underway in the country has improved connectivity with the western parts of China. China is moving people into these sparsely populated areas to relieve the pressure of population in the east. However, the country's western provinces do not have the potential to feed the growing population. Pakistan could supply the needed fruits, vegetables and animal products.

The Role of the Pakistani Diaspora in Transforming the Country of their Origin

As discussed in a later chapter in this report, international migration has played an important role in shaping today's Pakistan. Millions of people have come into the country and millions have left the country and settled abroad. I have already mentioned the arrival of eight million Muslim refugees into Pakistan soon after the country gained independence. This posed a challenge for building the Pakistani nation. To this we should add four million Afghans who have taken refuge in Pakistan to escape the unending wars in that country. The Afghan migration has exacerbated ethnic tensions in Pakistan in particular, in Karachi, the country's largest city.

There are some eight to ten million Pakistanis who have left Pakistan and formed large diasporas across the globe. Nobody has the real count but it appears that some one million Pakistanis constitute the migrant community in North America. Of these some 800,000 are in the United States. The average income of the Pakistani-Americans is more than the American average estimated at US$64,767 for 2019. If the average diaspora income is US$ 70,000 per head, it means that the total for the group is about US$ 56 billion a year. With the average savings rate at about 25 percent of the annual income the total amount saved would be in the neighborhood of $14 billion for the entire community. In the past, most of these savings went into asset creation. Given the age of the diaspora, I assume that this group's total assets to be worth close to half a trillion dollars. Most of these are in housing and corporate stocks and some in businesses. If the members of the diaspora could get organized they could marshal US$ 2 to US$ 3 billion a year to go into investments in Pakistan. This would be more than the annual lending to Pakistan by the World Bank. In 2018, the Bank lent US$ 2.8 billion to Pakistan; in 2019 the amount was US$ 1.18 billion.

In the work that was done at the World Bank on international migration, four phases were identified in the lives of diaspora communities. Savings are high in the initial phase of diaspora formation. Some of the amounts saved are remitted back to the families the migrants have left behind in their homeland. Most of the savings go towards creating a secure economic environment for the newly arrived migrants and also for ensuring a better future for themselves and their families. This means spending on housing and education. In the second phase, the diasporas begin to invest in non-housing assets, mostly in stock markets and real estate. In the third phase the members of the diaspora communities begin to look for investment opportunities in the countries of their origin. Some of this would provide a secure source of income in case of return to the homelands. The fourth phase is caring for old age when some of the accumulated capital is drawn down for healthcare. Some 200,000, or a quarter of the Pakistani diaspora in the United States have entered the third and fourth phases.

If the members of the Pakistani diaspora could get properly organized to do work in the country of their origin and also invest in it to contribute for its economic and social advance they could make a great difference. That way they would contribute significantly to investments in the country of their origin. The community should select a few sectors in which to concentrate its attention. Of the possible areas of involvement, the following hold promise: public policy analysis; health services and old-age health care; higher education; small-scale engineering; food processing; and information technology. In four of these six areas, the diaspora community has both experience and expertise. In the other two-- engineering and food processing-- outside help could be bought.

The community could create a cluster of institutions to manage this program, starting with an apex body of about half a dozen individuals who have the time and expertise to do this work. This body could be called the Pakistani-American Initiative, PAI, to which the interested members of the community would make financial contributions. These contributions would be used to staff the PAI which would work with a board of directors to be chosen from among the largest contributors. The PAI should be run as a non-profit organization and should secure recognition as such from the U.S. authorities. That way the contributions would be written-off from income for tax purposes.

The PAI would manage the work of the six entities identified above. At this point, we will give three examples of the type of work that could be done under the auspices of the PAI. One, the PAI, should create the capacity to undertake work in the area of public policymaking and implementation. This was done by the public sector during the Ayub Khan period, the 1960s. In a conversation with me a few months before his death, the former president identified the strengthening of the Planning Commission as one of the more important reasons for the economic success of his eleven years in office. However, the central role played by the Commission was done away with by Prime Minister Zulfikar Ali Bhutto who personalized the making of public policy. The administrations that succeeded the one headed by Bhutto did not make a serious effort to revive the Commission with the result that a serious gap exists in studying public policymaking. It was for this reason that we established the BIPP.

The second area the PAI should explore is the possibility of establishing an advanced medical center that would service the diaspora community and could become a destination for health tourism. It could be located near the new and privately built airport in Sialkot that is about to be connected with Lahore by a motorway.

The third initiative would be to set up an academy for producing and training Information Technology (IT) engineers for supplying both domestic and foreign markets. IT infrastructure has developed to the point where it could support advanced services. Nadra has the largest biometric database in the world. Internet connectivity is huge; of Pakistan's 210 million people, 151 million or 72 percent are mobile phone users. Of these 55.4 million or over 26 percent use smart phones. This academy could be located in the campus of the Lahore-based Netsol Technologies, Pakistan's largest IT firm. Netsol has created a center for incubating new enterprises. One of its recent initiatives is an enterprise called HospitALL which has created a web-based program for facilitating communications between health providers and those who are served by them. We could bring in the Chinese into this program. They have shown interest in working with Pakistan in this area.

Pakistan in the Decade or Two Hence

What lies in Pakistan's future; where will the country be in say five years or ten years from this time? A significant change in Pakistan's development paradigm with associated changes in government policies would no doubt speed up the rate of GDP growth, perhaps doubling it from where it is today. Within five years, Pakistan could reach the rates of growth that are common in the countries of East Asia. The fact that the country is located in a sensitive part of the world could become both a liability and an asset. The policymakers challenge is to aim for the latter. This has already happened to some extent. China's interest in using Pakistan as a gateway to the West and to restructure its economy on land-based international commerce has already brought large investments in Pakistan. As we have argued in the two recent reports published by the BIPP, the CPEC program of investment properly implemented could have a number of positive outcomes[10]. It could add a percentage and a half points to the rate of GDP growth and improve the country's economic links with the world outside. China could bring about significant changes in the structure of the Pakistani economy.

There could be a major change in what the sector of agriculture produces; there could be a significant move towards the production and processing of high valued products. Pakistan's small and medium-scale engineering enterprises could become important components of the rapidly developing supply chains in the international system of production. Its large and young population could be educated and trained to supply the work force needed by such modern sectors as healthcare, higher education, information technology, finance and tourism. Some of these developments have already begun to happen. Pakistan seems to be on its way.

The 2020 Annual Report: A "Foreword" on its Intended Coverage

In this short section we will identify the subjects we plan to cover in the 2020 annual report, the thirteenth in the series launched in 2008. We will examine how the country's political system has developed since July 2018 when the largest electorate in Pakistan's history placed in power a new kind of political leader at the head of a new kind of political party. As discussed above, the PTI headed by Prime Minister Imran Khan resembles a political organization expected in a country at Pakistan's stage of development. It represents a major departure from the patron-client and family based political organizations that have dominated Pakistan's political landscape. When the 2020 report gets to be written the prime minister would have been in office for more than two years and would have a record by then for us to provide an assessment. Since our focus is mostly on economic issues, we will examine how the PTI government has managed the economy and whether the country has adopted some of the elements we have identified as constituting a new development paradigm.

Mostly for political reasons, Pakistan has not given as much attention to urbanization and urban areas as it has done to the countryside. Politics has remained dominated by rural interests ever since the launch of the process of "indigenization" by President Ayub Khan that brought landed elite back to the center of politics. The country also undercounts the urban population. The definition of an urban area comes from the legislature. Counting the urban population correctly would reduce the presence of rural interests in the national and provincial legislatures. The 2017 Census estimated the size of the urban population at 75. 58 million or 36.4 percent of the total of 207.774 million. However, several experts believe that this is a serious underestimate. Mohammad A. Qadeer, professor emeritus of urban planning at Canada's Queens College, notes that the United Nations classifies urban space as any area with 1,000 people per square mile. According to this density-based definition, vast swathes of rural Pakistan-- including the eastern part of Punjab province-- should be regarded as urban. Qadeer estimates suggest that 60 to 65 percent of Pakistan today is urban[11].

In 2019, BIPP signed up with the Government of Punjab to do a major study on how improving connectivity in the urban areas could bring about welcome economic and social change. This work should provide us with insights we will use in writing the section on urban policy in the 2020 report.

Chapter

2

The World in 2019: A Year of Despondency

The World in 2019: A Year of Despondency

Shahid Javed Burki

Following the practice adopted in our previous annual reports, we have, this year divided our presentation in two parts. We begin with a discussion of our reading of the "State of Pakistan's affairs." This is broader than the "State of the economy" with which we began the earlier reports. We have added to the analysis of the state of the economy our evaluation of the state of the world as it affects Pakistan. The second part of the report deals with a special subject on which The Shahid Javed Burki Institute of Public Policy at NetSol (BIPP), has kept watch throughout the year. As was the case with our reports for the years 2017 and 2018, we will continue with the analysis of the China-Pakistan Economic Corridor (CPEC) as the special subject. However, the CPEC discussion is also wider in scope. It will be Cast in the context of how China is positioning itself in the rapidly changing global system.

We will begin with a discussion of the state of American affairs and how they are affecting the rest of the world. As the Americans headed towards the 2019 Thanks Giving Holiday (November 27), the world had little to thank for. The United States was deeply engaged in moving towards the impeachment of their 45th president, Donald J. Trump. There was little doubt the House of Representatives, the lower house of the American legislative system would vote on the "articles of impeachment" and send it to Senate for a trial likely to occur in January 2020. Since the elections of November 2018, the House was under the control of the Democrats while the Senate remained with the Republicans. It was highly unlikely that the Senate would convict the president and send him packing. In the almost three years during which Trump had occupied the White House, he brought the Republican Party firmly under its control. The United States citizenry was so completely split that the magazine The Atlantic wrote on a cover story in its December 2019 issue titled How to Stop a Civil War. The magazine's editor and contributors worried about the state of political affairs in their country.[1]

Jeffrey Goldberg, the magazine's editor introduced the subject by offering his take of the situation created by the political rise of Donald Trump. "The 45th president is uniquely unfit for office and poses a multifaceted threat to our country's democratic institutions," he wrote in the editorial that came with the December 2019 issue. "Yet he might not represent the most severe challenge facing our country. The structural failures in our democratic system that allowed a grifter into the White House in the first place -- this might be our greatest challenge.

Or perhaps it is the tribalization of our politics brought about pathological levels of inequality, technological and demographic upheaval, and the tenacious persistence of racism. Or maybe it is that we as people no longer seem to know who we are or what our common purpose is[1]."

The Trumpian approach to the world was impacting the globe, especially the parts that had been relying on America's support in the post-Second World War era. In a long conversation with the editors of the magazine, The Economist, Emanuel Macron, the French president, expressed concern about the direction the world had taken under pressure from Donald Trump. "Look at what is happening in the world. Things that were unthinkable five years ago," declared Macron. "To be wearing ourselves out over Brexit, to have Europe finding it so difficult to move forward, to have an American ally turning its back on us so quickly on strategic issues; nobody would have believed that possible. Europe is on the edge of a precipice. If we do not wake up there is a considerable risk that in the long run we will disappear geopolitically, or that we will no longer be in control of our destiny. I believe that very deeply." According to Macron since the 1990s the European Union progressively lost its political purpose. Its focus on market expansion and regulation, underpinned by the American defense guarantee, provided an illusion of eternal stability. America's gradual retreat from Europe combined with its new protectionism has exposed Europe's vulnerability[2].

While Europe was not heading towards a crisis, it was certainly troubled. The situation was very different from the one in the Middle East. What happens in that part of the world would have direct consequences for Pakistan. For our purpose, we should divide the region into three parts: the Arab region and the countries to its east that include in addition to Afghanistan, three of the largest nations in the Muslim world, Pakistan, Iran and Turkey. The three have a total population of 412 million people, more than a quarter of the people living in world following the Muslim faith. The third part is made up of the Central Asian nations that were once part of the Soviet Union. Having been given independence in 1991, these five nations are searching for their identity and also seeking to connect themselves with the parts of the world that have been out of reach for them. It is in this context that we should view the arrival of China in the region. Its Belt and Road Initiative (BRI) is designed in part to provide connectivity to the landlocked countries in Central Asia.

There are a number of developments -- some of them recent and some going back many decades -- that continue to unsettle the Middle East. Some of these are political, some demographic and some are the result of large-power rivalry. I will begin with a discussion of the last.

For close to half a century after the end of the Cold War, the intense competition between the United States and the Soviet Union resulted in the Cold War. The two superpowers worked hard to increase the geographic space in their respective domains. The Middle East was a contested area and for some time Egypt, the Arab world's largest country in terms of population, sided with the Soviet Union. In 1979, with the invasion of Afghanistan by the Soviet Union, the Cold War became hot in a limited sense. However, when Moscow was forced out of Afghanistan, it led to a chain of events that culminated with the collapse of the Soviet Union and the demise of Communism in Europe. The Western-style liberal democracy emerged as the preferred system of governance. The United States was now the dominant power.

Its domination was challenged in the early 2000s not by a state but by a series of stateless operators starting with Osama bin Laden's Al Qaeda. The United States invasion of Afghanistan in December 2001 led to the weakening of the group. However, when Washington followed up on this operation with another military intervention -- this time of Iraq -- it laid the ground for the emergence of the Islamic State (IS). The West --in particular the United States -- has not found a way of tackling this phenomenon. Even though the United States found Abu Bakr al-Baghdadi hiding in a tunnel and chased him until he blew himself up, the movement he founded is not likely to die. It has thousands of adherents active in several parts of the world. The rise of these Islamic groups has led to instability in the Middle East. This has resulted in Russia to reengage itself in the Middle East with Moscow taking advantage of both the semi-withdrawal of the United States from the region and the regrouping of local powers in the area.

Europe and the Middle East were not the only regions affected by the rethink about political management. There was also turmoil in the southern part of the American continent. In Chile, 2,500 persons were injured and 20 were dead as the police tried to bring the protesters under control. In Ecuador, a government besieged by protesters was forced to flee. In Bolivia, police stations were attacked, homes of politicians were set on fire and Latin America's longest serving president was driven into exile. In Peru, the street rose up to back the president in his crusade to close down a corrupt legislature. Some called these uprisings the "Latin American Spring", finding a parallel between what happened in the Middle East in 2011 to what was occurring in this part of the world. However, according to some analysts, unlike the popular uprising across the Arab world nearly a decade ago, when oppressed and impoverished citizens revolted against apathetic dictatorships, the still-unfolding uprisings in South America are as varied as the countries themselves.

These events were occurring largely because of the painful adjustments, countries had to make in difficult economic circumstances. Commodity booms in resource rich countries had brought hardship. "As nations tighten their belts in leaner times, the pressure is hitting the poor and middle classes disproportionately, while elites are largely shielded -- fueling grass-roots rage. Add weak institutions, structural inequality, political polarization and a corrupt ruling class unwilling to cede power, and you have a recipe for regional unrest[3]."

Pakistan would be affected by these mostly adverse global developments in several different ways. Most important of these developments is the withdrawal of the United States as a supporter of democracy and human rights around the globe. Donald Trump did not hide his admiration for strong and authoritarian leaders. He felt comfortable in the company of rulers such as Erdogan of Turkey, Sisi of Egypt, Muhammad bin Salman in Saudi Arabia, Narendra Modi in India -- and of course Vladimir Putin in Russia. Initially, he expressed great admiration for President Xi Jinping of China as the Chinese leader consolidate his position and laid the ground for becoming President for Life. "America --or at least, America's president -- is no longer trying to make the world safe for democracy. But dictators are working hard to make the world safe for dictatorship," wrote Fred Hiatt who edits the editorial page of The Washington Post. "A strange reversal is taking place across the world. The United States is retreating, almost apologizing for ever having thought about democracy...Instead the world's tyrants -- while still complaining about color revolutions and U.S. interference -- roam far and wide, promoting their ideologies and their corporations, bullying and buying and burrowing and shooting their way to influence. Russia and China, the loudest conjurers of imaginary CIA pro-prodemocracy plots, have become the world's most active under-miners of democracy beyond their borders[4]."

In addition, there are disturbances in Pakistan's immediate neighborhood. The country is located in the part of the world that is struggling to achieve stability. If we add Kashmir to the list of its neighbors, four of the five that share borders with Pakistan are troubled in one way or the other. Afghanistan remains unsettled after decades of civil wars that have pitted various ideological and ethnic groups against one another. The involvement of two large powers, first the Soviet Union and then the United States have not helped matters. Pakistan would be deeply affected by developments in the country. At the time of this writing, the presidential election held in September had not produced a winner. The two main contenders -- President Ashraf Ghani and Dr. Abdullah Abdullah, had claimed victory, promising agitation if either was not declared the winner. This was a repeat of the situation in 2014. At that time, the standoff between the two brought the then United States Secretary of State John Kerry as a mediator. He brokered a deal that gave the presidency to Ghani while Abdullah was placed in a newly created position of Chief Executive. The two have not worked well together compounding the country's deep ethnic divide with ideological overtones. Ghani is a Pakhtun, the ethnic group responsible for the rise of the Taliban while Abdullah is a Tajik. The Tajiks based in the northeastern part of the country sided with the Americans when their Northern Alliance provided the foot soldiers that removed the Taliban regime from Kabul.

The American chief negotiator, Zalmay Khalilzad is originally a Tajik and as such is suspect in the Pakhtun dominated regime in Kabul. He held a number of rounds of negotiations with the Taliban in the hope of bringing peace to the long-suffering country. These were held in Doha, the capital of Qatar, where the Taliban were allowed to maintain an office. The Taliban participation in the discussions was contingent on the exclusion of the Ghani-led government they considered to be a puppet of the United States. At one point, Khalilzad seemed to be making some headway and agreed to the Taliban demand to meet with President Trump at the presidential retreat at Camp David, a mountain resort in Maryland. The United States and Taliban reached a four point agreement that included a partial withdrawal of U.S. troops and a Taliban pledge to severe relations with al-Qaeda and to ensure that none of territory the Taliban controlled -- now estimated at more than 50 percent of the Afghan territory -- would be used for terrorist activities directed at the United States or its allies. However, the president called-off the meeting at the last minute, sending Khalilzad back to square one.

In spite of the setback administered by the American president, some progress was made when the United States, the Afghan government, and the Taliban agreed to an exchange of prisoners. The exchange involved two from the West, an American and an Australian, both professors at the University of Kabul held by the Taliban for three years. The exchange derived rich dividends for the Taliban since the three who were set free included Anas Haqqani, the son of Jalaluddin Haqqani who had organized his group into a lethal fighting force. The Haqqanis operated from a base in Pakistan's tribal areas on the border with Afghanistan. In announcing that he was willing to free the senior Taliban figures, Ghani was hoping that the gesture would "facilitate direct peace negotiations" between his government and the insurgent group. The Afghan president was also betting that the prisoner exchange could move the Taliban toward agreeing to at least a partial cease-fire which he had set as a precondition for any talks. But the Taliban did not seem impressed by that demand. The prisoner swap was made after two attacks within 24 hours of Ghani's initial announcement of the deal on November 12. One of the attacks was in Logar province, Ghani's place of origin.

On Thanks Giving Day November 28, 2019, President Trump paid a surprise visit to Afghanistan, flying in a darkened plane and landing at Bagram

Airfield near Kabul. He was received by President Ghani and stayed for a few hours. In addressing the troops, he was not particularly clear about his objectives in the country with which the United States had been engaged for 18 years. "We are going to stay until we have a deal, or we have total victory, and they want to make a deal very badly," he said as he reaffirmed his desire to reduce to 8,600 United States troops, down from 12,000 to 13,000. According to one reading of the situation, "Mr. Trump's suggestion that the United States would either reach a peace deal with the Taliban to achieve 'total victory' was a sharp departure from his public expressions of frustration with what he has called America's unending wars. American military leaders and diplomats have long ruled out the possibility of a military victory in Afghanistan. To the contrary, they say, a political settlement is the only path out of the war[5]."

Trump's statements while he was on a brief visit to Afghanistan did more to confuse rather than clarify what America under Trump was hoping to achieve. According to on assessment, "a June U.S. Defense Department report put the number of Islamic State fighters at about 2,000, located in Konar and Nangahar provinces along the Pakistani border. A relatively small al-Qaeda presence, it said, 'poses a very limited threat to U.S. personnel and our partners in Afghanistan[6]." However, speaking to the troops at Bagram, Trump said there had been "tremendous progress with respect to ISIS and al Qaeda. And we have hit them very hard. They had many thousands a short while ago, and now they're down to hundreds. Probably 200 left."

While Afghanistan was struggling to move towards peace, India, Pakistan's neighbor to the east, created instability for itself. It moved away from what the historian Sunil Khilnani called the "Idea of India.[7]"This was the belief that the country had developed political, social and economic systems that would accommodate different segments of a very diverse society. That was done under the leadership of Jawaharlal Nehru who served the country for seventeen uninterrupted years. He did so as the chairman of the Congress Party that had led the independence movement. Nehru died in 1964 and after a number of weak leaders serving as prime minister, was succeeded by Narendra Modi, who took the reins of power in 2014 and was reelected with as large majority in 2019. While Nehru's rule was democratic and India, during his period, succeeded in developing reasonably inclusive political and economic institutions, it remained a one-party state. The Congress Party dominated the political landscape and in that were present seeds of instability. These showed up in the period that lasted well into the 2000s and resulted in the rise of the Hindu-nationalist Bharatiya Janata Party (BJP). The party was built on the infrastructure developed by the fascist Rashtriya Swayamsevak Sangh (RSS) which was avowedly for Hinduism and Hindutva. The latter was a political, social and economic system that was run on Hindu lines. Non-Hindu minorities did not have a place in such a system.

The BJP administration adopted a number of policies and took a number of steps that would alienate the country's Muslim minority which accounts for 14 percent of the population of 1.3 billion. These moves would also affect India's relations with Pakistan. One of the most troubling one is the compilation of National Register of Citizens (NRC) tasked with identifying the national identity of the 33 million people who live in the northeastern state of Assam. Those who cannot prove their Indian citizenship would be locked up in detention centers for foreigners. Six such centers are already operational and ten more are being built. Those left off the list will have to wait for Foreigners Tribunals, special courts with no right of appeal, to hear their cases. "How did this Kafkaesque situation arise?" asked The Economist in its coverage of the Indian program. "As is so often in India the blame partly rests with British rule and partly with toxic

Indian politics. Under the Raj millions of Bengalis mostly Muslim, were encouraged to settle in Assam. With independence, local politicians thrived by playing up the 'threat' that intruders posed to native language and culture. With the rise of Hindu nationalism, the religious component has been magnified and the threat recast as one to India's national security[8]."

There was some hope that the Indian judicial system would save the "idea of India" from a total collapse but that did not happen when on November 9, 2019 the Supreme Court ruled that a Hindu temple could be built at the site of a razed mosque. This promised to be historic verdict that awarded the land at the heart of the clash between Hindu extremists and the country's beleaguered Muslim minority. The building of the temple to the Hindu god Ram in the town of Ayodhyais a long-cherished goal of Hindu nationalists and a key objective of Narendra Modi's ruling Bharatiya Janata Party. "In this country of 1.3 billion people, there is no issue like the controversy over the Ayodhya, which has provoked violence and inflamed communal tensions for years," wrote Joanna Slater who covers India for The Washington Post. "For many Hindus, the disputed site is revered as the spot where Ram, a beloved god and avatar of Vishnu was born. Some believe a Hindu temple once stood there and was torn down by India's Muslim rulers[9]." In their ruling the judges said they were "tasked with the resolution of a dispute whose origins are as old as the idea of India itself."A BJP-inspired mob destroyed the temple in 1992 resulting in riots in which more than a thousand Muslims perished, mostly in the state of Gujarat which Modi then governed as chief minister. Modi was generally held responsible for the killing and until he became the country's prime minister was denied the visa to travel to the United States.

But for the dispute over the state of Kashmir, India-Pakistan relations would not have soured to the extent that the two nuclear-armed countries could go to an all-out war. They have already fought four wars over the status of the territory -- in 1948-49, 1965, 1971, and 1999. The last was a limited encounter when Pakistan attempted to capture the Kargil commanding heights in an effort to improve its military situation. India threatened an all-out war unless Pakistan pulled out its troops from the conquered space. It took intervention by President Bill Clinton for Pakistan to comply. More recently, the moves by Narendra Modi, the Indian prime minister have sharpened tensions between the two countries. On August 5, the BJP government changed the status of Kashmir, taking away the autonomy granted to the state under Article 370 of the Constitution and turning it into a "Union Territory" directly administered from New Delhi.

Under Trump, India came close to the United States since both countries had one fear: the rise of China. One November 21, 2019 India and the United States concluded the first land, sea and air exercise in their history of military cooperation. The exercise, Tiger Triumph, brought together 500 American marines and sailor, and about 1,500 Indian soldiers. The exercise completed one of the goals of a defense pact the two countries signed in 2018. According to one account, "the only other country with which India has held similar exercises involving three branches of its armed forces is Russia. During the Cold War, India was closer to the Soviet Union than to the United States, and much of the Indian arsenal still harkens back to that area[10]." But that was changing. According to the Stockholm International Peace Research Institute, exports of American weapons to India from 2013 to 2017 increased more than five-fold. American arms sales to India stood at around US$ 18 billion.

Going round clockwise the Pakistani territory, we arrive in Iran, Pakistan's fifth neighbor. At the time of this writing (November, 2019) Iran was in the eye of a storm that was the result of the stiff sanctions imposed by the Trump administration. Washington had withdrawn from the 2015 nuclear deal the Obama administration had negotiated that was signed by all major world powers -- China, France Germany, Russia, the UK, and the European Union. The reason for the withdrawal was the stiff opposition by Israel that regarded the agreement not going far enough. Israelis wanted Iran to be pushed back not only from the program to develop a nuclear bomb but also to give up the development missiles. The beefed-up sanctions had caused hardship for the Iranian people. When in mid-November 2019 Ayatollah Ali Khamenei, Iran's supreme leader, supported a gas price increase, it spurred three days of protests. At least 12 persons died. More than 1,000 people were arrested and the government imposed an almost complete nationwide internet blackout on November 17, one of its most draconian attempts to cut off Iranians from each other and the rest of the world. In the past one month Iran had faced a fierce backlash in regional countries such as Lebanon and Iraq where protesters called for ending Iran's outsized influence in their domestic affairs.

Both the United States and Israel were troubled by the Iranian support of militias in the Middle East. On November 19, 2019 The New York Times and The Intercept, published a long story -- one of the longest carried by the former in months -- based on leaked files that told the story of how the Iranian intelligence agencies had penetrated Iraq especially after the United States invaded the country in 2003[11]. The U.S. also maintained a strong intelligence presence in the country. There was a tacit agreement between Iran and the United States, that the person given the seat of power as the prime minister in Baghdad would have the approval of both countries. The current holder of the job, Adil Abdul Mahdi was acceptable to both.

In Iraq, Lebanon and Syria which Iran considers crucial for its national security, the country's Revolutionary Guards -- and in particular its elite Quds Force led by General Qasim Suleimani -- determines Iran's policies. In gaining influence in Iraq, the Iranians relied on the network created by the U.S. Central Intelligence Agency (CIA). Tehran also made an attempt to recruit a spy inside the State Department. "In interviews, Iranian officials acknowledged that Iran viewed surveillance activity in Iraq after the United States invasion critical to its survival and national security," wrote the authors of the long story. President George W. Bush had declared Iran to be part of an "axis of evil" and Iranian leaders believed Tehran would be next on Washington's list of regime change.

With shared faith and tribal affiliations that span a porous border, Iran has long been a major presence in Southern Iraq. Its main worry is the possibility of Iraq falling apart, from breeding Sunni militants on the Iranian border; from descending into sectarian warfare that might make Shias the targets of violence; and from spinning off an independent Kurdistan that would threaten regional stability and Iranian territorial integrity. This means that more than two thirds of Pakistan's international borders are with the countries that are restive domestically.

While Turkey is not an immediate Pakistani neighbor, it is part of the Muslim world that flanks on the eastern side of the Arab belt. Pakistan has had good relations with the country from the time of its birth. The support of the Indian Muslims to the forces commanded by Mustapha Kamal who saved Turkey from being totally dismembered by the European powers brought the Turks closer to Muslims in South Asia. Both Pakistan and Turkey partnered with the United States to create the Central Treaty Organization (CENTO) to provide the southeastern flank to prevent the advance the Soviet Union in their part of the world. Washington also encouraged the formation of the Regional Cooperation for Development (RCD) to add an economic dimension to the non-Arab Middle East. In addition to Pakistan and Turkey, the RCD included Iran.

For a while, it appeared that Turkey, while opting for a Western-style democratic order, was setting an example for the Muslim where most countries were governed by authoritarian rulers. Also, the Turks had pushed religion back, choosing to be governed by an aggressive secular system. However, the political rise of Recep Tayyip Erdogan and his preference for a presidential system has reversed both trends. Turkey is now an authoritarian state with a strong preference for political Islam. It is inclined to flex its military muscle to create a buffer state between its territory and the areas where the Kurdish population has established an autonomous political entity. Trump's America has indirectly supported these moves. Its decision to remove troops from the border areas where the Kurds were active. In an op-ed article in The New York Times, Paul Wolfowitz, a prominent member of the neo-con group in the George W. Bush's presidency that had encouraged the president to invade Iraq in 2003, suggested that Donald Trump had made a big mistake by the decision to pull the American troops from Syria's border with Turkey. He proposed a different approach. "Mr. Trump should have told President Erdogan that Turkey had helped to create the ISIS problem in Syria, that it should now 'back-off' and let negotiations continue and that sending in the Turkish army would be something it would regret. Instead of conceding that Syria's Kurds are a threat to Turkey, he might have suggested using American influence over Kurds to prevent that[12]."After all, in fight against (IS) over 11,000 Kurds had been killed or wounded while Americans had lost only six soldiers.

To these political occurrences we should add some other events, most importantly global warming, cleaning the air over large cities, disposable of trash and movement of people from the world's crowded places to the places where the fall in the rate of population growth is creating worker shortages. The first three of these affect global environment. Climate Change has underscored the inability of governments to provide clean water and air to the citizenry. Take New Delhi as an example, "pollution in the Indian capital spikes every autumn as toxic stew of pollutants -- industrial emissions, road dust, car exhaust and soot from agricultural fires -- settles over the city. Despite various efforts to combat pollution, Delhi just recorded its longest stretch of hazardous air quality since public records began, according to IQAir, a monitoring firm. Authorities have closed schools for four days this month (November) and banned half of the city's cars from the roads every other day[13]."

Poor governance was the obvious reason for the covering of the city with smog. Countering the negative consequences of poor air quality required awareness which only education could produce. Researchers at the University of Chicago conducted surveys among 3,500 of Delhi's poorest residents. They found that awareness of the harm pollution caused was still relatively low and that social norms and cost discouraged people from wearing masks. In 2019, for the first time, the Delhi state government announced that it would distribute 5 million anti-pollution masks to students across the city.

Pakistani cities bordering India also suffered. Flow of air brought in pollution from India but Pakistan also had its own problems which were mitigated somewhat by government action. The government of Pakistani Punjab was more effective in stopping the burning of crop residue than the government of Punjab in India. That said, there were worries on the Pakistani side of the border about health consequences of foul air. On November 15, authorities in Lahore, Faisalabad and Gujranwala ordered the closure of schools. In a speech in Lahore on November 29, 2019, Prime Minister Imran Khan announced a number of measures that, he claimed, would provide the Pakistani cities with cleaner air. Use of cleaner fuels, introduction of electric buses, urban forestation were among the policies his government would pursue.

The disposal of urban trash is also a world-wide issue. The problem cannot be passed on to other countries as was done by a number of rich nations. The latest data show that Americans generate 262.4 million tons of waste a year, a significant proportion of the world total of 2 billion tons a year. Where and how to dispose it is increasingly problematic. In 2018, China blocked the import of most plastic waste, essentially forcing more into landfills around the world. UBQ, an Israeli startup company have found a way for recycling trash into useable plastic[14].

Faster than the normal melting of glaciers also posed a problem, both immediate as well as over the long run. All the countries that had rivers fed from the waters from the Himalayas and the Hindu Kush mountain ranges were deeply affected by the rise of atmospheric temperatures. Rainfall that did not follow the established pattern had caused floods in Pakistan and in the northeastern states of India. Flooding was also caused by the faster than normal melting of glaciers.

The other event of consequence for Pakistan was on-going: large-scale immigration from poor to rich countries. International migration has stirred for decades a great deal of interest in Western nations. The United States, Europe and Australia are struggling with the issue that is likely to gain in importance as demographic developments in both developed and developing parts of the world lead to pressures. These would inevitably result in having millions of people of color -- many following the Islamic faith -- knock on the doors of the West. The West's fears are not new. One morning in 1972, the French novelist Jean Raspail, 94 years old in 2019, was at his home on the Mediterranean coast when he had a vision of a million refugees clamoring to enter Europe. "Armed only with their numbers, overwhelmed by misery, encumbered with brown and black children, ready to disembark on our soil," he wrote in his novel The Camp of Saints. "To let them in would destroy us. To reject them would destroy them." Published in 1973, the dystopian novel described how a flotilla of Indian migrants reach France's southern coast to invade the country. The government fails to react to this invasion and Europe is overrun. Decades later those who rushed into Europe were not from India but from the Muslim Middle East and North Africa.

The title of Rapsail's book was taken from the *Book of Revelation in Bible*. This was reference to the army gathered by Satan to overrun the people on earth, including the camp of the saints. Raspail's work inspired other writings such as *The Great Replacement* by the French writer Renaud Camus who developed the idea that white populations in the West could soon be supplanted by those from the poorer parts of the world. This book had impact. The man accused of killing 51 people in attacks at two mosques in Christ Church, New Zealand in March 2019 was familiar with these writings.

International migrations had been important in shaping Pakistan in several ways. There are few countries around the globe where migrants and their descendants have contributed so much to the structure of the population. About a third of the population in 2019 can trace its origin to the places outside the country's borders. Millions of people had sought refuge in the country, escaping the problems they faced in their homelands. Millions have moved outside in the hope of earnings greater than those possible from domestic employment. Both types of movements -- those from the outside to the inside and those from the inside to the outside -- have contributed to the country's socio-economic and political developments. But the first had some negative consequences. For instance, the refugees who left India for Pakistan at the time of the country's birth -- especially those who came to be called the Muhajirs -- eventually turned Karachi into one of the world's most violent mega cities. Later the refugees from Afghanistan introduced Pakistan to international terrorism and also added to Karachi's violent demeanor. But the positives outweighed the negatives.

According to a World Bank study, migrants from lower- to higher income countries typically earn three to six times more than they did at home. If everyone who wanted to move abroad were able to do so, global income would double. This is an estimate by Michael Clemens of the Washington-based the Center for Global Development in his forthcoming book, The Walls of Nations. Globally, many more people would want to move than are able to so. According to a Gallop poll, 750 million people -- 15 percent of the world population -- would like to migrate. However, it is getting harder and harder for people in the developing parts of the world to move to those that are more advanced. Partly because of President Trump's stated objections to migration – not only illegal but also legal -- the net flow of all migrants fell by 74 percent in 2018, to 200,000 people. While the sentiment in many rich countries has turned negative about immigration, facts point to the positive contribution newcomers make to the places to which they move. Immigrants are more likely than the native-born to start businesses. A 2015 survey found that the most common surnames for the founders of own firms in Italy were Hu, Chen and Singh. Some of the world's cities have large proportions of migrants in their populations. Foreign-born or non-natives in Toronto, Sydney, New York and London are 46 percent, 45 percent, 38 percent and 38 percent respectively. They are also the world's most dynamic cities. Immigrants or their children founded 45 percent of America's Fortune 500 companies, including Apple and Google. Since 2000 two fifths of America's Nobel Prize winners in Sciences were migrants. But the public opinion has soured about admitting people of color in the West. Demographic change has contributed to this antipathy. Writing for Vex, Ezra Klein cites estimates that "when Barack Obama took office, 54 percent of the country was white and Christian; by the time he left office, that had fallen to 43 percent. This is largely because young Americans are less white, and less Christian, than older Americans. Almost 70 percent of American seniors are white Christians, compared to only 29 percent of young adults[15]."

Before we get to a discussion of the main subjects of the 2019 report -- the state of the Pakistani economy and the economic and social impact of the large investments being made by China in the context of the China-Pakistan Economic Corridor -- we thought it would be appropriate to cover these two areas in broader context -- our reading of the state of global affairs. This was done in the first chapters of this report.

Chapter 3

Economic Developments in Financial Year 2019: A Perilous Year

Economic Developments in FY 2019: A Perilous Year

Farrukh Iqbal

Overview

During Financial Year 2019 (FY19), the Pakistani economy had come dangerously close to collapse. The new Pakistan Tehreek-e-Insaf (PTI) government that come to power in July 2018 had inherited an economy that looked prosperous by some measures, but quite unhealthy by others. For example, the economy had grown by 5.5 percent in FY18, the highest rate in almost a decade while Consumer Price Index (CPI) inflation averaged only 3.9 percent. Behind this, however, there were two ominous trends. First, the budget deficit had risen to 6.6 percent of Gross Domestic Product (GDP) while the current account deficit had soared to 6.3 percent of GDP. As a result, gross international reserves with the State Bank had fallen to US$ 9.8 billion, down from over US$16 billion a year ago. At their new level, reserves provided for less than two months of cover for prospective imports.

Faced with such pressure, the new PTI government initially sent mixed messages. In the first half of the fiscal year, there was some talk of getting funds from friendly governments to shore up reserves and avoid a harsher fiscal adjustment at the hands of the lender of last resort, the International Monetary Fund (IMF). A number of missions were launched to Saudi Arabia, the United Arab Emirates (UAE), China and Malaysia. At the same time, the option of approaching the IMF was publicly acknowledged and initial contacts were made. Though a budget had been announced by the outgoing government in May 2018, it was clear that a new budget would have to be passed to reflect the new realities that had emerged since the departure of previous government. On the fiscal side, there was much talk about extracting more revenues from tax evaders and non-filers and squeezing corruption out of the system but this was partly blurred by continued offers of tax amnesties and preliminary reports of missed targets. Furthermore, the public stance with respect to spending remained populist in the sense that many welfare-enhancing schemes and projects were bandied about. On the current account side, however, the message was clearer. The rupee was allowed to depreciate and fell from 121.72 at end-June 2018 to 139.80 by end-December 2018.

The main lines of the emerging economy policy stance became clearer in the second half of FY19. A new budget was passed for the rest of the fiscal year. However, the focus of attention was on the outlines of an eventual IMF program as negotiations proceeded throughout the spring of 2019. Agreement on a program was announced in May 2019. During the negotiations period and beyond, nominal interest rates were hiked significantly and the exchange rate was allowed to depreciate further[2]. Not much was said about the China Pakistan Economic Corridor (CPEC), an initiative that had been at the heart of the previous government's strategy for long term growth in the country.

The IMF program approved by its Executive Board on July 3, 2019 has the following main features: (a) It provides for US$ 6 billion in loans to Pakistan over a 39-month period with an immediate disbursement of US$ 1 billion; (b) It requires the government to take steps to reduce the primary deficit from an expected deficit of 1.8 percent of GDP in FY19 to 0.6 percent in FY20 and eventually to a surplus of 2.5 percent in FY23; and (c) It requires the authorities to pursue a flexible, market-oriented exchange rate policy and a supportive monetary policy. The key fiscal policy adjustment mechanism involves a substantial increase in the ratio of revenues to GDP; meanwhile, spending is allowed to rise modestly by 0.2 percent of GDP. The key current account adjustment mechanism involves prospective exchange rate flexibility.

The story of the economy's experience under the IMF program must be deferred to next year as the program has only just begun. However, one aspect of the program has already become clearer. In August 2019, barely one month after the IMF Board approved the program, the PTI government released preliminary estimates showing that the fiscal deficit for FY19 had come in not at 6.8 percent of GDP, as assumed in the IMF program, but at 8.9 percent. The revenue ratio had come in not at 15 percent of GDP but at 12.9 percent. These massive deviations from assumptions thought firm only a few months before, raised concerns about the quality of economic and data management under the PTI government.

The rest of this section is divided into two parts. The first part documents how the economy evolved during FY19 in terms of standard macroeconomic categories such as growth, inflation and internal and external balances. The second part reviews challenges associated with reducing the fiscal deficit, avoiding volatility in the current account deficit and raising the private investment rate to support growth along a higher trajectory than has been the case in the last three decades.

TABLE 3.1

Output and Price Development

	FY19 (P)	FY18 (R)	FY17
Real GDP Growth (annual change)	3.3	5.5	5.2
Agriculture	0.8	3.9	2.2
Industry	1.4	4.9	4.6
Services	4.7	6.3	6.5
Consumer Price Index growth (annual average)	7.3	3.9	4.2
Fixed Investment Rate (percent of GDP)	13.8	15.1	14.6
Public	4.0	4.8	4.5
Private	9.8	10.3	10.1

Sources: Real GDP growth: Pakistan Burea of Statistics, State Bank of Pakistan and Economic Survey

Macroeconomic Developments in FY19

An Ailing Economy

Growth fell from 5.5 percent in FY18 to 3.3 percent in FY19, the first year of the new government. For industry and manufacturing, this was not surprising given the substantial shift in exchange and interest rates. The related sharp drop in large scale manufacturing growth has raised concerns since formal employment and revenue growth come mostly from this sub-sector (including automobiles, textiles and food processing). For agriculture, slower than expected growth may be traced to other factors such as lower water availability and less fertilizer use. Due to these factors all major crops were affected.

The CPI rose from a period average of 3.9 percent in FY18 to 7.3 percent in FY19. This was due largely to adjustments in energy prices and import costs during the year. Indeed, inflation is expected to rise in FY20 to around 13 percent as the pass-through effects of these adjustments work themselves out further over time.

The sluggishness of the private investment rate is worth highlighting. This has fluctuated around 10 percent in the last three years. More significantly, it has fluctuated within a similarly narrow band (from 9 to 11 percent of GDP) for the past 30 years. Even the relatively high growth experienced during FY13-18 has failed to nudge the private investment rate beyond this narrow band, suggesting that this episode of rising growth was associated mostly with consumption and not with investment. Why has the private investment rate remained stagnant over such a long period across several business cycles and more recently, in an environment of improving physical and energy security conditions? This question is taken up in more detail in the last part of this chapter.

Resumption of Fiscal Pressures

Fy19 saw a sharp jump in the overall fiscal deficit brought about mostly by a lower revenue ratio. Total government revenue fell from 15.2 percent of GDP to 12.7 percent while the overall deficit rose from 6.6 percent of GDP to 8.9 percent. While, development expenditures fell sharply from 4.7 percent of GDP to 3.2 percent, overall public spending fell only modestly as current spending increased from 17 percent of GDP to 18.4 percent, in part due to the rise in debt servicing costs occasioned by depreciation and higher interest rates. All of these

TABLE 3.2

Fiscal Developments (Percent of GDP)

	FY19	FY18	FY17
Total Government Revenue	12.7	15.2	15.5
Tax Revenue	11.6	13.0	12.5
Nontax Revenue	1.1	2.2	3.0
Total Government Expenditure	21.6	21.8	21.3
Current Expenditure	18.4	17.0	16.3
Development Expenditure	3.1	4.6	5.3
Government Overall Deficit	8.9	6.6	5.8

Source: Ministry of Finance Pakistan trends are of concern.

The decline in the revenue ratio is worrisome because it documents the system's reliance on a narrow base. Sales tax receipts were sharply affected by a court decision to substantially cut the applicable rate on petroleum products in FY19. Non-tax revenues also declined sharply due to losses incurred by the State Bank in the fourth quarter of the year. Declines in these two sources alone accounted for a revenue drop equivalent to 1.1 percent of GDP[3].

The decline in the development spending ratio is upsetting because of its implications for long run growth and poverty alleviation. Public investment spending is a key determinant of long run growth and poverty alleviation in many developing countries. Cutting this when macroeconomic conditions deteriorate compromises the country's future. At the same time, current spending controls are also weak and there was a surge in such expenditures in the fourth quarter of the year, due mostly to higher debt servicing costs, higher energy subsidies and capacity payments and higher outlays on defense, pensions and security. Once again, structural changes are needed to bring about a better balance of current and development spending in the government budget and to protect the latter from sharp cuts in the down-phase of a business cycle.

Moderating External Sector Pressures

The bottom line outcome from the mix of macroeconomic forces prevailing in FY19 was a substantial decline in the current account deficit from US$ 19.9 billion in FY18 to US$ 13.5 billion or put in relative terms, from 6.3 percent of GDP to 4.8 percent. The primary determinant of this development was the depreciation in the exchange rate: the nominal value of the rupee went from 121.72 at end-June 2018 to 160.50 at end-June 2019,

TABLE 3.3

External Sector Developments

	FY19	FY18	FY17
Current account balance (US$ billion)	-13.5	-19.9	-12.6
Exports of goods	24.2	24.8	22.0
Imports of goods	52.4	56.6	48.7
Worker remittances	21.8	19.9	19.4
Foreign Investment (US $ billion)			
Direct investment	1.7	3.5	2.7
Portfolio investment	1.3	- 2.2	0.3
International Reserves (US $ billion)			
State Bank	7.3	9.8	16.1
Commercial Banks	7.2	6.6	5.3
Current account balance (percent of GDP)	-4.8	-6.3	-4.1
Exchange rate (PKR to US$; end June value)	162.8	121.4	104.8

Source: State Bank of Pakistan

a 32 percent depreciation. Backing up the exchange rate policy was a hike in the policy interest rate by 150 basis points to 12.25 percent in May 2019. The policy rate currently stands at 13.25 percent.

Individual categories in the balance of payments exhibited different responses to the exchange rate depreciation. To begin with, imports of goods declined from US$ 56.6 billion to US$ 52.4 billion. While this provided some release of external pressure, the quantum of reduction was disappointing, largely due to the fact that a major import item, petroleum, is a relatively inelastic to price. Indeed, the value of petroleum imports showed a small upturn since an increase in nominal dollar prices for petroleum during the year more than offset the small volume decline that occurred. It has also been pointed out that the improvement in imports was partly due to the schedule of imports associated with CPEC projects: imports rose after FY14 as CPEC projects were launched and began to decline as the initial phase was completed in FY19.

A similar inelasticity is visible in the response of exports measured in value terms. These actually fell modestly from US$ 24.8 billion to US$ 24.2 billion. However, this appears to have been due to a decline in global unit prices for Pakistani exports (such as cotton fabric, apparel, leather garments and basmati rice) and masks a relatively robust upturn in volume terms.

Remittances shot up by almost 20 percent in FY19, from US$ 19.9 billion to US$ 21.8 billion on the back of rising flows from the US, UK, Malaysia, UAE and Saudi Arabia. While the number of remitters from the Gulf Countries has been declining in recent years, recent volumes may have been affected by the more attractive exchange rate available.

Trends in foreign investments in recent years have been dominated by Chinese investments associated with CPEC projects. Relatively high direct investment inflows were recorded in FY 2016-2018 as the first round of CPEC projects was completed. A relatively lower inflow of US$ 1.7 billion was recorded in FY19, in keeping with lower investment requirements. This trend is expected to continue over the next few years. There was no pick-up in direct foreign investment from non-Chinese sources in FY19. Portfolio investment also declined during the year although there are now signs of an up-tick as investor perceptions are affected by the relatively high rupee interest rate available since May 2019.

Finally, despite the large depreciation of the rupee and a considerable hike in the policy rate, the reserves position is not entirely comfortable. Reserves with the State Bank fell precipitously from US$16.1 billion at end-FY17 to US$ 9.8 billion at end-FY18. They continued to fall during FY19, despite the infusion of funds from friendly governments, and reached US$ 7.3 billion at end-FY19. Since then they have risen again but continue to be below US$ 9 billion.

Longer Run Challenge

Pakistan has gone repeatedly to the IMF over the last three decades, on average once every three years. On most of these occasions, the proximate reasons have been similar: high current account and fiscal deficits. The core solutions prescribed each time have also been similar: (a) fix the fiscal deficit by raising revenues (via expansion of the tax base, new tax sources and increase in some rates) and cutting expenditures (mostly on energy subsidies and loss-making public sector enterprises) and (b) fix the current account deficit by allowing the exchange rate to depreciate. These core solutions are usually supplemented by (c) measures to reduce the cost of doing business so as to encourage more investment by the private sector.

The outcomes are fairly similar as well. Within one to two years of the IMF intervention, the fiscal and current account deficits come under control and a modest amount of economic growth generally resumes. At this stage, the authorities usually relax their efforts to pursue a tight fiscal policy or a flexible exchange rate management regime. Efforts to entrench a supportive enabling environment for businesses are also relaxed. Accordingly, the growth that takes place is based more on rising consumption than on rising private investment. Such growth produces another fiscal and current account crisis in short order, persuading the authorities of the day to proceed on yet another trip to the IMF.

Embedded in this simplified account of macroeconomic dynamics in Pakistan are three important considerations. The first is that there are clear limits to the scope for fiscal policy. The second is that a flexible exchange rate policy must be sustained over time to avoid running into periodic balance of payments crises. The third is that the main long run growth challenge for Pakistan concerns inadequate private investment. The rest of this section elaborates these three considerations.

The Limits to Fiscal Policy

Consider first the issue of the limits to fiscal policy. Most observers are well aware of the political limits to modifying a fiscal policy in Pakistan. A few examples should suffice to illustrate this point.

On the public expenditure side, a huge part of budget is considered non-discretionary in that it involves debt repayments, civil administration salaries and defense outlays. What is left for adjustment are usually the losses of state-owned enterprises [such as Pakistan International Airline (PIA), Pakistan Steel Mills (PSM), and Pakistan Railways among many others] and the subsidies involved in the provision of energy (electricity and gas) and price supports for agricultural products. There has always existed strong political opposition to reforming public sector enterprises, regardless of which political party actually happens to form the government of the day. Control over these enterprises is connected with patronage networks within the bureaucracy and the political system which limit the scope for reform. There is strong opposition as well to the ending of energy subsidies; in this, some industrial sectors and groups are complicit as beneficiaries. About agricultural subsidies, not much need be said. On this subject, the silence from Pakistan's otherwise voluble Parliament is deafening.

On the revenue side, each new IMF program over the last three decades has included some reform measures. The record of achievement, however, has been mixed. While the revenue ratio has fluctuated around 15 percent of GDP over the last three decades, it has generally been lower than that of the average low-income developing country. More disturbingly, the tax system remains hugely unbalanced. It generates a low yield from income taxes which are paid by a very small number of businesses and individuals. It is over-reliant on customs collections and sales taxes as well as on presumptive withholding on various economic activities, including imports, financial transactions and cellphone usage. No Value Added Tax (VAT) has been enacted despite many attempts. Businesses complain of a large variety of taxes (47 at last count) that have to be paid to a large number of different agencies, each requiring negotiations and bribes. Most tax agencies, including the Federal Board of Revenue (FBR), are considered full of corrupt individuals.

The Importance of Entrenching Exchange Rate Flexibility

As noted at various points earlier, Pakistan has had to approach the IMF for adjustment assistance at regular intervals in the past three decades. On many of these occasions, a large current account deficit was at the root of the immediate crisis. This aspect of Pakistan's performance is reinforced in comparison with countries like India and Bangladesh which have rarely gone to the IMF. Figure 3.1 shows that Pakistan's current account balance has shown far more volatility since 1990 than that of India or Bangladesh.

FIGURE 3.1

Current Account Balance, (Percent of GDP)

Source: World Economic Outlook (April 2019)

What accounts for such comparatively high volatility? It is not possible to provide a definitive answer to this without rigorous statistical analysis. One possible factor that may have induced high volatility is the level and pattern of foreign aid inflows into Pakistan. Another is the openness of the capital account. One aspect that supports the latter speculation is that current account volatility increased in Pakistan after the early 1990s when a policy was enacted to allow citizens to hold foreign currency accounts inside and outside the country. Prior to 1990, the volatility in Pakistan's current account balance was not very different from that of Bangladesh or India, neither of which opened their capital account in the same fashion that Pakistan did. What is clear is that a volatile current account calls for a flexible exchange rate policy so as to avoid exacerbating the amplitude of swings. Pakistan has not followed such a policy in recent years and has accordingly found it difficult to contain the deterioration of its reserves position in the face of rising current account deficits. Analysis by the State Bank shows a high degree of correlation between the Real Effective Exchange Rate (REER) and the current account deficit on a monthly basis over the past five years.

The Challenge of Raising Private Investment

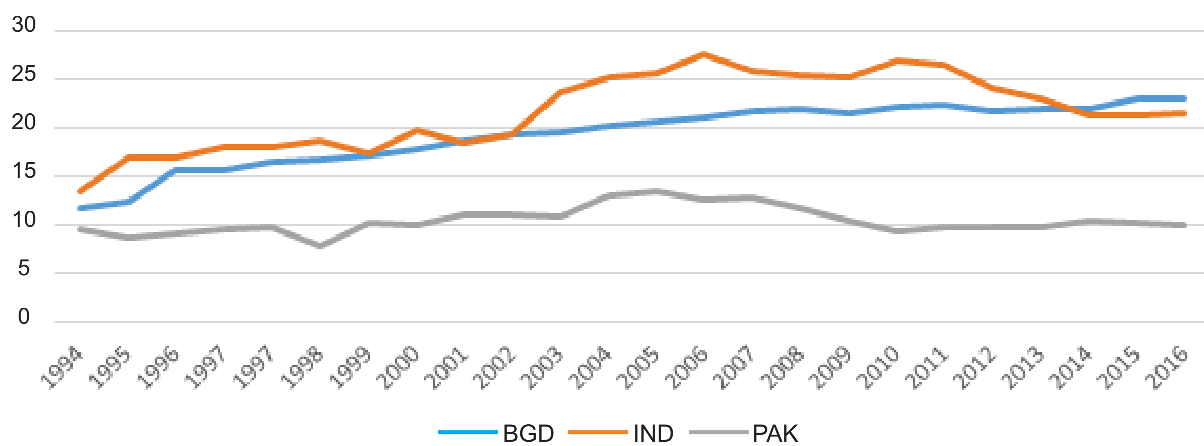
Beyond the short term management of fiscal and current account imbalances lies the question of long run growth. If Pakistan were able to get on to a higher long-run growth trajectory, it is very likely that it would also see the end of repeated fiscal and current account crises, much like India and Bangladesh have done over the past three decades. The global empirical literature on the determinants of economic growth among developing countries finds private investment to be a key factor. What do we know about private investment in Pakistan?

Figure 3.2 shows the evolution of the ratio of private investment to GDP in Pakistan since 1994. It is clear that this ratio has fluctuated in a narrow band between 9 and 14 percent of GDP for a quarter century. The same chart also shows private investment behavior in India and Bangladesh, neighboring countries with similar institutional and governance features and histories. Private investment rates in India and Bangladesh are much higher than in Pakistan and have reached peaks more than twice as high as the Pakistani rate. The evidence from comparative private investment rates is consistent with the global empirical literature. The higher growth rates of India and Bangladesh have something to do with the greater amount of private investment taking place there. Pakistan has grown at a slower rate than India and Bangladesh over the past quarter century. This has something to do with the relatively low and sluggish private investment rate here.

This observation leads to a number of inter-related considerations. First, policy in Pakistan ought to focus much more on increasing the private investment rate. Such a focus is often obscured by fiscal adjustment compulsions. Second, fiscal rectitude is still important because of the need to create space for public investments that can crowd-in private investment. If revenues are low, all the more reason that expenditures be prioritized in such a way as to have a positive impact on economic growth. A revenue-obsessed policy mind-set, on the other hand, may work at cross purposes to the objective of generating greater private investment. Such an approach usually leads to the flight of private capital outside the country and to a reduction of productive investment locally. Third, exchange rate flexibility is still important because the most promising path for the private sector is to generate exports for the large global market, preferably through connecting with existing global production chains.

FIGURE 3.2

Ratio of Private Investment of GDP



Source: World Development Indicators, World Bank Databank.

Information related to the importance of different policies for investment can be gleaned from exercises such as the Perception and Investment Survey of the Overseas Investors Chamber of Commerce and Industry. The 2017 survey found perceptions related to taxes and contract enforcement to be among the most negative for Pakistan. In recent decades, comparative data on a wide range of investment determinants has been published by the World Bank through annual reports on Doing Business. These show that Pakistan has a relatively poor investment environment, ranking in the bottom quartile in the world. On a somewhat positive note, however, the most recently published Doing Business report finds Pakistan to have jumped 28 ranks (from 136 to 108) because of reforms carried out during 2018. If sustained, this could bode well for private investment in Pakistan.

Chapter 4

The Road and Belt Initiative: Viewed from a Wider Context

The Road and Belt Initiative: Viewed from a Wider Context

Shahid Javed Burki

In each of the dozen annual reports we, the Shahid Javed Burki Institute of Policy at Netsol (BIPP), have combined two subjects; the state of the Pakistani economy at the time of the preparation of the document and a special subject we believed should be of interest to those making public policy in both Islamabad and the provincial capitals. In the 2017 and 2018 reports, the China-Pakistan Economic Corridor (CPEC) was the special subject. We described the CPEC investment program as a "game changer" for Pakistan, expecting it to contribute to a significant increase in the rate of growth of national income, reducing the incidence of poverty and connecting the country's backward regions with those that are relatively more advanced.

The Islamabad launch of the report was attended, among others, by the Chinese ambassador in Pakistan. Later at a lunch I had with him, he suggested that we should continue to focus on the CPEC. There were some misperceptions about the reasons why China committed such a large sum of its resources to develop various aspects of the Pakistani economy. These needed to be studied, understood and, he hoped, cleared. Then, it is the third time we are focusing on the CPEC. This time we have cast our net wide, we have looked at the Belt and Road initiative (BRI) and CPEC, its component, in a broader context.

Some Suspicions About China's Moves and Expansion into Europe

In addition to its programs and projects in Latin America, Africa and Pakistan, China got deeply involved in Europe. Xi Jinping, the Chinese president, paid a three-day visit to Italy beginning from March 22, 2019. The visit came when Italy was dealing with a complex set of economic and political problems. These resulted in part due to the country's embrace of Xi's BRI Initiative. Italy became the first member of the Group of Seven rich nations to take that step. As Jason Horowitz put it an assessment of this move for The New York Times, "the symbolism is striking -- a powerful China drives a crack in the economic alliance that once dominated the globe and delivers a major blow to Trump administration that has been critical of the Belt and Road Initiative[1]." But Germany and France were also not enthusiastic about Beijing's plans for Trieste, the ancient port on Italy's Adriatic sea, citing the example of the Greek port of Piraeus which the Chinese had essentially bought.

Reflecting on the Chinese move into Italy, John

Bolton, once the hawkish National Security Advisor in the White House, issued a strong criticism. "Endorsing BRI lends legitimacy to China's predatory approach to investment and will bring no benefits to the Italian people," said a Tweet issued by Bolton's office. In his discussion with some Italian politicians, Stephen K. Bannon, once a Trump adviser, generally recognized as a white supremacist, called the Chinese initiative "British East India Company model of predatory capitalism." While the American pressure did not stop Italy from going ahead with the plans to participate in the BRI, Washington was able to get Rome to go slow on Huawei, the Chinese technology giant, from selling its products to develop the Italian 5G network.

There was a growing concern that China had arrived in Europe not as an economic collaborator but as an invader. In a paper issued on the eve of Xi's visit, the European Union called China an "economic competitor" in critical industrial fields and a "systemic rival" politically. The European Commission's President Jean-Claude Junker repeated that refrain while Xi and his wife were being feted in Rome in the presidential palace with Opera singer Andrea Bocelli singing. Said Junker "the Chinese market is not sufficiently open to European companies and we must change that." He added that Europe did not want to be caught sleeping while the Chinese were advancing.

China's move into Europe was being made according to a well thought out plan. It began the big effort by building a new pier at the deep-water Trieste port constructed by the China Communications Construction Company, that would make the historic port the Chinese gateway into Europe. For centuries Trieste, at the northern tip of Italy's Adriatic coast, acted as a pivot point between empires. Then, its fortunes declined but were being revived by the arrival of the Chinese -- the country's companies as well as its tourists. Michele Geraci, then the Italian economic development minister in charge of working with the Chinese, explained Beijing's interest in the Italian port as a way of getting the commodities from its vast network in Africa to China by using both land and sea. The Xi visit coincided with the observance of the 300th anniversary of Emperor Charles VI of Austria declaring Trieste to be a free port. The American businesses were also getting interested in the deep-water port but found that the Chinese presence might work against their plans. Microsoft, for instance, was exploring the possibility of constructing an underwater data center that would cool its giant servers. They were looking at the site the Chinese are developing as a pier for their ships.

Defying pressures from both Washington and Brussels, Italy went ahead with its plan and signed an agreement that would make it a formally a part of the BRI investment program. Along with this agreement, a host of Chinese and Italian ministers put signatures on 29 separate documents at Rome's Villa Madama. The symbolism of these moves was not lost on those who observed and analyzed the direction in which Rome had decided to move in a global system that was now under reconstruction. According to one, it "signaled waning American influence, a rising China and tensions among the founding partners of the European Union.[2]"

There were also differences among the Italian policy makers. Then Interior Minister Matteo Salvini, at one point Italy's most powerful politician, was absent from the signing ceremony. He had publicly assumed a more American-aligned and skeptical posture towards the China-Italy deal, ridiculing the notion that China was a "free market." His coalition partner, Luigi Di Maio, the leader of the ant-establishment Five Star Movement had been enthusiastic about the agreement. He had made several visits to China before President Xi came to his country.

The critics of the Italian move said that Rome had turned itself into a Trojan horse, allowing China's economic, possibly military and political expansion into the European mainland. But those in favor looked to Beijing to help it lift its lagging economy burdened with a crushing debt. It expected relief by way of Chinese capital for investment and access to its large market for Italian exports. Those in the government were puzzled by the opposition of Germany and France to the Italian move. They believed that the agreement gave Italy a chance to catch up with other large European nations that did much more business with China. Zeno D'Auguston, the president of the Trieste Port Authority, said it was only natural that Italians were looking at China because the Trump administration had withdrawn from the world. China, he said, "is opening because it feels strong," and a port like Trieste had to do business with those that were engaged in dynamic parts of the world. China was now very engaged. After the signing ceremony, President Xi took off for the Sicilian capital, Palermo, a port city well known for its oranges which it hoped to export to the large Chinese market. After the visit to Italy, President Xi and his large party flew to Nice in France, where he met with the President of France, the Chancellor of Germany and the President of the European Union. His reception there was different.

President Xi did not have to travel to Europe to see and understand the enormous change occurring in the European Continent and its relevance for China. Economic stresses were still not gone after the Great Recession of 2007-09. The European Union experiment was not working for all nations in the continent, certainly not for Italy, the first port of call for the Chinese president. Under President Vladimir Putin, Russia had begun to spread its wings, and had appeared in places it had not been to before, even not during the expansionist Soviet Union period. It had shown up in Africa, a continent of great interest for China. And then there was the massive population move from Africa and the Middle East into Europe. The arrival of more than one million refugees of Muslim faith was resulting in the demise of western political liberalism.

The three leaders who greeted Xi in Paris, his next stop after the visit to Rome, focused on the grievances about Beijing's unfair trade practices, picking up on the lead provided by the United States' President Donald Trump. The American leader had made these the basis of his trade war with China. Xi was reminded of the difficulties his trade negotiators were having in reaching an understanding with their American counterparts when he changed his travel schedule. He had planned to travel to Rome, Monaco, Paris and then on to Florida during this trip. He cut out the fourth lag of the planned outing and flew back to Beijing from Paris. The Chinese and American negotiators were not anywhere near a deal for Xi to travel to Mar-a-Lago, President Trump's seaside retreat in Florida.

The Europeans, again following the United States, also worried about the rapid expansion of China's technological reach. Monaco had dedicated a two square kilometer test-bed for a new 5G mobile network for Huawei, the Chinese telecom maker. Monaco promoted the deal as a part of a program to become a "smart nation" and China was happy to have a display window in the heart of Europe. But Europe did not have a uniform approach to the Chinese encroachment. For instance, telecoms billionaire Xavier Neal had joined other operators in France to keep a distance from Huawei. However, he owned a majority share in Monaco Telecom that had linked up with the Chinese company to produce a show piece which Europe could see and hear. Notwithstanding, the Europeans were looking in other directions. The public sector European Investment Bank had given loans to Nokia to fund homegrown 5G developments and Brussels had set up a pilot scheme known as the European Innovation Council, to help local startups in advanced technologies.

China's interest in Europe was not limited to the use of the continent's ports and penetration in the field of information technology. It also began to acquire some assets that were part of the continent's history. The Investors from China had bought chateaus in Bordeaux, France. "There is perhaps no place more synonymous with France and its tradition of fine wines than Bordeaux," wrote Adam Nossiter in The New York Times. But "Bordeaux goes where money is. And the money is now with the Chinese." The Chinese invasion of the region was not a new one for the region on the southwest coast of France. The region accommodated the English when it was under their domination in the 12th and 13th centuries as well as the Dutch four centuries later. China entered the region for several reasons, including the growing consumption of high-quality wines in the country. China has become the destination for some 20 percent of the wine produced in Bordeaux. As much as 80 percent of the wine produced in the region by the Chinese owners goes to their home country. The Chinese invasion accounts for the ownership of 3 percent of the roughly 6,000 chateaus in the region.

There were other mixed signals from Europe for the Chinese involvement. For instance, Beijing had poured in US$ 6.5 billion into Portugal, taking its investments from almost nothing in 2010. China was also cultivating some of the East European nations such as Hungary that lay in the path of the BRI. The Chinese leader sought to soothe Europe's nerves. In a joint press conference with the French President Emanuel Macron, the German Chancellor Angela Merkel and the European President Jaen-Claude Juncker, Xi were unusually open. "We cannot let mutual suspicion get the better of us. We must not be guarded against each other and worry that they may do something behind our back. That is very important. That is something we need to avoid."

But EU president was not comforted. Juncker told lawmakers in the German state of Saarland on April 1st, after Xi had departed, that the European leaders explained to the Chinese leader that "it can't stay like this, that Chinese companies have free access to our markets in Europe, but we don't have to the markets in China." He went beyond trade issues since Chinese investments in his continent make it harder for the European leaders to agree among themselves on important foreign policy issues. "One country isn't able to condemn Chinese human rights policy because Chinese investors are involved in one of their ports." This was an obvious reference to the Chinese effort to develop the port of Trieste in Italy's Adriatic Sea. He was also critical of the BRI, which he saw as a threat not only to Italian sovereignty but of the independence of the entire continent.

What did President Xi achieve during his much-anticipated visit to Europe? Time is not on the European side and as the Chinese have shown time and again they have the patience to wait. There was obvious comfort to be drawn by Beijing for having enrolled one of the major European nations to become a full member of the BRI. With Italy on board, the Chinese have gained a foothold into Europe. Once the BRI matures and a vast networks of roads, railways, oil and gas pipelines, and fiber optics cables are built and laid, Europe will be well on the way to becoming an important partner of the rapidly expanding Chinese economy. Then, there are demographic changes occurring that would affect the world's future. Both China and Europe have aging populations -- Europe more rapidly than China -- that requires infusion of youths into the economic systems. Immigration is not a solution the Europeans are prepared to accept. Their approach is to have better linkages with the parts of the world that have an abundance of young people. They do not have to move physically to provide what the Europeans do not have: the manpower to produce. Goods can move quickly if there is connectivity the BRI aims to create. Besides, the BRI has an important investment component in Pakistan -- the China-Pakistan Economic Corridor, CPEC, which would give it access to that country's large human resource. Pakistan has one of the world's largest young population.

What we are witnessing, therefore, is a major global realignment in which good physical connections are vitally important. Land can be as important as seas and oceans to bring the world together. This is what the Chinese are hoping to achieve. The new world order would be dominated by three centers of economic activity -- the United States, China and Europe. It will be tripolar rather than bipolar. Russia and India, the other two large landmass countries, are not quite ready to make it into this configuration.

China, Now the Champion of Globalization

With China's aggressive outreach, it is not surprising that the country's policymakers are taking an active interest in globalization. They have learnt a lesson from the Deng Xiaoping's opening of closed China to the outside world. The benefits from the Deng move had far exceeded the expectations. This position was made clear by President Xi Jinping in his oft-quoted address at Davos in early 2017 in which he declared that Beijing would champion globalization. "The point I want to make is that many problems troubling the world are not caused by economic globalization," he told the Davos audience. "Economic globalization was once viewed as the treasure cave found by Ali Baba in *The Arabian Nights,* but it has now become the Pandora's box in the eyes of many. The international community finds itself in a heated debate on economic globalization." He made it clear on which side of the debate he and his country stood. "As a line in an old Chinese poem goes, 'Honey melons hang on bitter vines; sweet dates grow on thistles and thorns.'" He continued his address in that spirit. "In the face of both opportunities and challenges of economic globalization, the right thing to do is to seize every opportunity, jointly meet challenges and chart the right course for economic globalization." This speech was given on January 17, 2017, three days before the inaugural address by Donald J. Trump where the new American president had expressed quite the opposite sentiment. The stage was thus set for a major conflict of ideas.

With the election of Donald Trump as the United States' President, Washington has moved in the opposite direction from the one suggested by President Xi at Davos. The United States, Donald Trump declared in his inaugural address delivered on January 20, 2017, would follow the principle of "America First." That effectively meant that the United States would go alone and not use the established multilateral organizations to deal with the world. The roles were clearly reversed between the United States and China; the former going alone in the global arena, the latter essentially singing as a member of a nations' choir.

Pakistan's Relations with India Seen from the Context of the CPEC and China's Interest in the South Asian Region

China interest in a rule-based global order has brought the country as an active player in many parts of the world -- as discussed above, in Europe, Africa and Latin America. With the change of government in Islamabad and Imran Khan becoming Prime Minister in August 2019, there was some hope that relations between Pakistan and India might improve. The possible easing of tensions between India and Pakistan will have to occur in a difficult environment. The consequences could be grave if the conflict between Washington and Beijing sharpens. One of the more serious results could be to spilt the South Asian subcontinent down the middle. Already, China has a very large presence in Pakistan. It is not only investing more than US$ 60 billion in building the China-Pakistan Economic Corridor, with between US$ 8 and 10 billion coming in every year. Beijing is also aiding Pakistan in several different ways. It is providing emergency financial assistance to help Islamabad handle its severe balance of payments crisis.

How the long-enduring China-Pakistan relationship is affecting global affairs was one of the subjects covered in the conversation between Lt. Gen. Asad Durrani and Amarjit Singh Dulat. The former served as the chief of Inter-Services Intelligence, (ISI, Pakistan's well-known premier spy agency. The latter served as the head of India's Research and Analysis Wing or (RAW). The conversation became the subject of a book, Spy Chronicles[3] that led the Pakistani contributor into trouble with Government of Pakistan[4]. Both saw realignments taking place in global affairs. Durrani saw a new axis emerging: Pakistan, Russia, Iran, and China.

But Pakistan is not the only South Asian country China hopes to have on its side. It is actively courting Bangladesh to join the BRI initiative. On the opposite side, there is the United States' interest in India whose association is being sought by both Washington and Tokyo to partner them in what is called the Indo-Pacific alliance. If these competing interests materialize, South Asia could become the field where the new "great game" between the two rival powers would be played. That is obviously not in the region's larger interest.

South Asia remains the only world region that does not have a working trade arrangement. For decades South Asian countries have worked against each other rather than with one another. To put the blame for the discord on the lingering Kashmir problem is too easy for explanation. Overall suspicion has blocked the countries to take advantage of the obvious links between their economies to better the lives of their citizens. Pakistan, for instance, has a one-sided transit arrangement with Afghanistan that allows the latter to use its well-developed road infrastructure to export to India. But India cannot use the same facility for trading with Afghanistan. It is hard to understand the reason behind this discrimination.

India, by far the largest economy of the region, has to give more to its neighbors than it gets from them. This is the basic principle of exchange on which all successful regional trade agreements are based. If there is one large economy in the arrangement, it is the one that must bend more. The Association of South east Asian Nations (ASEAN) comes to mind as an example in which Indonesia has not participated based on its economic size. Mercosur, a trade arrangement in the southern part of Latin America, is another example. Brazil, the area's largest economy, did not use its size to design the agreement or to influence the way it worked.

Several years ago, I was engaged to do a study for the United States Agency for Development (USAID) to determine why the South Asia Free Trade Area, or South Asia Free Trade Agreement (SAFTA), was not working. I visited most member countries before meeting with Dr. Manmohan Singh who was then India's Prime Minister. He asked me how India's neighbors felt about his country. "Not well," I responded. "The only country that is not really unhappy with you is Pakistan and the reason for that is there is little bilateral trade." India is not an easy country to trade with; people in Colombo, Dhaka and Kathmandu complained to me how the samples of the goods they wished to sell in India were sent to distant places for testing and the results took months to arrive before consignments could be cleared. Dr. Singh gave me the reason for that. Although international commerce is a central subject in the Indian Constitution, the states that neighbor the world outside can do a lot to hinder trade. Many do, by using what in trade parlance are called "not-trade barriers" (NTBs). India is one of the world's most aggressive users of this particular trade-retarding device. This is the main reason why Pakistan has not granted India the "most-favored nations" (MFN) status, which it is obliged to do as a member of the World Trade Organization (WTO).

Soon after being sworn in, Imran Khan and Shah Mahmoud Qureshi, as Pakistan's Prime Minister and Foreign Minister respectively, have, indicated their interest in improving relations with India. Both mentioned trade as an important area for discussions. According to Baqir Sajjad Syed, writing in Dawn, Pakistan's widely-read English-language newspaper, "in his first tweet on foreign policy issue, Prime Minister Imran Khan on [August 2018] invited India for a dialogue on all conflicts with an offer to improve trade for normalizing Pakistan-India relations which have for long been strained[5]." It has always been suspected that the military in Pakistan was one of the obstacles that had to be overcome in improving relations with India. It was no doubt with this in mind when Foreign Minister Qureshi stated to the press the following: "Let me be clear: the foreign policy will be made here, at the Foreign Office of Pakistan. I will engage with all the institutions for the betterment of the country. It is the policy across the world. Feedback is sought from national security institutions[6]."

But it needs to be emphasized that one way of countering the growing tension between Beijing and Washington is to develop a South Asian approach rather than promoting narrow national interests. A few years ago, I published a book for the Institute of South Asian Studies in which I used a simple model to estimate the positive impact of not free but "freer" trade on the regional economies. The results I reported in the book were impressive[7]. That said, bilateral understanding between India and Pakistan has to be undertaken in the context of world developments. Islamabad and New Delhi will have to be mindful that the impending China-U.S trade war will provide the context in which they will need to deliberate.

India is not comfortable with China's outreach. It is particularly concerned with increasing Chinese influence in Pakistan. Attempts to disrupt Pakistan's relations with Beijing picked up momentum after Beijing launched the ambitious CPEC investment program. There was suspicion in Pakistan that some of the terrorist activities aimed at the Chinese working in Pakistan were planned in India and executed with the help of Afghanistan. One such attack was carried out in November 2018 when the Chinese consulate was targeted by three militants who penetrated the office compound. They were gunned down during a shootout by a contingent of security forces. Four people were killed; two policemen and two visa applicants. The banned Balochistan Liberation Army (BLA) claimed responsibility for the attack. Achu, the alleged mastermind of the attack was killed in suicide operation carried out in Kandahar, Afghanistan but Pakistan's intelligence servicers were skeptical of the report. Another key facilitator Rashid Baloch was arrested in Sharjah, by the United Arab Emirates (UAE). He was reportedly a senior member of the BLA. He had received Rs. 949,000 in his bank account a few days before the attack on the consulate.

How China Wins

There is a near-consensus among China watchers in the West -- in the United States in particular – that Beijing is winning in the Trump-engineered conflict with China. This is the case in the trade war, in the conflict over the sharing of advanced technologies, over China's growing world influence. One example of the Chinese approach was its response to Trump's open invitation to help him find dirt on his political opponents at home. According to Richard McGregor, a senior fellow at the Lowy Institute in Sydney, the author of *"The Party" The Secret World of China's Communist Rulers,* "President Xi Jinping has learned the hard way about the dangers of dealing with Trump and seems to have quickly concluded that helping him would be a risk not worth taking-faced with a choice between helping to undermine American democracy or angering Trump by rejecting his request, the Chinese chose the latter[8]."

In keeping with this choice, Wang Yi, the Chinese foreign minister, issued a statement saying that "China will not interfere with internal affairs of the U.S.; and we trust that the American people will be able to sort out their own problems." Trump's request for help could have seemed enticing; Beijing might have enjoyed the prospect of destabilizing and discrediting the U.S. political system but this would not have been in keeping with the "Five Principles of Peaceful Coexistence" which have guided Chinese foreign policy since the early 1950s. One of these five is a stricture against meddling in other countries internal affairs. As Ghulam Ali points out in his book, China-Pakistan Relations, it is this principle in the making of foreign policy that made it possible for Beijing to live with different political systems in Pakistan, preserving its all-weather friendship with that country[9].The Chinese enthusiasm for funding the CPEC has been maintained while governments in Islamabad have changed hands.

China is also sensitive to criticisms by Western corporations working in the country. Chinese, President Xi Jinping calls this "discourse power--the ability to shape the narrative and "tell China's story well." In that context there is an expectation that the BRI and CPEC stories would be positive and that the vast amount of finance China is committing to these endeavors would play about well. Even though some Western commentators are critical of these expectations, they are not unusual. In the hey-day of the United States assistance effort in the developing world, bags carrying American grains came with a sign that showed clasped hands, those of the Americans and the recipients of aid.

Chapter

5 CPEC: Progress Update

CPEC: Progress Update

Dr. Daud Ahmad

Introduction

This is the third coverage of China Pakistan Economic Corridor (CPEC) in the annual reports of BIPP. The 2017 report provided an overview of the Belt Road Initiative (BRI) and its "flagship" component – China Pakistan Economic Corridor (CPEC). The 2018 report provided progress update on CPEC implementation, basically coinciding with the end of Pakistan Muslim League (PML-N) government. The 2018 elections and installation of Pakistan Tehreek-e-Insaf (PTI) government in July 2018, as expected, had an effect on the CPEC momentum. The new government, facing severe economic challenges, needed to take a fresh look at the composition, progress, implementation arrangements and future direction of CPEC program. The CPEC program started with a great deal of fanfare under the PML-N government. Nearly US$ 24 billion worth were committed for 20 large projects. The initial focus of the program was on energy and infrastructure that were critical for the country's needs. However, over emphasis on energy and lack of progress on industry, agriculture and export-oriented projects were cited as the main weaknesses of the program. The new PTI Government proceeded to shift the focus of CPEC from energy and infrastructure to industry, socio economics, agriculture and the development of the Gwadar Port. As such, progress on new CPEC projects is essentially on hold till the composition of the program is re-evaluated and reset with new implementation modalities. This chapter attempts to take stock of current developments and progress on CPEC.

Background

The CPEC is a part of China's new global initiative, known as the BRI, which reflects China's grand vision of connectivity extending from China to the Middle East, Africa, Southeast Asia and the Baltics in Europe. Under BRI, announced in 2013, China is planning to invest US$1-3 trillion, over the next 30 years or so, in nearly 60 countries all over the world to establish possibly six different economic corridors. CPEC is a key component, labelled, as "the front runner", of this grand scheme. Pakistan and China formalized plans for the CPEC in April 2015, when they signed 51 agreements and memoranda of understanding on Chinese investments totaling US$ 46 billion to be made in three phases over the next 10–15 years. This amount has been enlarged to US$ 60-65 billion with addition of new projects.

The Long-Term Plan for CPEC defined seven major areas of cooperation between China and Pakistan:

Connectivity through an Integrated Transport System, and Information Network Infrastructure; Energy (oil, gas, power); Trade and Industrial Parks through Special Economic Zones (SEZs); Agriculture Development and Poverty Alleviation; Tourism; People's Livelihood and Financial Cooperation in Financial Markets/Institutions.

The CPEC intends to promote connectivity across Pakistan with a network of highways, railways and pipelines accompanied by energy, industrial, and other infrastructure development projects to address critical energy shortages. This is imperative to boost economic growth rate of Pakistan. Eventually, the CPEC will also facilitate trade along an overland route that connects China to the Indian Ocean, linking the ancient Chinese city of Kashgar in Xinjiang province to the new Pakistani Port of Gwadar in Baluchistan province. The concept of a 'corridor' inevitably evokes images of a transit route and geopolitical speculation about Chinese access to the warm waters of Indian Ocean. It is worth mentioning here, that this body of water or sea covers almost one fifth of the 'world's surface' and connects 18 Asian, 16 African countries and 57 island groups. Therefore, its importance cannot be understated.

CPEC Program under PMLN

In the beginning, as expected, the composition of CPEC projects was not well defined and it is still in the process of evolving. The Government of Pakistan's official CPEC website is the main source of information on projects currently part of the CPEC program. Only basic information is available on committed projects. For projects under consideration, the available information is scanty; in some cases, only the name of the project is listed in Annex 1 provides a current listing of CPEC projects along with reported implementation status. Table 5.1, listed below provides an overview of CPEC projects by sectors and provinces. It should be noted that the cost breakdown is rough in the sense that information on a number of projects is unavailable and some projects are multi-province, with no inter-provincial cost allocation available.

TABLE: 5.1

Distribution of CPEC Projects by Sectors & Provinces

Province/ Region	Total			Energy Projects		Infrastructure Projects		Gwadar Port Projects		Industry/ SEZs	
	No.	$ m.	% $	No.	$ m.	No.	$ m.	No.	$ m.	No.	$ m.
KPK	7	6,127	14.4	1	1,956	5	4,171	-	-	1	-
Punjab	8	13,452	35.4	4	4,872	21	8,580	-	-	2	-
Baluchistan	15	3,023	7.1	1	1,912	4	319	9	792	1	-
Sindh	16	14,304	33.6	12	12,132	2	2,172	-	-	2	-
AJK/ GB	7	4,053	9.5	4	4,053	-	-	-	-	3	-
Total	55	40,459	-	24	29,925	13	15,242	9	792	9	-
percent of Total					60.9		37.2		1.9		

Source: www.cpec.gov

Following points need to be highlighted in relation to the above projects listed:

Energy Projects

The original CPEC program, conceived in a hurry, addressed the key economic constraint of energy and transport links, facing the country. The new power generation projects were to be implemented by the private sector with easy financing access from the Chinese sources. The private sector quickly availed this opportunity by perusing nearly 20 new projects costing about US$30 billion. The thrust of these investments was on installation of new power plants; essential complementary investments in transmission and distribution lagged. Nearly 5,500 Mega Watt (MW) of additional electricity production capacity (nearly 30 percent of current demand) has been added to the national grid under CPEC. This additional production has eased scheduled power outages or "load shedding" as it was commonly called in Pakistan. However, the financial constraints like the circular debt and government subsidies continue to challenge the energy sector.

Transport Projects

The infrastructure projects composing of highways and Gwadar Port are being financed with concessional loans and grants from the Chinese Government. Some work has been already started on three priority highway segments – one each in the northern, eastern and western parts of the corridor. The ongoing Lahore Orange Metro Line project (Chinese funded) was later added to the CPEC program to meet the project's funding gap. Approximately, nine or so infrastructure projects are all at either the feasibility or the preparation stage. Even though BTI, or big-ticket item means durable items with profit margins that are significantly higher, it may not be out of place to refer to the up-gradation of Peshawar-Karachi Railway (ML1) as such. Yet, it remains controversial in many respects. The estimated cost to double- track the railway line that will significantly enhance passenger and freight speed capacity is US$ 8 billion. Clearly, financial viability and the corresponding debt burden are the main concerns of this project. As a consequence, agencies like the World Bank and Asian Development Bank (ADB) are reluctant to support this venture.

Gwadar Port

Gwadar Port is a critical component of the CPEC program. If neglected, it could well become a "weak link" of the scheme. At the moment, the ongoing projects include: dredging of the approach channel, an expressway linking Gwadar to Makran Coastal Highway, a new international airport and a desalination plant. These are to be supplemented with major investments, in the next phase, in container berths, number of specialized terminals (cargo, grain, oil etc.), a 2300-acre SEZs and a 360 MW coal fired power plant. Most of these projects are at planning/ design stages. Scarcity of water and electricity in the area is going to be key challenge facing Gwadar development.

Special Economic Zones (SEZs)

The CPEC program includes development of nine SEZs scattered over the country. The Joint Pakistani/ Chinese teams have been working since 2016 to formulate this part of CPEC program. The location and potential focus of these SEZs is listed in Annex 1. Three SEZs (Rashakai, Dhabeji and Faisalabad) have since been designated as high priority. Currently, all SEZs proposal are at feasibility stages. In some cases, the land has been identified/ acquired. However, no physical work has started yet. Substantial planning and analysis would be required for these investments to be viable. The purpose of a SEZ is to establish a specific area of land to promote industrial growth by providing special concessions in tax and economic policies. The success of SEZs relies on many factors, mainly a combination of tax and tariff incentives, fast and hassle-free custom procedures, links with local suppliers, growers and the global market and most importantly, infrastructure in terms of quality roads, railway, and ports. Current SEZ laws in Pakistan, with impediments to expedited approvals, are not conducive to fast-track investments. A fair amount of strategic planning will be required for successful development of this component.

Agriculture Projects

A key objective of the CPEC plan is to create employment and stimulate export -led growth along the corridor. The long-term plan recognizes the need to focus on the agriculture sector, which would include livestock, fisheries, horticulture, etc. At the moment, no free-standing agriculture activities are included in the CPEC proposals. Discussions are underway with the Chinese to define scope of work, mainly investment opportunities in this area. Pakistan is well endowed in natural resources to produce a wide range of agricultural products for the Chinese consumers. Pakistan could also learn from the tremendous Chinese reform program, which started from agricultural reforms. Various SEZs under planning stages are likely to include agro-processing facilities. It is generally recognized that agriculture related activities like horticulture, livestock and fisheries (near Gwadar area) could have significant potential for the broader CPEC objectives. A key requirement to avail this opportunity is going to have a better understanding of the development plans and import needs of the Chinese western provinces.

Overview of CPEC Implementation under PML-N.

The PML-N Government promoted CPEC vigorously; it was their prime agenda during 2016-18. As noted above, the initial focus of CPEC was on the energy generation. The infrastructure components mainly covered the northern and eastern segments of the road corridor. Table 5.2 below provides an overview of implementation status of CPEC projects, as of October 2018. Cost estimates are rough, based on the available data in the Government website.

In summary, CPEC implementation started vigorously during the PML-N regime. "Early harvest" projects worth US$ 18.9 billion were initiated through investments which are made up of Chinese Government loans of US$ 6 billion (2 percent interest rate) and private investments in the form of equity worth US$ 3 billion and US$ 9.8 billion in commercial loans.

Following observations about the CPEC program

TABLE: 5.2

Overview of CPEC Projects Implementation Status (Oct. 2018)

	Sector	No. of Projects	Estimated Total cost, $ m[5]	Completed Projects		Ongoing Projects		Under Consideration	
				Number	Cost $ m	Number	Cost $ m	Number	Cost $ m
1.	Energy	27	29,925	9	8,599	7	8,286	13	13,040
2.	Infrastructure	13	15,242	2	4,580[6]	2	1,366	10	9,276
3.	Gwadar Port	9	792	0	n.a	2	172	7	620
4.	Industry/SEZs	9	n.a	0	n.a	0	n.a	7	n.a
5.	Agriculture	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
6.	Other Sectors	4	n. a	0	n.a	0	n.a	4	n.a
	Total	55	40,959	7	6,2876	12	16,716	38	17,931

Source: Rough estimate based on data available on Government of Pakistan CPEC Website.

under the PML-N government needs to be made.

- Dominating Energy Sector investments mainly included new power generation based on imported fuels; with inherently expensive unit production cost. While, a significant power generation capacity was added to the national grid, the high production costs and weaknesses in the transmission and distribution system are major constraints in utilization of this capacity. Already, the early imported-coal power plants are facing serious financial difficulties. The main lesson here is that the required due diligence in the planning and design of the CPEC energy program was compromised. Commonly cited weaknesses of the implementation arrangements were: lack of transparency in project selection and financing terms, lack of professional capacity and weak coordination with stake-holders.

- The infrastructure investments mainly supported the eastern route of the corridor. The two highway segments, under implementation and the large ML1 rail upgrade implies that nearly 95 percent of the proposed transport investments would support the eastern route. With slow progress in developments in Gwadar, there is a danger that the eastern corridor route leading to Karachi may undermine the Gwadar hub.

- Development of the Gwadar Port area is a priority, but its implementation is slow. To date, only a short highway segment and Phase 1 of the Free Zone Development have been implemented. Other Gwadar area projects are still at planning/negotiation stages. Lack of water availability and power shortage are being cited as development constraints.

- Little planning and preparation have been done for other key sectors with potential for employment generation and exports like agriculture and industry. Full potential of CPEC cannot be availed without developments in these sectors. This will require strategic planning and a better understanding of the developments and needs of the bordering Chinese provinces.

- The CPEC implementation arrangements to date have been ad hoc. Overall program responsibility rested with the Ministry of Planning and Development, which is not a line ministry per se. Due role of provinces and other stake holders was reported as weak. Proper due diligence in planning and implementation was compromised.

CPEC Phase II - PTI Regime

The PTI Government came to power in July 2018. Soon, it got engulfed in major economic challenges of trade and fiscal deficits. It inherited a difficult economic situation which warranted imposition of some tough measures. Beside short-term funding from few friendly countries, it had to seek an International Monetary Fund (IMF) relief program, which would stipulate stringent fiscal and financial conditions. The debt obligations incurred by the previous government under CPEC was a key topic in the discussions. As a result of the difficult economic situation, development programs were slowed down including the CPEC . The PTI Government naturally wanted to have a new look at the CPEC program. It announced early on that its focus under CPEC would be on areas such as industry, socio economics, agriculture and Gwadar Port development instead of energy and infrastructure. They also wanted to put in place implementation arrangements compatible with the needs of this large complicated undertaking.

As expected, few new commitments under CPEC have been made in the last 15 months of the PTI Government. Even the monthly review meetings of CPEC between Chinese and Pakistani official did not take place for nearly 10 months. These have started again in September 2019. The main CPEC developments during the past 15 months can be summarized as follows.

Projects Completed

Three large ongoing projects - Engro Thermal Thar Coal, Hub Coal Power and Multan- Sukhar Highway were competed. The Engro Thermal project is the first large coal-fired plant using domestic Thar coal, which is being mined under a supplementary CPEC project.

Ongoing Projects

Active ongoing projects started under the previous government, reported continuing progress. These include: Korat Hydro Power, SukhiKinari Hydro, KKH Phase II Highway, Gwadar East Bay Express-way, Gwadar Free Zone Development and the Lahore Orange Line Metro (details available in Annex 1). The PTI government is giving a higher priority to hydro power projects under CPEC to improve the energy production mix of Pakistan. The progress update on the ongoing projects during the PTI regime is highlighted as yellow in Annex 1.

Projects under Preparation

There are a large number of projects at different stages of preparation under CPEC, as shown in Annex 1. Under PTI government, there is a visible slowdown in new commitments for fossil fuel power plants. The proposed 300 MW imported coal power plant at Gwadar is one exception. Renewable energy and small/ medium size hydro projects are likely to get priority. Despite lot of discussions in media, the progress on development of SEZs is slow. There are 9 SEZs proposed under CPEC, with 3 (Rajshahi, Dhabeji and Faisalabad) designated as priority ones. In January 2019, the Prime Minister ordered that the ground breaking of these SEZs should be done by end of June 2019. All the SEZs are still at feasibility review stage. There is little progress in preparation of agriculture project with the aim of employment and export generation is visible.

Key CPEC Challenges Facing PTI

The slowdown in CPEC implementation, with the change of government, is understandable. Taking stock of what has happened and an appropriate mid-course correction of the program should be welcomed. To achieve this effectively, the Government has to tackle the following issues.

Reset CPEC Focus

The PTI government has clearly pronounced that it will give priority to projects that produce employment generation and value-added exports. These are part of the original CPEC agenda; however, the progress to date has been slow. The establishment of nine SEZs and a broader agriculture development program in the corridor area were to be the modalities for this. These are difficult investments to design and implement. It is so much easier to undertake a US$ 2 billion power or infrastructure project than a US$ 200 billion socio-economic program. The risks associated with the latter are substantial. The government has to undertake the necessary home work to develop a strategy and design for these programs. Proper legal and incentive frameworks will also be required. Any compromise in the upfront analysis could turn expensive.

Expedite Gwadar Port Development

As mentioned earlier, development of Gwadar as a functional Port hub is critical to success of CPEC. Progress to date on this front has been slow, including on development of the western corridor route. The Baluchistan Government has repeatedly raised concerns about its low share of CPEC funds allocation and slow implementation. PTI government is making pronouncements to address this situation. A recent development is the issuance of the Gwadar Tax Law (amendment) Ordinance providing tax concessions to Gwadar Port and the Free-Zone.

Decision on ML1

Upgrading of the ML1 railway line from Peshawar to Karachi is a much talked about project. The Railway Ministry is keen about this mega US$ 8 billion plus project and pushing hard for this. Its technical and financial feasibility are being finalized. Looked in isolation, the program would be easier to justify. The project, if started, would put strain on availability of funding for other development projects and result in substantial debt servicing requirements. It will be a tough call for the government to make.

Functions and Mandate of Proposed CPEC Authority

PTI government has decided to set up a new CPEC Authority to improve coordination and implementation of CPEC program. A Presidential Ordinance to set up this authority has already been issued. Little information is available on structure and terms of reference for the new authority. There are varying reports about its organizational location – in the office of the Prime Minister, Ministry of Planning etc. Given Pakistan's checkered history of performance of public sector institutions, there is a plenty of skepticism about establishment of this authority. Its success will largely depend on its location, mandate and resources particularly professional competence. The proposed Authority could be beneficial, if set up with a clear mandate, adequate professional resources and protection from political interventions. It would need to manage the internal challenges of planning, financing and coordinating between institutions, provinces and agencies to build a momentum on speedy outcomes. Transparency in selection of projects and award of contracts will need to be established. A properly designed "enabling environment" framework consisting of laws, incentives and supporting facilities will be critical for the socio-economic projects.

Annex 1
Updated Status Overview of CPEC Project
Energy Projects

A: Completed Project

No.	Project Name/ Description/ Location	Size/ Capacity/ Technology	Cost: $ million / Financing	Executing Agencies	Status/ Remarks
1	Sahiwal Coal-fired Power Plant Sahiwal, Punjab	2x 660MW Super critical Imported coal from Indonesia/ S. Africa	$ 1,912 m IPP Investors: 20 percent ICBC: 80 percent	EA: Huangneng Shandong& Shandong Rui S.A: PPIB	Project started May, 2014, pre CPEC agreement. CPEC F.C: December 2015 Completed/ Operational, October 2017 1,700 acre land given free by Punjab Gov. Coal transported from Port Qasim by rail.. GoP committed Tariff: 8.361 cents/ KWH
2	Port Qasim Coal-fired Power Plant Karachi, Sindh	2 x 660 MW Imported coal from Indonesia/ S. Africa	$1912.2 m IPP, EXIMB loan $ 1.56b Investors: $ 521m.	EA:PQEPC, Sinohydro Resources Ltd. S.A: PPIB R.A: MoWP	Civil works started in May 2015; First unit (Phase I) operational November 2017. Second Phase being developed by Lucky Power Co. Al-Miqab Capital has 49 percent stake ; Power Construction CO. has 51 percent; GoP committed tariff: 8.12 C/ KWH
3	Quid-e-Azam Solar Park Bahawalpur, Punjab	Phase 1: 300MW	Phase I: $ 215 Cost shared by Punjab Gov. and Bank of Punjab.	EA: TBEA Xinjiang Oasis Ltd. S.A: PPIB/ AEDB R.A: MoWP	Project Approved by GoP in August 2013. Phase I (100MW) completed in August 2016. Power production well below (only 18 percent) design capacity. Project being investigated. Being privatized as well. Cost Plus Tariff; initial tariff: Rps. 14 /KWH
4	Hydro-China Dawood Wind Farm Gharu, Thatta Sindh	50 MW	$ 112.6m IPP ICBC loan: $ 78.8 m	EA: Hydro China/ Dawood Power Co. S.A: AEDB	F.C: March 2105 Completed: April, 2107; Operational. Up-front Tariff
5	UEP Jhimpir Wind Farm Thatta, Sindh	100 MW	$ 250 m IPP, loan from China Dev. Bank Corp.	EA: UEP Wind Power Co. S.A: AEDB R.A: MoWP	Phase I , 6 MW completed in 2009. F.C: March 2015 Project completed: June, 2017 Operational Up-Front Tariff: 12.1 c/ KWH
6	Sachal Wind Farm, Jhimpir, Sindh.	50 MW	$ 134 m	EA: SEDLP S.A:	F.C: December 2015 Project completed: April 2017, Operational
7	Three Gorges Second and ThirdWind Power Jhimpir, Thatta, Sindh	100 MW	150	EA: Three Gorges Wind Co. S.A: AEDB R.A: MoWP	F.C: March 2017 Project Completed/ Operational Up-Front Tariff
8	Engro Thermal Coal Thar Block, Sindh	4x330 MW Local coal Super critical	2,000 IPP	EA: Engro Power Gen./ China Machinery Eng,. Co.	FC: April 2016 Project completed, inaugurated in ---------
9	Coal Fired Power Plant HUB Baluchistan	2x660 MW Imported coal Super critical	1912,2 IPP	EA: China Power Hub Co. S.A: PPIB	Ground breaking : June 2017 Project completed/ operational.
	Total	**5,488 MW**	**$ 8,599.8 m**		

B: Ongoing Project

No.	Project Name/ Description/ Location	Size/ Capacity/ Technology	Cost: $ Million / Financing	Executing Agencies	Status/ Remarks
1	Thar Coal Field, Surface Mine	3.8 mmt/y	1,474	EA: China Machinery Eng. Co./ Sindh Engro Coal Mine (a J.V co.) holds lease of Thar coal fields. Ra: MoPNR	F.C: April 2016 Project ongoing, partially completed. C.D: December 2018
2	Korat Hydro Power Jehlum River, AJK	4x190 MW Rockfill dam, 95 m high	1,698 BOT (30 year lease) IFC and EXIMB loan to investors. First Project under SRF	EA: Korat Power Cons. Co., subsidiary of Three Gorges Corp. S.A: PPIB R.A: MoWP	F.C: February 2017; agreement signed with Chinese co in December 21016. C.D: December 2021 Construction ongoing; 70 percent progress reported. Ancillary facilities construction ongoing. Committed Tariff: 7.57 C/ KWH
3	SukhiKinari Hydro Power Kunhar River KPK	870 MW Concrete-face Rockfill Dam. 54 m high.	1,956 BOT 75 percent cost by Developer with EXIMB loab	EA: S.K Hydro China Gezhouba Grp. S.A: PPIB R.A: MoWP	F.C: December, 2016 Land acquisition underway Construction ongoing; 65 percent progress reported. CD: December 2022 Committed Tarif: 8.81 C/ KWH
4	Mitari- Lahore Transmission	878 km 660 K transmission line	1,658 ITC	EA: China State Grid S.A: NTDC R.A:	F.S completed, land acquisition ongoing. NEPRA tariff determined 50 percent progress reported. C.D: March, 2021
5	Mitari- Faisalabad Transmission	878 km 660 K transmission line	1,500 ITC	EA: CET / SGCC S.A: NDTC R.A:	F.S completed, land acquisition ongoing. NEPRA tariff determined C.D: March, 2021 In mid term
	Total		***12,198.2 - 3912.2***		

C: Under Consideration

No.	Project Name/ Description/ Location	Size/ Capacity/ Technology	Cost: $ Million / Financing	Executing Agencies	Status/ Remarks
1	Gwadar Coal -fired Power Project	300 MW Imported coal	N.A	EA: China Comm. Const. Co. S.A: G.P.A/ GSA R.A: MoWP	LoI issued: May 2017, Site finalized NEPRA Tariff determination in process.
2	Rahim Yar Khan Imported coal	2x660 MW	1,600 IPP	EA: Huangnegg Shandong Power S.A: PPIB	Feasibility stage
3	SSRL Thar Coal Mine-mouth Power Plant, Block 6.8	2x 660 MW 6.5 mtpy Local Coal Super critical	2,000+ 1,300 IPP	EA: Shanghai Elect. Power S.A: PPIB	F.C: 2017 CD: 2019
4	SSRL Thar Coal Block 1	6.5 MT/Y	1,300	EA: S.A:	F.C: 2017 CD: 2019
5	Thar Mine Mouth Oracle Power Plant and Surface Mine Project	1320 MW	N.A	EA: Oracle Coal field &Yanzhou Coal	F.S ongoing
6	Kohala Hydel Project AJK	1110 MW	2355	EA: China Three Gorges Group S.A: AEDB	Stage I F.S completed; F.C: October 2018 NEPRA Tariff determined Land acquisition ongoing; CD: 2025 Negotiation ongoing.
7	PhanderHydrto Power Gilgit- Balistan				Under study
8	GilgitKIU Hydro Power	100 MW			Under study
9	Cacho Wind Power	50 MW		EA: Cacho Wind Energy Pvt. Ltd. S.A: AEDB	LoI Stage
10	Western Energy Wind Power Project	50 MW		EA: Western Energy S.A: AEDB	LoI stage
11	Quid- e-Azam Solar Power Plant	600 MW Phase II: 600 MW (being tendered)	1,100		Punjab Government has leased 4,500 acres to Chinese investors for 900 MW second Phase. Contract being negotiated with Zoenergy, a subsidiary of ZTE. Much controversy on this contract award.
12	Hub Coal Baluchistan	660 MW		EA: China Power Holding	Feasibility stage.
13	Gaddani Power Plant Las Bela, Baluchistan	2x660 MW		TBD	Feasibility Starge
	Total		***9,655***		

Infrastructure Projects:

No.	Project Name/ Description/ Location	Size/ Capacity	Cost: $ Million Financing	Executing Agenciies	Status/ Remarks
1	KKH Phase II (Thakot-Haveliansection, KPK	118 km	1,366 m GoCL	EA: China Comm. Const.Co. SA: NHA	Construction start: September 2016 Construction ongoing; 70 percent completed. CD: March 2020
2	Peshawar Karachi Motorway (Multan –Sukhar section) Punjab/ Sindh	392 km, 6 lanes.	2.980 m	RA: MoC SA: MoC EA: NHA	Construction started in August 2016 Project completed, awaiting inauguration.
3	Khuzdar – Basima Road N-30 Baluchistan	110 km	80 m	RA: MoC EA: NHA	Feasibility study completed. Letter of Intent forwarded to Chinese.
4	DI Khan (Yarik) –Zhob N-50 Upgradation. KPK/ Baluchistan	210 km	195 m	RA: MoC SA: MoC EA: NHA	Feasibility stages. PC-1 approved; land acquisition underway Framework agreement being worked out.
5	KKH Thakot- Raikot N 35 136 km KPK	136 km	720 m	RA: MoC SA: MoC EA: NHA	F.S / PC-1 completed LoI forwarded to Chinese side.
6	KHI-LHE- Peshawar Rail line, Rehabilitation/ upgrade of existing ML1 line / KPK,Punjab,Sind	1872 km Double tacking	8,172 m GoCL	RA: MoR SA: MoC EA: MoR	Feasibility completed, Framework Agreement signed, Design contract awarded. Scope being cut by $ 2 b.
7	Hevellian Dry Port, KPK	450 m	65		Feasibility Completed
8	Capacity Development of MoR				Planning stages
9	Orange Line, Lahore	27.6 km	1,600		Ongoing Project, partially completed. 70 percent completion reported.
10	Karachi Circular Rail				Very old project, F.S completed May 2107
11	Peshawar mass Transit				F.S under process
12	Quetta Mass Transit				F.S under process
13	Cross Border Optical Fibre Cable	835 km	44 GoCL	Special communication organization, (SCO)	Works started: 2015 Project completed: July 2018
	Total		***13,622***		

Gwadar Port Projects:

No.	Project Name/ Description Location	Capacity	Cost: $ Million Financing	Executing Agencies	Status/ Remarks
1	Gwadar East Bay Expressway Linking port with main artery of Gwadar, Baluchistan National Highway – N20	--km, 6 lanes + 30 m wide	140 m Financing: Mix of GoCL and grants.	RA: Gwadar Port Authority SA: MoPS EA:	Agreement signed. Construction underway.60 percent completion reported. CD: October 2020.
2	New 26 km east of Gwadar City Gwadar International Airport		230 m GoC grants	RA: SA: EA: CAA	Agreement signed Design works underway
3	Construction of Breakwaters Gwadar		123 m GOCL / grants.	RA: GPA SA: MoPS	Planning stages; feasibility study being completed.
4	Dredging of berthing areas & channels Gwadar' Baluchistan		27 m GoCL	RA: GPA SA: MoPS EA:	Planning , review stages
5	Free Zone Development - Gwadar Port Free zone - GIEDA Industrial zone - EPZA export Processing Gwadar	6,280 acres for 3 zones	32 m GoCL.	RA: China Overseas Port Holding SA: P&D, GoB EA:	Under construction; 60 percent completion reported. Phase I completed.
6	Faculties for water Supply/ sewage treatment. Gwadar		130 m Grants	RA: GPA SA: EA:	Preparation stages; feasibility completed. Framework agreement being finalized.
7	Pak China Friendship Hospital Gwadar	50 beds + 50 beds Ph. II	100 m Grant	RA: SA: P&D, GoB	Feasibility study completed, grant request submitted
8	Gwadar Technical and Vocational Institute Gwadar		10 m Grant	RA: SA: MoPS	Preparation stages
9	Gwadar Smart Port City Master Plan				Contract Negotiation underway.
	Total		***792***		

CPEC Industry Projects:

No.	Project Name/ Description/ Location	Size/ Potential Industries	Cost: $ Million Financing	Executing Agencies	Status/ Remarks
1	Rashakai Economic Zone on M1 Nowshera, KPK	1,000 acres Fruits/ food packaging, Textile stitching/ knitting			Land acquired F.S Shared with Chinese
2	Special Economic Zone Dhbeji, Sindh	1,000 acres Usages: TBD			F.S initiated
3	BostanIndustrail Zone, Baluchistan	1,000 acres Fruit Processing, Ag. Machinery, Electric, Pharmaceutical, Ceramics, Cooking oil, etc.			F.S shared with Chinese. 200 acres have been devloped
4	ICT ModelIndustrial Zone Islamabad	200- 500 acres Food processing, Pharmaceutical, Chemicals, Printing & Packaging.			F.S shared with Chinese Land being identified
5	Mohmand Marble City FATA				F.S shared
6	Industrial Park at Port Qasim Karachi, Sindh	1,500 acres Steel, auto, Chemical, Pharmaceuticals.			F.S shared with Chinese Land earmarked; being transferred.
7	Moqpondass SEZ Gilgit- Balistan	250 acres Marble, Granite, Iron ore, Fruit Processing, Leather etc.			F.S shared with Chinese
8	Allama Iqbal Industrial City Faisalabad, Punjab	~ 3,000 acres Textile, Steel, Pharmaceutical, Chemicals, Plastics, Agriculture Implants etc.			F.S shared with Chinese
9	Special Economic Zone Mirpur, AJK	1078 acres Mix Industries			F.S shared with Chinese

CPEC Agriculture Projects:

No.	Project Name/ Description/ Location	Size/ Potential Industries	Cost: $ Million Financing	Executing Agencies	Status/ Remarks
		(NO DATA AVAILABLE)			

Other Sectors CPEC Projects:

No.	Project Name/ Description/ Location	Size/ Potential Industries	Cost: $ Million Financing	Executing Agencies	Status/ Remarks
1.	Quetta Water Supply Scheme From Pat Feeder canal, Baluchistan				Feasibility Stage
2.	People to People Exchange				
3.	Transfer of Knowledge in Different Sectors				
4.	Pilot Project of Digital Terrestrial Multimedia Broadcast (DTMB)		2		Completed. Demonstrative Project with Chinese is being processed.

Chapter

6 China's Changing Demand for Food and Agricultural Products

China's Changing Demand for Food and Agricultural Products

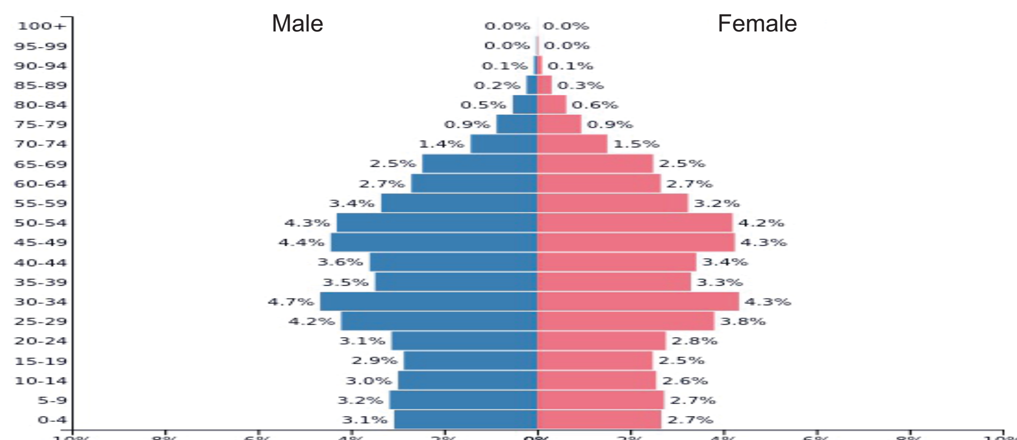
Shahid Najam & Atr-un-Nisa

Introduction

The sustained and rapid growth of China for over three decades has elevated it to be the second largest economy in the world. It is now an upper middle-income country with a Gross National Income (GNI) per capita (2018) of US$ 9,470 that signifies an increase of 9.73 percent from 2017. Over the years, around 600 million people have been lifted out of poverty with reduction in the number of undernourished by 53.7 percent[1]. China has a total population of around 1.42 billion of which 51.53 percentage are male and 48.47 percentage female. The population is projected to increase to 1.44 billion by 2029. A significant proportion of the population falls between the age groups of 30-34, 45-49 and 50-54 years which is reflective of the success of China's 'one-child policy' to control population growth. According to the United Nations (UN), China is aging more rapidly than almost any country in recent history[2]. Figure 6.1 depicts China's population structure and also its skewed gender demography[3]. This has substantial repercussions for country's labor market. Consequently, China has to address five distinct emerging challenges that is dwindling future labor force, increasing aging

FIGURE 6.1

China's Population Structure



Source: Population Pyramid.net

population and its unique dietary requirements, significant surge in China's dependency ratio (which is expected to rise to 44 percent by 2050), need for skills development and gender sensitive employment opportunities and the growing food and agriculture needs.

Nearly 500 million people are packed in a highly industrialized narrow eastern corridor comprising the provinces of Beijing, Shandong, Jiangsu, Shanghai, Zhe Jiang and Quangdong. These areas have witnessed a significant increase in people's income and living standards.

On the other hand, the western provinces which are landlocked and underdeveloped are sparsely populated with around 303.8 million inhabitants[4]. These provinces face several challenges that include relatively little arable land, recurring water shortages, underdeveloped natural resource base and perennial agriculture and food deficit. The government has formulated a series of strategic plans to equitably develop the entire country including the far flung regions like western China. The objective is to create a 'harmonious society' with resources and development dividend flowing smoothly from Beijing across the country. Of particular mention are: (i) the "Go West" Western Development Strategy (WDS) being implemented since 2000 to encourage in-country migration from eastern parts to western China and (ii) the five year plan (2016-2020), which inter alia, accords a clear priority to developing the country's western regions[5]. Between 2000 - 2016, investment of US$ 914 billion has been made in 300 major projects to spur economic and social development of Western China with focus on augmenting people's livelihood, food security, improving infrastructure e.g., large hydroelectric projects and opening investment opportunities. These projects and rapid urbanization of Western China has also resulted in the relocation of people from rural to urban centers. Around 10 million people are to be relocated from rural areas in Western China to urban centers while overall China plans to re-allocate 100 million people from the country's farming regions to cities by 2020 and 250 million people by 2026[6]. The Government is also committed to bridging the huge gap in consumption between the poor and the rich, and between rural and urban consumers. This is likely to strain the existing agriculture endowment base, bring about a structural change in the labor market by migration of low-skilled rural residents to the urban are as to the detriment of agriculture sector and accentuate their employability problem[7].

With Western China developing and notwithstanding the growth of agriculture sector in the three provinces of Xinjiang, Qinghai and Gansu, the demand for agriculture and agro-industrial goods, high value crops and food and dietetic needs in the country will further increase significantly[8]. The cumulative impact of these trends and developments will be a greater reliance on food imports to meet the nutritional needs of population.

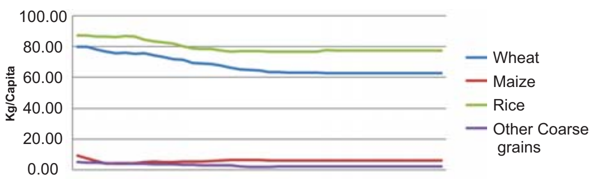
China's Food Demand Trends

The steady population growth, rapid urbanization and rising income levels in China since the late 1980s have brought about discernable transformation in the life style, consumers spending patterns and dietary habits of people. Massive urbanization has also changed the way food is supplied, prepared and served especially with the emergence of more advanced supply chains[9]. The per capita consumption of food grains including wheat, maize and rice has declined since 1990s and substituted by increased appetite for western-style diets and higher intake of high-value high-quality foods, such as dairy products, beef, sheep and goat meat, horticulture products etc. There has also been a rising trend in "away-from-home" food consumption.

More specifically, the per capita consumption of wheat, maize, rice and other coarse grains[10] declined from 80kg, 9kg, 87kg, 5 kg in 1990 to 63kg, 6kg, 77kg, 2 kg in 2018 respectively and will remain stagnate till 2028 as is evident from Figure 6.2 below.

FIGURE 6.2

Percapita Consumption of Agricultural Food in China

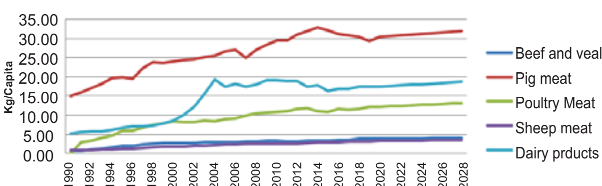


Source: Dataset: OECD-FAO Agricultural Outlook 2019-2028

By contrast, the per capita consumption of beef and veal, pork barrel, poultry and mutton or lamb, and dairy products increased from 0.64kg, 15kg, 0.1kg, 0.8 kg and 5 kg in 1990 to 3.8kg, 30kg, 12kg, 3.14 kg and 17kg in 2018 and will continue to rise with 0.6, 0.4, 1.2, 1.1, and 0.7 percent respectively during 2018-2028, as is shown in Figure 6.3.

FIGURE 6.3

Percapita Consumption of Livestock Food in China



Source: Dataset: OECD-FAO Agricultural Outlook 2019-2028

In order to cope with the increasing food and agriculture demand, China has made strenuous efforts to maximize the local agricultural production. Table 6.1 shows the increase in the production of some selected agriculture products and future projections to 2028.

However, the increase in the production, as shown above does not seem to have fully catered for the rising food demand in the country. Since 2007, there has been a steady increase in food imports that have

TABLE 6.1

China's Agricultural Production of Selected Commodities

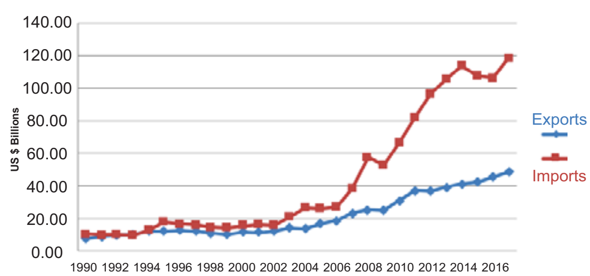
Commodity	1990	2018	2028 (Million tons)
Wheat	98.2	131.4	141.0
Maize	96.8	257.3	307.2
Other coarse grains	15.8	7.8	9.4
Rice	127.2	148.5	152.6
Soybean	0.0	16.0	19.5
Other oilseeds	0.0	28.6	31.6
Vegetable oils	0.7	28.5	33.9
Molasses	2.1	4.0	5.0
Sugar	5.1	10.7	13.3
Cotton	0.0	5.7	5.4

Source: OECD. Stat.

surged from around US$ 38 billion in 2007 to US$119 billion in 2017. The following Figure 6.4 indicates the shift in the global food trade of China from a net food exporter to a net importer over the past decade.

FIGURE 6.4

China's Food Exports and Imports



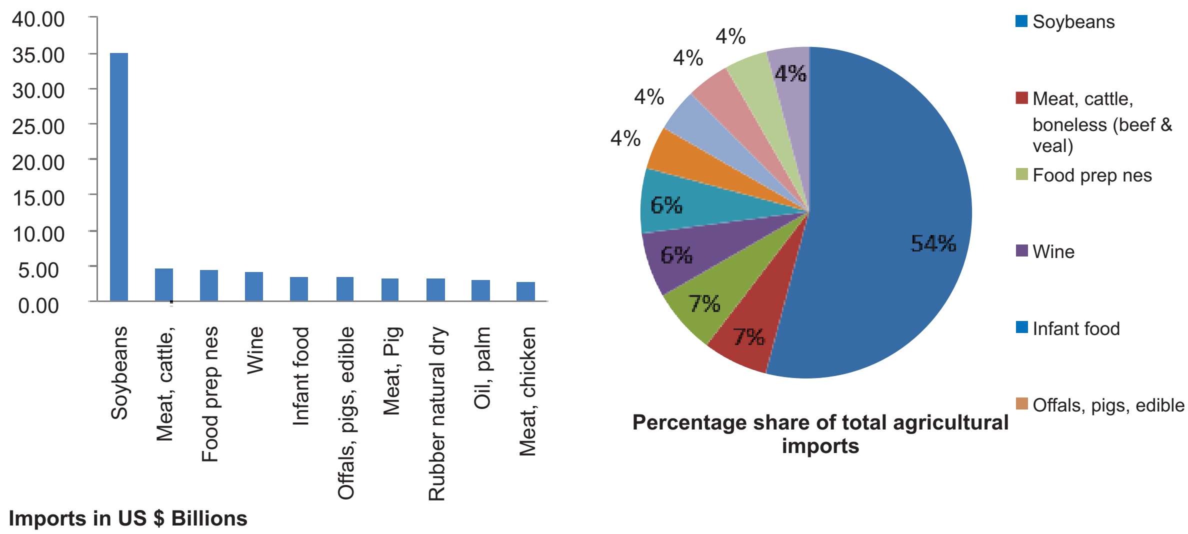
Source: FAOSTAT 2018

The greatest increase in imports during 2018 pertained to soybean, meat/cattle/veal, boneless beef, oilseeds, maize, sugar, dairy products, fruits and vegetables as shown in Figure 6.5. It is anticipated that by 2050, China's food demand will increase from US$ 800 billion to US$ 2 trillion with growth trajectory as follows: beef 236 percent, dairy

74 percent, mutton or lamb 72 percent, sugar 330 percent, and wheat 102 percent while rice will show a decline of 8 percent[11].

FIGURE 6.5

China's Top Ten Imports of Food and Agricultural Products



Source: Dataset: FAOSTAT 2016

China's Strategic Focus - Agriculture and Food

The 13th Five Year Plan (FYP-2016-2020) of China envisaged major reforms in the agriculture sector with emphasis on market driven policies and outcomes to discourage dumping, subsidies and price intervention; a structural adjustment through production and supply policy rationalization; and restructuring of the dairy and livestock industries. It also emphasized specialization and diversification based on crop specific competitiveness of productive regions and use of international markets to complement domestic supply; institutional reforms in terms of strengthened international cooperation in agriculture; refinement of food safety standards; and incentivizing scientific research[12].

The 13th FYP provided the following annual guidelines for Agriculture sector for 2019[13]:

- Focus on food security; poverty alleviation; grain stabilization (rice, wheat, staple grain- 800 million Mu), soybean and oil crops (increase by 5 million Mu); and self-sufficiency in sugar and cotton.

- High quality and efficient agricultural development to sustain agri-food supply system; "Go-out" strategy; mechanization, innovation, entrepreneurship and horticulture production.

- Emphasis should be place on animal health and immunization; animal feed; safety and quality; dairy and poultry industry; and animal waste recycling.

- Enhancement of aquatic bio-resources and fishery; development of legal and regulatory frameworks to conform to international standards; integration of primary, secondary and tertiary fishery industry is essential.

- Focus should also remain on green technology, science & technology and research for the entirety of agriculture cycle; brand-building; nexus between research, technology and agriculture.

- Development and expansion of rural industry to enhance farmers income especially processing and service industry should also remain the center of attention.

- Major rural reforms to stimulate agricultural development through land reforms, skills and productivity enhancement is an area of particular importance.

The "New Normal" framework (defined by a lower economic growth rate, optimizing economic structure, and a transition from input-investment-driven to innovation-driven development) serves as a complementary instrument to cope with the rising food and agriculture demand.

This framework envisions China's commitment to making full use of Belt Road Initiative (BRI) connectivity for multilateral strategic cooperation to foster innovation and complementarity for realizing Sustainable Development Goals (SDGs) on poverty and hunger.

The major challenges in the agriculture sector, however, continue to be: the mismatch between increasing demand for food and diminishing natural resource base; imbalance between overall supply-demand and structural shortages; increasing food safety concerns; rise in the agricultural production costs and decline in comparative efficiency; labor shortage in agriculture sector and the impact of climate change on agriculture[14].

Against this backdrop and China's increasing dependence on the agriculture and food imports, the following section identifies the enhanced potential provided by China Pakistan Economic Corridor (CPEC) for Pakistan to expand its share of agriculture and food exports in the Chinese massive consumption market.

Potential for Pakistan

The agriculture in Pakistan is bestowed with a unique comparative and competitive advantages to capture a sizeable share in the export markets. These advantages are: agro-ecology and seasonality which enables the country to adjust and adopt cropping and production systems to respond to the export market demand throughout the year. It has one of the largest irrigation systems in the world to sustain agriculture production. An added advantage is the proximity to major international markets and especially China. Coupled with relatively low labor costs, a sizeable saving on cost and time can be achieved.

At present, Pakistan's share in the Chinese agriculture imports markets is merely 0.37 percent (around US$ 0.4 billion) out of worth around US$ 100 billion. There is an enormous scope for Pakistan to enlarge its share in the massive Chinese markets especially for those items which hold comparative and competitive advantage that is rice, cotton, meat and dairy products and fruits and vegetables.

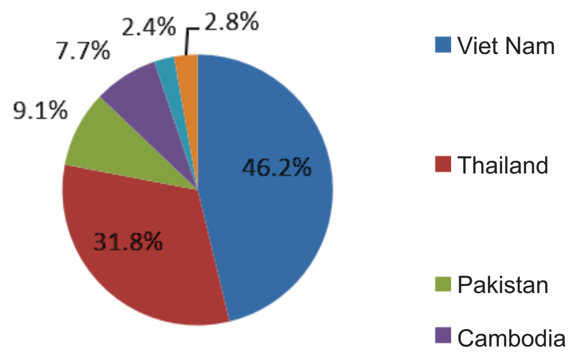
While a comprehensive study will be required to assess the various competitiveness of Pakistani agricultural commodities and products for the Chinese markets, a brief indicative analysis of some selected commodities within the context of (CPEC) is provided to demonstrate the potential for agriculture exports to China.

(a) Rice

Rice accounts for 3 percent of the value added products in agriculture and 0.6 percent share of GDP. The rice exports from Pakistan exceed the world export average. As regards with Chinese markets, the rice imports in the last ten years registered a growth of 15.75 percent per annum while Pakistan's export of rice increased only by 2.73 percent[15]. The major sources of imports of rice in China are: Vietnam (46.2 percent) and Thailand (31.8 percent). Pakistan has only 9.1 percent share of the China's growing market (Figure 6.6).

FIGURE 6.6

Main Sources of Rice Imports of China*



Source: Trade MAP-Trade competitiveness Map 2018
•Percentage share in China's Imports for rice

China is interested in expanding rice imports from Pakistan. A Chinese major hybrid seed company Yuan Long Ping High-Tech Agriculture is working with the Pakistan Agriculture Research Council (PARC) to develop rice variety suitable for Chinese markets. With China's experience, technology and know-how already available, Pakistan could maximize its share in the Chinese rice market.

(b) Cotton

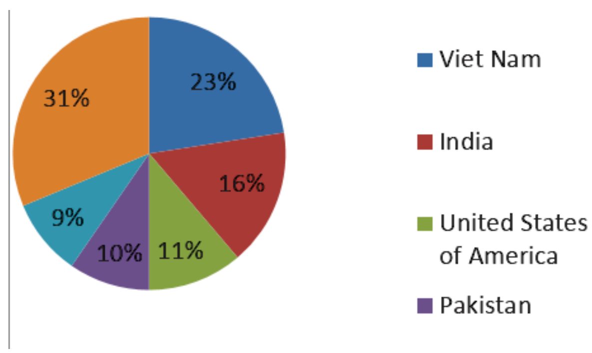
Cotton contributes 0.8 percent to national Gross Domestic Product (GDP) and 4.5 percent to agriculture value addition. The crop, however, in the recent years has encountered many challenges including unfavorable international prices[16] and competing cash crops.

As far as China is concerned, the current stocks of cotton have considerably dwindled down from 2013-14 to about 9 million bales in 2018-19, thus increasing the deficit to around 15 million bales. This has increased the demand for imports[17]. Cotton production in China has suffered due to limited farm land and high labor costs. China imported worth US$9.9 billion of cotton in 2018 roughly around 10 million bales. The overall demand for cotton imports is expected to increase further during the period ranging from 2019 to 2023[18]. As per the quota system, a tariff rate of only 1 percent was levied for import of 894,000 tons/year to comply with the World Trade Organization (WTO) requirements of which at least 33 percent was reserved for state-owned enterprises. In October 2018, it allowed import of additional 800,000-tons, outside the quota, with levy of a sliding and floating tariff rate that ranged from 40 percent to 125 percent, depending on the sources and varieties of cotton[19].

China is mostly importing cotton from Vietnam (23 percent), India (16 percent), Pakistan (10 percent) and US (11 percent) as depicted in Figure 6.7. Pakistan up until 2015, was the top supplier of cotton yarn to China. This status can be regained especially when the cotton exports to China grow by around 5.11 percent[20]. The effort needs to be focused on value addition items, quality and competitiveness. The recent devaluation of Pakistani rupee is a welcome measure for cotton and related exports.

FIGURE 6.7

Main Sources of Cotton Imports of China*



Source: Trade MAP-Trade competitiveness Map 2018
•Percentage share in China's Imports

(c) Sugar

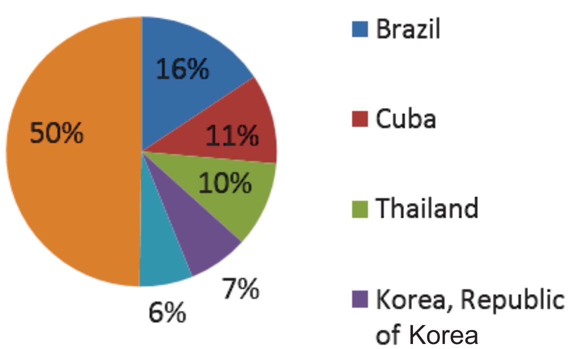
Sugarcane in Pakistan accounts for 2.9 percent in agriculture's value addition and 0.5 percent of overall national Gross Domestic Product (GDP). During 2018-19, sugarcane crop production was to 67.17 million tons which was lower by 19.4 percent compared to last year.

As for China, its annual average import of sugar, from 2011 to 2018, was 3.46 million tons. The sources and share of sugar imports are given in Figure 6.8 e.g. Brazil (16 percent), Cuba (11 percent) etc. China allows 1.94 million tons of sugar imports per annum at a tariff of 15 percent as per WTO commitment. A higher tariff is levied for out-of-quota imports that attract a 50 percent levy[21].

Pakistan exported around 182,000 tons of sugar in 2018. In mid-April, 2019, the Adviser to the Prime Minister, indicated that China's recent first US$ 1 billion special access for Pakistan, including sugar, rice and yarn, has been launched. As this first US$ 1 billion agreement is completed, China will grant a second US$ 1 billion special access[22]. This in itself speaks of the enormous potential for sugar, rice and yarn exports to China given the massive size of its

FIGURE 6.8

China Main Sources of Sugars and Sugar Confectionery Imports*



Source: Trade MAP-Trade competitiveness Map 2018
•Percentage share in China's Imports

sugar market and the competitive edge over the distant suppliers from Brazil and Cuba.

(d) Livestock

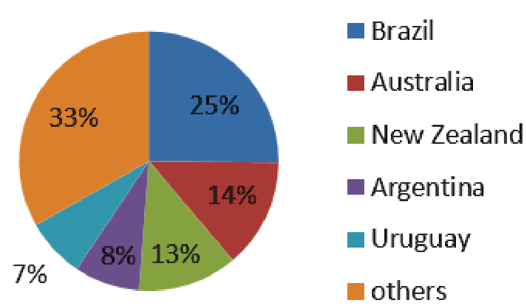
The livestock sector contributed 60.5 percent to the agriculture sector and 11.2 percent to the GDP during 2018-19. It is a significant source of foreign exchange earnings and a source of 35-40 percent of income for over 8 million rural families. There are an approximately 47.8 million cattle and 40 million buffalos that produce around 59.75 million tons of milk and 4.48 million tons of meat besides other products such as hide and fur[23]. Pakistan's share, however, in the global meat trade is very small that is 2.9 percent. The major livestock exports include animal casings, bone and its products, animal wastes, live animals, meat, dry milk, fur, wool, and fodder, for cattle and poultry. The strategic location of the country gives it an added advantage to integrate with the global production network and the supply chain, especially the global Halal meat market of around US$ 600 billion.

(i) Meat and Meat Products

According to Food and Agriculture Organization (FAO), the international livestock industry is projected to grow at least 85 percent by the year

FIGURE 6.9

China Main Sources of Meat and edible meat offal Imports*



Source: Trade MAP-Trade competitiveness Map 2018
•Percentage share in China's Imports

2030. China is one of the major importers which meet its needs from countries like Brazil (25 percent), Australia (14 percent), New Zealand (13 percent), Argentina (8 percent) and Uruguay (7 percent) as is shown in Figure 6.9. Cattle that is exported from Pakistan is marketed overseas in very low volumes. Nevertheless, there is a huge potential for Frozen Bovine Meat (FBBM), given the size of the livestock sector in Pakistan and the steady growth of its meat export industry. It is estimated to be growing at a rate of 30 percent per annum[24].

Pakistan should avail the distinct competitive advantages of CPEC and the competitive prices. The average price of FBBM exported from Pakistan to all the countries in the world is approximately US$ 3.48 per kg compared to the average of other countries that is US$ 5.42 per kg. CPEC has the potential to lower the export price to China. This will entaila concerted effort to ensure quality as per the international market standards, better supply chain management, not to mention developing infrastructure (such as laboratories, hygienic standards, logistics) that comply with the necessary international regulations. In order to do this, legal and regulatory frameworks will have to be suitably amended to meet such demands. Pakistan may then be able to successfully establish livestock business centers along CPEC routes.

(ii) Dairy Products

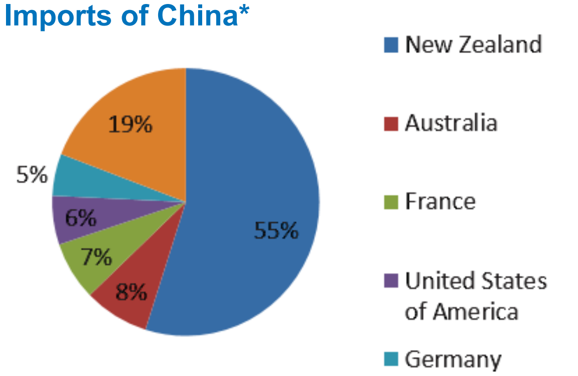
The consumption of dairy products in China is on the rise due, to urbanization and the consumers' changing dietary patterns. Decreasing domestic production of around 34.7 million metric tons (1 percent lower compared to 2018) already led to increased demand for imported dairy products that is 13 percent increase in fluid milk, 15 percent whole milk powder and 11 percent non-fat dry milk powder[25]. The Chinese Government projects that import dairy products will rise 50 percent during 2016-26 as consumption grows at the rate of 27.1 percent while domestic production grows at 19 percent over that period. The overall size of the dairy market is estimated around US$ 10.65 billion.

New Zealand accesses the maximum share of Chinese dairy imports (54 percent) followed by Australia (8 percent), France (7 percent), USA (6 percent) and Germany (5 percent). The major dairy exporters like New Zealand and Australia have free trade agreements that lower tariffs on their dairy products in China.

Pakistan is considered to be the 4th largest milk producing country with the production of more than 59 million tons of milk annually in both loose as well as Ultra Heat Treated (UHT) form. Different forms of milk such as pasteurized, powdered and condensed milk, butter, yoghurt, cheese, cream and butter oil are all produced and sold according to various personal preferences[26]. The milk produced in Pakistan is among the best in the international market. However, only a meager quantity of around 39 thousand tons is estimated to be the export volume of milk and milk products in 2019[27]. It has the potential to earn over US$ 30 billion from exports of dairy products. Pakistan also has a comparative edge over all the major milk exporters to China in terms of proximity and reasonable prices. Our country can even penetrate the dairy markets in Iran, Malaysia, The Philippines, Sri Lanka, Bangladesh and Indonesia.

FIGURE 6.10

Main Sources of Dairy Products Imports of China*



Source: Trade MAP-Trade competitiveness Map 2018
•Percentage share in China's Imports

However, Pakistan has to establish Dairy Hubs along the CPEC routes to give impetus for vertical integration of the dairy supply chain and focus on provision of livestock development services. It must incentivize the dairy farmers in collaboration with the local chambers of commerce, dairy traders and exporter- associations. It is also important to address dairy value chain and supply side constraints. Furthermore, it is essential to institute compliance standardization. There should be secure data exchange traceability, "from the point of manufacture to the point of dispensation." In addition to all these, the regulations of the Federal Food Safety must be stringently enforced[28].

(e) Horticulture

China is the second largest importer of fruits and vegetables in the world. It imported around US$ 4.86 million tons of fruits and vegetables worth $ 6.95 billion—year-on-year (YOY) increases of 25.91 percent and 36.48 percent, respectively. China relies heavily on imports from Chile (US$ 1.68billion), New Zealand (US$ 440 million), Philippines (US$730million), Thailand ($1.67billion), United States and Vietnam ($720 million) for fruits, and, Australia, Canada, Thailand and Vietnam for vegetables. The above Table 6.2 shows the top five imports of these items during 2018.

The foregoing analysis clearly shows that China's dependence on imports of horticulture and other agricultural products will continue increasing substantially. Pakistan, because of, CPEC connectivity, agro-ecology and endowment base along the CPEC routes, has distinct comparative and competitive advantage to access and expand its share in these markets. Figure 6.11 illustrates the production systems and products along the various CPEC routes which Pakistan needs to focus on with the twin objective of enhancing exports to China as well as poverty alleviation.

The Way Forward

China globally ranks first in the imports of agricultural produce to meet its food, fiber and raw material requirements. There is a growing appetite all over the world to expand market share in China's rapidly evolving and massive agriculture and food consumption markets. The connectivity with China especially the western provinces directly with Pakistan through CPEC and other countries through Belt Road Initiative (BRI), opens a plethora of opportunities to gain access to the food and agriculture markets and energy demands of the ever-growing population in China including the landlocked western provinces[29].

The Pakistan Tehreek-e-Insaf (PTI) government already lays great emphasis on agriculture under CPEC with the eventual goal to boost Pakistan's food exports to China. In order to become a reliable supplier of food and agricultural products to the Chinese markets, Pakistan will have to initiate both upstream and downstream policy adjustments. In addition to regulatory adjustments, a three pronged approach that embodies China's strategic focus is recommended as following:

- **Short–term period (2020-2022):** focus on relevant crops' and horticulture (especially high value crops) yield enhancement through better soil productivity, mechanization, certified seed supplies, land reclamation; grain, fruit and vegetable processing projects in the Special Economic Zone (SEZs) through Joint Ventures (JVs) efficient input technology seed, water, IPM and better crop management; livestock breeding, production and processing and market information and intelligence system; joint research and technology development, know-how and experience sharing.

- **Medium-term period (2022-2025):** focus on agro-industry development and industrialization

TABLE 6.2

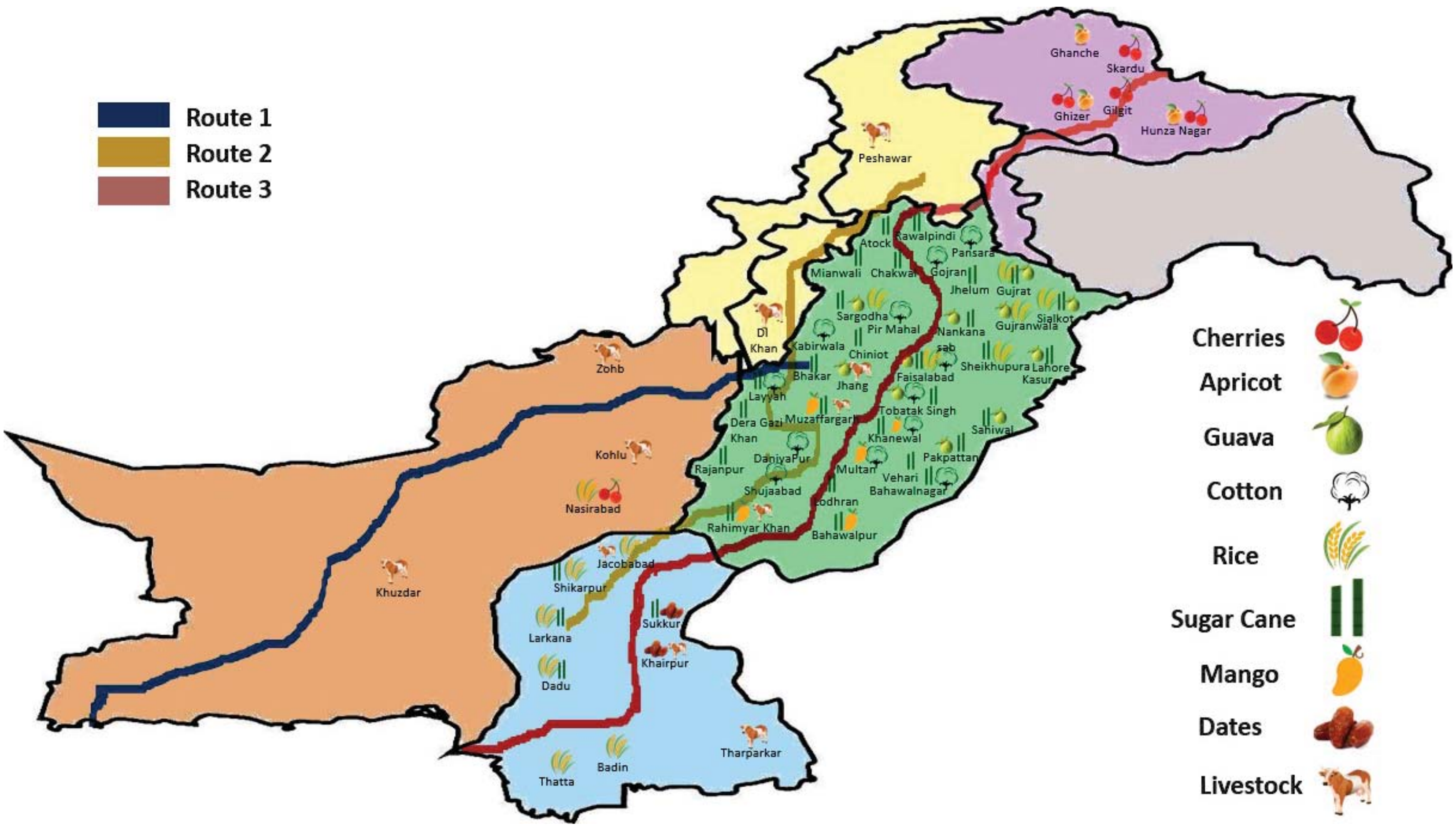
China's Top Five Imports of Vegetables & Fruits

Vegetables	Value (US $ Million)	Fruits	Value (US $ Million)
Roots and tubers of manioc, arrowroot, Jerusalem artichokes, sweet potatoes and similar roots and tubers with high starch or insulin content, fresh, chilled, frozen or dried, whether or not sliced or in the form of pellets; sago pith	1132.1	Fresh strawberries, raspberries, blackberries, black, white or red currants, gooseberries and other edible fruits (excluding nuts), bananas, dates, figs, pineapples, avocados, guavas, mangoes, mangoesteens, papayas, citrus, grapes, melons, apples, pears, quinces, apricots, sloes, cherries, peaches and plums	2486.07
Dried leguminous vegetables, shelled, skinned or split	765.97	Apricots, plums, sloes, cherries, peaches, nectarines	1479.49
Other vegetables, fresh or chilled (excluding potatoes, tomatoes, alliaceous vegetables, edible brassicas, lettuce, chicory carrots, turnips, salad beetroot, salsify, celeriac, radishes and similar edible roots, cucumbers and gherkins)	85.76	Other nuts, fresh or dried, whether or not shelled or peeled (excluding coconuts, Brazil nuts and cashew nuts)	932.76
Vegetables, uncooked or cooked by steaming or boiling in water, frozen	37.07	Citrus fruit, fresh or dried	177.85
Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared	12.39	Bananas, incl. plantains fresh or dried	896.81

Source: : ITC calculations based on UN COMTRADE statistics until January, 2018

FIGURE 6.11

Production System and Endowment Base for Exports of Agricultural Products to China



Source: BIPPs' Team computation

The following Table 6.3 summarizes the region wise production systems, their proximity to CPEC routes and various agricultural products for harnessing the export potential.

TABLE 6.3

Agricultural and Livestock Products Along CEPC Route

Fruits	
Gilgit Baltistan	
Skardu and Gilgit: Cherries **Ghizer**: Cherries, Apricot	**Route 3**
Sindh	
Khairpur: Dates **Sekhar:** Dates, sugar cane	**Route 3**
Punjab	
Rahim yar khan, Khanewal, Muzaffargarh: Sugarcane, mango **Multan**: mango **Jhang:** Guava **Sargodha, Nankana Sab, Faisalabad, Toba take sing**: Guava, sugar cane **Chakwal, Lodhran, Rawalpindi, Attock, Chiniot:** sugar cane	**Route 3**
Sindh	
Larkana, Shikarpur: Sugar cane	**Route 2**
Punjab	
Dera Gazi khan, Layyah, Muzaffarabad, Bhakar: Sugar cane	**Route 2**
Livestock	
KPK	
D I Khan	**Route 1**
Sindh	
Jacobabad	**Route 2**
Khairpur	**Route 3**
Punjab	
Rahim yar khan, Muzaffargarh, Jhang	**Route 3**
Crops	
Sindh	
Larkana, Jacobabad, Shikarpur: Rice	**Route 2**
Punjab	
Shujaabad, Layyah, Kabirwala: Cotton	**Route 2**
DaniyaPur, Multan, Khanewal, Muzaffargarh, Toba Tek Singh, PirMahal, Gojran: Cotton **Faisalabad, Sargodha:** Rice, Cotton	**Route 3**

Source: : BIPP's Team Computation

using SEZs; integration with regional value chain; sustained agri-commercialization to increase local employment and farmers' income; upgrade livestock production infrastructure and better disease prevention and control for live-stock products.

- **Long-term period (2025-2030):** cooperation, joint investments and ventures by private sectors in agro-industry and corporate farming; integra-tion with Global Production Network (GPNs) relocation of Chinese traditional manufacturing sector to Pakistan; harnessing e-commerce in agricultural products .

There are, however, some fundamental imperatives that need to be fully taken into account for ensuring success of the three pronged approach:

- Pakistan should ensure that its policy framework for tapping Chinese markets is aligned with the Chinese policy and strategy frameworks. For example, China's policy thrust in agriculture sector, "New Normal" and "Go-global" policy must be kept in mind by the policymakers. The private sector should be given incentives to become part of regional/global production networks and value chain.

- The cooperation must be beneficial for both the countries.

- Pakistan should adopt the best possible agricul-tural practices and technological innovations to ensure export of quality agriculture and food products to China. It should also learn from China's experience, and technological expertise.

- Economic growth with equity aimed at inclusive and sustainable development for poverty alleviation should form an integral part of the development and export programs.

- Clear strategy needs to be devised focusing on negotiating better tariffs for its agricultural exports.

- The existing agro-processing firms should be enabled to undertake higher value addition in locally produced commodities through provid-ing access to finance, technology, branding and markets and concretizing JVs with Chinese private sector.

- The international competitiveness of agricultural products in Pakistan needs to be improved by incentivizing corporate and mechanized produc-tion, green and ecologically friendly agriculture, high quality output and enabling infrastructure for export oriented agri-business. These include legal and regulatory frameworks, contract enforcement mechanisms, Ease of Doing Business (EODB) regime, testing laboratories' standard and intellectual property rights.

Conclusion

The CPEC is the pivot of "a collection of infrastruc-ture projects" on which hinges the optimal function-ality and realization of strategic objectives of BRI. It is indeed a critical component of international logistics and transport network which links both Pakistan and China with rest of the world for effective economic integration through trade growth, technology transfer and human capital and skills enhancement. It holds enormous promise for Pakistan as the CPEC portfolio implementation is estimated to fuel the potential economic growth of the country by 1.5 percent on the original basis from 2016 to 2020, and another 1 percent from 2020 to 2030. In between 2020 to 2030, the trade growth and bilateral direct investment are expected to increase by 16 percent and 20 percent respectively. This will be accompanied by creation of around 500,000 to 800,000 new jobs[30]. However, the recurrent institu-tional, governance and coordination dysfunctions in managing the CPEC frame need to be addressed on a priority basis by the Ministry of Planning, Development and Reforms in conjunction with the Provincial Governments to realize the intended benefits. This is urgent both in order to accelerate the implementation of "second phase" of industrial and agricultural development and to thwart the increasing hostility orchestrated by USA and India to discredit and vilify the CPEC initiative.

It may be reiterated that the decision makers in Pakistan have to focus on developing and incentivizing the exports of agriculture and agricultural products including livestock to China to maximize CPEC connectivity and potential given the size and scale of phenomenally expanding Chinese food and agriculture market. Indeed, Beijing has long been keenly interested in developing Pakistan's agriculture to meet the rising demand for food, fiber and other agricultural products.

There are three distinct priority shifts in the development planning of China which open up plethora of opportunities for Pakistan i.e., spatial dimension of China's development characterized by large scale migration of population from the over-crowded Eastern areas to the West; the Chinese government commitment to addressing regional disparity especially to uplift the least developed- the food-insecure Western provinces; and China's restructuring of its economy. China is increasingly relocating or contracting out the traditional low-tech sectors to other countries like Thailand and Vietnam. The CPEC connectivity and proximity with China makes Pakistan an attractive and economically feasible destination for Chinese companies to relocate the traditional manufacturing sector and enter into joint ventures. This will, a priori, require Pakistan to reshape its policy and legal frameworks based on competitive incentives package and, equally importantly, improve and institute robust and efficient ease of doing business mechanism.

Chapter

7

CPEC Agriculture and Trade: Looking Beyond Borders

CPEC Agriculture and Trade: Looking Beyond Borders

Dr. Mahmood Ahmad

Introduction

After completing consecutive two reports on China Pakistan Economic Corridor (CPEC), largely covering issues and challenges relating to One Belt One Road (OBOR) and CPEC initiative, it was decided by the Shahid Javed Burki Institute of Public Policy at NetSol (BIPP), to present an initial analysis regarding China's interest in CPEC as a potential benefactor for Western China. Under this backdrop, emphasis has been placed on agricultural and trade analysis relating to three provinces of significance within CPEC namely Xinjiang, Gansu and Qinghai.

The area of China's western region is 5.4 million square kilometers, constituting 56 percent of the nation's area. Whereas, the population of this region is nearly 400 million, 28.8 percent of the nation's

TABLE 7.1

Key Socio-Economic Indicators of three Provinces (2017)

Province	Land Area (sq. km)	Population (thousands)	GDP (per Capita Yuan)	Key Features
Xinjiang	1660400	24450	45099	Mountainous, rich in fossil fuel reserves and mineral resources.
Qinghai	721200	5980	44348	Rich reserves of oil, non-mineral and mineral resources in mountainous and plate landscape.
Gansu	454300	26260	29326	A hub for mining due to abundant mineral resources and has access to variety of water sources (glaciers, lakes and Yellow River).

Source: https://knoema.com/atlas

population, cultivated land is 1.53 million square kilometers, 37.9 percent of the nation's overall cultivated land and the grassland area is 9.9 million square kilometers, which is 84.1 percent of the nation's gross area of grassland.

China has been implementing the “Go West” policy for more than a decade, bringing in a large number of investments and developing an infrastructure for the region with the aim of opening private and public sector opportunities. China has reportedly invested around US$ 500 billion in infrastructure improvement for Western China in the last five-year[1]. The key features of these provinces are captured in the Table 7.1. To sustain the needs of the growing population of the western region, China is keen to foster economic ties with countries bordering its landlocked western provinces through improved trade routes and linkages. The CPEC, which is flagship programe of the broader Belt and Road Initiative (BRI), is seen as a high priority program intended to provide new trade routes and investment opportunities for the western provinces. The country has been reliant on imports to meet its population's nutritional needs and developing provinces of Western China developing would also require food imports.

Agriculture Profile of Western China

Based on data obtained from National Bureau of Statistics China, a comparison of growth rates of different sub-sectors of agriculture at national and provincial level for the period of 2009 to 2018 were analyzed. For gross total output (all sub sectors included) value of agriculture in all three provinces achieved higher growth rates than the national average with Xingjian registered highest rate of 8.9 percent over the period. The trend holds for growth rates achieved for other subsectors of agriculture and are reported in Table 7.2. However, for forestry sub-sector the trend is different only Qinghai achieved higher growth rate than the national average. As far as animal husbandry is concerned, all provinces have shown growth rates more than double, indicating the importance of the livestock sector. The province of Gansu achieved a double-digit growth in this category. Last but not the least, the province of Qinghai achieved a growth rate in fishery sub-sector that was three times the national average.

These regions also offer varied climate zones producing a diversified, competitive and sustainable agriculture base. Amongst other things, the province of Xinjiang is famous for its grapes, pears and walnuts. Its raisins and cantaloupes are of the highest quality and have a rich and distinctive flavor.

TABLE 7.2

Growth in Agriculture at National and Western China (2009-2018)

Gross Output Value (100 million yuan)	National	Xinjiang	Qinghai	Gansu
Total Agriculture	6.42	8.97	8.51	7.48
Agriculture	6.87	8.65	8.52	7.56
Forestry	8.69	7.23	13.61	5.42
Animal Husbandry	4.16	8.88	8.13	10.31
Fishery	8	9.8	27.03	10.64

Source: China Statistical Book 2009-18

It provides an opportunity for diversity marketing and interacting with different people in the global marketplace. This is the driving factor for its competitiveness. The western region is also adjusting well under new World Trade Organization (WTO) regimes as indicated by growth in value added agroindustry. For example, the cotton production area centered in Xinjiang has replaced that of East China and North China to become the biggest cotton production base.

Despite reported progress, the region still yet has to obtain its full economic potential. The total agriculture production shares compared to national figures are small in the range of highest 2.9 percent in Xinjiang province to lowest of 0.32 percent in Qinghai province (Table 7.3). The agriculture of China's western region is still at its initial stage. The commercial rate of agricultural products is low and the amount of trade is still small. The demand for more food supplies is high, which limits the development of featuring agricultural products. Although these developments have been positive and agro-processing and industrialization is on the rise but its sales stagnate. This is especially true for the sale of the original resources or primary processed products. Large scale production and value-added products have yet to reach their potential to obtain large profits due to several reasons. This is why policy reforms remain to be put in place for transformation of Western China's comparative advantage into a competitive advantage. It should evolve a strategy that takes into consideration production of high-quality produce that maximizes financial gain, not vice versa.

TABLE 7.3

Share of Provinces (2009-2018)

Gross Output Value (100 million yuan)	Xinjiang	Qinghai	Gansu
Total Agriculture	2.87	0.32	1.36
Agriculture	3.81	0.27	1.78
Forestry	1.19	0.16	0.71
Animal Husbandry	2.27	0.57	0.81
Fishery	0.2	0.02	0.02

Source: China Statistical Book 2009-18

Agriculture and Environmental Concerns

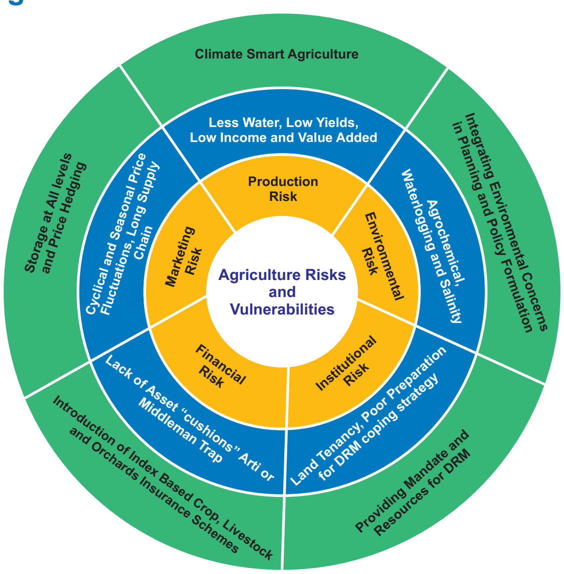
China is at the precipice of an ecological crisis. The agricultural sector will be the most affected, especially in the areas of environment, production, marketing and commerce. A typical farm in China is vulnerable to these risks, which can potentially lead to substantial physical and monetary losses. Marginalized farmers will fall further into poverty as their vulnerability to these risks increases. They will often have no choice but to rely on ill-conceived actions or those that have not been thought through properly to buffer themselves from risks and minimize their potential losses. The institutional support in China must focus on enhancing the capacity of farmers to bear these risks and to reduce their vulnerability to them.

A ground breaking government survey pinpointed fertilizers and pesticides as greater sources of water contamination, further it reveals that Chinese farms cause more pollution than factories. Like other countries it is well documented that fertilizers and pesticides have played an important role in enhancing productivity but in certain areas inefficient use has had a negative impact on the environment. The development of livestock breeding, and aquaculture has contributed a great deal in improving food security but they are also major sources of pollution as these deteriorate land and water resources.

Whereas this trend is bad news for agriculture in China, the environmental health of Western China provides an opportunity to adopt a different policy discourse. The use of environmental polluting agents such as fertilizer and pesticides are used in a comparatively small amount as compared to the Western region. This is due to the fact that overall the environment of Western agriculture has cleaner air, water and soil. The Western Region is well placed for the production of organic agricultural and green products, and for bio-resource development. It would be prudent for the policy makers to incentivize farmers in developing climate smart agriculture. The proposed action framework is presented in Figure 7.1. It can also provide a good

FIGURE 7.1

Agriculture Risks and Vulnerabilities



Source: Developed by the author

agriculture production and business model for other regions of China to replicate. The focus of the new policies should be to develop climate-smart agriculture that offer possibility of producing commodities with low chemical footprints.

The policy actions range from developing climate smart agriculture to integrating environmental concerns in planning and policy formulation.

Pakistan's case can be instructive here, as evidence indicates that increased use of fertilizer, pesticides and other inputs show a yield response that is either declining or stagnant. Further, climate change is resulting in extreme events in the shape of either floods or droughts. These extreme weather changes are introducing additional uncertainties and risks. There is a need to develop policies that support climate smart agriculture that also incorporates latest research to increase farmers' production opportunities by unification of cost-effective technologies. For instance, rice cultivation practices should adopt the System of Rice/Crop Intensification (SRI/SCI). These can also include better water management, use of Organic Farming (OF), techniques for seeding rice without tilling the stable soil (tillage) and the application of nutrients that reduce methane emissions while maximizing yields. The Precision Agriculture is expanding in countries where the availability of capital is not a constraint and China now falls in this category.

China needs an estimated additional 40.3 trillion yuan (US$6.4 trillion) to 123.4 trillion yuan (US$19.4 trillion) to finance the transition to a greener economy. It has started collecting an environment tax to help fund its environmental policies and is also trying to attract more green investment. There is a huge potential to “green” the OBORI, if Chinese financial institutions and enterprises improve the environmental risk management of their overseas investments and adopt responsible investment principles. Green bonds are a win-win for investors in countries like Pakistan, since they fund the green infrastructure projects that are so urgently needed by many developing countries[2]. Results in research carried out by the author and his team at the Center for Water Informatics and Technology (WIT)/ Lahore University of Management Sciences (LUMS) Lahore,[3] indicate that selecting “paradoxical” rice cultivation methods over conventional methods and to determine the costs of complying with green practices. The results demonstrate significant returns to (i) reducing the use of four key inputs: ploughing; tube well irrigation, fertilizer and pesticides by 80 to 100 percent (ii) adopting good agricultural practices -conservation agriculture and crop intensification techniques. The results obtained from rice, show the economic profitability of sample farms more than doubled owing to improved cost-efficiency. LUMS research found that the costs of compliance are more than offset by the larger, higher quality yield as well as lower input costs. The research work points to a win-win outcome since adopting paradoxical agriculture can enhance farmers' comparative advantage while reducing the institutional costs borne by public agencies.

Xinjiang Province

Table 7.4 and 7.5 provide ranking of the top 8 crops in Xinjiang province for the last ten years that is (2009 to 2018). This was done by estimating production in terms of volume and growth. As far as abundance in volume is concerned, vegetable production takes the lead, but its growth rate is lowest amongst the selected commodities. Other than wheat, cereals are doing well, both in terms of volume and growth. The output of corn also shows a reasonable trend in volume and growth. If we rank commodities by growth, millet and hemp out class all other commodities, but their volume is low. Cotton makes to top ranking by showing an impressive growth and producing significant quantities.

TABLE 7.4

Ranking by Volume of Xinjiang

Output (10000 tons)	Average	Growth
Vegetables	1721.18	0.9
Grain Crops	1363.44	3.37
Cereal	1305.17	4.12
Grain Autumn	686.36	6.6
Grain Summer	644.32	2.11
Wheat	631.34	1.45
Corn	600.83	7.46

Source: China Statistical Book 2009-18

TABLE 7.5

Ranking by Growth of Xinjiang

Output (10000 tons)	Average	Growth
Millet	1.1	17.56
Hemp	2.12	13.55
Corn	600.83	7.46
Cotton	354.09	7.09
Spring Wheat	216.75	6.98
Grain (Autumn)	686.36	6.6
Red Bean	1.25	5.18

Source: China Statistical Book 2009-18

Qinghai

TABLE 7.6

Ranking by Volume of Qinghai

Output (10000 tons)	Average Volume	Growth
Flue-cured Tobacco	152	2.41
Double Cropping Late Rice	36.36	-0.11
Tubers	35.9	-0.73
Soybean	35.78	-0.72
Wheat winter	35.62	-1.94

Source: China Statistical Book 2009-18

For Qinghai province, (Tables 7.6 and 7.7) tobacco production show impressive volumes and positive growth, whereas all other crops such as late rice, tubers, soybean and winter wheat show a low

TABLE 7.7

Ranking by Growth of Qinghai

Output (10000 tons)	Average Volume	Growth
Helianthus	0.58	13.91
Sugarcane	0.04	7.14
Spring Wheat	14.58	7.12
Benne	0.04	2.51
Flue-cured Tobacco	152	2.41

Source: China Statistical Book 2009-18

volume of production and negative growth. Ranking according to growth show Helianthus (sunflower), sugarcane and spring wheat performing well but their volumes are low. These commodities seem to have potential to grow in volume as the estimated growth in supply is driven by demand.

Gansu

In Gansu province vegetable production is the leading commodity with good growth rate among other selected commodities. Other than wheat, cereal is doing well, both in volume and growth. However, corn is growing faster than any other commodity with modest volumes. If we rank commodities by growth millet and hemp out class all other, but their volume is insignificant.

TABLE 7.8

Ranking by Volume of Gansu

Output (10000 tons)	Average Volume	Growth
Vegetables	1501.43	3.65
Grain Crops	1085.54	2.27
Cereal	825.86	3.3
Grain Autumn	758.18	5.53
Corn	498.12	6.46
Grain Summer	316.59	-1.35
Wheat	262.67	0.92
Potato	222.36	2.55

TABLE 7.9

Ranking by Growth of Gansu

Output (10000 tons)	Average Volume	Growth
Red Bean	.51	15.14
Helianthus	10.69	14.64
Peanuts	.34	6.58
Corn	498.12	6.46
Grain Autumn	758.18	5.53
Mung	.09	4.1
Vegetables	150.43	3.65
Cereal	825.86	3.3

Source: China Statistical Book 2009-18

Trade Analysis

China's Western Region is relatively sparsely populated, having benefited less from the country's economic growth. To open its western territories to trade and industry China is planning to build 19 cities. Although the province of Xinjiang is thinly populated, it is rising in significance as an agricultural and trade hub; demonstrating a diversified production base in comparison to other regions. The total volume of trade is around US$ 21 billion dollars; growing at a rate of 1 percent, accompanied by a decline in imports and a modest growth in exports of 2 percent. Furthermore, Western provinces of Qinghai and Gansu represent a strong export profile accompanied by decreasing imports. Qinghai exhibits the highest total trade transaction, growing at a steady rate of 3.0 percent; with the total trade volume estimated at US$ 1.1 billion dollars

TABLE 7.10

Trade Analysis of Three Provinces in Western China

	Xinjiang		Qinghai		Gansu	
	Volume Traded ($ 1000)	Growth Rate	Volume Traded ($ 1000)	Growth Rate	Volume Traded ($ 1000)	Growth Rate
Total Trade	21218701.2	1.04	1139299.7	3.04	7338634.9	-1.05
Exports	17295333.7	2.5	799012	6.24	3190738.7	5.83
Imports	3923367.2	-5.43	340288.1	-4.47	4147896.2	-6.34

and export growth of 6.24 percent. Finally, Gansu's total volume of trade approximates to 7.3 billion dollars, demonstrating a growing export profile at a rate of 5.83 percent. A holistic analysis of the three provinces indicates exports exceeding imports; although Qinghai and Gansu's production is growing at a higher rate, Xinjiang notably outperforms the combined export volume of both provinces.

Trade Issues & Revealed Comparative Advantage of Agriculture Exports to China

Pakistan has been considered to underperform regarding its agricultural export potential. However, analyses evaluating these claims are very few, in part due to a lack of easily accessible data. An analysis of Pakistan's comparative advantage in the Chinese market serves as an initial step for its overall performance in agricultural export markets. The Revealed Comparative Advantage (RCA) measure provides a unique approach to analyze a country's comparative advantage, on the basis of its export performance.

The original RCA measure was proposed by Balassa (1965), defining it as the export performance of a specific product or industry from a country as the relative share of the country's export of the product in the world exports of the same product, divided by the overall share of the country in world exports[4]. This can be expressed as follows:

$$RCAji = (Xji/Xjw) / (Xi/Xw)$$

Where,

Xji = exports of product j from country i
Xjw = world exports of the product j
Xi = exports of country i
Xw = world exports

An RCA value of less than 1 suggests that the product has no export comparative advantage, whereas a value above 1 indicates that the product has a “revealed” comparative advantage[5].

Our analysis is primarily concerned with the revealed comparative advantage of selected[6] Pakistani agricultural commodities in the Chinese export market, spanning a four-year period from 2014-2018, with data being obtained from the United Nations Comtrade Database[7]. RCA analysis of agricultural commodities is highlighted in Table 7.11.

Cereals are a major product and export of Pakistan in the international market, contributing to the staple foods of this country. Their export potential in

Chinese markets is supported by the observed RCA as values exceed 1, despite a slight variance. The average RCA comes to 1.14, hence, Pakistan may want to explore the opportunity of increasing cereal exports to China.

Among the category of cereals, rice is a key export in the world market that is produced by Pakistan. Subsequently, export performance of this commodity in Chinese markets is also strong reflected by its average RCA of 5.14, which is the highest among all commodities under review. Pakistan can capitalize on China's growing demand for high quality agricultural products via incorporating production of rice for Chinese market. Consequently, presenting the potential for developing a niche market and taking advantage of Pakistan's favorable geographical position as a neighboring country.

Despite the lack of accessible data in establishing a time series analysis, the available analysis does not indicate a revealed comparative advantage for well talked about export potential of vegetables, mango, fruit juices and meat. Insofar that, export of these commodity to China is indicated by significantly low values. Our analysis suggests that most of high value products – vegetables, mangoes, fruit juices and meat have a limited potential; partly due to China's position not only as the world's largest consumer for these commodities, but also as a producer and exporter. Subsequently, RCA values reflect this situation as they fall well below the threshold of 1 and continue to decline over the years. Pakistan has a better chances of improving its RCA for mangos, considering its position as a prominent producer and exporter of mangoes. Currently, the available data lumps mango, guava and avocados together, underestimating true value of this commodity. Pakistan's relative export performance in this category as reflected by its RCA, suggesting a decline over the years. However, Pakistan may want to explore the prospect of exporting mangoes to China, where there is a growing demand for such high-quality agricultural products.

TABLE 7.11

Revealed Comparative Advantage of Selected Commodities in China

Years	Rice	Cereals	Vegetables	Mango	Fruit Juices	Meat
2014	3.92	0.86	0.01	0.0099	0.00045	-
2015	4.85	1.11	0.0096	0.0058	0.0026	1.45E-06
2016	8.15	1.75	0.0094	0.0053	0.006	0.00048
2017	3.95	0.92	0.0001	0.0052	0.0163	3.99E-06
2018	4.86	1.07	0.0001	0.0053	0.0131	-
Average	5.14	1.14	0.01	0.0063	0.0077	0.0001618

Importance of Global Value Chains

Global Value Chains (GVC) involve combining imported intermediate goods and domestic goods and services into products that are then exported for use as intermediates in the subsequent stage of production. Also called product fragmentation, being widely used in countries recording a higher growth during the past decade or more. Global value chains provide opportunities for developing countries to diversify their exports and intensify their integration into the global economy. This is one of the key findings of the “Global Value Chain Development Report” recently published by the

World Trade Organization (WTO), World Bank (WB), and other partners.

FIGURE 7.2

USA export destination from Year 2000 to 2009 shifted from Japan to China[8]

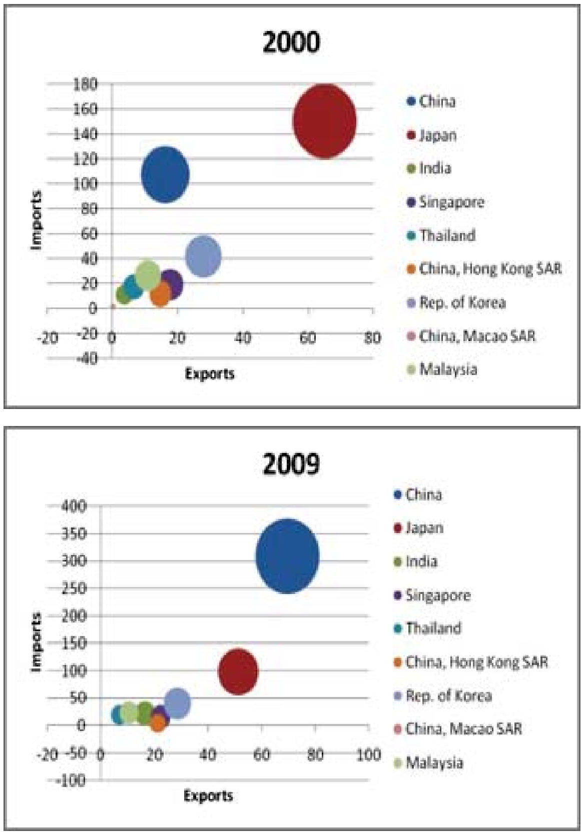
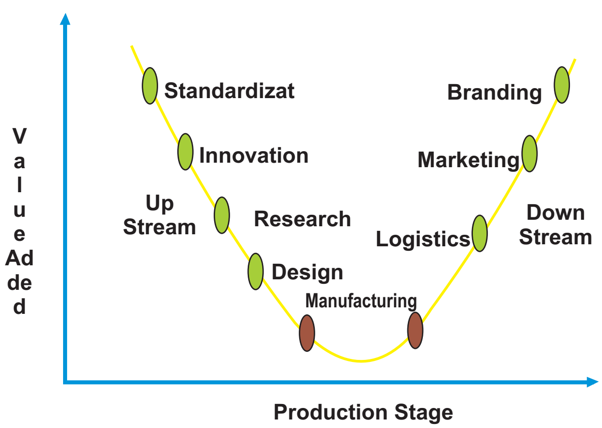


FIGURE 7.3

Smiley Shaped Relation between Value added and global value chain



Source: World Economic Forum (2012)

Two graphs (Figure 7.2) show how customized manufacturing emanating from the US market with the provides a huge supply potential in niche markets. The firms focus on developing and marketing their own brand, while outsourcing production to external suppliers initially within the country but after a while internationally, to foreign buyers. The idea of "Factory Asia" was later adopted by countries with vision and right priorities. The two graphs show that within a decade, USA export destination shifted from Japan to China. The size of the bubbles represents the sum of US exports and imports to/from its Asian partner.

The concept of value-chain is concerned with developing a relationship between production and value addition stages as exhibited by the "smiley" shape (Figure 7.3), suggesting most value added in GVC accrues to firms at the two ends of the production line. Countries cited as success stories in adopting GVCs are Bangladesh, Malaysia, Vietnam where low labor cost provided the incentive to produce high value products.

Pakistan largely missed this opportunity, especially in the textile sector. Being one of the major cotton producing countries, it failed to add value and be the part of the global apparel value chain. On the other hand, Bangladesh that is a non-cotton producing country became a leader in the lower value assembly segments of the value chain (see box 7.1). Turkey made most of its cotton production by upgrading into higher-value segments, such as branding and design, which rely on higher-quality human capital to maintain their competitiveness.

Potential Global Value Chains

A World Bank study in the late 1990s identified four value chains that have the potential at national regional and global value chains. These four value chains were:

1. Textile; e.g jeans

Box: 7.1

Global Value Chains and Bangladesh

According to World Bank, Bangladesh has become one of fastest growing economy, it is even growing faster than India. With deep reforms, focusing on export lead economy, minimizing the window of religious outfits and becoming big partners in garment industry, country 8 million people have been lifted out of poverty since 2010 with per head income almost tripled in this period. What were the reason for this phenomenal growth, the WB report highlights four driving factors? First Bangladesh was able create second largest garment industry in the world, second only to China. The garment exports from Bangladesh are still rising around 16 percent per annum. The country not only have 8th largest population in the world but half of them are under 25 who adapt to new technology at much faster pace, the country has 600000 IT freelances- the largest in the world. The modern technology is also helping more population join the formal economy and becoming a truly knowledge-based economy. This is happening as Bangladesh is diversifying beyond farming and manufacturing, as it is building its own tech hub in Dhaka. On economic policies—generous tax breaks incentivized entrepreneurs paving the way to develop 100 special economic zones to attract investments with 8 percent economic growth envisaged this year and if this tract record continues, the country aims to be classified as a developed country in next 20 years. Like other countries, climate change tops the list and points to the need of developing climate smart economy, especially when the country is vulnerable to rising sea levels. (World Economic Forum)

2. Fishery; with shrimps offering huge economic potential for exports

3. Automobile spare parts; suggesting manufacturing car radiators and becoming part of global value chain

4. Marble; offers a unique prospect in developing a competitive global value chain

These value chains were developed based on intensive value chain mapping and bench marking Pakistan's costs with our competitors. The report identified factors such as increasing productivity and reducing energy cost as prime factors that need to be addressed to compete and become part of global value chains.

Trade Development Authority of Pakistan (TDAP) prepared a series of studies on trade and export promotion highlighting the importance of global value. Presently, import substitution is being minimized as a policy tool. The new policies that are being shaped, seek to integrate the abilities of countries and companies to be part of the GVC's In view of need for such a policy shift TDAP, in cooperation with UNIDO, under EU funded Trade Related Technical Assistance (TRTAII) program have identified four value chains that have the potential to be part of GVC

- Gems and Jewelry
- Leather Gloves
- Readymade Garments
- Rice

Of the above four, rice has a better chances of becoming part of global value chains. The needed policy action includes adopting new water saving technology and greater effort to educate, train and adequately incentivize and remunerate farmers adopting good agriculture and marketing practices according to global standards. These measures would benefit farmers and ensure graduating to GVC. BIPP's previous report identified following value chains to be promoted as part of global Value chains. These were based on meeting with the officials from Board of Investment (BOI) and members of Joint Working Group (JWG) on CPEC

- Oil Seed
- Food processing
- Textile value added
- Leather products
- Low cost agriculture machinery

A more recent work has identified Priority Industries for relocation under CPEC - Integrating Pakistan in the Chinese Value Chains which could be given special incentive to relocate in the new Special Economic Zones (SEZ) under the CPEC project.[9] The value proposition for the relocation of the Chinese industries in Pakistan p-SEZ can be due to proximity to the energy zones and the customers.

1. The study designed a framework using matching of Chinese exports to Pakistan with countries expected to be supplied through CPEC, largely targeting Middle East and Africa. Formulating such a policy will help in the identification of specific industries in which Pakistan can be part of China's GVC.

2. The study also makes a case that maritime connectivity with Gwadar and Karachi as well as the coastal belt of Pakistan provides a cost-effective mode for the transport of energy, intermediate goods, and finished goods. Land resources can also be used for connecting with SEZ.

3. The report identifies 30 goods to calculate the impact of import substitution. The scope of commodity selection can be modified. But it depends on several factors. One of which is to see if demand driven trade pans out to different parts of Middle East and Africa.

4. The framework can also be customized to identify industries based on a different underlying preference, for example if the textile sector in general is to be prioritized.

5. These strategies can benefit China and Pakistan in the long run. Both countries stand to gain in this regard. Chinese technological superiority and industrial leadership can avail the cheap labor in Pakistan. Coupled with the fact that proximity of both these countries to each other and the continents that border the Indian Ocean basin (Asia, Australia, Africa and Antarctica) will mean shorter routes and less time for delivery.

Convergence of Chinese Global Value Chains with Pakistani Global Value Chains

FIGURE 7.4

Chinese Exports ($billion)

Source: World Trade Organizations, International Trade Centre, World Integrated Trade Solutions database

Based on a recent study done by Yasir Arfat, the data in Figure 7.4 shows that the Chinese exports have nearly doubled from 2008 to 2018, amounting to US$ 500 billion[10]. Three sectors under considerations have shown a monumental increase: textiles (US$ 178-257 billion), chemical/rubber/plastics (US$ 90-200 billion) and metals (US$ 21-43 billion). Pakistan also has unique RCAs in these three sectors, with lower labor costs, a geostrategic location and natural endowments. This will initiate GVC's between Pakistan and China for mutual and regional benefits. Conclusively, it will also provide a good opportunity for other BRI countries to have maximum share from these sectors.

The Way Forward

- China and Pakistan have potential for symbiotic trade relations, whereby China can take advantage of the low-cost production resources available in Pakistan, and Pakistan can benefit from the technology and financing that China has to offer. Pakistan has an abundance of labor force, available at cheap rates, which can be employed by the Chinese companies to produce cost competitive products[11].

- The idea of improving institutions and lowering trade costs alone is not enough. It needs to be supported by the emerging concept that peruse countries for "deep" trade agreements that goes beyond simple tariff cutting and involves legal commitments on laws and regulations. The concept suggests that Preferential Trade Agreements (PTAs) have proliferated and proved more congenial for deep integration.

- China has been implementing the "Go West" policy for more than a decade, which has brought large investment in developing backbone infrastructure for the region with a view that would open up investment opportunities both for the private and public sectors. Though there is a concern that adequate mitigation and adaptive measures need to be put in place.

- The three provinces of western China show agriculture growth more than that achieved at the national levels, but production share of the national output range from a low value of 0.32 for Qinghai province to 2.87 percent for Xinjiang. The province of Gansu shows vegetables as main production crop, though cereal is doing well, both in volume and growth.

- Provincial analysis indicates Xinjiang provinces as lead producer of vegetables, grains and cereals, whereas corn production has the highest growth. The province of Qinghai specializes in growing tobacco both in growth and volumes terms.

- The province of Qinghai shows the highest total trade transaction, growing at a healthy rate of 3.04 percent, generating large volume of exports and imports. The province of Xinjiang carried low population and represents agriculture production and trade profile quite at variance compared to other regions. These show a very diversified production base. The province of Qinghai and Gansu show high export profiles which are growing at a high rate.

- The western region is well placed for the production of organic agriculture and green products, and for bio-resource development. The prudent policy for decision makers would be to incentivize farmers to encourage them to develop climate smart agriculture.

- Among the category of cereals, rice is a key export in the world market produced by Pakistan. Subsequently, the export performance of this commodity in Chinese markets is strong as reflected by values of RCA well above 1. Pakistan can capitalize on China's growing demand for high quality agricultural products by incorporating production of Chinese rice.

- The report identifies some of the key factors associated with integration into GVCs. For a country like Pakistan that wants to get more involved in GVCs, trade facilitation and infrastructure are obvious places to start.

● A better governance structure is required. Certain value chains often have complex contract-intensive goods that involve many exchanges among different firms, each facing some risk of contract non-performance by others in the chain. GVC research shows that, other things equal, countries with better institutions such as stronger property rights and the rule of law participate more in GVCs.

With BIPP taking the lead, WIT at LUMS have initiated evidence-based research on agriculture, energy, water and trade. Contacts are being developed to engage universities and other academia both in Pakistan and China to provide much needed knowledge to develop policies and practice that help in developing future CPEC investments and needed policy environments. Both public and private sector should support such efforts.

Chapter

8

Untold Stories and Unsaid Truths: Where can CPEC Go Wrong?

Untold Stories and Unsaid Truths: Where can CPEC Go Wrong?

Asad Ejaz Butt

Introduction

This chapter examines the current state of information available on the China-Pak economic corridor (CPEC) to question the government of Pakistan's tendency to reserve information and maintain secrecy. It is argued that reservation has created information deficits resulting in low investor participation rates. Eight broad areas of the program are analyzed to identify some type of an information deficit. This analysis not only highlights the prevalent information deficits but also the kind and nature of information that the Government needs to provide to ensure timely and sustainable participation in the program. The framework that develops as a result of the analysis is likely to become a rubric for the government upon which it may consider to formulate a meta-communications strategy for CPEC. The chapter concludes that alongside CPEC's immense potential lies a caution that unless a communications strategy is developed and successfully implemented and information is provided to investors in a planned and systematic manner, there is a much reduced likelihood of CPEC becoming the expected game-changer for Pakistan.

In his seminal work 'Arms and Influence'[2], Thomas Schelling applied game theory concepts to explain the drivers of state behavior in international relations. He identified the strategic interests that shape the behavior of agents in international relations and attempted to unearth the patterns that underlie the actions that individuals and states perform. Schelling's work seems to have become increasingly relevant in Pakistan where it might help to understand the reservation (read: non-disclosure) of CPEC information by the government that possess strategic information on a program that is oft-cited as the gamechanger for the impaired economy of Pakistan.

The reservation of CPEC information could be a mutual strategy of the two governments to ensure security and sustainability of the program against strategic moves of regional and international[1] opponents of China and Pakistan. And given how states deploy 5th generation information warfare strategies[3], this may not be a totally unwelcome move. As this chapter will go on to argue, reservation may in fact turn out to be an effective way to ensure deflection of risks and threats to the program, but if the resultant information deficit that such reservation may tend to cause keeps both local and international investors at bay, the desired participation in the program may not be achieved. And without investor participation, there is a much lesser likelihood of CPEC culminating into success.

Provided the caution, this chapter identifies areas of the CPEC program where an immediate redressal of an information deficit is required. Eight CPEC information areas are analyzed to determine whether and what type of information deficit exists in each area. This analysis is used to assert why providing information in that area is important and where and how can the program suffer if such information is reserved by the government. The framework that results from this analysis could become a rubric for development of a meta-communications strategy for CPEC.

As I contend in this chapter, there lies cogency in arguments against reservation. But one must acknowledge that CPEC does face external threats due to its strategic importance and transformative capabilities and thus may require state protection that often manifests in the tendency to reserve information. This assertion borrows strength from the works of scholars who agree that even the most refined form of democratic decision-making shall require secrecy motivated by factors like state security, exclusive privilege and privacy. And while secrecy can be understood as a deviation from democratic virtues like transparency, it should not be understood as a polar opposite of transparency. In fact, the two can be understood as different instruments of the political process[4]. If one does accept the legitimacy of secrecy as a democratic element, albeit not a precondition, it may seem logical to allow for release of information in a planned, systematic and organized manner. But if such planning results in crowding out investment and creating an unease in doing business, the costs of reservation and secrecy may outweigh their benefits. What is the utility of saving a program from external threats when it is not going to secure any financial or strategic ends in the first place?

Long-Term Plans – and Joint Cooperation Committee (JCCs)[5]:

When the long-term plan was released during the 7th JCC in the last quarter of 2017[6], it was expected that some critical information would be released to fill the information void that is created by the government's tendency to reserve information and maintain secrecy. Surprisingly, the long-term plan did not venture beyond reviewing some sectors of the economy, communicating the basic guidelines and principles and outlining the key areas of cooperation between the two governments.

The 8th JCC focused upon laying down a broader plan for the energy sector. The Minister for Planning, Development and Reform, Mr. Khusro Bakhtyar emphasized expanding the coverage of transmission networks on equal footing with the objective of increasing energy production and supply.[7] He also raised the concern of integrating the least-connected areas like Gilgit-Baltistan which is also a vital development. Another area that the Minister reflected upon was the inclusion of agriculture in CPEC, something that experts have advocated since the launching of the program in 2014. He mentioned how agriculture is Pakistan's priority and despite not being reflected as enormously in the earlier plans of CPEC, agriculture may now assume a central position in CPEC planning.

Despite several important announcements made during the 8th JCC, the concern remained that the broader plans were not supported by details that could facilitate stakeholder participation. Operational and technical details for instance, how will the energy transmission lines be expanded, what part of the process shall require technical expertise from the locals, how should they apply for positions and what should the investor aim for and where are the windows for him to invest? These questions may seem to represent a basic understanding of the governance constraints in CPEC implementation but unless they are addressed by the government through both formal and informal communication means, the government's targets of raising employment levels and promoting industrial investment and exports through the program are less likely to be achieved.

Chinese Investment – Loan, Foreign Direct Investment (FDI) or Neither?

The critics of CPEC argue that it would push Pakistan into a debt trap that it would find extremely difficult to escape from in the coming years. Infact, many go a step further and compare China with the colonial powers that used the economic power to establish dominance over financially impoverished states. People who share these opinions believe that China's vast export market will only enable it to benefit from the enhanced connectivity. Keeping in view Pakistan's ridged trade structure, one can argue that neither will Pakistan achieve growth in foreign direct investment nor see an expansion in its exports. It is a risk that it would only find some infrastructure developed under the CPEC like was the case with the National Motorways constructed through external financial assistance during the 1990s. The proponents of CPEC discard these claims by reminding the public of the support that the Chinese have provided to Pakistan on several occasions in the past without expecting much political or economic reciprocity. For such China loyalists, questioning CPEC or Chinese intentions is conspiring against Pakistan's national interest.

It makes for an interesting analysis to see how China's approval rating in Pakistan changes if the public learns that, contrary to their presumptions, CPEC provides negligible grants and has little potential to develop FDI since nearly all of its investments come in the form of repayable loans. Perception surveys reveals that varying perceptions of the CPEC, especially regarding the social acceptability of the program, exist. Some studies have surveyed the sample population of CPEC stakeholders to quantify the percentage of respondents who believe that the program will assist Pakistan in its efforts to encourage economic growth and stability against respondents who believe otherwise.

A similar study by Khurram Iqbal surveyed a random sample of 385 participants and reflected widespread public support for CPEC. According to his analysis, 72 percent respondents believed that CPEC will be beneficial for Pakistan. The data collected in October 2017 indicates that the majority of Pakistanis consider China as a more trustworthy partner than the US, Saudi Arabia, Turkey and Iran. And regarding the nature of Pakistan-China relations, 55 per cent of the respondents termed China-Pakistan friendship as 'interest-based,' which indicates that pragmatism, not emotions, drive the pro-China sentiment among the educated Pakistani public and that the states' narrative of 'higher than the mountains, deeper than the ocean' is received with caution. The study concludes that analyzing how this project is perceived on social media by various sections of society will help in devising the practicality of the program for the two nations[8].

There is a serious confusion on the nature of the potential Chinese investment and that which has been received against the early bird energy projects. Literally, nobody apart from the two contracting parties knows if the investments are to be treated as Foreign Direct Investment or as repayable loans, grants or foreign aid by the Chinese government. Even those in the know, economists, social scientists and functionaries in the higher echelons of the government are seemingly unsure on how to treat the Chinese investment in their predictions on the future of Pakistan's macroeconomic performance. This is an information gap that can immensely impact the probability of program adoption and success.

Some questions on the nature and conditionalities attached with the Chinese financial assistance need to be considered to integrate the local investor. Without thinking along these lines, the banking and finance industry will also be incapacitated to create financial plans for the timely and efficient integration of the local investor. Access to finance is critical to leverage the savings available with the local investor who may be lacking the level of investment required by the high capital-intensive projects envisaged for the SEZs. If the local investor is unable to leverage savings, the SEZs may not attract investment beyond the initial capital invested by the Chinese. If increasing returns to scale have to be achieved, indigenous investment will need to be attracted to support the infrastructure expected to be developed by the Chinese.

If the entire US$ 62 billion or a significantly large part of it is FDI, in which case there would not be a requirement to repay, the government of Pakistan may not have any CPEC debt obligations. But conversely, it will also not be able to earn revenues expected from projects financed through FDI. In that case, the project revenues would be directed to the Chinese firms who would own and operate these projects. Alternatively, the two governments could agree on revenue and resource sharing formula in which case, it would need to be disclosed what it is and what should the government of Pakistan expect to receive if certain projects are able to report performance against some predetermined benchmarks.

Chattha and Hyder (2019)[9] have carried out a systematic decomposed investments to analyze the sources of CPEC finance. They've used the Government of Pakistan's data sources to reveal that the first $19 billion worth of completed or under construction projects are composed of 70 percent investment made through money borrowed by the Chinese firms at interest rates varying between 4 percent and 5 percent. 28 percent are concessional loans made to the government of Pakistan for 20 years were at an interest rate of 2 percent. The first payment on these loans must be made within 6 years of the starting of the concession period. And the last category is interest free loans or grants by the Chinese that only comprise 2 percent of the total early bird investment of US$19 billion.

If one has to believe the numbers provided by Chattha and Hyder, the 5 percent interest rate bracket applies to nearly 70 percent of the total investment of around US$ 60 billion. This implies 5 percent per annum charged on US$ 42 billion which at that rate would mean that government having to repay around US$ 68 billion in 10 years[10]. Hence, US$ 26 billion in 10 years (68 billion – 42 billion) to service the US$ 42 billion debt. Therefore, if CPEC has to be a success, it has to leverage the US$ 42 billion investment to make more than US$ 5 billion a year to account for the interest payable to China (average US$ 2.6 billion/year), inflation[11] and reasonable returns that it should expect from a program that is to bring transformative change to its economy[12].

Exchange Rate Confusion – Exchanging Rupee for Dollar or Renminbi?

The International Monitory Fund (IMF) country report published in 2018 suggested that Pakistan should phase out its interventions in the foreign exchange markets and allow greater foreign exchange rate flexibility going forward. This implied a planned and systematic devaluation of the Pakistani rupee to bring it at par with its price in the international market. It also wanted Pakistan to adopt a tighter monetary policy since despite experiencing hikes, interest rates had remained below their historical average. This meant that the monetary policy was still largely accommodative.

The major take away from the IMF's recommendations is that Pakistan should normalize interest rates to remain relevant and commensurate with the devaluation of its currency. This seems to serve two interlinked purposes; one, it would induce greater investment, both public and private, in the economy, and two, it would expand the country's exports by making them cheaper in the international market. This is IMF's one size fits all strategy for all economies of the global south who solicit IMFs funding support in times of a difficult economic situation at home. IMF also has some reservations regarding the CPEC[13].

The IMF experts believe that the macroeconomic problems of Pakistan are strongly linked to CPEC. They believe US$300 billion economy of Pakistan may not be able to repay the principal and interest accrued against the CPEC loans. Whether CPEC investments are a loan is one question but even if they are, a more pertinent question is if such investment would be made in the Chinese Renminbi or the US dollar? Considering that the US dollar has remained the dominant currency for international transactions, it may not be ruled out that the Chinese may use the American Dollar for its investments in Pakistan.

Considering the trade war between the two economic superpowers, it seems only rational for China to use its own currency to make CPEC investments. However, this rationality is bounded by the concern of whether the Renminbi will have the same impact as the USD in macroeconomic stability to Pakistan. The impact analysis involving the two currencies is something that the Government may consider to do in future. However what it may do at the earliest is provide clarity on the currency that the Chinese Government continues to use to make its investments as the dollar continues its surge against the Pakistani rupee, revealing that the Chinese make investments in the dollar would add immense appeal to the program.

Special Economic Zones – Are they Special?

The master plan of the special economic zones has become an ever-evolving document. Several amendments have been applied to it and as I write this chapter, neither is there a final demarcation of where the SEZs have to be built nor are there any plans on how they would be built. Even if such information is now available, it is both premature and incomplete. The purpose that the SEZs plan to serve, what businesses will set up in which zone, how will proximity to the markets be ensured, will banking advisory and support services be also provided and if there'd be some technological and management information systems integrated into the functioning of the zones, are some of the many questions that are yet to be answered by the government.

There is immense amount of hunger to learn about the structure and functionality of the SEZs. The available SEZ maps do not provide adequate information on the setting up of zones and the modalities through which interested business organizations can get embedded into the plan. Soon after the Burki Institute of Public Policy published its 2017 report on CPEC[14] to which I had contributed a chapter proposing the integration of Central Asian republics in the CPEC, I received a number of correspondences from businessmen belonging to the chambers of commerce and industry requesting information on the SEZs. The business community seemed distanced from any knowledge of the SEZ plans.

Investors have incomplete information on the structure of the SEZs; for instance, if they will be cluster-based or not and also regarding their comparability to the existing industrial estates that have been built on the peripheries of several major cities across the country. The investors want to know what incentives like tax relief, uninterrupted energy supply and subsidies that the government plans to provide in the SEZs which make them different from the industrial estates that have albeit survived, but not been able to host the revolution in industry that remains vital to Pakistan's economic development. Information on the SEZs is the fourth type of information that the government must provide to the investors. This doesn't mean that no information on the SEZs is available but either the information is incomplete or at a rudimentary stage or has changed so many times ever since SEZs were announced that it has seriously dampened certainty and investor confidence.

Pakistani Investors – The Left Outs

Considering the multi-sectoral nature of the CPEC program, it is unreasonable to imagine it as one project with a singular focus leading to an over-arching or a few inter-related objectives. It is a diverse program containing mega projects aimed at the revival of several sectors of the economy including energy, infrastructure, railways and social development. And therefore, it is both difficult and illogical to define a singular focus of the program or to reduce to a single over-arching objective. However, if one may come to think about it in context of Pakistan's current macroeconomic circumstances, the one objective that Pakistan would want to achieve through the CPEC is diversification of its export basket which can lead to a sustainable expansion of growth.

All interventions that CPEC promises to make may then desirably converge to the objective of expanding the country's exports which the IMF also concurs is a suitable recipe for economic revival. The local investors who have been excluded in the CPEC plans should be the primary recipient of information on how CPEC routes would increase his access to international markets and what rebates and tax incentives would be provided to exporters of which commodity and in which special economic zone.

Clearly, exporters need to be incentivized for making exports of any kind but especially those that are moving up the supply chain to establish backward linkages to produce the commodities they currently buy to export. If exporters are not provided clarity on the demarcation of CPEC routes and the SEZs that lie on those routes and the trade tariffs and customs barriers that would be applied to their merchandize, the export potential of the CPEC may begin to wane and the program's fate may resemble that of the M-1 and M-2 Motorway projects that were expected to expand and diversify the country's export basket but all they could achieve was some level of commuting convenience.

Awarding of Projects – Who has Authority?

The CPEC wing within the Ministry of Planning, Development and Reforms is not awarding CPEC projects. The Joint Coordination Committee formed to enable mutuality in the decision making process doesn't award CPEC projects either. Then who awards CPEC projects? And what is the criterion and mechanism for selecting firms that will award projects to consultants and technical firms who are going to design and implement the energy, rail and road infrastructure projects.

According to one school of thought, the Chinese government interviews firms in Beijing, awards projects and pays them in Chinese currency locally. The firms transport their technical teams and equipment to Pakistan who develop the infrastructure that will be the only asset Pakistan makes in the deal. This not only has the consequences from the perspective of lower project revenues earned by Pakistan and the country's lost independence in selecting who develops what but also serious exchange rate implications since in this case, CPEC finances would not be increasing Pakistan's foreign exchange reserves. The reservation of this information means that no Pakistani firm, however able and qualified, can apply for projects or even if they do, their chances of becoming a successful bidder are extremely low. How does this reflect upon the incumbent government's agenda of good governance through democratic principles of inclusion and participation?

The Chinese ambassador reiterates that the importance of CPEC is established through the fact that it is the only bilateral agreement within the entire One Belt and One Road (OBOR) initiative. Apart from CPEC, all other OBOR agreements are multilateral in nature. However, the true spirits of bilateralism are lost if there is asymmetric authority that leads to exclusion and non-participation of the Pakistan government in the key financial and administrative decisions of the program. Through this chapter, I have proposed the inclusion of the local investors in the CPEC decision-making and plans by formulating a comprehensive communications strategy However, the exercise to include the local investor has to happen at two levels. One between the Pakistan government and its people and other between the Chinese and the Pakistani governments because information and decision asymmetry exists not only between the Pakistan government and its people but also between the two governments.

Development of Routes – Western or Eastern?

Amongst the three routes initially planned for CPEC, only information regarding the western route is made available by the government through its dossiers, social media platforms, and the CPEC website that provides the following details on the

TABLE 8.1

Projects under the Western Route

Project	Province	Length	Cost	Status
Hakka D.I Khan Motorway	KPK	285 Km	Rs. 110 Billion	WIP* Completion: May 2019
D.I Khan (Yarik) Zhob (N-50)	Balochistan	210 Km	Rs. 81 Billion	PC-I** Approved by ECNEC on 12th April, 2017. Land acquisition in Progress.
Zhob Quetta (N-50)	Balochistan	331 Km	Rs. 70 Billion	Hiring of Consultancy for feasibility and design initiated. Land Acquisition along Existing road Under Process.
Khuzdar-Quetta– Chaman Section (N-25)	Balochistan	431 Km	NA***	Procurement of consultant for Detail Design completed. Detail designing and feasibility in progress
Surab-Hoshab (N-85)	Balochistan	449 Km	Rs. 17.9 Billion	Completed
Gwadar – Turbat – Hoshab (M-8)	Balochistan	193 Km	Rs. 13 Billion	Completed and Inaugurated

Source: CPEC Website (http://cpec.gov.pk/westren-route) projects planned for the western route.

The western route passes through the most underdeveloped areas of Pakistan. The districts that host some road infrastructure projects of the western route are some of the poorest districts of the country in terms of multi dimensional poverty. This makes the western route the most significant of all the three routes planned for CPEC. However, despite its significance, there are concerns regarding the lack of security apparatus available in the remote regions of Balochistan through which the western route passes and it is rumored that the Chinese are contemplating to divest from the western route to complete work on either the central or the eastern route first only to go back to the western after matters on the security front have normalized. If such is the plan of the Chinese Government, there is absolutely no harm in it taking this option to ensure security of it people employed on the western route. However, whatever route is developed first, it is essential that the Government provides clarity on how and when its priorities change.

Two projects of the western route have been completed as provided in Table 8.1. However, the other four projects involving mega investments are at their early stages of development and have probably remained there following the alleged change of government priorities. If the skepticism regarding the change of route development priorities is true, the government needs to provide clarity to individuals and firms aiming to invest in the zones planned for the respective route so they can factor the provided timelines in their investment plans. This would also ensure that whichever route is prioritized over the others is able to invite the level of adoption and interest that it requires to become operative and sustainable.

CPEC Employment – Can Pakistan's Labor be Integrated?

Insofar as CPEC communication is concerned, the Government needs to plan strategically to use the corridor as a means to increase employment. An Information that is able to secure entry of skilled and semi-skilled laborers into CPEC plans is absolutely essential from both a supply-side and demand-side perspective – CPEC requires skilled labor at a cost lower than what it may have to spend to acquire Chinese expertise and the local labor seeks profitable employment. Put simply, training local labor through skill development programs that align their current competencies with the requirements of the CPEC projects can create a win-win-win situation for all three parties – the government of Pakistan, the Chinese and Pakistan's young, vast and expanding labor force. However, the struggles of the labor force are not only to gain employment. They are meant to gain employment that expands their affordability set. This has become ever so critical in the light of the rapid inflation rates that have engulfed the country in recent times.

Even though Pakistan's annual unemployment has remained around 6 percent[15], the increase in household income has not matched the growth in inflation which has reflected poorly on the living standards. Unemployment, contrary to the understanding of the present government, is not a serious problem that Pakistan's young population faces – rather the challenge it faces is to obtain high-yielding and meaningful employment that can cover their cost of living as well as that of inflation.

Furthermore, what worsens the situation is that women, faced by a number of socio-cultural and religious impediments within many such house-holds have little or no access to the labor markets resulting in low female labor force participation rates. If the government cannot afford a higher income for the earning male of the household that can cover the costs of inflation, it may adopt an alternate policy of ensuring labor market access and employment opportunities for women that shall result in maintaining a certain standard of living for households trapped in the middle or low income categories.

Therefore, the government must focus upon including women in the CPEC employment plans. It needs to convey to the several million job seekers in the country how it plans to use the CPEC platform to enhance job creation and improve employment rates. Some unique skills that rural women possess in areas like handicrafts could be leveraged to attain the export growth targets. The CPEC employment objectives and the government's promises to provide 10 million jobs may seem to be a remote possibility. It is a fear that the most lucrative CPEC jobs would be taken by Chinese managers and engineers who would take back a large part of the US$ 62 billion investment while only the menial jobs are going to be allocated to Pakistani workers. Even if that is true, the government must come out through whatever means it deems fit to have its position on the matter recorded. In case it fails to do so, even those workers who have the necessary skills to do job as well as the Chinese workers can do or maybe even better would remain excluded owing to their lack of interest in the menial jobs that they are the only ones to be offered to Pakistani workers.

Conclusion

People compare American adventures in the postwar Europe and its recent invasions of Iraq and Afghanistan to the Chinese interventions in Pakistan. The CPEC is also often compared to the western colonialism in the global south. But the government of Pakistan and proponents of CPEC dismiss such claims by citing that neither the alleged imperialist designs are in Chinese interest nor is it part of the Asian superpower's foreign policy. Chinese objectives vis-a-vis CPEC are purely economic in nature and the means through which it aims to fulfill them are also purely economic. It requires access to the warm waters of the Arabian Sea to avoid going through the contested South China Sea or the Straits of Malacca that offer a much longer and troublesome route for China to access the oil markets of the Middle East. In addition to this, the Chinese also look forward to utilize the unexploited agriculture and livestock resource and young population of Pakistan to ensure unrelenting supply of inputs to its ever-expanding US$ 12 trillion-dollar economy. This is different to the Marshall plan where the covert objective of dismantling the communist empire was furthered through a buy-out of the devastated economies of postwar Europe.

The US deployed similar tactics in Afghanistan and Pakistan where it used foreign aid through programs like the Kerry-Lugar Berman Act 2009, as an instrument to remain politically relevant to ensure its strategic presence in the region. However, the only reason that the dollar failed to win US the support amongst local peoples of any of the countries that it so often bailed out was not a failure of the American political administration to determine the amount of funds enough to win it the requisite support nor was it a case that US dollars were not required by these countries. In my opinion, it was a case of dollars not supported by an effective communication strategy that could win the hearts of the local populace and bring it on one page with the American plans in the respective countries. It is therefore vital that Pakistan and China do not make the same mistake in arranging a local buy-in for CPEC.

China has remained a trusted ally of Pakistan and enjoys an extremely good reputation amongst the people of Pakistan which puts it a much greater advantage compared to the US in postwar Europe. However, losing such advantage to the growing skepticism over the program may turn out to be a more rapid process than what the two governments will foresee. If the CPEC plans continue to exclude those who have to be the ultimate beneficiaries of the program without providing a narrative on why such exclusion is necessary, there is a probable risk that the program may experience a fate similar to the American experimentation in Europe. Conversely, if the government takes cognizance of these risks and heeds the advice of the scholars who recommend vigilance and prudence, it should be able to formulate a strategy that ramps up investor participation and confidance. In doing so, the government can attain both ends of controlling local skepticism on the program while ensuring that it provides economic growth. That, after all, is the pivotal role of CPEC.

The eight information areas that I have identified above represent a comprehensive framework that can facilitate the formation of an inclusive and actionable communications strategy identifying areas where information deficits exist and directing the government toward the nature and kind of information that it needs to provide. This work may serve as a starter toward a process of scholarly contributions emphasizing the importance of information as a program participation enabler.

Chapter

9 The World we Live in

The World We Live in

Shahid Javed Burki

Pakistan's sister state is going through monumental change. We will look at these from the perspective of Pakistan, the two states created by the British when they left their Indian colony. The two countries aspired for different concepts of nationhood. The All-India Congress Party (AICP) fought for independence in order to place the reins of power in the hands of Indians who were considered competent enough to usher in liberal democracy into the country. The system they planned would be more representative than the one the British had introduced when they governed that vast colony. As William Dalrymple points out in his masterly work on the first century of Britain's two centuries of Indian rule, the British did not start well. It was with fits and starts, that London brought what in today's jargon would be called "liberal democracy[1]." The system they left behind was developed in part under the pressure of the Indian intelligentsia most of whom worked in the AICP. The leaders who were prominent in the movement to win independence for India had good experience of working in that system.

Pakistan, on the other hand, was created as a country for the Muslims of British India who did not believe that their social, political and economic -- perhaps also religious -- rights would be protected in a country that would be predominantly Hindu. Muhammad Ali Jinnah, Pakistan's founding father, was a late convert to the idea of Pakistan. He had campaigned for the protection of Muslim rights in an independent India. As the historian Ayesha Jalal has argued in her seminal work on the forces that led to the creation of Pakistan, had the Hindu leadership in the AICP be more accommodating, Jinnah would not have pursued the idea of a separate Muslim homeland[2]. The founders of Pakistan did not reflect on the kind of political system they would establish once they had created their country. While India quickly established constitutional governance that promised inclusion to a very diverse citizenry, Pakistan experimented before settling down with a Constitution. That was in 1973 but even then constitutional rule was suspended a number of times, most recently in 2007 when General Pervez Musharraf put the country under emergency rule.

As the 21st century enters the third decade, India and Pakistan find themselves at the opposite sides of the political and social spectrum. India is giving up what the historian Sunil Khilnani called the "idea of India". It is now poised to move towards authoritarian rule and also engaged in bringing religion more prominently into politics. Pakistan is developing one of the few liberal democracies in the world of

Islam.

The final section of this chapter discusses briefly the turmoil in the Middle East which is of consequence for Pakistan. The region at the time of this writing (late December 2019) is highly unstable. Instability there could affect Pakistan in many different ways. Pakistan has many links with the place; they would help the country if they are strengthened; hurt it if they are weakened. We define the region of the Middle East to include some of the non-Arab countries in the western part of the Muslim world. This definition moves Afghanistan, Pakistan and Turkey into the area. Two of these three have large populations compared to most of the Arab world. There Egypt with 82 million people towers over the rest. That Islamabad has to watch carefully developments in the Middle East, by far the most volatile part of the world, was underscored by some recent events. Pakistan expected overt support from the friendly nations in the region to its growing tensions with its neighbor, India. This did not happen; both Saudi Arabia and the United Arab Emirates showed interest in developing strong economic interests with India. Economic considerations outweighed religion. Also, it is believed that Saudi pressure led Pakistan to withdraw from the summit of the non-Arab Muslim nations organized by Malaysia and held in Kuala Lumpur, that country's capital, in December 2019. In this case, religion beat out economics. The Saudis did not want the creation of an Islamic block of nations that would rival the Organization of Islamic Cooperation based their operations in their capital, Riyadh.

The Afghan Papers

Given what Afghanistan has already done to Pakistan, Islamabad seem not to have given serious attention to the trove of documents released by the Washington Post for public view starting on December 8, 2019. After years of investigative journalism, the Washington-based newspaper published a story that appeared in several parts on the American failure in the 18-year war in which it has been engaged in Afghanistan. The newspaper's disclosure was compared to the publication several years ago of the Pentagon Papers by it as well as The New York Times. But there is a difference. The Vietnam document came at a time when the extent of American failure in that country was not known or appreciated by the American public. In the case of Afghanistan, the bad news has been coming out on a fairly regular basis in part because of the work done by the Special Inspector General for Afghanistan and Reconstruction (SIGAR). Formed in 2008, in the first year of the administration headed by President Barack Obama, the government watchdog for the war in Afghanistan, released reports quarterly on the conflict's progress many[3] of which publicly depicted the shortcomings of the American effort.

The American involvement began in the fall of 2001 in response to the terrorist attacks of September 11 that killed almost 3,000 people in New York and Washington. The attack was planned and executed by the group Al Qaeda headed by the Saudi prince Osama bin Laden. The group was provided with a sanctuary in the southern part of Afghanistan by the Talban-headed government in Kabul. The Taliban governed for five years, from 1996 to 2001. The Americans wanted to push them out of Kabul which was done relatively quickly and at not much cost with the Northern Alliance dominated by the Tajiks providing the foot soldiers. Once that operation was completed, Washington did not have any plans for the future. "We were devoid of a fundamental understanding of Afghanistan -- we didn't know what we were doing," Douglas Lute, a three-star Army general who served as the White House's Afghanistan war czar during the Bush and Obama administrations told the SIGAR in interviews in 2015. "What are we trying to do here? We did not have foggiest notion of what we were undertaking," he continued.

The Americans were spending a lot of money. The total cost of the war for the United States has been estimated at $1.5 trillion. In the last three years about 60 percent went to training, fuel, armored vehicles and facilities. Since the American entry into the war, more than 775,000 U.S. troops have been deployed to Afghanistan. Of those 2,400 died while 20,589 were wounded. The toll was much heavier for the Afghans; more than 38,000 Afghan civilians have died and many more were injured.

However, unlike other overseas military efforts such as those in Japan, South Korea, Europe and the Middle East, the Americans did not create long-enduring infrastructure. "Afghans knew we were there temporarily, and that affected what we could do," Marc Chretien, who served as the senior State Department adviser to the Marines in Helmand Province, said in one interview. "An elder in Helmand once told me as much, saying: 'Your Marines live in tents. That's how we know you won't be here long.'" The United States officials acknowledged that their strategies were fatally flawed and that Washington wasted enormous sums of money to politically, economically and socially develop the backward country. The aim was to create a modern state in as short period of time.

The United States also tried hard but failed to control corruption in Afghanistan, build a competent police force and curb the country's thriving opium production.

In order to understand why and where the effort had failed, Washington in 2014 launched a program titled "Lessons Learned." The staff engaged in this effort interviewed more than 600 people with firsthand experience in the war. One report that came out of this effort was honest and direct. "We found the stabilization program and the programs used to achieve it were not properly tailored to the Afghan context, and success in stabilizing Afghan districts rarely lasted longer than the physical presence of coalition troops and civilians," wrote its authors. As development experts have long concluded for an effort to succeed it has to be sustained.

The Lessons Learned project influenced some thinking at the senior level. "We don't invade poor countries to make them rich," James Dobins, a former senior U.S diplomat who served as special envoy to Afghanistan under Bush and Obama administrations told government interviewers. "We don't invade authoritarian countries to make them democratic. We invade violent countries to make them peaceful and we clearly failed in Afghanistan."

One conclusion becomes clear from the interviews carried out by the Lessons Learned project. As The Washington Post author who wrote the long story for his newspaper points out, "military commanders struggled to articulate who they were fighting, let alone why. Was al-Qaeda the enemy, or the Taliban? Was Pakistan a friend or an adversary? What about the Islamic State and the bewildering array of foreign jihadists, let alone the warlords on the CIA's payroll? According to the documents, the government never settled on any answers[3]."

The Presidential Elections of 2019

The 2019 presidential election in Afghanistan was held at a time of crisis in the crisis-prone country. There are at least four areas of uncertainty: the future of American presence and the form it would take; the role of the Taliban in governance; continued flow of foreign assistance into the country; and maintaining social progress that began over the last two decades. It was not clear how the American involvement, that is about to enter its nineteenth year would unfold.

We should go back at least a couple of decades and examine how Afghanistan's political structure evolved over time. In a meeting held on December 5, 2001 in Bonn, Germany after the defeat and collapse of the Taliban regime, a number of western powers developed a program for bringing democracy to Afghanistan. No nationally agreed-upon government had existed since the 1979 invasion by the Soviet Union. The Bonn conferees agreed to have a transition period before a permanent government could be established. An Afghan Interim Authority made up of 30 members was to run the country for six months after which power would be handed over for a period of two years to Transitional Authority. There was the hope that the liberated country would be able to move towards a form of western-style liberal political system.

A constitution was adopted by the Loya Jirga , an assembly of elders on January 4, 2004. It gave the country a presidential system with the head of the state to be elected after every five years. The first election for the presidency was held in 2004 which elected Hamid Karzai to lead the country for five years. The president, a Pakhtun, was not able to overcome the resentment felt by his ethnic group. The Pakhtuns were not happy with the flow of power to the rival Tajiks who dominated the northeastern part of the country. The Pakhtun supported the Taliban insurgency that drew its support and manpower entirely from that ethnic group.

As required by the Constitution, another election was held in 2009 that brought Hamid Karzai back to power for his second term. The elections were corrupted. Karzai was accused by the United Nations of stealing the elections via ballot stuffing. The president was unhappy with some of the approaches adopted by the American forces, in particular, the use of high-flying bombers aimed at the Taliban. As discussed in some detail in the Afghanistan Papers, these raids took heavy civilian toll. American commanders were keen to get Karzai out of their way. He was not permitted to run for the third term. The 2014 campaign was fought by new politicians -- Ashraf Ghani, a Pakhtun, had served for a number of years at the World Bank and Abdullah Abdullah, a Tajik. Abdullah did not accept the result claiming that the election was rigged in favor of his opponent. The impasse was resolved by the intervention of then Secretary of State who came up with a power-sharing formula. Under this arrangement, Ghani became president while a new position -- Chief Executive -- was created for Abdullah. History is repeating itself in 2019.

For a time, there was some doubt that the elections would be held given that the Taliban were engaged in negotiations with the United States to find a resolution to the 18-year old conflict. Even Washington indicated that it may be right for the elections to be postponed but President Ghani, looking for a fresh mandate, was keen on having his country go to the polls. Elections were held in September but it took more than two months for the results to be announced. In a solemn televised event, HawaAlam Nuristani, the head of the election commission, read out the results for thirteen candidates putting Ghani just above the line needed not to hold a run-off poll. She was under a great deal of pressure; in one meeting while responding to criticisms she broke down and wept. She had good reasons to be worried; her predecessor and most of the election commissioners were in prison related to the unlawful mishandling the parliamentary of the vote in 2018.

In the 2019 elections, Ghani received 934,868 votes while Abdullah acquired 720,099 votes. Gulbuddin Hekmatyar, a former Islamist militia leader who had fought against the Russian in the 1980s came in third with 70,243 votes. Rahmatullah Nabil, who had served Ghani as his national security adviser was a distant fourth with 33,932 votes. Ghani's share was 50.64 percent while that of Abdullah was 39.5 percent. The turn-out was very low. The election commission first said nearly2.7 million people had voted in the nation of 35 million. But a month later it revised the turnout to 1.8 million. The commission decided to recount votes from 8,000 polling stations

-- nearly a third of 26,000 nationwide. However, the Abdullah camp was not satisfied. It claimed that 15 percent of votes were counted without transparency. It said that that would refer 300,000 votes to the Election Complaints Commission for recount, a last step in the vetting process before a final winner is declared. For the process to be completed may take several months.

Ghani went on the television and gave a triumphal speech in which he began to lay down his program for the next five years. Addressing all citizens, he pledged that his administration would ensure equal rights for all citizens, build a strong Afghan state, and bring Afghanistan "to light from ambiguity" and "to unity from division" after forty years of conflict. Some of the senior people from foreign missions urged caution before declaring the results to be final. John Bass, the United States ambassador tweeted that "it's important for all Afghans to remember that these results are preliminary. Many steps remain before final results are certified, to ensure the Afghan people have confidence." Tadamichi Yamamoto, the United Nations special representative for Afghanistan was similarly cautious. "All Afghan authorities and actors must demonstrate their commitment to safeguard and complete the election." He went on to advise that candidates should raise their concerns through the formal process and officials must deal with them "transparently and thoroughly to ratify the election in a credible manner. These comments suggested that President Ghani had jumped the process by delivering a victory speech.

It is hard to say at this time in which direction Afghanistan will turn after the elections. The most difficult part of governance is widespread corruption that has disillusioned people about the system brought by foreigners who got involved after the end-2001 invasion of the country with the United States in the lead. There is consensus among those who watched the country from close quarters, that corruption was inevitable in a country in which massive amounts of money flowed in and in which institutions did not exist that could make proper use of the funds. The U.S. government has spent more than $133 billion in aid. Pamela Constable who has spent years living in and reporting on Pakistan and Afghanistan for The Washington Post, sat down with Karzai and interviewed the former president about his views of the "Afghanistan papers." These are the documents the newspaper was able to get from the government after winning an "information access" case in the courts. As reported by her, according to Karzai "the pivotal incident in this narrative was his attempt in 2008 to ban all Afghan companies from obtaining US security contacts after realizing that huge sums were ending up individual pockets. He said that he came under 'huge pressure' from U.S. and British officials to allow the contracts to continue but he insisted on carrying out the ban[4]."

Slow March- or no March -- Towards Peace

Since we are concerned here with the direction in which Pakistan seems to be headed much will depend in the way the Afghan situation develops. Those who write about history when it is still unfolding often get it wrong. That is certainly the case with the Afghanistan. Would the 2019 elections result in ending the 18-year American-led war in Afghanistan? There is no obvious reason why that should be the case. The Americans believe they are fighting to make sure that the 9/11 type of attack does not take place. That is the commitment they want the Taliban to make in return for the total withdrawal of American troops from their country. The al-Qaeda did launch 9/11 from the Afghan soil but there is no reason why that should happen again. If instability creates an environment in which extremism develops then there are a number of other places around the globe that Washington would need to attend. The Taliban have been able to sustain their activities in the country since they promise better governance to the war-weary people. During the five-year period of Taliban rule they were able to govern without corruption and were able to reduce the production of opium which had brought drugs and lawlessness to the areas in which the crop was cultivated. However, there were a number of problems with the social system they introduced in the country. Among these was the treatment of women as second-class citizens and banning girls from attending schools.

Most analysts of the developing Afghan situation -- even the seasoned ones -- find it hard to explain the overall strategy the American leadership is pursuing. It is talking to the Americans to bring peace to the country while carrying out dramatic raids in different parts of the nations. As the year 2019 drew to the close, the Taliban ambushed a peace convoy in western Afghanistan and abducted 26 activists, members of a peace movement. The insurgents struck in the district of BalaBukluk in the western province of Farah. The Taliban did not spare the Americans even while they were negotiating with them. An American Special Forces soldier was killed on December 23 in Kunduz province bringing the total to 20 in 2019. More U.S. soldiers died in 2019 than in any other since 2014 when the Pentagon euphemistically announced the "end of combat operations in the country. Thirteen troops were killed in 2018 and 11 in 2017. There are 12,000 to 13,000 American troops in Afghanistan though Defense Secretary Mark T. Esper said the number might drop to 8,600 absent any agreement with the Taliban. The White House had initially planned to start withdrawing troops as part of the nearly announced deal with the Taliban in September.

This will not be the first time the Americans would have left the country they invaded in a mess. As shown by the experience of the Second World War, the United States performed better when it reacted to an invasion rather than started one on its own. The list is long -- Vietnam, Somalia, Libya come to mind. Susan Rice who served President Obama first as his ambassador to the United Nations and then as his National Security Adviser sums up well the experience in Libya and Somalia. In 2011, the United States and its allies bombed Libya to prevent a mass slaughter by Muammar Gaddafi of his political opponents in the eastern part of the country, a mission that initially "seemed a triumph of good over evil," she writes in her autobiography, *Tough Love*.[5] But while "the U.S. intervened for the right reasons, the result echoed the disaster of an earlier intervention in Somalia. "We made fewer mistakes and paid a far lesser price for our success protecting civilians in Libya than we did in Somalia. And yet what we left behind is not dissimilar -- a fractured state without an effective central government, continued factional fighting, a lingering terrorist threat, and a source of insecurity in the region." This is where Afghanistan seems to be heading.

If the deal with the Americans bring the Taliban back to power in Kabul, would they govern differently from the time when they ruled. "Though the city has become markedly more politically progressive in the two decades it has been governed by a Western-backed democracy, Kabul is still steeped in a socially conservative Afghan culture that often relegates women to hidden and subjugated roles," wrote Fatima Faizi and Thomas Gibbons-Neff for The New York Times. Her subject was a swimming pool for women -- a rarity -- that had opened in 2014 making it the second segregated one in a city of 5 million people. There is a looming possibility that the two women-only pools may be closed by the Taliban if they come back to power[6].

Viewing the future, it would appear that the Afghans are not clear themselves as to the direction they should take. They have a deep interest in governance that would be relatively free of corruption, would protect the rights of women, and reduce inter-ethnic conflicts. Some would prefer Islamic governance but are not clear about the form it should take. Some would like a western-style liberal democratic order.

The large expatriate community is interested in going that way. Some members of that community hold important positions in the government in 2019. Ashraf Ghani, the current president, has spent a significant part of his professional career outside Afghanistan and is married to a foreigner. His wife also belongs to an expatriate community -- in her case from Lebanon.

India

Abandoning and killing the "idea of India." The Indian governance experiment that began the moment the British vacated their colony and handed over the reins of government to the politicians who had led the fight for independence. Most of the leaders of the Indian independence movement were from the All India Congress Party that upon achieving independence became just the Congress Party. The party reflected the religious divide of the country; almost three -fifths of the Indian population was Hindu. It was not, however, a Hindu party. There were a number of leaders from the country's Muslim and Sikh communities. Abdul Kalam Azad, a Muslim was prominently present in the party's leadership ranks. he had vigorously opposed the idea of creating an independent Muslim state out of British India. Muhammad Ali who espoused that idea did not want to create an Islamic state but a country in which the people of Islamic faith would be able to protect their social and economic interests.

The belief that independent India while dominantly Hindu would not give any meaning to that religion was called the "idea of India" by the historian Sunil Khilnani. It was a simple idea. The first generation of Indian leadership led by Prime Minister Jawaharlal Nehru believed that they had to find a system of political, social and economic governance that served a very diverse population. At the time India took its first census in 1951, the proportion of Hindus in the country's population was 84.1 percent with Muslim accounting for 9.8 percent. Christian and Sikhs were the third and fourth largest religious groups accounting for 2.3 percent and 1.8 percent respectively. According to the 2011 Census the proportion of Hindus had declined to 79.8 percent while that of Muslims had increased to 14.2 percent. There was no or little change in the Christian and Sikh shares. As discussed later, this significant increase in the Muslim share deeply concerns Hindu extremists. The 4.3 percentage points decline in the share of the Hindu population in the total was almost equal to the 4.4 percent percentage points gain by the Muslim population.

Religion was not the only dividing factor in India. There was no single dominant language. Dozens were spoken in the country. And then there was the highly divisive caste system that placed what the British rulers called the "scheduled castes" at the bottom of the social hierarchy. Mohandas Gandhi, India's patron saint, changed the name of the low castes to "Dalits" or the children of god. B.R. Ambedkar (1891-1956), the architect of the Indian Constitution, belonged to a lower caste.

The "idea of India" gave equal rights to all citizens. It also provided special treatment in government employment and access to public educational institutions for those who were socially and economically backward. The system was strengthened by Nehru while he served for 17 uninterrupted years as the country's prime minister. But the challenge came with the rise of Rashtriya Swayamsevak Sangh (RSS) founded in 1925 by K.B. Hedgewar, a physician from central India. The organizations' founding coincided with the rise of the Nazi party in Germany. Hedgewar borrowed extensively from the Nazis, including the type of uniform worn by its members and the military training they received. The RSS believed that India's Muslims were descendants of Hindus who had been converted to Islam by the use of force and so their faith was of questionable authenticity. Hindus were entitled to rule over minorities.

It was the "idea of India" as the guiding principle behind governance that brought peace quickly to the country that had been torn apart by the partition of the British colony. There was agreement across the land that equal rights to all citizens inhered in the system the country had adopted. During the 1947 partition, a little before it and a little after it, millions of people were killed in communal riots and many more moved across the newly defined border. Eight million Muslims went to Pakistan while six million Hindus and Sikhs moved to India from what was now Pakistan. But the memory of that upheaval has remained in the minds of both Hindus and Muslims.

In a lengthy article published by The New Yorker, in its issue of December 9, 2019 Dexter Filkins, a highly regarded American journalist who writes on South Asia, painted a grim picture of the direction in which India was moving. "For the R.S.S., the initiative in Ayodhya paid off spectacularly. Membership soared and by 1996 the BJP had become the largest party in parliament," he wrote. The "Ayodhya initiative" referred to the belief that Rama, the Hindu mythological deity, was born in that village at the exact spot at which the early Muslim Mughal rulers had built a mosque, the Babri mosque. In 1992, Lal Krishna Advani led a mob of Hindu extremists in a march that slowly wound its way to Ayodhya and the excited crowd tore down the entire building. In the article, Filkins referred to a conversation he had with AshisNandy, a prominent Indian intellectual who had begun a series of interviews with R.S.S members. Nandy wanted to study the mentality of the rising Hindu nationalists.

He interviewed Modi for several hours and came away shaken. Nandy told Filkins that Modi "exhibited all the traits of an authoritarian personality: puritanical rigidity, a constricted emotional life, fear of his own passions, and an enormous ego that protected a gnawing sense of insecurity." Nandi is a trained psychologist and offered a diagnosis on Modi's state of mind in clinical terms. "During the interview, Modi elaborated a fantastical theory of how India was the target of a global conspiracy in which every Muslim in the country was likely complicit. 'Modi was a fascist in every sense,' Nandy said. I don't mean this as a term of abuse. It's a diagnostic category[7]."

A number of initiatives by Prime Minister Narendra Modi and Amit Shah, the head of the BJP and now the Home Minister, were killing the idea of India. The moves include the repeal of Article 370 of the Constitution that gave special rights to Kashmir and the states' mostly Muslim citizens. On August5, the Modi government repealed the article, divided the state into two political entities to be administered directly by New Delhi. A few months later the country's Supreme Court awarded the land on which the 16th century Babri Mosque once stood. This was at a place called Ayodhya in the state of Uttar Pradesh. It was the Hindu belief that the religion's god Rama was born in that place. This was followed by the adoption by parliament of a new citizenship law that allowed all non-Muslim minorities fast track to become the country's citizens. This right was explicitly denied to Muslims. It was the passage on December 11, 2019 of the Citizen's Amendment Act, the CAA, that drew people to the Indian street in numbers that surprised the Modi government. The act made religion as a criterion for nationality in India's citizenship. It created an expedited path to citizenship for migrants from three countries -- Pakistan, Bangladesh, and Afghanistan -- who illegally entered into India by 2014. The religions were Hinduism, Buddhism, Christianity, Sikhism, Jainism and Zoroastrianism. Notably absent from the list was Islam. Amit Shah described the measure as a first step. The next is to implement a nationwide register of citizens, the NRC, in which all Indians would be required to provide documents proving their citizenship. The exercise could be modeled on a registry carried out in the state of Assam that left two million people in the state stateless.

Filkins wrote his long article after visiting Kashmir in the company of Rana Ayyub, a Muslim journalist and activist based in Mumbai. She also writes for The Washington Post as a Global Opinions contributing columnist. In one column she wrote about the police assault on "Jamia Millia Islamia -- a pioneering university established by some of the leading freedom fighters of the Muslim community -- and attacked hundreds of student protesters. They fired tear-gas shots and hit students with sticks injuring dozens." She quoted from a story in the newsmagazine Caravan that told of a 25-year old protester who was brutally beaten and then taunted by the police who asked him to beg in the name of Allah. Jamia Millia was not the only historic Muslim institution targeted by the police. "The crackdown that occurred simultaneously at Aligarh University in Uttar Pradesh had a common thread. Both institutions had their genesis in the Muslim revolutionary movement of India." At Aligarh many Kashmiri students had to flee overnight to protect themselves. In her column, Ayyub wrote of "the air of despondency in the country. She thought that "the world's largest democracy could place its faith in the history of protests that have proved to be tipping points for authoritarian regimes. India has a long way to go in fighting a regime that will stop at nothing to implement its idea of a Hindu nation. But for a country accused of losing its soul to small-minded, petty and vindictive ideas students are proving to be its conscience-keepers. And that should give some hope to India and the world as we witness one of the darkest periods in our history[8]."

The People's Reaction

Several members of the large Indian legal community joined the protests. "Since Sunday [December 15], when police stormed a university campus in Delhi after protests turned violent, people have coordinated over WhatsApp and social media. Lawyers have turned up at protests and helped detainees at police stations with paperwork. Another has contact information for lawyers from 23 cities across the country," wrote Niaha Masih in a story for The Washington Post. The police had picked up thousands of protesters across the country. "Within the hour, nearly thirty five lawyers from across the city had gathered at Daryaganj police station in Delhi. Then the struggle to release the detainees began[9]."

According to full-page coverage of the turmoil in India by The New York Times in its issue of December 21, 2019 the people's reaction was not confined to the Muslim community. "Wearing Muslim skullcaps, colorful turbans of Indian Sikhs or hip beanies of secular students, thousands protested at the largest mosque in India's capital on Friday [December 20, 2019], a turbulent that played out in multiple cities across the country. They defied the government curfews, internet shutdowns and the divisive politics that have kept them apart for years." The government's response suggested panic. "More and more people are pouring into the streets, and many have clashed with police officers," continued the newspaper's coverage. "On Friday six protesters were killed in several towns in northern India, according to officials and the Indian news media, as officers used water cannons, tear gas and -- according to some reports -- live ammunition against the demonstrators. At least 14 lives have been lost since the first protests erupted[10]." The death toll increased to 24 by the end of 2019.

According to serious India watchers, the protests against the moves by the Modi government were unparalleled in recent Indian history. "This is the first time we have seen such widespread, nationwide protests that are not against corruption, but essentially protests against discrimination, said Hasan, a retired political scientist at Jawaharlal University in Delhi. For Muslims, the citizenship law is "the thin edge of the wedge. This is the first time that they think they are being subordinated." While such a point of view was expected from a

Muslim scholar, Hindu intellectuals also articulated the same sentiment. "It is definitely a significant juncture for Indian Muslims; their constitutional rights are being eroded," said Sitaram Yechury, a senior leader of a major leftist party. "But this is not confined to one religious community." He said that protests were an "accumulated outburst" against the government born out of frustration that "the secular character of our country is being eroded[11]."

More than 50 legal challenges were filed against the act in the country's top court. It is scheduled to hear them in January 2020. India's traditionally liberal-minded Supreme Court has agreed to hear these challenges to constitutionality of the law. In the past, the court has thrown out many restrictive social policies such as ban on gay sex, and has guarded privacy concerns. Critics say the citizenship law is unconstitutional because it discriminates based on religion, stripping away the state's secular foundation.

The Uttar Pradesh leadership adopted a hard line approach. One of the strategies Modi followed was to place trusted people in power in important positions.

Yogi Adityanath, a Hindu monk, was made in charge of Uttar Pradesh, India's largest state with some 200 million people and a large Muslim minority. He has been open about his contempt of Islam and his dislike of Muslims. Among the actions he has taken is the change in the names of cities and streets from those that honored Muslims to those that reflected India's Hinduness. Chief Minister Yogi Ayodinath issued an uncompromising statement quoted in The Indian Express of December 20. He vowed to "take revenge" with people contesting the Citizenship Amendment Act (CAA). The property of each person involved in the violence would be confiscated and used to recover compensation for public property which was damaged, he said. "All the faces have been identified. They are visible in the videography and CCTV footage. We will take revenge by confiscating their properties. I have ordered strict action," he said.

"The idea of India that emerged from the independence movement" said a letter signed by more than 1,000 Indian intellectuals, "is that of a country that aspires to treat people of all faiths equally." But the law, the CAA, intellectuals said, is a "radical break with this history" and will "greatly strain the pluralistic fabric of the country." Its passage was accompanied by the move in the northeastern state of Assam along the Bangladesh border where all citizens were required to produce documentary proof that they or their ancestors had lived in India since 1971. "Of 33 million -- a mix of Hindus and Muslims -- two million failed to pass the test and these people now risk being rendered stateless. Huge new prisons are being built to incarcerate anyone determined to be an illegal immigrant[12]." This was the step in what was planned to be the nationwide citizenship registry. This was the first step in what was planned to be the nationwide citizenship registry According to one newspaper account or NRC.

Faced with continuing unrest, some politicians distanced themselves from this part of the government's agenda. The governing parties in two states both of which voted for the CAA indicated that they will not implement a national register in their areas. The government should "pause, take corrective measures and retract" in light of public anger, said Pavan Varma, a spokesman for a regional party in the state of Bihar and an ally of the BJP.

Prime Minister Modi played down the size and diversity of the crowds. In his early comments on the newly passed law he focused on the religious dimension of the gathering protest, he described the protesters as disgruntled Muslims and saying they "could be identified by their clothes." Singling out Muslims as protesters encouraged the attacks on such venerated Muslim institutions as Jamia Millia and Aligarh University. These were described by Rana Ayyub in the article cited above. Amit Shah, the powerful Home Minister referred to the demolished Babri mosque in Ayodhya and promised that a Hindu temple touching the sky would be built at the site of the mosque within four months. In an address at a rally held in Delhi ten days after the passage of the CAA, Modi put the blame on those who were protesting. The intent behind the law was being deliberately misunderstood, be claimed. "We have never asked anyone if they go to a temple or a mosque while implementing government schemes. He accused protesters of targeting security personnel. He claimed the protesters are seeking to "defame" the nation, in cahoots with his opponents and "urban Naxalites" a derogatory term used by the Hindu right for liberals.[13] In his Sunday December 22 address, Modi was angry and belligerent. "The more they hate me, the more the love of this country's public rains on me," he told the rally to the chants from the crowd of "Modi ,Modi, Modi!

Reporting on what it called "a combative speech" The New York Times wrote that "to critics, Mr. Modi is pushing an authoritarian agenda that threatens to erode the country's secular foundation, shrink space for religious minorities and move the country closer to a Hindu nation." The Indian home minister, Amit Shah, has vowed in speeches to expand the checks used in Assam to other states and then use the citizenship law to purge India of "infiltrators" and "termites."[14] The Hindu extremists who had come out openly and in large numbers were not deterred by people's reaction. Sharad Sharma, a leader of Vishwa Hindu Parishad, an organization affiliated with Modi's BJP and labeled by the United States' Central Intelligence Agency, CIA, as a Hindu militant group said the days when the Indian governments would appease the country's minorities are over. "Everyone living in India is a Hindu, including Muslims and Christians. They have to be subservient to Hindus and Hinduism[15]."

Could the political tide be turning against the Modi juggernaut, asked some analysts, commenting on the BJP's loss to in the election to the state legislature in eastern Jharkhand state. The loss was to an alliance among the opposition Congress party and regional groups. Two New York Times reporters visited Varanasi, "a city of temples along the banks of the Ganges River that Mr. Modi repeatedly returns to for spiritual strength -- and for votes -- reflects his challenge. He still has a lot of support but parts of the city have erupted beneath him. They talked to Nidhi Tiwari an upper-caste Hindu and a university student.. She voted for Modi in the 2019 elections but watching what he has done, she thinks that was a mistake. "I used to see Modi as a strong leader, as the person India had been voting for so long to get. Now I see him as a monster[16]."

The respect that India had gained by following an inclusive system of governance is being lost. The United States Commission on International Religious Freedom, a federal body called the new Indian law "a dangerous turn in the wrong direction" and said that the United States should consider sanctions against India." The United States advised its citizens in India "to exercise caution in light of the continued protests. Sam Brownback, the U.S. ambassador for international religious freedom, urged India to "abide by its constitutional commitments, including religious freedom."[17] There were other foreign reactions. The unrest in the Northeast prompted the cancellation of a three-day visit by Japanese Prime Minister Shinzo Abe who was scheduled to meet with Modi on December 15 in Guwahati, the largest city in Assam. The U.S. and British governments urged their citizens on December 13 "to exercise" if traveling to the country's northeast.

People's reaction to the moves by the Modi government was prompted by other developments as well. "A lot of people voted for Modi because of the economic issues and corruption," said

AadhiraGaikwand, an advertising professional in a conversation with the authors of the already quoted long report by The New York Times. She participated in the protests that brought out hundreds of people to the streets of Mumbai, India's financial capital. "All he is doing is using religion to hide under the real issue." There were signs that the economy was sputtering. The rate of growth in GDP in 2019 was projected to be the lowest in six years. While the Modi government did a better job than those who came before him, in pushing big anti-poverty initiatives such as building 100 million toilets to help stop open defecation and the spread of deadly disease, unemployment has increased and the incidence of poverty has not declined noticeably.

The Use of the State to Change the "Idea of India."

India's efforts to increase the power the state had over its citizens took several forms. One of them was the legislation that was set to be introduced in Parliament which would pose restrictions on how corporations can collect and use information about citizens. It took more than a year to draft the legislation; with the first version written by B. Srikrishna, a retired judge of the Supreme Court. However, the draft tabled in Parliament excluded the government from most of its provisions. In his draft, the retired judge had supported tight restrictions on the government's ability to exempt itself from the law. However, as one newspaper commentary put it, "the administration of Prime Minister Narendra Modi, which has made no secret of its plans to increase surveillance and adopt technologies such as facial recognition, appears to have rejected his advice when he rewrote the bill[18]."

Religion was not only reason for the reaction against the Citizens Act. Many in the northeast of the country saw the law as a threat to their indigenous cultures and languages because it allows migrants who arrived before 2014 to become citizens. In Assam, the region's biggest state, there were tensions already between Assamese speakers and Bengali-speaking migrants who crossed the porous border with Bangladesh. "Never have the people of the Northeast felt so helpless," wrote Patricia Mukhim, editor of Shilong Times. "As small tribes struggling to fit into a nation, the only safety valve was the Indian Constitution."[19]

That religion will begin to play an important part in the lives of the country's citizens was not something envisaged by the founders of modern India. Even though Mohandas Gandhi used religious symbols and language to advance the idea of independence from colonial rule, he would not have supported the way Prime Minister Narendra Modi is reshaping the Indian society. He and his close associates -- in particular Amit Shah, the home minister in the cabinet that took office after the landslide victory of the BJP in the elections of 2019 -- are deeply involved in making India a Hindu society. Their drive has had both intended and unintended consequences. Among these is the spread of lethal diseases by bringing the Ganges River to the center of Hindu religion. "High in the Himalayas, it's easy to see why the Ganges River is considered scared," wrote Donald J. McNeil in the Science section of the December 24, 2019 issue of The New York Times. "According to Hindu legend, the Milky Way became this earthly body of water to wash away humanity's sins. As it drains out of a glacier, rock silt dues the ice-cold torrent an opaque gray but biologically, the river is free of bacteria." But that changes as the river flows through heavily populated parts of northern and northeastern part of the country. "Winding over 1,500 miles to the Bay of Bengal, Ma Ganga -- Mother Ganges -- eventually becomes a mélange of urban sewage, animal waste, pesticides, fertilizers, industrial metals, and rivulets of ashes from cremated bodies[20]."

India, Pakistan and the United States

The Indian intelligentsia had taken great pride in the fact that the United States and their country were the world's two largest democracies. The American system was much older than India's and the Indian system was fashioned after the one that developed in Britain over time. Under Jawaharlal Nehru and during the Cold War, India drew close to the Soviet Union. India's first prime minister was impressed what he saw as Moscow's great economic achievements. He was dead before the weaknesses in the Soviet system came into full view. In the post-Cold War era, Washington began to see India as a strategic partner, especially after the economic and political rise of China.

The Middle East

Analysts based in London, and various policy centers in the United States have begun to notice a fairly significant shift in the way the leadership in Saudi Arabia views it neighborhood. Crown Prince Muhammad bin Salman, MBS, who assumed almost total power in the kingdom in 1914 seemed to have learnt from experience over the last five years. He no longer seems to believe that the use of force is the only way to exert influence. What changed him and his approach to foreign affairs was the September 14, 2019 attack on the Saudi oil processing plants at Abqaiq and Khurais. Iran was widely believed to be behind the attacks and behind the attacks and the United States was expected to follow what had come to be called the Carter Doctrine.

The then American President Jimmy Carter in 1980 vowed to use force to ensure the free flow of oil from the Persian Gulf. That was the reaction to the Islamic Revolution in Iran that in 1979 brought clerics to political power in Tehran. The clerics were hostile towards the United States. They were disturbed by the role Washington had played in keeping the detested Raza Shah Pahlavi on the throne in Tehran. Carter's successors in the White House upheld the doctrine seeing it Saudi oil exports as essential to the stability of the global economy. "For as long as I have been working in the Middle East, that's why we were there: to protect the free flow of oil," said Steven Cook, a scholar at the Council on Foreign Relations, referring to a period dating to the 1980s. However, the tepid U.S. response by the United States to the September 14 attacks shook Riyadh. Washington failed to react even when the Iranians fired on one of its drones that penetrated the Iranian territory. The Carter determine did not seem to be operative.

"I think we will look at September 14, as a seminal moment in gulf history," said David B. Roberts, as scholar of the region at King's College London. With the presumption shattered that the United States would protect the Saudis, Dr. Roberts said, they, the Saudi Arabians, realize the need to be more accommodating. This shift in approach, meant preference for diplomacy over the use of force. The Saudis were also worried about the continuing international concern about the murder of journalist Jamal Khashoggi on October 2, 2019 in the Saudi consulate in Istanbul, Turkey. As more information came to light including the decision by a Saudi court to sentence to death five unnamed Saudi citizens to death, there was increasing concern in several quarters that the Saudi government was not being held accountable. While President Donald Trump continued to accept the Saudi version that the murder was not planned, it was likely to become more difficult for him to take an aggressively pro-Saudi position as the campaign for the United States presidency picked up in 2020. The liberal press in the United States in particular was reluctant to accept the official Saudi version of the event. As The New York Times editorialized, "there is nothing to show that Prince Muhammad has been humbled by the global outcry over the murder, as he has continued to crack down against any sign of dissent in his kingdom. The cynical conclusion is that he staged the trial and threw a few underlings to the dogs to give friendly leaders -- including President Trump and Mr. Trump's son-in-law, Jared Kushner, who has chummy relationship with the prince -- a pretext for carrying on with business as usual[21]."

The rethink in Riyadh included another look at the war in Yemen that MBS had initiated and had been costly not only in economic terms for the kingdom. It had resulted in large-scale devastation in Yemen that had led to a famine in that country. There were also indications that the Saudis had begun low-level discussions with the Iranians. Iraq and Pakistan were intermediating. But the United States would not be pleased with that change in the Saudi attitude. "Washington would not look kindly upon a Saudi-Iranian channel at a time when the U.S. is trying to isolate Iran," said Rob Malley who was responsible for the Middle East policy during the time Barack Obama was in the White House. "Not to trust the Trump administration is one thing. To openly defy it is another altogether, and Prince Muhammad is unlikely to do that," the former official told Declan Walsh and ben Hubbard in their detailed story in The New York Times about the change in the Saudi thinking. He classified the change in Riyadh's thinking as "semi-recalibration" in the Kingdom's external policies[22].

Pakistan will need to watch the direction in which the Saudi kingdom goes. From its perspective, the easing of tensions between Riyadh and Tehran and between Riyadh and Doha would be highly welcome. Pakistan needs to have good working relations with Iran. It also needs to remain close to the oil producing and exporting countries in the Arabian Peninsula that have taken in millions of Pakistani workers who then send back billions of dollars back to their families in Pakistan. This chapter then underscores one important point about the Pakistani situation. While the government in Pakistan needs to give a high priority to the investment program being financed under the China-Pakistan Economic Corridor, it ought to look at other countries in its neighbourhood and determine how best to relate to them.

Statistical Appendix
Key Indicators

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Key Indicators

Table A-1
Level of Pattern of Growth
(Base year 2005-06)

	GDP Growth Rate (%)	Incremental Capital Output Ratio	Volatility of Growtha %	Extent of Balanced Growthb	Intensive Sectorc
2000/01	2.0	9.9	-2.2	6.3	0.8
2001/02	3.1	6.1	-0.2	4.4	0.9
2002/03	4.7	4.1	1.4	4.1	1.1
2003/04	7.5	2.3	3.9	10.2	0.6
2004/05	9.0	2.0	4.8	11.6	0.9
2005/06	5.8	3.4	0.6	17.4	0.7
2006/07	5.5	3.5	-0.5	3.4	0.9
2007/08	5.0	3.9	-1.5	5.4	0.8
2008/09	0.4	7.0	-6.2	5.6	3.9
2009/10	2.6	3.8	-2.6	3.8	1.1
2010/11	3.6	8.6	-0.2	8.6	1.0
2011/12	3.8	3.2	0.4	3.2	1.1
2012/13	3.7	4.4	0.6	4.4	1.2
2013/14	4.1	3.4	1.3	6.6	1.0
2014/15	4.1	3.8	0.5	4.7	0.9
2015/16	4.6	3.5	0.7	**7.1**	1.0
2016/17	5.2	3.2	1.2	5.7	1.1
2017/18	5.5	3.1	1.2	5.7	1.1
2018/19	3.3	4.5	-1.4	5.5	1.0
Average	**4.4**	**4.4**	**0.1**	**6.5**	**1.1**

Note: The base year of all calculations has been changed from 1999-00 to 2005-06. The values before 2005-06 will differ compare to previous reports.

n.c. = not computed

Source: Pakistan Economic Survey (various issues)

[a] Difference in the growth rate of GDP during a year minus the trend growth rate (as approximated by the average growth rate during the previous five years)

[b] Computed as the weighted (share of value added in 2005-06) standard deviation of the growth rates of individual sectors during a particular year. The larger the magnitude of this indicator the less the extent of balanced growth

[c] Labor-intensive sectors of the economy are identified as agriculture, small scale manufacturing, construction, whole sale and retail trade, public administration and defence and social services

Table A-2
Level and Pattern of Investment
(Base Year 2005-06)

	Gross Domestic Capital Formation (% of GDP)	National Savings as % of Investment	Private Investment as % of Total Fixed Investment	Share of Private Investment in Labor Intensive Sectors (%)
2000/01	17.2	95.8	64.6	46
2001/02	16.8	110.7	72.9	39.8
2002/03	16.9	123.1	73.9	38.6
2003/04	16.6	107.8	72.7	38.6
2004/05	19.1	91.5	74.9	42.9
2005/06	19.3	78.8	76.3	34.3
2006/07	18.8	74.5	73.3	35.4
2007/08	19.2	57.3	72.7	34.6
2008/09	17.5	68.6	73.6	38.3
2009/10	15.8	86.1	73.9	43.2
2010/11	14.1	100.7	74.4	46.5
2011/12	15.1	86.1	71.9	47.1
2012/13	15	92.7	73.1	47.3
2013/14	14.6	91.8	72.6	46.1
2014/15	15.7	93.6	73.8	43.0
2015/16	15.7	88.5	73.0	41.4
2016/17	16.2	74.1	14.6	43.2
2017/18	16.7	62.3	15.1	42.7
2018/19	15.40	70.1	13.8	46.4
Average	**16.6**	**87.1**	**63.7**	**41.9**

Source: Pakistan Economic Survey (various issues)
SBP, annual Report (various Issues)

Table A-3
Agricultural Growth and Profitability
(Base Year 2005-06)

	Growth Rate (%)	Share of Growth in Crop Sector (%)	Volatility in Agriculture Growth	Change in of Output Prices to Fertilizer Prices (%)	Change in Agriculture Terms of Trade with Manufacturing (%)
2000/01	-2.2	n.c	-7.1	-3.8	4.6
2001/02	0.1	n.c	-2	-5.4	0
2002/03	4.1	57.8	2	-0.3	-0.8
2003/04	2.4	42.4	0.4	-0.3	0.2
2004/05	6.5	90.9	4.4	-4.8	-2.1
2005/06	6.3	n.c	4.1	-4.1	-6.7
2006/07	3.4	55.8	-0.5	10.2	4.2
2007/08	1.8	n.c	-2.7	-20.6	-4.2
2008/09	3.5	62.5	-0.6	-10	9.6
2009/10	0.2	n.c	-4.1	17.3	1
2010/11	2	20.8	-1.1	-4.9	3.3
2011/12	3.6	36.3	1.4	-48.3	-9
2012/13	2.7	23.2	0.5	7.8	6.2
2013/14	2.5	47.8	0.1	10.6	3.1
2014/15	2.1	14.1	-0.1	4.7	7.9
2015/16	0.2	**n.c**	-2.4	6.9	6.6
2016/17	2.2	16.5	0.0	30.9	3.1
2017/18	3.9	37.1	2.0	2.4	-0.5
2018/19	0.9	n.c	-1.3	15.6	-9.6
Average	**2.4**	**42.1**	**-0.4**	**0.2**	**0.9**

n.c. = not computed, n.a. = not available
Source: Pakistan Economic Survey (various issues)

Table A-4
Level of Pattern of Manufacturing Growth
(Base Year 2005-06)

	Manufacturing Growth Rate (%)	Large Scale Manufacturing Growth(%)	Small Scale Manufacturing Growth (%)	Share of Growth in Large Manufacturing (%)	Manufactured Goods Exports Growth(%)
2000/01	9.3	11	6.2	76.3	21.3
2001/02	4.5	3.5	6.3	52	7.7
2002/03	6.9	7.2	6.3	68.2	21.3
2003/04	14	18.1	-20	84.6	8.9
2004/05	15.5	19.9	7.5	87	21.7
2005/06	8.7	8.3	-20	75.2	13.5
2006/07	9	8.7	7.5	74.3	3.5
2007/08	6.1	4	8.7	58.9	13.2
2008/09	-4.2	-8.1	8.1	n.c.	14.5
2009/10	1.4	4.8	7.5	24.9	12.8
2010/11	2.5	1.1	7.5	54.8	26.7
2011/12	2.1	1.13	7.5	44.5	1.2
2012/13	4.9	4.46	8.28	74.9	8.4
2013/14	5.7	5.46	8.29	78.3	11.3
2014/15	3.9	3.28	8.21	68.2	-8.4
2015/16	3.7	2.98	8.19	65.0	-5.3
2016/17	5.8	5.64	8.15	77.2	0.3
2017/18	5.4	5.12	8.17	78.4	14.9
2018/19	-0.3	-0.27	8.2	n.c.	-8.5
Average	**5.5**	**5.6**	**4.8**	**67.2**	**9.4**

n.c. = not computed

Source: Pakistan Economic Survey (various issues)
SBP, Annual Report (various issues)

Table A-5
Growth in Employment by Sector

	Employment (000)					2001/02 to 2015-16		
	2001/02	2007/08	2009/10	2013/14	2014-15	Employment Growth Rate (%)	Value Added Growth Rate (%)	Employment Elasticity (%)
Agriculture	20474	21894	23945	24586	25820	1.8	3	0.59
Manufacturing and Mining	4982	6382	7024	8026	9339	5	6.9	0.71
Electricity and Gas*	299	n.a	n.a	n.a	n.a	-0.3	3.9	-0.07
Construction	2757	3093	3565	4126	4456	3.8	4.2	0.91
Wholesale and Retail Trade	5090	7167	8673	8252	8912	4.4	4.2	1.06
Transport and Communication	2216	2700	2820	3109	3296	3.1	5.2	0.6
Finance and Insurancea	247	n.a	n.a	n.a	n.a	18.7	17.9	1.05
Public Administration and Community Services	7151	6725	5920	7404	8057	0.9	8.4	0.11
Total	**43286**	**49090**	**53210**	**56520**	**61040**	**2.7**	**5.4**	**0.5**

n.a = not available

Source: Labour Force Survey, PBS (various issues) Pakistan Economic Survey (various issues) a Period of estimation for these two sectors is 2001-02 to 2005-06, mainly because LFS has stopped giving numbers for them

Table A-6
Inflationary Trends

	Rate of Inflation (Consumer Prices) (%)	Rate of Inflation (Food Prices) (%)	Core Rate of Inflation (Non-Food Non-Energy) (%)	Rate of Inflation in Import Prices (%)	Rate of Monetary Expansion less GDP Growth (%)
2000/01	4.4	3.6	n.a	15.2	7
2001/02	3.5	2.5	n.a	0	12.3
2002/03	3.1	2.8	n.a	3.7	13.3
2003/04	4.6	6	3.9	14.8	12.1
2004/05	9.3	12.5	8.8	10.4	10.3
2005/06	7.9	6.9	7	17.3	9.4
2006/07	7.8	10.3	6.9	7.6	13.8
2007/08	12	17.6	10.2	27.7	10.3
2008/09	17	23.5	11.4	25.1	9.2
2009/10	10.1	12.6	7.6	6.2	9.9
2010/11	13.7	18.3	9.4	20.7	12.2
2011/12	11	11	10.6	21.8	9.8
2012/13	7.4	7.1	9.6	7.8	12.3
2013/14	8.6	9	8.3	4.3	8.5
2014/15	4.5	3.5	6.5	1.3	9
2015/16	2.9	2.1	4.2	-13.45	9
2016/17	4.1	3.9	5.2	-1.34	8.4
2017/18	3.8	2	5.4	5.15	3.9
2018/19	7.34	4.6	7.92	6.06	8.0
Average	**7.53**	**8.41**	**7.68**	**9.49**	**10.04**

n.c = notcomputed
Source: Pakistan Economic Survey (various issues)
SBP, Annual Report (various issues)
IMF

Table A-7
Fiscal Policy
(Percentage of GDP)

	Revenues a	Expenditure b	Non-Interest Current Expenditure c Expenditure c	Budget Balanced Budget Balance d	Revenue Deficit/ Surpluse Surpluse
2000/01	13.1	17.1	9.4	4.0	-2.2
2001/02	14	18.6	9.6	4.6	-1.7
2002/03	14.8	18.4	11.4	3.6	-1.5
2003/04	14.1	16.9	9.8	2.8	0.3
2004/05	13.8	17.2	9.7	3.4	0.5
2005/06	14	17.1	9.7	4	-0.5
2006/07	14.9	18.1	10.9	4.1	-0.8
2007/08	14.1	21.4	12.8	7.3	-3.3
2008/09	14	19.2	10.7	5.2	-1.4
2009/10	14	20.2	11.7	5.2	-2.1
2010/11	12.3	18.9	12.1	6.5	-3.5
2011/12	12.8	21.6	12.9	8.8	-4.5
2012/13	13.3	21.5	12	8.2	-3
2013/14	14.5	20	11.3	5.5	-1.5
2014/15	14.3	19.6	11.3	5.3	-1.8
2015/16	15.3	19.9	11.8	4.6	-0.8
2016/17	15.5	21.3	12.1	5.8	-0.8
2017/18	15.1	21.6	12.6	6.5	-1.8
2018/19	16.3	21.2	12.3	4.9	-0.2
Average	**14.22**	**19.46**	**11.27**	**5.28**	**-1.61**

Source: Pakistan Economic Survey (various issues)
SBP, Annual Reports (various issues)
MoF, Fiscal Operations
a Total revenues of federal and provincial governments
b Revenue and development expenditure of federal and provincial governments
c Current expenditure minus interest payments
d Total revenue minus total expenditure
e Revenue receipts minus current expenditure of federal and provincial governments

Table A- 8
Fiscal Policy
(Base Year 2005/2006)

	Primary Balance a (% of GDP) a	Total Government Debt b (% of GDP)	Effective Interest Rate on Domestic Debt c %	% of Deficit Financed by Bank Borrowing %
2000/01	1.3	82.4	11.3	-18.4
2001/02	0.1	73.1	12.4	7.4
2002/03	0.4	68.9	10.2	-30.5
2003/04	1.1	62.3	9.4	47.4
2004/05	0.3	58	8.5	27.7
2005/06	-1.1	53.1	10.2	21.8
2006/07	-0.1	52.1	13.8	37.5
2007/08	-2.7	56.8	13.7	80.5
2008/09	-0.3	57.8	12.9	54.2
2009/10	-1.9	59.9	12.4	32.8
2010/11	-2.7	58.9	10.5	51.5
2011/12	-4.3	54.3	10.7	52
2012/13	-3.8	59.3	9.7	79.5
2013/14	-1	60.2	9.5	23.3
2014/15	-0.6	58.1	9.3	61.2
2015/16	-0.3	58.3	8.1	58.3
2016/17	-1.6	61.3	8.2	55.7
2017/18	-2.2	61.5	8.1	49.57
2018/19	-0.7	66.5	8.8	65.70
Average	**-1.06**	**61.20**	**10.49**	**38.42**

n.a = not available
Source: Pakistan Economic Survey (various issues)
SBP, Annual Reports (various issues)
Ministry of Finance, Fiscal Operations
Ministry of Finance, Debt Policy Statements
a Estimated as revenue receipts minus total expenditure net of interest payments
b Includes domestic and external debt
c Defined as the ratio of domestic interest payment to outstanding domestic debt

Table A- 9
Effective Tax Rates
(Tax Revenues as percentage of Tax Basea)

	Income Tax (%)	Customs Duty (%)	Excise Duty (%)	Sales Tax (%)	Total FBR Taxes (%)
2000/01	4.2	17.8	4.7	13.1	9.3
2001/02	4.5	12	4.3	14.1	9.1
2002/03	4.4	14.8	3.6	14.8	9.4
2003/04	4	14.3	3.1	12.7	9.2
2004/05	3.8	11.2	2.9	10	9.1
2005/06	3.9	12.1	2.4	10.3	9.4
2006/07	5	10.5	2.7	9.9	9.7
2007/08	4.9	7.6	2.9	10	9.8
2008/09	4.6	5.7	5.7	10	9.1
2009/10	4.8	5.7	5	10.1	8.9
2010/11	4.4	5.6	4.3	10.3	8.6
2011/12	4.6	5.6	3.3	11	9.1
2012/13	4.3	5.5	4.1	11.4	9.5
2013/14	4.6	5.2	4.3	12.6	10.1
2014/15	4.9	6.6	5.3	13.9	11
2015/16	5.3	8.7	5.6	16.1	12.4
2016/17	5.5	8.8	5.4	14	12.5
2017/18	4.5	9.1	4.9	13.7	11.2
2018/19	5.2	10.0	5.1	14.4	10.7
Average	**4.57**	**9.27**	**4.14**	**12.11**	**9.86**

Source:SBP, Annual Reports (various issues)
Pakistan Economic Survey (various issues)
FBR (various issues)
a Tax bases for various taxes are as follows:
Income tax: Non-agricultural GDP
Custom Duty: Value of imports
Excise Duty: Value of manufacturing
Sales Tax: Value of Imports plus value of manufacturing

Table A- 10
Monetary Policy

	Net Foreign Assets a (% Change of broad money)	Net Assets a (% Change of broad money)	Private Credit Growth %	Interest on Six Treasury Bill (%)	Broad Money Growth (%)	Interest Rate Spread c
2000/01	5.1	3.9	4.0	10.4	9.0	8.3
2001/02	13.4	2.0	4.8	8.2	15.4	9.6
2002/03	17.5	0.5	18.9	4.1	18.0	7.8
2003/04	2.1	17.5	29.8	1.7	19.6	6.3
2004/05	2.2	17.1	33.2	4.7	19.3	7.4
2005/06	2.5	12.4	23.2	8.5	14.9	8.7
2006/07	8.1	11.3	17.2	8.9	19.3	9.0
2007/08	-7.8	23.2	16.4	11.5	15.3	8.4
2008/09	-3.2	12.8	0.7	12.0	9.6	9.8
2009/10	-6.9	0.8	3.9	12.3	12.5	9.3
2010/11	23.5	-2.4	4.0	13.7	15.9	9.0
2011/12	-40.2	5.3	7.5	11.9	14.1	8.3
2012/13	-55.8	4.1	-0.6	8.9	15.9	7.0
2013/14	97.9	-3.1	9.1	9.7	12.5	7.3
2014/15	20.5	-1.3	11.7	8.0	13.2	5.6
2015/16	9.1	-0.7	11.1	5.9	13.8	5.7
2016/17	-47.4	4.0	16.8	6.0	13.7	5.0
2017/18	-98.7	23.5	13.0	6.8	9.7	5.2
2018/19	-8235.6	26.5	11.6	12.7	11.3	5.9
Average	**-436.5**	**8.3**	**12.5**	**8.7**	**14.5**	**7.6**

Source: State Bank of Pakistan, Annual Report (various issues)

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a Growth rate of net foreign assets/broad money ratio

b Growth rate of net domestic assets/broad money ratio

c Difference between the interest rate on advances and deposits

Table A- 11
Level and Pattern of Trade

	Merchandise Export Growth (US $; %)	Extent of Product Diversification of Exports a	Extent of Market Diversification of Exports a	Merchandise Import Growth (US $; %)	Change in Terms of Trade %	Share of Essential Imports a %
1999/2000	11.2	0.801	0.23	13.1	-15.3	39.3
2000/01	12.5	0.798	0.221	14.3	-7.1	39.3
2001/02	2.3	0.786	0.221	-7.5	-0.2	36.7
2002/03	20.1	0.791	0.223	20.1	-9.6	35
2003/04	13.5	0.782	0.232	21.2	-4.1	28.8
2004/05	16.2	0.778	0.218	38.3	-6.5	25
2005/06	14.3	0.769	0.229	31.7	-11.7	30.7
2006/07	3.2	0.737	0.228	8	-3.7	29.1
2007/08	16.5	0.722	0.21	31.2	-11.5	38.9
2008/09	-6.4	0.709	0.202	-10.3	2.8	41.9
2009/10	2.9	0.717	0.199	-1.7	0	42.3
2010/11	28.9	0.697	0.184	14.9	2.8	42.7
2011/12	-2.6	0.722	0.183	12.8	-5.9	45.8
2012/13	0.4	0.719	0.189	-0.6	-2.4	42.9
2013/14	1.1	n.a	n.a	3.8	0.9	40.8
2014/15	-3.9	n.a	n.a	-0.9	-0.4	33.8
2015/16	-12.2	0.768	0.202	-2.5	4.2	25.5
2016/17	-1.7	n.a	n.a	18.5	1.5	24.5
2017/18	12.6	0.745	0.193	16.2	-0.6	44.4
2018-19	-2.2	n.a	n.a	-7.4	1.5	40.3
Average	**6.3**	**0.8**	**0.2**	**10.7**	**-3.3**	**36.4**

Source: Pakistan Economic Survey (Various issues)
United Nations Conference on Trade and Development
State Bank of Pakistan, Annual Report (various issues)
a This is estimated by UNCTAD as the Herfindahl Index, which ranges from a value of 0 to 1. The greater the extent of diversification the lower the value of the index
Essential imports are of wheat, edible oil, fertilizers, medicines and POL products

Table A-12
Balance of Payments

	Current Account Balance (% of GDP)	External Debt as a % of Exports of Goods and Services	Net Reserves (US $ Million)	Gross Reserves (In months of next year's import of goods and services)	Change in Value of Pakistani Rupee per US $ (%)	Change in Real Effective Exchange Rate (%)
1999/2000	-1.6	322.1	908	0.9	3	-0.6
2000/01	-2.7	309.4	1679	1.7	12.8	-2.5
2001/02	3.9	282	4337	3.7	5.1	-2.6
2002/03	4.9	229	9529	6.5	-4.7	-0.1
2003/04	1.8	209.5	10564	5	-1.5	-1.8
2004/05	-1.4	183.7	9805	3.5	3.1	0.3
2005/06	-3.9	167.2	10760	3.7	0.8	5.3
2006/07	-4.8	169.2	13345	4.5	1.3	0.5
2007/08	-8.4	169.7	8577	2.7	3.2	-1.12
2008/09	-5.5	212.9	9118	2.8	25.5	-1.0
2009/10	-2.3	218.9	12958	2.9	6.8	1.0
2010/11	0.1	204.9	14784	3.6	2.0	6.5
2011/12	-2.1	212.2	10803	2.9	4.4	3.1
2012/13	-1.0	182.3	6008	1.5	8.4	-1.3
2013/14	-1.3	204.1	9098	2.7	6.3	7.3
2014/15	-0.8	204.9	13532	3.9	-1.5	5.4
2015/16	-1.7	250.9	18130	9.0	2.9	4.6
2016/17	-4	284.6	16242	4.4	0.4	3.5
2017/18	-3.5	293.2	9866	2.2	4.9	-6.1
2018/19	-4.8	316.5	7735	1.4	23.9	-15.4
Average	**-2.0**	**231.4**	**9888.9**	**3.5**	**5.4**	**1.1**

Source: SBP, Annual Report (various issues)
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Table A-13
Trend in Regional Inequality
Coverage of Education and Health Services

	1998/99	2001/02	2006/07	2007/08	2008/09	2010/11	2012/13	2013/14	2014/15
Gross Primary Enrolment Rate									
Punjab	75	76	100	97	97	98	98	100	97
Sindh	64	63	79	80	84	84	81	76	79
K-PK	70	77	82	83	87	89	91	89	90
Balochistan	64	62	72	75	75	74	73	67	71
Max/Min Ratio	1.172	1.242	1.389	1.293	1.293	1.324	1.342	1.492	1.366
Net Primary Enrolment Rate									
Punjab	44	45	62	61	62	61	62	64	61
Sindh	41	40	50	51	54	53	52	48	51
K-PK	39	41	49	49	52	51	54	54	56
Balochistan	36	32	41	41	44	47	45	39	46
Max/Min Ratio	1.222	1.406	1.512	1.488	1.409	1.298	1.378	1.641	1.326
Gross Middle Enrolment Rate									
Punjab	43	45	55	59	57	58	60	59	59
Sindh	38	34	43	46	49	48	48	46	46
K-PK	37	38	53	52	54	57	61	61	61
Balochistan	29	33	34	35	36	35	39	41	40
Max/Min Ratio	1.483	1.364	1.618	1.686	1.583	1.657	1.564	1.487	1.525
Net Middle Enrolment Rate									
Punjab	19	18	20	19	22	23	25	25	25
Sindh	17	14	17	18	18	19	19	17	18
K-PK	11	12	16	17	17	17	21	26	21
Balochistan	9	8	9	11	11	13	14	12	13
Max/Min Ratio	2.111	2.25	2.222	2	2	1.769	1.786	2.083	1.923
Gross Matric Enrolment Rate									
Punjab	37	44	51	54	57	61	62	65	63
Sindh	51	42	45	44	50	55	54	50	54
K-PK	36	41	45	48	51	54	58	56	60
Balochistan	41	29	33	34	34	38	37	33	40
Max/Min Ratio	1.244	1.517	1.545	1.588	1.676	1.605	1.676	1.969	1.575

Net Matric Enrolment Rate									
Punjab	12	12	11	13	13	14	15	17	16
Sindh	10	13	10	11	11	11	12	11	12
K-PK	6	10	6	6	8	7	10	9	10
Balochistan	3	6	5	5	5	6	6	5	7
Max/Min Ratio	4	2	2.2	2.6	2.6	2.333	2.5	3.4	2.285
Literacy Rate (10 +)									
Punjab	46	47	58	59	59	60	62	61	63
Sindh	51	46	55	56	59	59	60	56	60
K-PK	37	38	47	49	50	50	52	53	53
Balochistan	36	36	42	46	45	41	44	43	44
Max/Min Ratio	1.417	1.306	1.381	1.283	1.311	1.463	1.409	1.418	1.432
Full Immunisation									
Punjab	55	57	83	76	85	86	89	86	90
Sindh	38	45	65	67	69	75	74	61	73
K-PK	54	57	76	74	73	77	76	75	78
Balochistan	34	24	54	57	43	56	53	41	51
Max/Min Ratio	1.618	2.375	1.537	1.333	1.977	1.536	1.679	2.097	1.765

Source: Pakistan Social and Living Standard Measurement Survey, PBS (various issues)

TABLE A-14
TREND IN REGIONAL INEQUALITY
Growth in Real Household Income by Province
(Annual Growth Rate, %)

Overall	**2001-02 to 2007-08**	**2005-06 to 2007-08**	**2007-08 to 2015-16**	**2001-02 to 2015-16**
Pakistan	4.7	-1.3	1.5	3.0
Punjab	5.6	-0.8	1.6	3.5
Sindh	3	-2.8	0.5	1.6
KPK	5	-2.6	3.0	3.9
Balochistan	-0.6	3.3	2.5	1.1
Urban				
Pakistan	2.8	-0.2	1.9	2.3
Punjab	3.4	-1.2	2.9	3.1
Sindh	2	2.3	0.1	1.0
KPK	3.3	-7.2	3.3	3.3
Balochistan	0.5	8.2	1.6	1.1
Rural				
Pakistan	5.3	-2.1	1.1	3.0
Punjab	6.7	-0.5	0.7	3.4
Sindh	2.3	-9.5	0.5	1.3
KPK	5.3	-1.4	2.9	4.0
Balochistan	-2.5	-1.5	3.0	0.4

Source: Pakistan Integrated Household Survey, Various Issues
Pakistan Bureau of Statistics

TABLE A-15
TREND IN INCOME INEQUALITY
Growth in Real Household Income by Quintile
(Annual Growth Rate, %)

	Total	1st	2nd	3rd	4th	5th
			Growth Rates between 2001-02 to 2007-08			
Pakistan	4.7	2.5	3.6	3.4	4.2	5.9
Pakistan Urban	2.8	2.2	2.2	1.5	1.7	3.1
Pakistan Rural	5.3	2.6	3.9	4.1	5.4	8.9
			Growth Rates between 2005-06 to 2007-08			
Pakistan	-1.3	-1.8	-1	-2.7	-2.3	-0.8
Pakistan Urban	-0.2	5.7	3.3	-1.3	1.1	-0.5
Pakistan Rural	-2.1	-3.2	-2.4	-3.3	-4.1	-0.9
			Growth Rates between 2007-08 to 2015-16			
Pakistan	1.5	1.9	1.2	1.8	2.0	1.5
Pakistan Urban	1.9	0.8	0.5	1.4	2.3	1.9
Pakistan Rural	1.1	2.1	1.4	1.9	1.8	0.4
			Growth Rates between 2001-02 to 2015-16			
Pakistan	3.0	2.2	2.3	2.5	3.0	3.5
Pakistan Urban	2.3	1.4	1.3	1.4	2.0	2.4
Pakistan Rural	3.0	2.4	2.5	2.9	3.5	4.2

Source: Calculated using numbers from Household Integrated Economic Survey, Federal Bureau of Statistics.

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