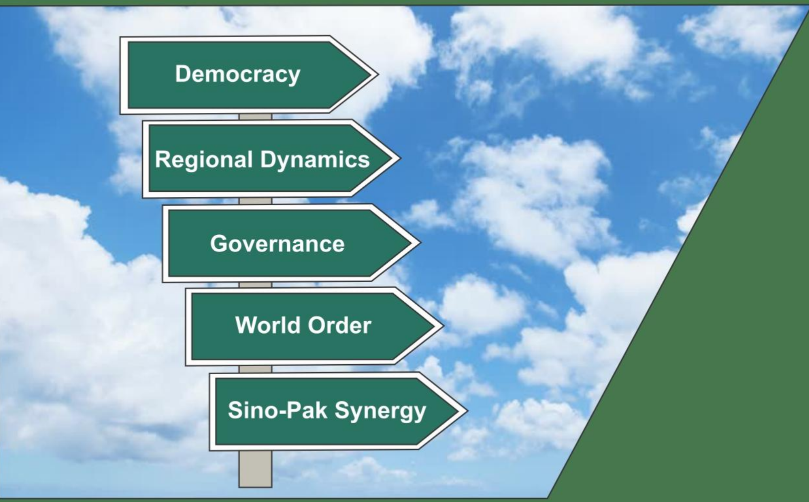


11th Annual Report

2018

THE STATE OF THE ECONOMY

Pakistan's New Political Paradigm - An Opportunity to Make the Most of CPEC

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

BIPP 11th Annual Report 2018

The State of the Economy
Pakistan's New Political Paradigm —
An Opportunity to Make the Most of CPEC

The Shahid Javed Burki
Institute of Public Policy at NetSol

Published by
The Shahid Javed Burki Insitute of Public Policy at NetSol

The Shahid Javed Burki Institute of Public Policy at NetSol

The Institute aims at synergizing the research, education, and think tank functions to become acknowledge 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. The members are:

- Mr. Shahid Javed Burki — Chairman
- Mr. Shahid Najam — Vice-Chairman
- Dr. Parvez Hasan — Director
- Ms. Nasreen Kasuri — Director
- Mr. Shahid Hafiz Kardar — Director
- Mr. Salim Ghauri — Director
- Mr. Khalid Sherdil — Director
- Dr. Iftekhar Ahmed Chowdhury — Director
- Mr. Ayub Ghauri — Director
- Dr. Daud Ahmad — Director

BIPP's Advisory Council comprises Dr. Mahmood Ahmad, Mr. Asim Imad Ali, Mr. Saleem Ranjha and Mr. Shaigan Shareef Malik.

Foreword
Operating in an Uncertain World: Some Personal Reflections

By continuing our work on the China-Pakistan Economic Corridor, we in the Burki Institute of Public Policy, BIPP, are sending a message to our readers and policy makers that the Chinese funded program would become a game changer. For that to happen, those responsible for implementing it must develop an understanding of the domestic as well as external environments in which they are operating. Both are changing rapidly. When I worked in China for almost eight years— from July 1987 to December 1994— I developed a good understanding of the way the Chinese work on major initiatives. At the very beginning, they define the objective they wish to achieve and the amount of resources they are willing to commit to it. The details are worked out by what economists call "learning from doing." One example of this was the way they have introduced technological change into their economic system.That is also how they are approaching the Belt and Road Initiative, the BRI, of which the CPEC is by far the most important component.

As I was preparing to move on to another job in the Bank, the Chinese arranged for me to visit Ningbo, a city near Shanghai. The city was being developed as a technological hub and was to be followed by other urban centers scattered throughout the country. The Ningbo initiative was the beginning of a program titled (I seem to remember) "2476". When I asked what those numbers meant, I was told that Deng Xiaoping, the country's supreme leader, had directed that $76 billion of public money should be committed by the Chinese state to developing 24 technological hubs around the country. What was learnt from the Ningbo program would be applied to other designated technology hubs. This is precisely the way the Chinese are developing the BRI and the CPEC. The content and scope of the CPEC will change over time.

This uncertainty about the content of the program is one important reason why we in Pakistan need to develop the institutional and human resource capacity to develop the CPEC. The program has not come fully developed from the Chinese side and has the flexibility to accommodate Pakistan's changing perspective about the way the policymakers wish to grow the country's economy and modernize its society. Some of this has begun to happen under Prime Minister Imran Khan. After his maiden visit to Beijing he has indicated that the CPEC will give more attention to the development of agriculture and projects aimed at alleviating poverty.

The Pakistani policymakers also need to understand why the Chinese are committing such large amounts to the BRI and CPEC. Not unlike Pakistan, they are also operating in a highly uncertain world. For instance, the China-United States equation is in a state of flux. With Donald J. Trump as the United States president, Washington has decided to focus on what they see as the negative aspects of relations with China. Trump believes that the relationship is one-sided, with China deriving all the benefits at his country's expense. The American president believes in a "binary world," a world that operates on the simple accounting principle of "zero-sum", in which one party's gain is exactly equal to the other party's loss. The BRI and CPEC are some of the ways in which Beijing would want to breakout of the global system that Trump is busy constructing.

Last years' elections brought to the top of the country's political system a new kind of political leader and a new kind of political party—Imran Khan and his Pakistan Tehreek-e-Insaf, PTI. They are new since they represent a departure from the established political system in the country. Anatol Lieven described that system in some detail in his book, Pakistan: A Hard Country.[1] The "hard" in the title of the book did not refer to the difficulties analysts face in understanding the country. Pakistan, according to Lieven, was hard because of the enormous resilience its people have shown in overcoming a series of crises they had to face and overcome right after the country gained independence in 1947. The political structure changed a number of times, but the people were not affected since they drew their strength from the patron-client system, on which they depended for obtaining services from the state. The country oscillated between rule by civilian politicians and military leaders, but the baradari system remained in place keeping the landlords and other rich in power supported by the people to whom they could deliver. It is this system that Imran Khan's rise and that of the PTI has disrupted. The elections have brought forward a new kind of politics.

In the emerging political structure, the Pakistani youth will play an important role. They will elect and keep in office the people who can meet their aspirations. The median age of the Pakistan population if only 25 years. This means that 204 million people million are under that age Some 30 million new voters entered the political field between 2013 and 2018. A very large number of them voted for the PTI. They were troubled by rampant corruption in high places and poor quality of governance. You do not have to watch carefully to see signs of corruption that marked the tenures of the governments that were placed in office by the elections of 2008 and 2013. For them the rule of law took the backseat.

The youth were attracted to the PTI since the party's platform promised a corruption-free government that would work for them. Millions of young people—mostly men—have flocked to the country's major cities in search of good education, better healthcare, and well-paying jobs. Once in the cities, they also want a transport system that would help them to travel from their homes to the place of work. The CPEC program can be calibrated to meet these aspirations. It helps that the program is flexible. Prime Minister Imran Khan has indicated that his government is working with the authorities in China to make the CPEC more responsive to the needs of the poor and the young.

I am working on a manuscript which deals with global change, and how this will affect Pakistan. I am looking at recent developments in Pakistan's four neighbors Afghanistan, China, India, and Iran as well some that are at some distance from Pakistan. The second group of countries include Saudi Arabia, the United Arab Emirates, Turkey, Britain and the Untied States. I give more space to China and the growing rivalry between Beijing and Washington. This will have enormous consequences for Pakistan. Niall Ferguson writes in his 2011 book, Civilization: The West and the Rest, that it is not surprising that "civilizations of all shapes and sizes exhibit many of the characteristics of complex systems in the natural world—including the tendency to move quite suddenly from stability to instability." Global history in the second decade of the 21st century has entered that phase. "A small input to such a system can produce huge, often unanticipated changes—what scientists call 'the amplifier effect.[2] But in the case of China's ascendancy, the input that is reverberating across the globe is not small and not unanticipated either. What is unexpected is the rise of Donald Trump in the United States and his worldview. Ferguson is not alone in predicting that in the first decades of the current century we are witness to the end of 500 years of Western ascendancy. The rise of "the rest" is being led by China. It is in this context that we should view the BRI and the CPEC initiatives. America realizes what is occurring which is one reason why there is so much criticism in the country's press and in the policy circles about both-BRI and CPEC. A narrative is being sold to the people who will be touched by the BRI that China is laying a debt trap for them.

This year's report touches on some of these developments in an around Pakistan. Before the document went to the printers, my colleagues from the Burki Institute visited a number of institutions in Islamabad working on watching the CPEC develop into a program that would prove to be a game changer for Pakistan. It will not only quicken the pace of economic growth but also make that growth inclusive. The poor will benefit more from the growth than has been the case in the past. The program would also connect the country's backward areas with those relatively more developed. And the roads being built under the CPEC program would connect Pakistan with the landlocked countries in Central Asia. Properly tuned, it would also make Pakistan a source for the supply of processed agricultural and animal products to the western provinces of China. Given the dynamic nature of the Chinese funded program, we in BIPP plan to watch its development and implementation.

Shahid Javed Burki

December 31, 2018

The Team

(in alphabetical order)

Authors

Daud Ahmad
Mahmood Ahmad
Shahid Javed Burki
Farrukh Iqbal
Shahid Najam
Khalid Sherdil

Report Coordinator

Daud Ahmad

Assisted By

Mirza Mubashir Baig
Mahira Khan
Atr-un-Nisa
Kainat Shakil

Editor

Shabana Ahmed

Designing and Layout

Irfan Ismail

Supported By

Awais Khalid
Ali Gill
Ammar Hayat

The Shahid Javed Burki Institute of Public Policy at NetSol is grateful to Beaconhouse National University for financial support in the preparation, publication and dissemination of BIPP's annual report 2018

About the Authors

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 Econom- ics 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. Khalid Sherdil

Khalid Sherdil is a member of the Pakistan Administrative Services. He has served on a number of key positions during the course of his career including, founder Managing Director, Provincial Disaster Management Authority (PDMA) Punjab, CEO of the Punjab Saaf Paani Company (PSPC) and the Secretary of Industries, Commerce and Investment, Punjab. He rendered valuable services for disaster management throughout the country. Mr. Serdil has authored a book on Dengue and has also written a technical report for Ontario Government on West Nile virus, a mosquito vector epidemic. Khalid Sherdil has Master's degree in Computer Science from Washington University, USA and also an Electrical Engineering degree from the same University. Earlier, he did Liberal Arts Bachelors in Physics from College of Wooster, USA. Mr. Sherdil is currently pursuing a Doctoral Degree in Computer and Environment Science at the Western University, Canada. He is also a member of BIPP's Board of Directors.

Contents

Tables

Boxes

Figures

List of Acronyms

ADB	Asian Development Bank
AEDB	Alternative Energy Development Board
AI	Artificial Intelligence
AIIB	Infrastructure Investment Bank
AJK	Azad Jammu and Kashmir
APTTA	Afghan Pakistan Transit Trade Agreement
ASEAN	Association of Southeast Asian Nations
BIPP	Shahid Javed Burki Institute of Public Policy to Netsol
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
CAR	Central Asian Republics
CAREC	Central Asia Regional Economic Cooperation
CASA	Central Asia-South Asia
CASAREM	Central Asia-South Asia Regional Electricity Market
CD	Completion Date
CEC	China Economic Corridor
CET	China Electric Power Equipment and Technology Co.
CPEC	China Pakistan Economic Corridor
CPFTA	China Pakistan Favorable Trade Agreement
CPI	Consumer Price Index
EA	Executing Agency
EAEU	Eurasian Economic Union
ECO	Economic Cooperation Organization
EXIMB	Export and Imports Bank of China
EU	European Union
FATA	Federally Administered Tribal Areas
FAO	Food and Agriculture Authority
FBBM	Frozen Bovine Meat
FBR	Federal Board of Revenue
FC	Financial Closure
FDI	Foreign Direct Investment
FRDA	Fiscal Responsibility and Debt Limitation Act
FS	Feasibility Study
FY	Financial Year
GATT	General Agreement on Tariffs and Trade
GB	Gilgit Baltistan
GDP	Gross Domestic Product
GoC	Government of China
GoCL	Government of China Concessional Loan

GoP	Government of Pakistan
GPA	Gwadar Port Authority
GTR	Grand Trunk Road
HDI	Human Development Index
IBRD	The International Bank for Reconstruction and Development
ICBC	Industries and Commerce Bank of China
ICT	Information and Communication Technology
IMF	International Monetary Fund
INSTC	International North-South Transport Corridor
IPM	Integrated Pest Management
IPP	Independent Power Project
IRR	Internal Rate of Return
IT	Information Technology
JCPOA	Joint Comprehensive Plan of Action
KESC	Karachi Electric Supply Corporation
KPK	Khyber Pakhtunkhwa
LC	Line of Control
LNG	Liquefied Natural Gas
Libor	London Interbank Offered Rate
LTP	Long Term Plan
LUMS	Lahore University of Management Sciences
MAGA	Make America Great Again
MFN	Most Favored Nation
MIIS	Marketing Information and Intelligence System
MNFSR	Ministry of National Food Security & Research or Ministry
MoC	Ministry of Communications
MoP	Ministry of Ports and Shipping
MoPNR	Ministry of Petroleum & Natural Resources
MoR	Ministry of Revenue
MoWP	Ministry of Water and Power
MPI	Multidimensional Poverty Index
MW	Mega Watt
NAFTA	North American Free Trade Agreement
NEPRA	National Electric Power Regulatory Authority
NFIS	National Financial Inclusion Strategy
NHA	National Highway Authority
NTDC	National Transmission Dispatch Co.
OBOR	One Belt One Road
OECD	Organizations for Economic Cooperation and Development
OJT	On Job Training
PBC	Pakistan Business Council

PEPCO	Pakistan Electric Power Company
PIA	Pakistan International Line
PSM	Pakistan Steel Mills
PKR	Pakistani Rupee
PML (N)	Pakistan Muslim League (Nawaz)
PMYP	Prime Minister's Youth Program
PPIB	Private Power Infrastructure Board
PPP	Pakistan Peoples Party
PTI	Pakistan Tehreek-e-Insaf
PQEOC	Port Qasim electric Power Company
RA	Responsible Agency
RCD	Regional Cooperation for Development
SA	Supervising Agency
SAARC	South Asian Association for Regional Cooperation
SADC	Southern African Development Community
SAFTA	South Asia Free Trade Agreement
SCO	Shanghai Cooperation Organization
SEDLP	Sochal Energy Development Pvt. Ltd.
SEZ	Special Economic Zone
SEZA	Special Economic Zone Authority
SGCC	State Grid Corporation of China
Sinosure	China Export and Credit Insurance Company
SRF	Silk Road Fund
SRO	statutory Regulatory Orders
SME	Small and Medium Enterprise
SMEDA	Small and Medium Enterprises Development Authority
TEVTA	Technical Education & Vocational Training Authority
TIR	Transport Internationaux Routiers
WAPDA	Water and Power Development Authority
WTO	World Trade Organization
UN	United Nations
UNDP	United Nations Development Program
USA	United States of America
USAID	United State Agency of International Development
VAT	Value Added Tax

Chapter

1

Placing the BIPP in a Wider Context

Placing the BIPP in a Wider Context

Shahid Javed Burki

This is the eleventh annual report on the state of the Pakistani economy written by the Lahore-based Burki Institute of Public Policy(BIPP). The 2017 report made available to the public in early 2018 dealt with two subjects—in addition to presenting our assessment of the state of the Pakistani economy, we discussed in some detail the subject of the China-Pakistan Economic Corridor. We were of the view that the massive amount of investment China had pledged to make in developing Pakistan's infrastructure will profoundly affect the structure of the Pakistani economy not just by improving internal communications but also by linking the country with the world outside. New activities would develop and new trade relations would result. During the entire life of Pakistan's existence as an independent state, it has relied heavily on some distant countries for economic and financial support. The United States was the most important partner for Pakistan. The CPEC, however, would change that linking Pakistan with China, one of Pakistan's four neighbors. It will also open Pakistan to the landlocked but resource- rich countries in Central Asia. If relations with India improve, the network of roads the CPEC program is investing in could make Pakistan the bridge that would connect the two Asias—South and West.

But we also pointed out some of the problems with the approach. One, that some of the large projects included in the program had not been properly investigated in terms of project feasibility and design. Two, the program reflected the Chinese penchant for large investments in mega projects. A recent example of this is China Beijing Daxing International Airport that, according to one report, "will lift China's capital into the stratosphere of aviation superlatives." The golden starfish terminal is 7.5 million square feet but promises short walking distances. By 2025 it will serve 72 million passengers a year; however, it will not solve the problem of congestion in the air since 70 percent of airspace is controlled by the military versus 20 percent in the United States. The new airport is a good example of the way the Chines embark on large ambitious projects without reflecting fully on all the consequences[1]. Is the CPEC program one more such effort? By keeping a careful watch on how the program develops, the BIPP is attempting to help iron out some of the problems we see. The current report is a part of that effort. That said, we continue to believe that the program will be a game-changer for the country.

There was a great deal of interest shown in the findings presented in our 2017 annual report. There was agreement among those who commented on it that the subject of CPEC—what the scope and content of program was, what it would include, how it would affect Pakistan, what some of the problems in it were etc.—was timely. We were told that the program assisted by China was at an early stage of development and should be kept under review by a think-tank such as ours. We agreed with the suggestion and decided to focus the 2018 report also on the current implementation status of CPEC, and how it can be better reshaped to meet Pakistan's needs.

While that is the main focus of the report, it also picks up on a number of other themes. A great deal has happened in Pakistan and outside the country since the 2017 report was made public. It is our belief that these developments should be understood by policymakers since the backdrop they provide is very different from the one that existed when the last report was written and published. Five developments deserve to be analyzed: one, the enormous change in the Pakistani political and social landscapes as a result of the elections held in the country on July 25, 2018; second, how Pakistan's immediate neighborhood is affecting policymaking in Islamabad; third, how the state in Pakistan is taking shape, and how it would position itself to serve the general public; fourth, how the world seems to be abandoning the system that resulted from continuing efforts at institutional building that lasted for over seven decades, from 1945 to 2016; and fifth, the growing rivalry between China and the United States and its meaning for Pakistan. These developments will have consequence for Pakistan and are pertinent for the CPEC initiative. These will be examined briefly in this, the opening chapter of the 2018 report.

The 2018 Elections and a Change in People's Aspirations

Much of this report was written after the Pakistani citizens went to the polls in July 2018. This was the tenth general election in the country after the adoption of the Constitution of 1973, and one that is likely to lead to a fundamental change in the structure of politics in Pakistan, the make-up of its society, the future of its economy and its relations with the world outside.

The subject of 2018 elections and its impact will no doubt attract a great deal of academic and policy attention in the years to come. It also changes the dynamics for the development and implementation of the CPEC program. I am working on a book-length study of economic, political and social change the elections are likely to result in. I will briefly mention some of the conclusions I am drawing in the book under preparation.

The 2018 elections were different from the nine that were held before it under the Constitution of 1973 [2].The latest election brought to the front of Pakistan's politics a party—the Pakistan Tehreeki-Insaf (PTI)—that has a different base of support than those that held power in the past. In 2011, Anatol-Lieven, a journalist by profession with a deep interest in Pakistan, published a book, *Pakistan: A Hard Country,* in which he developed an important thesis about the structure and functioning of politics in Pakistan[3].The country was "hard" not because it was difficult to understand. It was hard because of the resilience it had shown ever since its birth as a state in 1947. Crises came at a regular pace, but the country was able to deal with them since the social, political and economic aspects of life were managed by the system of patron-client relationships. These are known as the systems of baradari in which those that sit at the top of the structure win the support of the people by deploying the state's resources to benefit them. These were the structures that supported the traditional parties such as the various reincarnations of Pakistan Muslim League, currently known as the PML(N)—"N" standing for Nawaz Sharif , the old-style politician responsible for giving it its present shape and the Pakistan Peoples' Party(PPP). But traditional politics were upended by the elections of 2018, which put the PTI and its founder-leader Imran Khan on top of the political pyramid.

What made the PTI success possible was the enormous—and still not fully understood—social and demographic change that has occurred in the last couple of decades. Much of the social change happened because of the large amounts of resources that came in in the form of remittances from the Middle East. This resource made it possible for about 5 to 7 million households to climb out of poverty and move into the lower middle class status. They were not beholden to the baradari system for their sustenance; they were looking for a new home and most of them found it in the PTI. The unexpected results from the Census of 2017 point to the overwhelming presence of the youth in the Pakistani population. The population is growing at the rate of 2.4 percent a year which makes it very young; 50 percent of the population is below the age of 25 years. The population is even younger in the large cities; young men from the countryside and small towns have moved into the metropolitan areas in search of better social services and better-paying jobs. They bought Imran Khan's slogan of "naya Pakistan" and moved into his political tent. They will remain there for as long as the new prime minister fulfills his promise. This is where the CPEC program comes into the picture. In his discussions with the senior leaders of China, Khan appears to have convinced them that the focus of the program needs to move away from investing in large power plans and developing an expensive network of highways. It should invest in social and agricultural development. CPEC should help Imran Khan keep his constituency in his camp.

While the 2018 elections have resulted in bringing about a significant change in the structure of support for various political parties, it has not—at least not—yet introduced a change in the culture of politics. While Pakistan is a rare Muslim country that is making political progress, it has yet to develop what the political philosopher Cheshire Calhoun has called political civility. The civility of manners is a set of conventions that allow us to "communicate basic moral attitudes of respect, tolerance, and considerateness[4]."Another philosopher, the American John Rawls, built on these basic principles by arguing for what his book, **A Theory of Justice, called "duty of civility[5]."** We must operate in good faith, commit to reciprocity, offer fair terms of cooperation, fashion rational arguments for our positions and depend in the absence of agreement on mutual consent. We must behave as though every one shares a common stake in the flourishing of the civic hole.

Pakistan's Neighborhood

Pakistan lives in a volatile neighborhood. To its north, it shares a long border with the highly-troubled nation of Afghanistan, which, even after 71 years of Pakistan's independence, refuses to recognize the border between the two as legitimate. The Afghan government has been fighting Islamic extremists for almost four decades. It is being helped in this effort by the United States. Moving east is China, a rising nation with the world's second largest economy after the United States. Its rise is being challenged by the United States, which has entered into a trade war with Beijing that will have damaging consequences for the world economy. To the south is the sister state of India, founded at the same time as Pakistan. The two countries have many unsettled disputes that have led to four wars between them. Iran is the fourth Pakistani neighbor that is being challenged by President Donald Trump's United States. In other words, the United States is deeply involved in the Pakistani neighborhood and Pakistan's relations with it have profound consequences for Islamabad. In addition to these five countries (four neighbors and USA), Pakistan's policymakers must also worry about Saudi Arabia, which also has many quarrels with the countries not too far from Pakistan's borders.

As Imran Khan settled down in the Prime Minister's office, he must have looked at the world beyond the country's borders and been impressed by the chaos that prevailed. Some of what is happening outside will have serious consequences for Pakistan. These included the hostile attitude adopted towards the country by Donald J. Trump, the United States' president. Islamabad was accused of not helping Washington with its doomed efforts in Afghanistan. Washington's hostility came at the time when the government of President Xi Jinping in China had recognized Pakistan as the lynch pin in the trillion dollar enterprise it called the Belt and Road Initiative (a separate chapter discusses the BRI).

The Changing Shape of the State

The CPEC is a government devised and government managed investment program. This means that the state must work for the people, not for a few groups that have until now dominated the political and economic spheres. The civilians who assumed control of the government in 2008 governed poorly. There was serious corruption in high places in the decade between 2008 and 2018. The 2008 election brought the Pakistan Peoples Party to power to be succeeded by the Pakistan Muslim League (Nawaz), that won in the elections of 2013. According to some recent revelations, those in power siphoned off large amounts of money from the government and placed it in private foreign accounts, mostly in the Middle East. The two parties governed poorly and ineffectively. Imran Khan's promise to improve the quality of governance attracted millions of voters to his side. They were not the captives of the baradari system, which had kept the previous political administrations in position. Khan promised that if elected, his government will serve the people. The developing CPEC program provides him with the opportunity to demonstrate that he is set on a course that would directly benefit the people.

This raises an important question: What should be the role of the state in serving the people? This question is being asked both in the West as well as in the developing world. A number of developments have once again put the spotlight on the function of the state and the environment in which it operates. First there was the decision by Britain to leave the European Union, the so-called Brexit move. Then there was the unexpected rise of Donald J. Trump in the United States and the popularization of his program to "Make America Great Again." The MAGA approach meant a strong preference for bilateralism over multilateralism. This was followed by the series of electoral triumphs of the extremist parties in several European countries inspired by the arrival of Donald Trump on the world scene and the fear that the Western cultures even their religions—were under attack by the arrival of over a million non-Christian and non-White immigrants to Europe. And then finally, there was the win in the Brazilian presidential poll of Jair Messias Bolsonaro. All these developments have brought nationalism to the center of political discourse.

The triumph of nationalism over globalism has manifested itself in a number of areas that should be of concern to community of nations. Global warming is one area where that has happened. The politics of global warming is a good example of how the role of the state in human affairs is being redefined across the globe. "It is three years since more than 150 heads of state gathered in Paris to negotiate a climate pact that, for the first time, covered the whole world," wrote Leslie Hook in the "big read" in the *Financial Times.* "The landmark deal—following tortuous talks—was celebrated as a triumph not only for the environment but also for global cooperation[6]." However, the rise of populism from Europe to Latin America and Asia has made the Paris Pact come under stress. Which was built on a set of ideas that no longer attract much support. Ideas travel across international borders particularly at a time when social media have become important communicators of mass-thinking. Only time will tell how Imran Khan and his party will be influenced by this global trend.

A World not in Good Shape

President Barack Obama was an optimist by nature. Whenever faced with a difficult situation, he was fond of invoking the Rev. Martin Luther King Jr.'s assertion that the "arc of the moral universe is long, but it bends towards justice." As the world observed the hundredth anniversary of the end of the First World War on the eleventh hour of the eleventh day of the eleventh month of the year there was much reflection on what went wrong. In 1909, Norman Angell wrote a book explaining that war between major powers was so costly as to be unimaginable. The book, *The Great Illusion,* became an international best seller, but just a few years after its publication a generation of Europeans and many Americans were destroyed by carnage of war. Could something similar happen now?

There are statesmen who believe that we could stumble once gain. French President Emanuel Macron had it right when he said that "in a Europe that is divided by fears, nationalist assertion and the consequences of the economic crisis, we see almost methodically the rearticulation of everything that dominated the life of Europe from post World War I to the 1929 economic crisis." During an address earlier this year to the European Parliament, the French President said, "I don't want to belong to a generation of sleepwalkers that has forgotten its own past." The president was drawing upon the work of the historian Christopher Clark in his book, *The Sleepwalkers.* In one of his weekly columns, Fareed Zakaria drew a parallel between what happened then, and what is happening now. "Economic growth and technological progress were accelerating then, as now. We are also seeing a surge in nationalism and the breakdown of cooperation, which were hallmarks of the 1920s. New great powers were ascending, as they are now. Democracies were under strain from demagogues, such as Italy, where Mussolini destroyed liberal institutions as he established control. And amidst all this was the growth of populism, racism and anti-Semitism, which were used to divide countries and exclude minorities as outside of 'real nation.' Of course, because of the pressures of the 1920s, we got the 1930s[7]."

The country's external environment was changing not only because of the souring of bilateral relations with the United States, it was also the result of the breakdown in the political and economic order that brought global prosperity and world peace over a period of 70 years. The initial nudge came from President Donald Trump. It was motivated by his desire to move his country back to the times when it was white and more Christian. The racial and religious dilution, which has resulted from demographic factors such as the large migration into the country and also higher fertility rates among the new arrivals, were of immense worry for some 35 to 40 percent of the United States population. This population segment has responded enthusiastically to Trump's election slogan, "Make America Great Again." MAGA has been understood by the Trump political base as "Make America White and Christian Again." This move also had repercussions in Europe with the political rise of a number of strong men who were troubled by the arrival into their country of more than a million Muslims displaced by the civil wars in the Middle East and economic turmoil in North Alinca. During his week-long visit to Europe in mid-July 2018, Trump spoke openly about the cultural and social damage migration was doing to Europe.

China's Increasing Presence in Pakistan

Even before the initiation of the massive CPEC program of investments, aspects of which we describe in the various chapters in the 2018 report, we had, in the 2017 report, termed the program as a game changer for Pakistan. Even before the launch of the CPEP initiative, China's relations with Pakistan were close. They were variously described in hyperbolic terms by leaders from both countries the relations were, they said, higher than the mountains and deeper than the oceans. How China's presence in Pakistan has developed is the subject of a later chapter in the book. Here I will briefly discuss three aspects of the continuing evolution of China-Pakistan relations.

One, Pakistan turned to China during the time Zulfikar Ali Bhutto was the country's foreign minister (1961-65). This was an effort to balance Pakistan's growing dependence on the United States. At that time, China was looking to breakout of the self-imposed isolation since the Communists took control of the country in 1949. Pakistan was one possible link with the world outside. At the same time, Foreign Minister Bhutto had concluded that the United States' interest in Pakistan that Field Marshal Ayub Khan, Pakistan's first military president, had promoted would continue for as long as it served Washington's strategic objectives. Over the long run, Pakistan needed to find foreign friends that could develop a mutually supportive relationship. Bhutto was right in concluding that China would be such an associate.

Second, the CPEC program was an important component of what the current Chinese president Xi Jinping calls the Road and Belt Initiative. The BRI would redirect the Chinese economy from total dependence on the West, in particular the United States, and shift it towards the countries and regions that were its neighbors or were close to it. The BRI is a multi-trillion dollar program that involves Chinese investments in developing infrastructure in nearly 70 countries in Asia, Africa and Eastern Europe eventually perhaps also Latin America. With the help of the BRI, Beijing would be able to reorient its economy by reducing the importance of the export of a low-cost manufactures to the West in its economy. Instead, it will supply investment goods to the countries covered by the BRI. The CPEC, therefore, is an important part of the Chinese effort to develop new international commercial links.

Third, there is a place for the CPEC in the developing US-China trade dispute. Pakistan is a very small player in the global trading system. It is not even a member of G-20 group of world's major economies. That said, Pakistan through CPEC would provide a new window to the Chinese through which they can and will look at a different world. China and the United States are now engaged in a deepening crisis involving a number of trade issues. Presidents Donald Trump and Xi Jinping met in Buenos Aires on the sidelines of the G-20 Summit to find a solution to the developing dispute. The result was a 90-day moratorium but basic differences were not resolved. What is clear is that the United States and China are pursuing very different strategies. Trump given to hyperbole, told the reporters who were flying back with him from Argentina to the United States that what he had negotiated with his Chinese counterpart was "an incredible deal. It goes down certainly—if it happens it goes down as one of the largest deals ever made." The Chinese description was much more measured. The country's Foreign Ministry characterized the meeting as very successful, adding: "The two sides proposed a series of constructive plans on how to properly resolve existing differences and problems[8].

It does not seem that Buenos Aires brought the United States and China closer on trade issues. What does this mean for Pakistan? The answer is obvious. China is a neighbor with geopolitical interests that match those of Pakistan's. The United States, at least during the presidency of Donald Trump, has distanced itself from Pakistan choosing India as a much more important reliable partner. The relationship built during the 1945-91 Cold War was being rethought. Then Pakistan and India were on the opposite sides. Pakistan was closely aligned with the United States, and India, while proclaiming to be a non-aligned nation, had a closer association with the Soviet Union. If a new Cold War breaks out between China and the United States fighting over trade related issues, Pakistan will place itself in the Chinese orbit while India will be with the United States.

Conclusion

In the BIPP 2018 annual report, while focusing on the CPEC as done in 2017, we have placed the Chinese program in a much broader context. We have made our approach much more dynamic, emphasizing that as both the domestic and international environments change, so must the scope and meaning of the CPEC. The 2017 Report's focus was much narrower, dwelling on the several aspects of the program. This time we have put the discussion in a context that includes the rapidly changing political environment in the country following the July 2018 elections and the climb of a new kind of political party, the PTI, to the pinnacle of power. Under the but still developing political order, the definition of the state as a deliverer of goods and services to the citizenry must and will change at the national as well as subnational levels. The arrival of nationalism and with it of religion in defining the role of the state will need to be watched by policymakers in Pakistan. Ideas flow across international borders, and Pakistan cannot be isolated from being affected by new thinking. Then there is the possible return of a new Cold War; this time focused on trade and investment issues rather than on enlarging geographic influence as was the case the last time around.

We have attempted to factor in these developments in giving the CPEC a different dimension. We will argue that the arrival of Imran Khan's government will necessarily lead to redefining the scope of the Chinese program. In that redefined effort, the state will need to play a greater role. We will suggest that the larger BRI and the CPEC, by far its most important component, could become critical means for delivering benefits to China. The CPEC is likely to be involved in China's building rivalry with the United States. In sum, by giving CPEC and its broadening scope we are giving the program in the 2018 report a new and expanding meaning.

Chapter

2 Pakistan's Economy: Short-Run Developments and Long-Run Challenges

Pakistan's Economy: Short-Run Developments and Long-Run Challenges

Farrukh Iqbal

Introduction

Economic performance in FY18 highlighted the disquieting fact that, despite a run of five years of rising growth, Pakistan was plagued by a crisis of confidence at the end of the fiscal year with declining reserves and a currency under pressure. This paradoxical situation came about because little progress was made in addressing long-run economic challenges, especially those related to ensuring fiscal and external account stability. What happened in FY18 (and continued through the first half of FY19) illustrates a persisting tendency: short-run growth episodes are not used to make progress on deeper structural challenges whose resolution would permit sustained long-run growth.

This chapter is divided into two parts: Part A covers recent economic developments in terms of the standard macroeconomic categories of growth, price stability, fiscal balance, and external balance. Part B covers the main long-run challenges faced by the economy in terms of raising adequate revenues for public investments and generating adequate exports for employment and economic growth.

Part A: Macroeconomic Developments in FY18

The economy presented two very different sides during the year. On the positive side, real GDP grew by 5.8 percent, the highest growth rate over the past ten years, and prices remained stable with the consumer price index moving up by only 3.9 percent. On the negative side, the current account deficit rose sharply to 5.8 percent of GDP while the fiscal deficit jumped to 6.6 percent of GDP. Reflecting these deficits, the gross public debt rose to 72.5 percent of GDP. Meanwhile, liquid international reserves fell from around $16 billion to just under $10 billion and the rupee depreciated by almost 14 percent against the dollar.

The new government that took over early in the new fiscal year faced an economic emergency from day one in that reserves were declining at a worrisome rate and there was pressure on the exchange rate. There was not enough in the treasury vaults to instill confidence. It was clear that support was needed from external sources. After some delay, the new government announced that it would seek funding support from the IMF and some bilateral sources. This announcement calmed the stock and foreign exchange markets for a while. This calm broke down in early December 2018 when the currency came under severe pressure despite the fact that the central bank had just allowed a sharp upward move of 150 basis points in the benchmark interest rate.

At mid-December, the time of this writing, the economy remains in a state of tension. Despite significant depreciation, market participants do not appear to be confident that the worst is over. Despite significant upward adjustment of the benchmark rate, buyers of government paper have overwhelmingly preferred three-month bills a trecent treasury auctions[1].

TABLE 2.1

Output and Price Developments

	FY15	FY16	FY17	FY18
Real Gross Domestic Product (Annual Percentage Change)	4.1	4.6	5.4	5.8
Agriculture	2.1	0.2	2.1	3.8
Industry	5.2	5.7	5.4	5.8
Services	4.4	5.7	6.5	6.4
Consumer Price Index (period average)	4.5	2.9	4.2	3.9
Gross Fixed Investment (as percentage of GDP)	14.1	14.1	14.5	14.8
Public	3.7	3.8	4.5	5.0
Private	10.4	10.3	10.0	9.8

Source: State Bank of Pakistan, Annual Report, 2017-18.

Sources of growth

All three aggregate sectors contributed togrowth. Agriculture grew by 3.8 percent, its best performance in 10 years industry grew by 5.8 percent, also a high in recent years services grew by 6.4 percent.

The agricultural sector appeared to have fully recovered from the growth shock of FY16 when a cotton disease sharply limited output. The crops and livestock subsectors both fared well. Among crops, rice and sugarcane experienced record levels of production while cotton recovered substantially, reflecting good weather conditions as well as specific economic incentives. Sugarcane (and wheat) continued to benefit from generous price supports while all crops continued to benefit from input subsidies.

The industrial sector saw acceleration in construction and manufacturing activities and some deceleration in the value added by the electricity and gas subsectors. The performance of the construction subsector was linked to CPRC;-related infrastructure projects while that of the manufacturing subsector reflected demand for consumer durables. Gas pricing and delivery issues affected smaller fertilizer manufacturing units and, unless resolved, portend more widespread distress in the future.

Among services, the wholesale and retail trade subsectors grew the most, followed by the government services. Other subsectors, such as finance, transport and communications, also grew, though at a slightly slower rate than in FY17.

Investment trends

The increase in GDP was fed largely by domestic consumption and not by investment. The gross fixed investment rate was around 15 percent of GDP with the private fixed investment rate at 10 percent, essentially unchanged from previous years. The stagnation of the private fixed investment rate is perhaps the strongest signal of the divergence between short-run developments and long-run trends that has come to characterize Pakistan's economic performance in recent decades. Despite rising growth, improving security, and increasing energy supplies since 2014, the private sector has been behaving as if it does not believe that the prospects of long run growth have improved. It is not investing more than needed to replace depreciated assets. In part, this may be due to the fact that, while some determinants of long-run investment have improved, others have deteriorated. Recent surveys of business confidence, for example, show that while concerns about security and energy have eased among foreign investors, concerns about a heavy tax burden have increased.

Price stability

Inflation continued to remain at a modest level, with the Consumer Price Index (CPI) registering growth of only 3.9 percent, much below its target of 6 percent and lower even than the rate recorded in FY17. This was largely due to a sharp drop in food inflation arising from strong domestic harvests and a comfortable level of food supplies. This offset an increase in non-food inflation arising from global commodity prices, including oil. Indeed, domestic prices of petroleum products rose at double-digit rates.

The inflation outcome was consistent as well with tightening monetary policy as the policy rate was raised by 75 basis points during the year.

Fiscal imbalance

The fiscal position of the government deteriorated sharply in FY18. While the target for the overall fiscal deficit at the beginning of the year was 4.1 percent of GDP, the actual turnout was 6.6 percent of GDP. Not only was actual fiscal performance far worse than promised, it undid the progress achieved during FY14-16 when it was constrained by the terms of the IMF agreement then in force. It was also completely out of line with the targets implicit in the Fiscal Responsibility and Debt Limitation Act (FRDA) which envisages a fiscal deficit limit of 4 percent of GDP for the period FY18-20 and 3.5 percent thereafter.

The main contributor to the enlarged fiscal deficit was an increase in current government spending. This went from 16.3 percent of GDP to 17.0 percent while development spending actually declined from 5.3 percent of GDP to 4.6 percent. The main sources of increase in current spending were the provincial governments. On the revenue side, while the overall revenue ratio declined relative to FY17, the portion coming from taxes actually increased from 12.4 percent of GDP to 13 percent. This was due in part to

TABLE 2.2

Fiscal Developments

Selected Fiscal Indicators as a Percentage of GDP	FY15	FY16	FY17	FY18
Government Revenue	14.3	15.3	15.4	15.2
Tax Revenue	11.0	12.6	12.4	13.0
Non-tax Revenue	3.3	2.7	3.0	2.2
Government Expenditures	19.6	19.9	21.3	21.8
Current Expenditures	16.1	16.1	16.3	17.0
Development Expenditures	4.2	4.5	5.3	4.6
Government Overall Deficit	5.3	4.6	5.8	6.6
Gross Public Debt	63.3	67.6	67.0	72.5

Source: State Bank of Pakistan, Annual Report, 2017-18.

revenues from an amnesty scheme announced late in the year which contributed about PKR 90 billion upto the end of June 2018. Non-tax revenues were lower because of a decline in receipts from the Coalition Support Fund as well as other sources, such as dividends from public sector enterprises and post office operations.

It is worth reviewing provincial fiscal performance as a contributor to the overall fiscal picture. During FY18, and from a financing gap perspective, the Sindh province ran a large fiscal deficit of PKR 34.7 billion rupees while Punjab ran a much smaller deficit of 17.4 billion PKR. KPK and Baluchistan ran surpluses of 10.1 and 24.4 billion PKR, respectively. This led to a consolidated provincial financing gap of 17.5 billion PKR even though the target at the beginning of the year was a surplus of PKR 347 billion.

Widening external account imbalances

Three external account developments in FY18 are of special note. First, the current account deficit rose to 5.8 percent of GDP as imports far outpaced exports. Second, a substantial sum of foreign direct investments flowed in for the third year in a row, related largely to Chinese investments under the CPEC initiative. Third, international reserves declined sharply. Each of these developments is elaborated below.

Exports increased from $22 billion in FY17 to $24.8 billion in FY18. This was encouraging since Pakistani exports had been languishing for a long while. At the same time, however, imports continued to rise, reaching $55.8 billion, up from $48.7 billion the year before. The continued rise is attributed to sustained domestic consumption needs, a larger oil imports bill due to an uptick in oil prices, and capital goods imports connected with CPEC investments. On the services side, remittances were recorded at $19.6 billion. While slightly higher than the FY17 level, remittances were lower in nominal terms than the $19.9 billion recorded in FY16, showing that the slowdown in the Gulf economies has had a negative impact on Pakistan's labor export earnings. All in all, these external account developments led to a current account deficit of $18.1 billion or 5.8 percent of GDP. The only time the current account deficit has been higher in the last fifteen years was in 2008 when it reached 8.2 percent of GDP and caused a major balance of payments crisis followed by a growth collapse.

Foreign direct investments of $2.77 billion flowed into Pakistan in FY18, the third year in a row that the inflow has been higher than $2.5 billion. The bulk of these flows came from China and were destined for the power and construction sectors. These sectors absorbed more than $1.5 billion, followed by the finance and oil and gas sectors.

Possibly the most consequential external account development was the sharp decline in international reserves from $16.1 billion at end-June 2017 to $9.8 billion at end-June 2018 accompanied by a depreciation of the rupee by 13.7 percent over the same period. These developments were clearly related to the persisting current account gap and associated financing needs. They may also have been triggered in part by anticipation of policy and performance uncertainty arising from the elections that were scheduled just at the end of the fiscal year. In the event, reserve depletion and currency depreciation continued after the elections as the new government struggled to reassure investors and businesses that they had a credible plan to reduce fiscal and external imbalances while maintaining a reasonable level of growth.

Part B: Long-Run Structural Challenges

The previous section on short-run macroeco-

TABLE 2.3

External Sector Developments

	FY15	FY16	FY17	FY18
Trade in goods (in billions of US dollars)	-	-	-	-
Exports	24.1	22.0	22.0	24.8
Imports	41.4	41.3	48.7	55.9
Current Account Balance (as percentage of GDP)	-1.0	-1.7	-4.1	-5.8
Other items (in billions of US dollars)	-	-	-	-
Direct Foreign Investment	-	2.31	2.74	2.77
Worker Remittances	18.7	19.9	19.4	19.6
Net Reserves with State Bank of Pakistan	13.5	18.1	16.1	9.8

Source: State Bank of Pakistan, Annual Report, 2017-18.

nomic developments has drawn attention to the fact that the recent phase of rising growth has been accompanied by rising fiscal and current account deficits which have, in turn, produced a situation where the currency is under pressure and reserves are depleting fast. In fact, this is a recurring feature of the Pakistani experience, and the latest Annual Report of the State Bank of Pakistan describes the outcome as a "familiar juncture."

In this section, we focus on two structural aspects of the Pakistani economy that contribute to this repeating cycle of boom and bust. The first is the country's inability to generate a high enough level of domestic revenues to support the investments that are needed to sustain a high growth trajectory for longer than just three or four years. The second is the country's failure to make use of its abundant labor force to generate and sustain an export-led growth process, similar to the path followed by many countries in East Asia in the past fifty years.

The challenge of increasing domestic revenues

We have seen in the prior section that Pakistan currently has a large fiscal deficit at around 6.6 percent of GDP. In fact, large fiscal deficits have been a recurring problem for Pakistan. In the last three decades, Pakistan has repeatedly gone to the International Monetary Fund (IMF) to arrange financing after running large fiscal deficits and experiencing reserves depletion. Are these recurring large deficits due to expenditure excesses or revenue insufficiency? Pakistan's government expenditure rate has not been excessive at around 21 percent of GDP on average. Furthermore, one might argue that its public investment rate, at around 4 percent of GDP on average, is on the low side for a lower middle-income country. The key to the fiscal deficit problem for Pakistan lies more in revenue insufficiency and composition than in expenditure profligacy although there are specific areas where expenditures could be controlled, such as those relating to selected public sector enterprises like Pakistan International Airline (PIA) and Pakistan Steel Mill (PSM) as well as those relating to energy subsidies.

On the revenue side, Pakistan has typically collected around 13 percent of GDP in overall revenues and around 10 percent in tax revenues. Tax collection rates are on the low side when compared with other lower middle-income countries such as India (11%), Morocco (24%), Philippines (13%), and Sri Lanka (13%). What is more alarming is that tax revenue is overwhelmingly obtained from indirect taxes (6.5

percent of GDP) with direct taxes only contributing a small share (3.5 percent of GDP). Furthermore, in recent years, there has been increasing recourse to withholding mechanisms, which have been applied to a wide range of economic activities including financial and trade transactions.

The tax "problem" is viewed differently by tax collectors and taxpayers. From the former's perspective, the problem is one involving a narrow tax base and low compliance. Some income sources, such as agriculture, are effectively exempted. Many potential tax payers (such as urban traders) are able to evade the tax net easily; only one million of a population of more than 200 million file tax returns. Among registered taxpayers, there iswidespread evasion as well. From the perspective of taxpayers, the problem is one of corruption on the part of tax collectors and complicated administrative procedures and ambiguous rules with excessive discretion given to tax collectors. Furthermore, registered taxpaying companies face multiple taxes from different federal and provincial agencies leading to a very heavy tax burden. In cases where tax or duty refunds are owed, companies are rarely given these on a timely basis or without bribes. From yet another perspective, that involving long-run growth considerations, the tax system is hugely distortive and inefficient. Distortions are introduced by many exemptions and subsidies awarded by governments of the day as well as by a focus, especially where trade taxes are concerned, on revenue generation rather than economic growth and efficiency.

Going forward, the tax system must be reformed in many areas, relating to both policy and administration. Among policy measures, the highest priority must be accorded to broadening the tax base and bringing more payers into the tax net. High priority should also be given to simplifying tax and customs laws and facilitating documentation of the informal economy. Exemptions must be rationalized and made subject to legislative oversight as well as fixed durations. The FBR should be confined to a tax administration role while tax policy should be set by a different agency. Policy reforms must also address problems in the division of tax assignments and responsibilities among federal and provincial authorities. In particular, where the needs of international competitiveness and economic growth require a reduction in corporate income tax rates, laws should prevent provincial governments from offsetting this larger national policy by raising rates in other areas, such as sales and excise taxes.

On the tax administration side, numerous suggestions have been made at different times by reform commissions and related bodies. Most revolve around the objectives of reducing the opportunities for corruption, improving capacity in tax offices, and making compliance easier for taxpayers. With regard to corruption, this can be reduced in part by minimizing the need for interaction among tax officers and taxpayers, assigning audit and related cases on a random basis, and limiting administrative discretion. Automation of certain tax administration processes could help in this regard. Capacity building is needed to ensure that tax officers can work with automated systems and software for monitoring and analytic purposes. Finally, improvements are needed with regard to taxpayer services with the aim of making it easier for taxes to be calculated and filed.

The challenge of getting on an export-led growth path

Though Pakistan has been involved in exporting both primary products and manufactures for more than sixty years now, it has never been able to develop exports as a growth engine. Meanwhile, other countries in East and South Asia, including some which started exporting manufactures later than Pakistan, have surpassed Pakistan in both volume and diversity of exports. Bangladesh best exemplifies a country that has seized opportunities that presented themselves to Pakistan as well. It currently has an export to GDP ratio of 20 percent compared to Pakistan's 12 percent. Bangladesh exports $37 billion worth of goods and services compared to Pakistan's $24 billion this year. Bangladesh exports $30 billion worth of garments whereas Pakistan exported only around $13 billion of textile products overall in FY18.

The importance of exports for Pakistan can hardly be overemphasized. Pakistan has a large unskilled labor force, and history suggests that the best way of employing such a labor force productively is in the manufacture of labor-intensive goods for export. Agriculture, which is where much of this labor force is presently employed, does not offer a similar path to prosperity. Indeed, agriculture tends to shed labor in the process of development. Until recently, jobs in the Gulf countries had provided a vent for the employment of Pakistan's unskilled (and skilled) labor. These jobs are, however, linked to the price of oil and, in recent years, low oil prices have reduced job opportunities in the Gulf countries as well. Robust exports would also provide Pakistan a way to escape macroeconomic difficulties brought on by large current account deficits.

What prevents Pakistan from exporting more? Surveys of existing and potential exporters routinely suggest that the following factors have been the chief impediments to expanding exports: (a) high energy costs and unreliability of supply; (b) tax policy and administration, including customs processing; (c) exchange rate policy and (d) transport and warehousing problems.

Energy costs arise mostly from gas and electricity tariffs. Not only have energy costs been high and volatile in recent decades, energy has not been available on a reliable basis. Power and gas outages have adversely affected export industries that need to deliver product shipments on time to get repeat business. Pakistan's exporters typically face energy costs that are higher than those faced by its competitors in India and Bangladesh. In recent months, the new government has chosen to provide subsidized energy to the top five exporting sectors. This policy will certainly help but is of no use to potential exporters seeking to build markets in new products.

There are far too many taxes that apply to businesses in general and exporters in particular. Indeed, as many as 56 separate federal, provincial and local level taxes apply to manufacturing sector businesses in Pakistan, and most of these have to be paid at different times to different agencies in different locations. Some amount of consolidation and reduction is surely necessary. Duties on imports also add to costs;in some cases, they are so high that they make exporting impossible. In other cases, they are supposed to be offset by drawbacks, but these in turn are not processed in a timely manner.

Tax administration is another burden, requiring negotiations with many agents and agencies. For exporters, a special problem is the fact that sales tax refunds and duty drawbacks are not paid on time and usually not without bribes. Customs clearance times can be long and variable and usually require facilitation payments. Even though customs software has been installed at many locations, power outages and general internet connectivity problems allow inspectors to resort to manual processing with attendant problems of bribes and delays. If exporters cannot clear imported inputs in a timely manner, their competiveness suffers.

By keeping the nominal rate fixed for long periods of time, exchange rate policy in Pakistan has often tended to allow the currency to appreciate in real terms. This is inevitably followed by a substantial adjustment down the road. Exporters prefer a policy that allows steady depreciation, when necessary, rather than one that generates large changes that may overshoot because they are usually undertaken in contexts of great policy or political uncertainty. Predictability and gradualism in exchange rate management help maintain export competitiveness.

Transport and warehousing are important concerns for exporters. The ability to get goods in and out rapidly and at low cost is an important competitive advantage. Unfortunately, despite improvements in road infrastructure over time, many impediments remain. The most critical of these is the proclivity of provincial governments to levy multiple transit fees and taxes. At the very least, these should be consolidated under one agency so that only one payment is required for one consignment; the agency can then distribute the appropriate shares to different provinces and local authorities. Another critical issue is the lack of dry ports. Many existing dry ports are not operational, whichincreases travel and dwell time for consignments. When different agencies insist on inspecting consignments at different points along the travel route that also adds to costs.

On the whole, successive governments have not focused on exports as a key element of long-run development strategy. They have usually been preoccupied with short-run economic management in which revenue generation has the highest priority. As a result, policies and practices abound that are unsuited to export expansion. For example, intermediate and raw material imports attract relatively high tariffs. These are detrimental to export competitiveness. The same is true of the slew of taxes that are applied to Pakistani businesses, especially those that are in manufacturing. Even when sales tax refunds and duty drawbacks are made available to exporters, long delays in providing these undermine their incentive value. The most important step any government can take for long-run growth is to make exports a true economic priority and then coordinate policies at the highest level so as to remove or reduce impediments to exporting.

Conclusion

Short-run growth does not necessarily indicate that the economy is on a sustainable trajectory. In Pakistan's recent experience, episodes of short-run growth have been more in the nature of spurts that fizzle out as fiscal and external imbalances mount and lead to declining reserves and pressure on the currency. In the end, attention has to be paid to fixing the sources of fiscal and external imbalances themselves rather than relying entirely on finding temporary external financing to avert a growth collapse. During FY18, this aspect of the Pakistani economy came to the fore even more sharply as a serious reserves and currency crisis emerged during a year that otherwise saw the country's highest economic growth rate in a decade.

Chapter

3 The CPEC and Pakistan's Growing Dependence on China

The CPEC and Pakistan's Growing Dependence on China

Shahid Javed Burki

Introduction

Upon taking office on August 18, 2018, Prime Minister Imran Khan faced several challenges. Among the more difficult ones was to stabilize the economy, which was under great financial stress. Choices before the government were limited. It could go to the International Monetary Fund to ask for a quick flow of funds but that would have come with conditions. Going by the Fund's tradition, the institution would ask for a severe reduction in government expenditure. This would have meant a reduction in the funding of the programs the new prime minister had promised to his constituents while campaigning in the elections. Imran Khan could approach the friendly governments such as China, Saudi Arabia and the United Arab Emirates for emergency relief. The new government chose to do both: to appeal to the friends and also approach the Fund. At the same time, he promised to make the government he headed to be careful about the way it was spending its limited resources. It launched an austerity drive and appointed an able and experienced person to take charge of that operation.

The new Prime Minister made it clear that the effort to reduce what the government spends on itself would not impact the implementation of the China-Pakistan Economic Corridor program. The CPEC will continue to have the full support of his government. The main purpose of the discussion in this chapter is to place Pakistan's growing dependence on China in a number of different contexts. First there will be a brief discussion of how Pakistan's evolving relations with the United States are placing Islamabad firmly in the Chinese orbit, a country various Pakistani leaders have called an "all weather friend." The orbit itself has been affected by China's relations with the United States, which have never been as rocky as they are today.

United States-China Relations: A Dilemma for Islamabad

The global system is now dealing with two very different stresses. Donald J. Trump, the American president, is the source of the first. He has pronounced the "America First" approach towards the world when he delivered his inaugural address on January 20, 2017 to become America's 45th President. The United States will no longer be constrained by the need to accommodate the interests of other countries and regions in dealing with the world. The world will be run on the basis of bilateral deal making rather than on the basis multilateral policymaking.

The second source of global tension comes from

Beijing with the political rise of President Xi Jinping. He has succeeded in consolidating his hold over China and may remain in power longer than the two terms that became the norm in the post-Deng Xiaoping era. President Xi is now engaged in projecting China's power well beyond the country's borders. Some analysts believe that the growing rift between China and the United States goes beyond economic interests. According to Nicholas Kristof, *The New York Times* columnist, "Presidents Donald Trump and Xi Jinping are a bit alike, and that presents a danger to the global order. The American and Chinese leaders are both impetuous, authoritarian and over-confident nationalists, and each appears to underestimate the other's side's capacity to inflict pain. This dangerous symmetry leaves the two sides hurtling toward each other [1]."

Will the uninterrupted Chinese rise be affected by what some trade analysts are calling an economic cold war? By the end of September 2018, the United States and China had slapped tariffs on the entire trade between them which exceeds $635 billion annually. Trade experts anticipate "an economic partition reminiscent of the globe-splitting divide between the United States and the Soviet Union following the end of World War II [2]. " What is occurring is a fundamental reshaping of United States-China commercial relationship after nearly four decades of growing interdependence. These growing links had ushered in a period of globalization with shared benefits by all those who participated in the process. The emergence of a global economy shook financial markets and reordered business supply chains. The United States-China annual goods trade almost doubled since 2006. If there is a real breakdown in the relationship between the two countries, it would affect about 40 percent of the global economy.

Donald Trump, the United States President, says that he has resorted to tariffs to compel China to abandon a host of unfair trade practices including making American companies give up their trade secrets in return for access to the Chinese markets. Washington is also unhappy that China subsidizes state enterprises that dominate the country's economy. Commercial relations with China do not take place on a level playing field.

The Trump administration has taken other steps besides the imposition of tariffs that will have consequences for economic relations with China. It is discouraging Chinese investment in the United States. Congress this year passed legislation, with the support of the White House, to investigate more closely potential Chinese acquisitions of American high-tech companies. According to one analyst, Michael Hirson, director for Asia at the Eurasia Group, some administration hardliners would be happy to see the trade and investment restrictions lead to the decoupling of the United States and Chinese economies. According to Caroline Freund, a senior official at the World Bank, a 25 percent tariff applied to all US-China trade would result in a decline in the US economy of about 1.6 percent of its GDP or $320 billion.

Those who observe China argue that President Xi cannot show weakness to his people in the manner of his response to the American moves. The Chinese president "is trying to show strength on the world stage as the Chinese public, whose respect is crucial to his sustained power, increasingly bashes Trump online for picking on China[3]."

The Chinese reaction to these moves by the United States took nationalist overtones. Chinese government issued a report accusing the Trump administration of a foreign policy based on "trade bullying" and attempting to impose its own interests on China through extreme pressure. It has brazenly preached unilateralism, protectionism and hegemony, making false accusations against many countries and regions, particularly China." Centuries ago, Thucydides, the Greek sage, wrote that when a rising power challenges the one that has been the dominant one, open conflict is inevitable. For him conflict meant war, not a trade war.

In his two speeches at the United Nations in the week of September 24—one at the General Assembly and the other at the Security Council—President Donald Trump came out openly against what he termed as Beijing's meddling in his country's internal affairs. He complained that in response to the imposition of tariffs by his administration on Chinese imports, Beijing had retaliated by imposing tariffs of its own aimed at American farmers and other politically sensitive constituencies in the states that support him. "They do not want me or us to win because I am the first president ever to challenge China on trade, and we are winning on trade—we are winning on every level," he told the press after his two speeches. China stiffly denied the president's accusation. "We do not, and will not, interfere in any country's domestic affairs," said Wang Yi, the Chinese foreign Minister. He further added "We refuse to accept any unwarranted accusations."

Other American leaders joined the American president to be openly critical of China. In a speech delivered on October 4, at Hudson Institute, a conservative Washington-based think tank, Vice President Mike Pence warned of a tougher approach toward Beijing. He accused China of using "political, economic and military tools, as well as propaganda, to advance its influence and benefit its interests in the United States." The Chinese seemed to be getting exhausted by the constant attacks on their country by the senior leaders in the Trump administration. They gave cold treatment to U.S. Secretary of State Mike Pompeo's five-hour visit to Beijing on his way back from Pyongyang.

The Meaning of China's Rise

There are several ways of looking at China's rise not only in terms of the size of its gross domestic product. It may soon overtake the United States and become the world's largest economy. China is also gaining on the United States in other ways. Mary Meeker's latest internet trends study shows that five years ago China had only two of the world's largest publicly traded technology companies while America had nine. Today, China has nine out of the top twenty while the United States has eleven. China's plan is to catch up with the United States in Artificial Intelligence (AI). AI is built on how much data can be fed into the machines, and the fact that China has so many more people generating information it has a definite edge over the U.S.

China's rise and the way it was interpreted sent the new American president in the direction in which he did not want to go. It resulted in a reversal in Donald Trump's approach towards foreign assistance. In early October, and with no fanfare, the US president signed a bill that created a new foreign aid agency the United States International Development Finance Corporation and gave it authority to provide $60 billion in loans, loan guarantees, and insurance to companies willing to do business in developing nations. "The move was a significant reversal for Mr. Trump who has harshly criticized foreign aid from the opening moments of his presidential campaign in 2015," wrote Glenn Thrush in *The New York Times* providing details of how and why the new approach was developed. Since taking office, Trump had proposed slashing $3 billion in foreign aid, backed eliminating funding for the Overseas Private Investment Corporation, and taken steps to gut the US Agency for International Development (USAID) that provides $22.7 billion a year in grants around the world. "The presidential shift has less to do with a sudden embrace of foreign aid than a desire to block Beijing's plan for economic, technological and political dominance. China has spent nearly five years bankrolling a plan to gain greater global influence by financing big projects across Asia, Eastern Europe and Africa[4].”

From what senior officials in the Donald Trump administrationhave said or have written, it would appear that behind the assault on the global economic system there is a clear strategy. The strategy is not because of the whims of the leader who has been called reckless and thoughtless. That is not thecase, say some of the senior administration officials. “President Trump’s maxim that ‘economic security is national security’ comes with an important corollary: A strong manufacturing base is critical to both economic prosperity and national defense,” wrote Peter Navarro in op-ed article for *The New York Times*[5].This approach showed poor understanding of the way the global economy was evolving and the role more developed systems were set to play. Manufacturing would no longer be the basis of economic dynamism in countries such as the United States and those in Western Europe. Both had aging populations that could not provide the work force an economic system based on manufacturing would require. Instead, the focus had to be on the development of modern services.

While President Trump focuses on the large trade deficits his country runs with most trading partners, his real worry is about the decline in manufacturing prowess. The president ordered an assessment of America’s manufacturing and industrial base. The study was carried out by the Department of Defense and took a full year to complete. For the administration, the conclusion was worrying. It identified almost 300 vulnerabilities, ranging from dependencies on foreign manufacturers and looming shortages of workers with needed skills. It also highlighted, what it called, the “single points of failure” involving the reliance on foreign manufacturers for critical equipment or material.

With the very divergent paths the United States and China are taking in global affairs, is a conflict between the two inevitable? If it does occur, what will be its global implications, and how will this increasing rivalry between the two new super-powers affect Asia, in particular the countries of South Asia? All large South Asian nations are being affected resulting in realignments that would be significant for their future. This is where for Pakistan the CPEC enters the picture. It will reorient Pakistan’s economic system in an entirely different direction. It will also change the orientation of Pakistan’s external affairs.

In looking at the dynamics of the United States relations with China, one cannot but be impressed with the role reversal that has occurred. For several decades after the end of the Second World War, the United States spent time and effort to create a new world order in which nations would play collectively by agreed rules. There would be collective decision-making and no country, no matter how powerful, would dominate the evolving system. Institutions would be established to mind the many aspects of the global economy—the International Monetary Fund (IMF) for managing global finance, the World Bank and the regional banks for providing capital for development, and eventually the World Trade Organization (WTO) for the conduct of international commerce.

It took 50 years to complete the system with the creation of the WTO in 1995. China decided to stay out of the structure that was built; its leaders worried that its ideology and the way it managed its affairs would get contaminated by any opening to the outside world. That began to change with the death of Mao Zedong in 1976 and the rise of Deng Xiaoping as China’s Supreme Leader. China joined the world economic system, coming into the IMF and the World Bank in 1981 and into the WTO two decades later. It is now the world’s second largest economy after the United States. If the present growth trends in the two countries stay on course, China may overtake the United States in a couple of decades and become the world's largest economy.

China: Now the Champion of Globalization

As Henry Kissinger wrote some years ago in his book, *On China,* the Chinese leadership never overlook their history.[6] They have learnt a lesson from Deng Xiaoping's opening. The benefits far exceeded their expectation. 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 expressed quite the opposite sentiment.

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 system and the organizations that supported it 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. That choir included instruments such as the Road and Belt Initiative and its component the China-Pakistan Economic Corridor. China needs global stability to make progress to achieve its objectives. It is now engaged in redefining its economic ambitions and also determining the strategy it should follow to go where it would like to head. There are three elements in the current Chinese thinking that need to be noted.

First, the period when China built its economy on the basis of exports of cheap manufactures is over. It no longer has low-priced labor and, for demographic reasons, the western markets to which most of its products went are not expanding as rapidly as they did in the past. There are fewer and fewer Western youth heading to the market places. China must look for other ways, and one of them is to develop an industrial base that depends on it becoming the leader in the new industrial production system taking shape. This relies on linking production enterprises through supply chains that embrace the entire world, developed and emerging. Apple products are good examples of the working of this evolving system of production. The products are designed in Apple's laboratories located in Seattle, on America's West Coast. They are assembled in a giant Taiwanese-owned plant in China's south from scores of parts and components imported from dozens of supply plants mostly located in East Asia. Pakistan with successfully implemented CPEC could get a toehold in this supply-chain system of production.

Second, China for demographic reasons would want to move its population from the crowded East Coast to the almost empty west. But this will need opening to the countries that are on its west and through them to reach the sea. To have that happen, it must open land routes and practice land-based commerce. It is in this context that it has announced a massive program of investment to improve connectivity with the countries in its neighborhood. It is this thinking that has shaped President Xi Jinping's Belt and Road Initiative (BRI).

Third, China is pursuing relentlessly the objective of becoming the world leader in new technologies. Even if the United States tries to stay in the lead, it will have to invest much more than what it is doing at present. The Chinese investment, most of it from the institutions controlled by the state, is increasing at the rate of 14 percent a year, more than three times the rate of growth in the United States. But China also has an aging population, the result of the "one-child" policy it enforced for years. New technologies on which it is relying to propel the economy would require highly trained workforce. The CPEC has given Pakistan an opportunity to become a participant in this process.

The United States-China Trade Dispute and Consequences for Pakistan

How should Pakistan navigate the rough waters created by the growing American hostility towards China? This is a challenge for the regime headed by Imran Khan, Pakistan's new Prime Minister. The deepening US-China conflict came at a time when the Khan administration was still in the process of finding its diplomatic feet. Islamabad under new political management was prepared to be forgiving. The fact that the United States' President had spoken harsh words about Pakistan would not be allowed to affect relations between the two countries. According to Foreign Minister Shah Mahmood Qureshi, the United States-China relations were passing through some tense moments, but these would not be factored into Pakistan's dealings between the two countries. Since these words were spoken, the verbal duel between Washington and Beijing heated up. Would Islamabad not be affected by the sharpening of the conflict between the two nations that have played supportive roles for Pakistan?

Looking at the country he had inherited on July 28, 2018 from the previous set of rulers and listening to the advice of those who were close to him, Prime Minister Imran Khan concluded that his first task was to ensure Pakistan's financial stability. Pakistan suffered from sharp increases in the fiscal and balance of payment gaps. These, the economist Hollis Chenery had identified in his "two gaps model" formulated decades ago, with which almost all developing economies had to contend. To deal with these gaps, developing nations had to undertake far-reaching structural changes aimed at increasing domestic savings and exports. However, since such structural change would take years to yield results, the developed world was urged by Chenery and other economists who worked with him to come to the aid of developing nations. Most of the developing world was made up of scores of countries in Asia and Africa that were coming out of decades of colonial role.

The two-gap model became the framework within which bilateral aid agencies and multilateral development banks formulated their economic assistance programs. It also provided the basis on which rich countries promised to provide 0.75 percent of their GDP to poor nations. Chenery was invited by Robert McNamara to join him when the latter was appointed by the United States to head the World Bank in 1968. For several years, Chenery served as the World Bank's Chief Economist. As suggested by Chenery, Pakistan has had to deal repeatedly with the two-gap problem with both balance of payments and fiscal gaps. Each time it opted for the short term, rushing into the arms of the IMF to obtain the needed finance. It did not focus on changing the structure of the economy, which could have made economic development self-sustaining. The CPEC provides an opportunity to the country to undertake that long-postponed structural change.

However, Imran Khan upon taking office had to deal with not two but three gaps. The third was the wide gap between the aspirations of the country's youth and the ability of those who governed to satisfy them. While his "first hundred days" program was focused on meeting some of what his constituency of the youth in the urban areas expected of him, he chose to focus a great deal of his attention and energy on solving the problem created by the balance-of-payments gap. Some of this had begun to be corrected by the sharp decline in the value of the rupee. That it was allowed to happen was a reversal of the policy adopted by the Pakistan Muslim League government, which had held office for five years, from 2013 to 2018. Ishaq Dar, Mulsim League administration's finance minister, believed in keeping the rupee strong, which had resulted in Pakistan losing ground in such traditional exports as textiles and leather products. The large Pakistani diaspora was also holding back on sending remittances to the country of their origin. On top of this, the State Bank of Pakistan, the country's central bank, was using its foreign currency reserves to keep the rupee strong. This was being done by selling dollars to buy rupees. Consequently, there was a significant decline in the amount of official foreign exchange reserves. By the time Imran Khan took office, the reserves had declined to less than $8 billion, equivalent to two months of imports. The reserve level had fallen below that needed for the country to be creditworthy for borrowing from the International Bank for Reconstruction and Development (IBRD) window of the World Bank.

There was a great deal of commentary in the domestic media inevitably picked up by the foreign press suggesting that Pakistan was heading towards a major financial crisis. It was this widely held perception that had the economic leaders of Pakistan to ask for help from the International Monetary Fund (IMF). The new finance minister met with the Fund's Managing Director at the Bank-Fund annual meetings held this time in Bali, Indonesia. She indicated that a team would be sent to Pakistan to develop a program of reform which, if acceptable to the Islamabad authorities, would result in the thirteenth Fund operation in the country. This raises an obvious question: would the Imran Khan administration be able to reconcile the Fund's policy demands with what the main components of the PTI constituency expect from the new government?

Prime Minister Imran Khan seems to have been persuaded that his first priority should be to feed new financial resources into the coffers of the central bank rather than give his entire attention to satisfying the needs of his constituents. He traveled four times out of Pakistan during his first few months in office. There were two visits to Saudi Arabia one of which included a side trip to the United Arab Emirates one to China and one to Malaysia. The visit to Riyadh yielded a promise by the Saudi authorities to provide $6 billion worth of relief to Pakistan. One half of this was to be in the form of a short-term deposit in the State Bank of Pakistan and the remaining to finance import of Saudi oil on concessional terms. The Kingdom also indicated interest in building a large oil refinery in the port city of Gwadar. There was some talk of Saudi Arabia becoming a partner in the China-Pakistan Economic Corridor initiative.

The Prime Minister traveled to China for a four-day visit at a time when several influential voices in Pakistan had indicated that his presence was needed in the country. The government's authority had been seriously challenged after the decision by the

Supreme Court to dismiss the charges of blasphemy leveled against Aasia Bibi, a woman from a poor Christian community in the province of Punjab. Lower courts had sentenced her to death, but the verdict was overturned by the country's Supreme Court. This agitated the religious extreme right, whose leaders called out their followers to bring life in the country to a virtual halt. One of the religious leaders encouraged his followers to kill the judges who had given the verdict and for the religious elements in the army to mutiny against their superiors. This agitation, many in the country believed, had to be handled with firmness and needed the full attention of the prime minister. But Imran Khan decided to go to Beijing and Shanghai to further develop the already strong relationship with China. However, the expectation that Khan would return with a package of support from Beijing was not realized. The Chinese instead focused on reformulating the CPEC initiative in a way that would provide support in the form of projects demanded by Khan's constituency.

The Prime Minister succeeded in placing Pakistan-China relations within a longer-term framework of association rather than the provision of short-term financial relief many in Pakistan expected. Developing an institutional basis for formulating long-term economic relationship is much more important than having Beijing deposit a large amount in the State Bank of Pakistan.

China's Changing Circumstances

Beijing-Islamabad relations need to be understood in the context of the rapidly changing global environment. These relations are informed by a number of considerations.

First consideration is the role Beijing sees Pakistan playing in China's new development paradigm that focuses on land-based commerce as a way of diversifying its economy. China has outgrown the model of economic development that produced what the World Bank in its 1993 study called the East Asian miracle economies. This relied on export-led growth in which activist states encouraged manufacturing enterprises to produce cheap items of daily consumption in the Western markets. To make use of this approach were Japan and some of the smaller states in East Asia including South Korea and Taiwan. South Korea is now regarded as a developed country. It is now a member of the rich nations' club, the Organizations for Economic Cooperation and Development (OECD). China's rise has been equally spectacular. In a bit more than a quarter century from 1980 to 2007 the Chinese were able to increase 32-fold the size of their gross domestic product. This growth meant increasing income per head of the population 25 times. As a result, China no longer has cheap labor it could use to produce the manufactures in demand by the West. It needed to diversify its markets and find new ways of reaching them. After President Xi Jinping consolidated his power, he turned his attention to implementing the new approach to development and that is an important part of this approach.

China has a deep concern about the rise of Islamic extremism in Central and Western Asia including Afghanistan and Pakistan. There is a fear in China that, unchecked, this development could reach its western provinces, in particular the Autonomous Region of Xinjiang that has a large Uighur population. These are people of Turkish origin, speak a dialect of the Turkish language and are Sunni Muslims. Xinjiang borders both Afghanistan and Pakistan.

Beijing, is also concerned about the challenges posed to China by United States' President Donald Trump. In response to Washington's provocation, China has begun to develop its own sphere of influence centered on the countries with which it has common borders. Pakistan is one such country. China is worried about the emphasis Washington is placing on developing what it now calls the Indo-Pacific region.

The CPEC in the Context of China's New Policy Imperatives

The CPEC initiative meets very well the demands of changing times in both China and Pakistan. President Xi Jinping's Belt and Road Initiative,of which the CPEC is the most important part, will reduce China's dependence on the United States a dependence that President Donald Trump has held as a sword of Damocles on Beijing's head. With the new trading routes in place as a result of the BRI, China would have access to new markets on its west to which it will be able to sell a new set of products. The country will be able to move away from the low-wage manufactures, the export of which to the western world fueled its economic rise, to skill intensive products and services.

While the western press has given a great deal of attention to what it calls China's Xinjiang problem, it is not recognized that in the restive population of that area, religion is less of a problem than the lack of economic progress. The area's people resent that they have not benefited as much from China's remarkable economic and social progress over the last quarter century. Relative isolation was a major part of the problem. The BRI in general and the CPEC in particular would be able to open China's western provinces to economic advance. Trading with Pakistan and through Pakistan with Central Asia, Eastern Europe and Africa will put western China on the international economic map. That would do a great deal to take care of the resentment that is currently fueling unrest in the provinces such as Xinjiang and Ningxia.

The CPEC will be a game changer for Pakistan by improving regional connectivity and bringing the country's more backward areas into its economy. Connection with China would develop Pakistan's millions of small and medium sized enterprises as part of the enormous supply chain that has formed China's industrial base. In sum, the CPEC will serve both China and Pakistan well.

Chapter

4 CPEC Progress Update

CPEC Progress Update

Dr. Daud Ahmad

Introduction

The China Pakistan Economic Corridor (CPEC) is part of China's new global initiative, known as the Belt Road Initiative (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. The 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 now enlarged to US $60-65billion with addition of new projects. Nearly US $24 billion is already committed under 20 completed and on-going projects.

The CPEC is intended 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 shortage needed to boost Pakistan's economic growth. Eventually, the CPEC will also facilitate trade along an overland route that connects China to the Indian Ocean, linking the ancient Chinese city of Kashgarin 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 the Indian Ocean.

CPEC Components

The Long-Term Planfor CPEC defines 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 non-governmental (P2P) exchanges; and financial cooperation in financial markets/institutions.

As expected, the composition of CPEC projects is evolving. The Government of Pakistan website/ on CPCE is the main source of information on projects currently included in the program.[1] Only basic information is available on committed projects. Additional information on some individual projects is available on Wikipedia. For projects under consideration, the available information is scanty; in some cases, only the name of the project is listed. A number of projects in the energy, infrastructure, and Gwadar Port were identified for fast track implementation. The table below provides a breakdown of the CPEC projects by sectors and provinces, as per the CPEC web site information posted in October 2018. It should be noted that this breakdown is rough in the sense that cost information on a number of projects is not available and, some projects are multi-province with no inter-provincial allocation stated. The energy sector, with 61% of total funds allocation, dominates the program. The infrastructure project cost mainly consists of the mega ML1 (Peshawar-Karachi) railway line upgrade and one section of the M1 highway (Multan Sukhar).

TABLE 4.1

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	n.a
Punjab	8	13,452	35.4	4	4,872	2	8,580	-	-	2	n.a
Baluchistan	15	3,023	7.1	1	1,912	4	319	9	792	1	n.a
Sindh	16	14,304	33.6	12	12,132	2	2,172	-	-	2	n.a
AJK/ GB	7	4,053	9.5	4	4,053	-	-	-	-	3	n.a
Total	55	40,459		24	29,925	13	15,242	9	792	9	
% of Total					60.9		37.2		1.9		

Source: www.cpec.gov

CPEC Financing Arrangements

CPEC financing falls under the umbrella of BRI. China has accumulated over $3 trillion in foreign exchange reserves. It can be used both for investment and for buying influence around the world. Bulk of the investments would be through commercial contracts between corporate entities on both sides with commercial loans from Chinese sources. China has set up a framework for BRI financing consisting of the following three financial institutions for this purpose: Silk Road Fund (SRF), Asian Infrastructure Investment Bank (AIIB), and the New Development Bank (NDB).

CPEC projects are being negotiated on a government-to-government basis, with Chinese firms selected by Beijing. The infrastructure projects are covered by low or zero-interest concessional loans that include financing from China's Export-Import Bank and the Silk Road Fund. All the Chinese loans will be insured by the China Export and Credit Insurance Corporation (Sinosure) against non-payment risks for a fee of ~ 7%, and the security of the loans is guaranteed by the state. The details of the financing, primarily in the form of loans but also a small number of grants, have not been publicly released, and the terms vary considerably. The bulk of CPEC financing is for energy projects, which will be executed in the Independent Power Projects (IPP) mode. Under this, foreign investors are guaranteed a minimum 17% rate of return in dollars on their equity investments. The loans will be taken by the Chinese companies, mainly from the Chinese Banks, against their own balance sheets. These borrowings would not impose any liabilities on Pakistani government. The infrastructure components of CPEC are to be financed through government-government loans on concessionary terms, reportedly 2%; debt servicing would be Government of Pakistan's (GoP) responsibility. A number of other reports in the media paint a different and unfavorable picture of the financing arrangements and resulting debt burden. According to the USIP report, the current financing types for CPEC can be summarized as: foreign direct investments 64%, concessional loans 24%, commercial loans 6%, and grants 1%. The financing arrangements will, no doubt, have a major impact on the success of the project[2]. According to the governmentestimates, repayments on CPEC portfolio loans will start in 2021 with about $300-400 million annually and gradually peak to about $3.5 billion by fiscal year 2024-25 before tapering off with total repayments to be completed in 25 years[3].

CPEC Implementation Arrangements

The current information available for the CPEC implementation arrangements is very rudimentary. A joint cooperation committee has been established co- chaired by Pakistan's Minister of Planning Development and Reforms and the Chinese Vice-Chairman of the National Development and Reform Commission. Under this umbrella, five 'working groups have been established for: Planning, Transport Infrastructure, Energy, Gwadar Port and Industrial Parks Economic Zones. For each project, a responsible agency, a supervising agency, and an executing agency are designated, but few details are available on the due diligence process — feasibility, design, and construction details. The provinces will, no doubt, have a key role as they will provide land for the development projects and allied facilities. Pakistan army is taking the responsibility for project security. The scale and scope of the CPEC program would warrant a transparent and robust implementation framework, which involves all stakeholders, particularly the provincial governments. It is a huge challenge which will require strong commitment at all levels. The Indus Basin Project of 1960s-70s, in current terms, was an equally large undertaking, which Pakistan handled successfully in a professional manner with little political interference.

The Energy Projects, which compose the bulk of CPEC investments, will be executed under the IPP mode. The Developer (usually a partnership between local and Chinese investors) is responsible for planning, designing, financing, construction, and implementation of the project. They will seek commercial financing from Chinese banking sources. On the GoP side, the Private Power and Infrastructure Board (PPIB) is responsible for approval of the project scheme, National Electric Power Regulatory Authority (NEPRA) sets the tariff rates, and the National Transmission Distribution Company signs the power purchase agreement.

The infrastructure projects are being managed as government projects by the concerned ministries (MoC, MoR, MoPS etc.). Line agencies like NHA, and Gwadar Port Authority (GPA) are responsible for construction of the respective projects. MoR will be the executing agency for the large railway component of the CPEC.

The proposed nine or so Special Economic Zones (SEZs) are all atthe planningstages; three of these are proposed for Phase I. These will be developed with public/private partnership, in which the Government, Zone Developer and the ZoneInvestors will participate. The Government Agencies will be responsible for: selling/ leasing of land to the Zone Developers; providing incentives to the developers (10-year tax holiday and one-time import tax exemption on capital goods; providing necessary off-site infrastructure to the site, review and approval of the Zone Master Plan, and a one-window investment facility through the Board of Investment.

The Zone Developer (private or private public partnership) will be responsible for: preparation of the Zone Master Plan; development of the site as per approved plans, and allocation of plots to investors. The Zone Investors will have to start construction within six months and complete construction within 24 months of the plot allocation. The land title for the plot will be issued to the Zone Investors six months after the start of production.

Current Status

The Government CPEC web site provides the basic information on the status of various projects. This information is summarized in the attached Annex 1. Table 4.2 provides an overview of the implementation status of the CPEC projects. The long CPEC list has over 55 projects. It is reported that China has committed to 30 early harvest projects, of which 19 are completed or under construction, adding up to about $23 billion[4].The CPEC should be seen as "work-in-progress" rather than a single mega-package. In summary, construction works are underway on a couple of road projects one in the northern section of the Karakoram Highway (Thakot – Havelian) and the other on the eastern alignment (Multan- Sukhar). A number of ongoing power projects (Sahiwal Coal and Bahawalpur Solar), which were added to CPEC, are at completion stages. Gwadar port projects are receiving high priority. Rest of the projects are mostly at the feasibility/preparation stages. It should be recognized that CPEC will face serious financing and implementation capacity issues. It is a huge undertaking on both sides – Pakistan and China. Pakistan has not undertaken foreign investment projects of this scale before. Just to put things in perspective, between 2001 and 2011, a sum of $66 billion of financial assistance was reportedly pledged by China, and only 6% of that materialized. The reported Foreign Direct Investment in Pakistan from China for years 2010 - 213 totaled $1.28 b. For the last four years, it is: 2014, $0.39 b; 2105, $1.06 b; 2016, $1.21b; and 2017, $1.81b[5]. These numbers do not support the ongoing investment level of CPEC.

Energy Projects

The Energy Sector dominates the CPEC portfolio, in terms of both number of projects and the

TABLE 4.2

Distribution of CPEC Projects by Sectors & Provinces

	Sector.	No. of Projects	Estimated Total Cost, $ m	Completed Projects		Ongoing Projects		Under Consideration	
				Number	Cost $ m	Number	Cost $ m	Number	Cost $ m
1.	Energy	24	29,925	7	4,687	7	12,198	10	8,035
2.	Infrastructure	13	15,242	1	1,600	3	4,346	10	9,276
3.	Gwadar Port	9	792	0	-	2	172	7	620
4.	Industry/SEZs	9	N. A	0	-	0	-	7	N.A
5.	Agriculture			No plans/ information available					
6.	Other Sectors	4	N. A	0	-	0	-	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 website[6].

allocated amounts. Nearly all the energy projects are being implemented under the Independent Power Project (IPP) mode. Pakistan has developed a comprehensive framework for this. The Energy Sector in Pakistan is managed as follows:

- MoWP is responsible for policy making. It has WAPDA, KESC, PEPCO and PPIB working under it.
- NEPRAis responsible for regulating the sector and tariff determination.
- PPIB is responsible for facilitating and contracting private power projects.
- MoP & NR is responsible for fuel supply.
- NTDC is responsible for power purchase system planning.
- IPP Developers are responsible for planning, designing, financing, constructing and implementing their respective projects.
- Banks Investors are responsible for providing financing to the Developers.

A review of the energy projects under CPEC leads to the following observations:

- It seems that a number of on-going power projects were added to the CPEC portfolio (e.g. Sahiwal Coal and Bahawalpur Solar). It is not clear what portion of these project costs were covered by CPEC.
- The listed cost estimates for most energy projects are notional at best. Three 2x660 MW coal fired projects located in different provinces, two of which are completed, are all estimated to cost $1,19.2 million each. This is an unlikely coincidence.
- While financing framework for the energy projects is clear, the actual financing arrangements are not available. This is a critical missing piece of information which would impact the success of the project. Pakistan and China had signed the CPEC Energy Framework Agreement in November 2014. A couple of years ago, the Ministry of Energy had provided financing details of eight energy projects having cumulative generation capacity of 7,880 megawatts and being set up at a cost of $12.54 billion.Their sponsors have obtained $9.5 billion loans at an interest rate of London Interbank Offered Rate (Libor) plus 4.5%, according to these documents. The debt to equity ratio for all these eight projects is 75% debt and 25% equity except in case of Karot hydro power project, where the debt ratio was shown at 80%. Besides, the China Export and Credit Insurance Corporation (Sinosure) would charge 7% fee on the insurance of the loans given to these companies. Although the energy framework stipulates a minimum of 17% return on equity of foreign investors, the agreed return on the equity in case of coal-fired power plants was between 27.2% and 34.49%. In case of hydel-based projects, the internal rate of return (IRR) was 17%.
- Financing details of one power project, PortQasim Coal Power Plant, are reported in a Dawn Daily article as follows[6].This shows the high overhead costs, which could affect the viability of the project.

Table 4.3

Port Qasim Coal Power Plant	
Capital Cost of 660 MW Project:	$ 767.9 m
SINOSURE Insurance Fees (7%):	$ 63.9 m
Financing Fees & Charges:	$ 21.0 m
Interest During Construction:	$ 72.8 m
Total:	**$ 925.6 m**

- Most of the project Owners executing agencies seem to be new companies set up for respective projects. This raises concerns with respect to their implementation capacity and financial obligations.
- Energy projects so dominatethe CPEC portfolio that it may well be called the “China Pakistan Energy Corridor”. The success of this huge undertaking would warrant major additional un-

dertakings like adequate power transmission and distribution systems, reliable fuel supply chain (coal and LNG), and necessary ancillary facilities (water, access etc).

Infrastructure projects

The CPEC Infrastructure projects compose two ongoing highway projects; three highways under planning stages; a major rehabilitation of Pakistan's railway system; and recently added urban mass transit program for Lahore, Peshawar, Karachi, and Quetta. The mega railway program is at the planning design stage. Lately, it is reported that its scope would be reduced by about $2 billion to save some costs. The Lahore Metro Orange line, an on-going project, has also been added to the CPEC with an allocation of $1.6 billion. No further details are available[8 9]. Most of the infrastructure investments are along the Eastern Route of the three proposed corridors. The Western Route is listed in the government website project list, but no project details are available. Looking only at the CPEC infrastructure portfolio, one can conclude that it will lead to the development of a Kashgar Karachi corridor. It is reported that a bulk of work along the western route is being undertaken through non-CPEC funding. This needs to be highlighted, so that misperceptions on preference to the eastern route can be addressed.

Gwadar Port projects

A lot of developments have already been made in the Gwadar Port area. But most of the listed projects under CPEC are at the planning designing stages. Gwadar Port is a critical element of the CPEC program. It could well become a "weak link" of the scheme, if neglected. Robust infrastructure development along the eastern route could also undermine Gwadar Port. One hopes that this will not be the case.

Industry/ SEZs

Seven to nine SEZs are being contemplated under the CPEC to boost local industries and exports. The location and potential focus of these SEZs is listed in Annex I. All of these estates are at the feasibility/planning stages. In some cases, the land has been identified acquired. No physical work has started yet. In light of the capacity constraints, the government is now planning to develop only three SEZs in the first phase, one in KPK, Punjab and Sindh each.

Agriculture projects

A key objective of the CPEC plan is to stimulate export-led growth along the corridor. The Long-Term Plan recognizes the need to focus on the agriculture sector. At the moment, no free-standing agriculture activities are included in the CPEC proposal. Various SEZs under planning stages are likely to include agro-processing facilities. It must be recognized that agriculture related activities like horticulture, livestock and fisheries (near Gwadar) have a significant potential for the broader CPEC objectives.

Summary and Recommendations

The CPEC has been widely welcomed in Pakistan. It is labeled as a unique opportunity and a game changer that Pakistan has waited for quite some time. If successful, it can have long-term positive effects on Pakistan's economy, security, and regional trade. The main challenge is going to be an effective and efficient implementation of the scheme. The recent US-Afghan policy shifts make it essential for Pakistan to align its interests with China and others.

Timely and successful implementation of the CPEC becomes even more important in this scenario.

The CPEC is now entering the third year of implementation. Given the lack of information on upfront implementation schedules and proper progress reporting, it is very difficult to judge the implementation performance. One good indicator of progress could be the actual CPEC related disbursements on ongoing projects. This information is not available. For the overall success of CPEC, it is imperative that the progress to date is highlighted[9].

The 2017 BIPP repot made the following specific recommendations to improve CPEC implementation, which are still relevant[10]:

- Pakistan needs to recognize China's interests/objectives in promoting this initiative and define its own objectives in the best interest of the country. China's main interest is in developing an efficient and safe transit corridor from Kashgar to Gwadar for its long term geopolitical and economic interests. Pakistan must facilitate this. CPEC, in return, provides opportunities for large Chinese investments in Pakistan for its economic growth and security. Pakistan needs to develop a clear strategy on how best to achieve this at the national level. The recent joint statement after Prime Minister Imran Khan's visit to China is a welcome sign. In the statement, both sides reiterated timely completion of the on-going projects and joint efforts for realization of CPEC's full potential with a focus on socio-economic development, job creation, and livelihoods as well as accelerating cooperation in industrial development, industrial parks, and agriculture.
- The CPEC has to be depoliticized. It must be seen as a "national undertaking". Keeping politicians out of the micro decision-making process will be a big challenge that has to be faced. The role of the politicians should be to define the broad framework and strategy for the scheme. The responsibility for project selection and design should be left for the professionals and stake holders.
- The essential due diligence process for vetting the selection and design of the projects must be put in place. This should be the key role of the Planning Commission (now MoPDR). This would be critical for the success of the individual projects and curbing possible corruption.
- The CPEC projects need to be made transparent. The public needs to know what is being financed under the scheme, at what cost/terms and by whom? It might be a good idea to set up an independent "CPEC information center" in an academic setting, which can be a comprehensive warehouse for all the information on this huge and long-term scheme.

Chapter

5 CPEC Prospects and Poverty

CPEC Prospects and Poverty

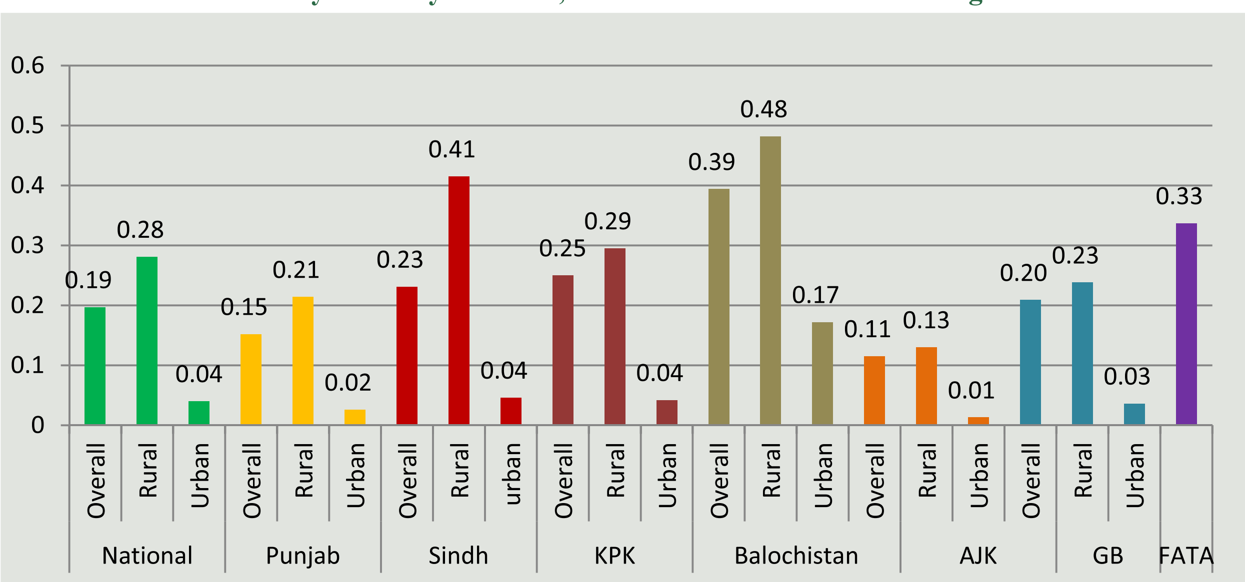
Shahid Najam

Introduction

Poverty is a multi-dimensional phenomenon which goes much beyond the narrow spectrum of income and asset deprivation. Inaccessibility to social services and amenities like health, education, water, shelter, energy etc. and lack of cultural and context specific considerations are integral part and manifestation of poverty. A study conducted by the United Nations Development Program (UNDP), at the behest of the Planning Commission of Pakistan, in 2017 revealed that the incidence of poverty in the country is 38.8% and its intensity as high as 50.9%[1]. Based on the incidence and intensity of poverty, it is estimated that 19.7% of the population is afflicted with multi-dimensional poverty—a state of deprivation comprising a compact of education, health, and income[2]. On the overall national canvass, Multidimensional Poverty Index (MPI) is the highest in Baluchistan and lowest in Punjab. Figure 5.1 captures the province wise different levels of Multidimensional Poverty Index in the country:

FIGURE 5.1

Multidimentional Poverty Index by National, Rural/Urban and Provincial/Regional Levels



Source: Multi-dimensional Poverty in Pakistan, UNDP Report 2016

Table 5.1 provides the province wise segregated MPI incidence and intensity of poverty in the country.

TABLE 5.1

The Province/Region Based Poverty Profile

		MPI	Incidence (H)	Intensity (A)
National	Overall	0.19	38.80%	50.90%
	Rural	0.28	54.60%	51.60%
	Urban	0.04	9.40%	43.10%
Punjab	Overall	0.15	31.40%	48.40%
	Rural	0.21	43.70%	48.90%
	Urban	0.02	6.30%	41.80%
Sindh	Overall	0.23	43.10%	53.50%
	Rural	0.41	75.50%	54.90%
	urban	0.04	10.60%	43.40%
KPK	Overall	0.25	49.20%	50.70%
	Rural	0.29	57.80%	51.10%
	Urban	0.04	10.20%	41.50%
Baluchistan	Overall	0.39	71.20%	55.30%
	Rural	0.48	84.60%	57.00%
	Urban	0.17	37.70%	45.70%
	Overall	0.11	24.90%	46.30%
AJK	Rural	0.13	28.10%	46.30%
	Urban	0.01	3.10%	41.00%
	Overall	0.20	43.20%	48.30%
GB	Rural	0.23	49.00%	48.30%
	Urban	0.03	7.90%	45.00%
FATA		0.33	73.70%	45.80%

Source: Multi-dimensional Poverty in Pakistan, UNDP Report 2016

It is evident from Table 5.1 that Baluchistan is worst off in terms of multi-dimensional poverty (0.394) and its incidence and intensity (71.2% and 55.30% respectively) followed by Gilgit Baltistan and Sindh.

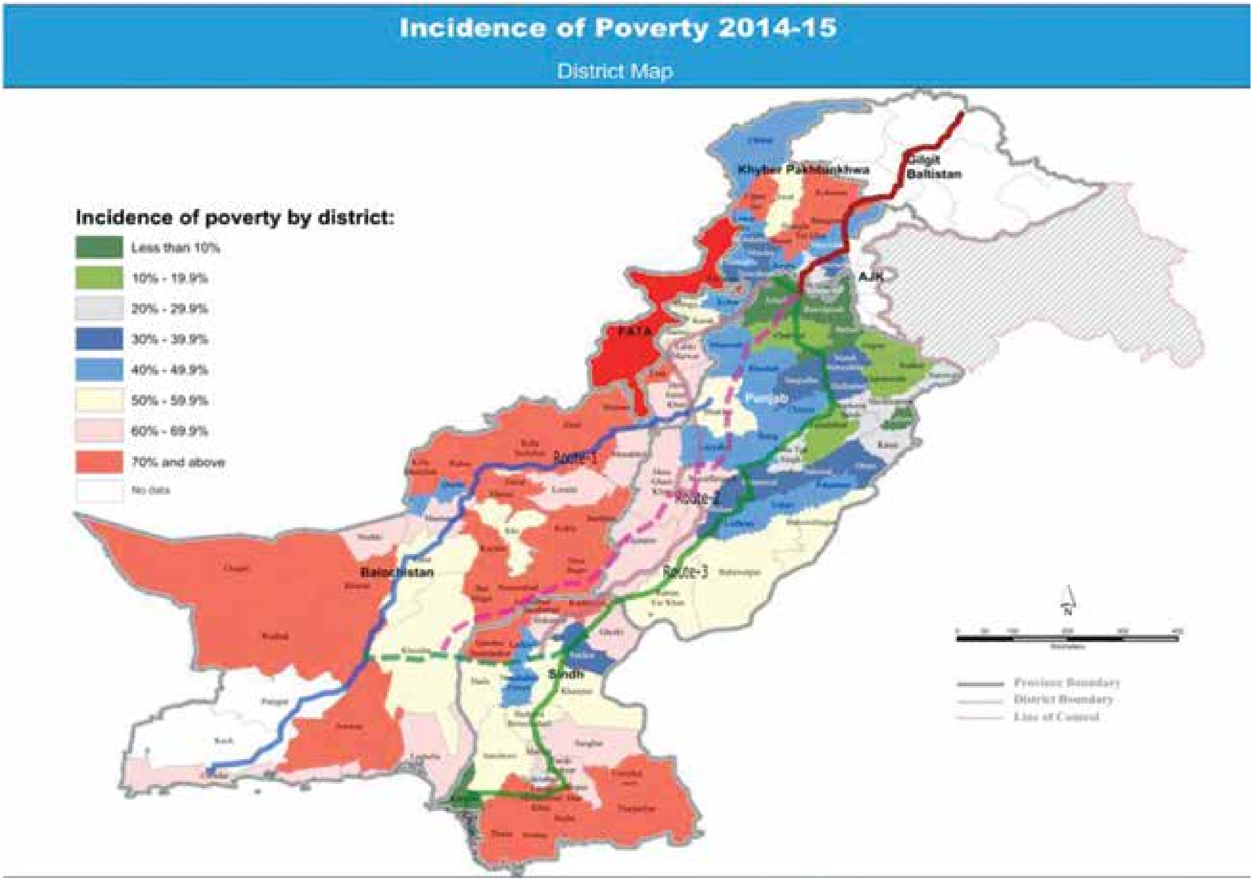
Incidence of Poverty along CPEC Routes

The Ministry of Planning, Development and Reform, Government of Pakistan has specified the three major CPEC routes as follows:

- Western Route: Gwadar, Panjgur, Quetta, Qila-SaifUllah, Zhob, (Dera Ismail Khan- Peshawar part for the time being), Abbotabad, Mansehra, Gilgit Baltistan and Kashghar
- Central Route: Gwadar, Karachi, Daddo, Rato Dero, Rajanpur, DG Khan, Darya Khan, Peshawar onto Gilgit and Baltistan, Khunjrab and Kashghar
- Eastern Route: Gwadar, Karachi, Hyderabad, Sukkar, Multan, Faisalabad, Lahore, Pindi-Bhattian, Rawalpindi, Abbotabad, Mansehra on to Khunjrab and Xinjiang-Kashghar

All the three routes have huge potential for poverty alleviation as they pass through several of the worst poverty afflicted areas of the country with

FIGURE 5.2



Source: BIPP Team Configuration based on Multi-dimensional Poverty in Pakistan, UNDP Report 2016

Table 5.2 shows the incidence of poverty in the country as well as the alignment of the three CPEC routes: very high incidence and intensity of poverty i.e., between 70 to 90% plus. As many as eight districts in Baluchistan (2.35 million poor), seven districts in KPK (3.6 million poor), and four districts in Sindh (2.9million poor) suffer from 70% and above incidence of poverty, four districts each in Baluchistan (0.7 million) and KPK (3.8 million poor), six districts in Sindh (4.7 million poor), and three districts in Punjab (5.9 million poor) witness between 60-69.9% of poverty incidence; three districts each of Baluchistan (poor 0.77 million), Punjab (poor 5.4 million), KPK (poor 1.3 million), and one district in Sindh (poor 1.2 million) experience incidence of poverty between 50-59.9%. Table 5.2 captures the incidence of poverty along the three routes encompassing the three categories i.e., poverty incidence: 70% and above, poverty incidence: between 60-69.9%, and that between 50-59.9%:

CPEC Potential for Poverty Alleviation

The CPEC long-term plan (LTP 2017-30) specifically alludes to agriculture development and poverty alleviation as one of the major areas of co-operation between China and Pakistan. The guidelines embodied in the plan further amplify the joint commitment to improving livelihood of the people, addressing regional disparity, and ensuring sustainable development as a top priority for the CPEC project with a special focus on better public services

TABLE 5.2

Incidence of Poverty on the Three CPEC Routes											
Route 1 (Western)				Route 2 (Central)				Route 3 (Eastern)			
Province / Districts	Poverty Incidence	Population in "000"	Poor Population in "000"	Province / Districts	Poverty Incidence	population in "000"	Poor Population in "000"	Province / Districts	Poverty Incidence	population in "000"	Poor Population in "000"
Poverty Incidence 70% and above											
Baluchistan				**KPK**				**Sindh**			
KillaSaiful-lah	79%	343	272	Tank	74%	392		Kashmore	75%	1089	815
Sherani	91%	153	139	Total	74%	392	289	Tando Muhammad Khan	82%	677	555
Zhob	83%	311	257	**Sindh**				**Total**	**78.4%**	**1766**	**1385**
Ziarat	90%	160	145	Kashmore	75%	1089	815				
Harnai	94%	97	91	Jacobabad	71%	1006	717				
Pishin	82%	736	605	**Total**	**73%**	**2095**	**1531**				
Killa Abdullah	97%	758	734								
Kharan	78%	156	122								
Total	**87%**	**2714**	**2357**								
KPK											
Kohistan	96%	785	752								
Batagram	75%	477	358								
Buner	72%	897	642								
Tor Ghar	92%	171	158								
Tank	74%	392	289								
Shangla	76%	758	579								
Total	**81%**	**3480**	**2811**								
Poverty Incidence 60-69.9%											
Baluchistan				**KPK**				**Sindh**			
Musa Khel	67%	167	112	LakkiMarwat	63%	876	549	Ghotki	67%	1646	1100
Mastung	62%	266	165	**Total**	**63%**	**876**	**549**	TandoAllahyar	67%	837	563
Gawadar	61%	264	160	**Sindh**				Mirpur Khas	72%	1506	1084
Total	**65%**	**1094**	**706**	Shikarpur	60%	1231	740	**Total**	**67%**	**4758**	**3191**
KPK				QamberShah-dadkot	67%	1341	903				
Dera Ismail Khan	71%	2019	1436	**Total**	**63.5 %**	**1286**	**823**				
				Punjab							
Total	**71%**	**2019**	**1436**	Muzaffargarh	65%	4322	2801				
				Dera Ghazi Khan	64%	2872	1830				
				Rajanpur	64%	1996	1285				
				Total	**64%**	**9190**	**5909**				
Poverty Incidence 50-59.9%											
Balochistan				**KPK**				**Sindh**			
Kallat	57%	412	235	Karak	60%	706	426	Khairpur	52%	2404	
Khuzdar	58%	802	461	Bannu	59%	1168	684	Total	52%	2404	1241
Sibbi	58%	136	78	Hangu	56%	519	290	**Punjab**			
Total	**57%**	**1350**	**775**	**Total**	**58%**	**2393**	**1393**	Bahawalpur	53%	3668	1944
Punjab								Rahim Yar Khan	57%	4814	2734
Bhakkar	52%	1651					**Total**	**55%**	**8482**	**4657**	
Total	**52%**	**1651**	**853**								

Source: BIPP's Team Computation and Multidimensional Poverty in Pakistan: UNDP Report 2016 delivery for the local residents and on preference for local employment.

In reality, however, no direct effort seems to have been made to make poverty alleviation as an integral part of the LTP on-going implementation frameworkor projects. Little, if any,investment was made in the agriculture sector and poverty alleviation projects. Energy and infrastructure were the lead sectors with 65.4% and 35.8% allocation respectively (Gwadar project has a meager share of 1.8% of the total allocation of funds so far). Both the Planning Commission and the Board of Investment, which is responsible for the development of the special economic zones, when requested, failed to produce an authentic list of the specific poverty alleviation programs or projects.

BIPP research team, nevertheless, reviewed the entire list of CPEC on-going projects with a view to identifying those in the poverty afflicted and least developed areas[3]. These projects seem to have the potential to create jobs for the poor, augment their income, and mitigate incidence of poverty. A list of such projects showing location, population covered, incidence of poverty along the specific routes, status of implementation, and cost is given in Annex IV.

Out of 20 such projects, which include infrastructure (3), drinking water (1), technical training (1), health (1), and SEZs/industrial zones (14), only one project i.e., Surab-Hoshab highway (N85) in Baluchistan for a length of 449 Km has been completed. Bulk of the remaining projects, including the SEZs, are yet to be implemented or are at a very initial stage of the preparation of feasibility studies. This in itself is indicative of the low priority accorded to the projects which seem to hold maximum potential for poverty alleviation, access to social services and utilities, and income generation opportunities.

The PTI Government Commitment to Poverty Alleviation under CPEC

The newly elected Pakistani government, while pledging full support to CPEC, expressed an unequivocal intent to learn from China's experience of bringing 700 million people out of poverty and pursue human resource development, job creation (to fulfill PTI promise of 10 million jobs for youth), industrialization, development of special economic zones (SEZs), and 3rd party participation and power generation[5 6]. The government also avowed to recalibrate and revisit the CPEC priority areas. Though details regarding the Prime Minister's recent visit to China on 3 November, 2018 and conclusion of 15 agreements/MOUs are still awaited, the following commitments, in particular, seem to reflect the government's intent to harness the CPEC potential for poverty alleviation:

- Cooperation on tourism promotion;
- Deepening of collaboration in the areas of new and emerging technologies, nanotechnology, biotechnology, and ICT, especially to ensure improved living standards through their applications in the fields of health, agriculture, water, energy, and food security;
- Enhanced cooperation in the areas of climate change, desertification control, desalination, water management, afforestation and ecological restoration, wetland protection and restoration, wildlife protection, forestry industry development, and disaster management and risk reduction;
- Strengthening the existing cooperation in the area of agriculture and exploring new areas of joint collaboration;
- Social sector cooperation e.g. poverty alleviation, experience sharing, capacity building, and poverty alleviation demonstration projects;
- Chinese assistance for agriculture, education (in-

cluding higher education, twinning arrangements between the universities, scholarships), health (health care, insurance system), safe drinking water, and vocational training;

- Curbing corruption and learning from China's anti-corruption system.
- China's support to Pakistan in technical and vocational training to develop skilled manpower for employment in CPEC projects, upgrading vocational training institutes, vocational training exchanges etc; and
- Establishing the China-Pakistan Youth Communication Committee to coordinate the exchange of youth and cooperation on youth affairs.

However, at present these are mere statements of intent. A tangible program and implementation framework, with adequate budgetary allocation, will actually demonstrate and validate the government's commitment to make use of CPEC framework for poverty alleviation.

Harnessing CPEC Potential for Poverty Alleviation

Before dwelling on the specific recommendations and intervention models to make full use of CPEC framework for poverty alleviation, a few points may be reiterated to set the context:

- First and foremost, there is a need to re-conceptualize and redesign the overall CPEC program as well as individual components, to inter alia, factor in poverty alleviation as an integral part. For the purpose, local context specific CPEC development programs should benefit from technology, knowledge transfer, and learning from Chinese experience[7] ;
- Secondly, the pace of implementation of the projects enlisted in Annex IV should be accelerated by actively involving the relevant federal and provincial agencies;
- Thirdly, the capacity issue continues to pose a major challenge both with the federal and provincial governments to manage large scale programs. This needs to be addressed on a priority basis;
- Fourthly, for poverty allevition the starting point should be to benefit from China's experience of having conquered extreme poverty especially in the rural areas. China has shown a remarkable improvement during the past 28-30 years. Its HDI increased from 0.499 in 1990 to 0.752 in 2018. During the period, Pakistan registered a mere increase from 0.404 to 0.562[8] ;
- This will, inter alia, entail emphasis on macroeconomic reforms and sustained growth—necessary conditions for poverty alleviation, striking a socio-political consensus for equity and distributive justice;
- Lastly, Pakistan must apply multi-tier coordination at different levels of governance, and provinces must finance the local poverty alleviation projects.

Specific Recommendations

Agri and agro - export oriented interventions

The new government lays great emphasis on agriculture under CPEC with a wide range of engagements across the sector. The eventual goal is to boost Pakistan's food exports to China given the latter's increasing food-import dependence and gradual transition towards high value agriculture addition. Pakistan at present is exporting merely $0.4 billion of food items out of around US$ 99.6 billion food imports of China. Pakistan can enhance its exports through various CPEC initiatives and by tapping into the Chinese markets. The frozen bovine meat (FBBM) is one of the areas which Pakistan, given the size and scale of livestock sector, should explore for exports to China, which imports around $2 billion worth of FBBM (2015) from all around the world including countries as far away as Uruguay (86,374 tons), Brazil (56,402 tons), and Argentina (42,688 tons). Pakistan has distinct competitive advantages made available by CPEC e.g. cheap transportation, lesser time, close proximity and distance, and the competitive price. The average price of FBBM exported from Pakistan to all the countries in the world is approximately $3.48 per kilogram compared to an average $5.42 per kilogram from other countries. . The CPEC will even lower the export price to China. The other potential areas are horticulture, food and fruit processing, and poultry. What is, however, required is to ensure the quality demanded by the international market standards, improve the supply chain management, establish necessary infrastructure (laboratories, hygienic standards, logistics etc.), and put in place the necessary regulatory and legal frameworks for international compliance requirements.

This potential in the agriculture could very well be realized through incentivizing joint ventures and investments by Chinese companies in Pakistan. These ventures should in particular, focus on exports of, meat and dairy products, cotton yarn, rice, cereals, fruits, and coarse cloth (to feed Xinjiang's growing textile industry) to China.

The Ministry of National Food Security and Research (MNFSR), in its 2018 Food Security Policy, also envisages the establishing of agricultural development zones along the CPEC. The Ministry should indeed use these zones as commercial clusters and hubs for inclusive rural businesses based on China's import requirements as identified above. China is already outsourcing its agriculture supplies by investing in the development of processing zones, warehouses, dairy farming, and cold storage stations in countries like Mali, Senegal, Congo, Tanzania, Australia, and even in Europe[10]. Yuan Long Ping High-Tech Agriculture Co Ltd, the major hybrid seed company in China, is already in Pakistan (Swat, Larkana, Sahiwal etc.) to develop heat resistant rice seed variety in conjunction with the Pakistan Agricultural Research Council .

In this process and in its endeavor to give impetus to export oriented as well as inclusive agricultural growth (for poverty alleviation), Pakistan should, in particular, learn from the Chinese experience in:

- improved yields through superior seeds;
- farm mechanization;
- warehouses;
- high efficiency irrigation system;
- use of formal credit systems for agri-lending especially the special fund and discount rates for foreign investment in agricultural;
- farmers training and skills development;
- cold-chain logistics, lack of which results in loss of up to 50% of agricultural products, and cold storage stations (one has already been erected in Khunjerab, on the Chinese border, for seafood exports to China);
- dairy farming and establishment of meat processing unit; and
- documentation of the rural economy and especially the land registries.

Strengthening of the micro and cottage sectors is important to smoothly stimulate the transition from subsistence agriculture to commercial economy.

Small and medium enterprises(SMEs) development[11]

Almost 99% of the economic establishments are SMEs in Pakistan. Collectively, they contribute an estimated 38% to GDP, over 40% to the exports and 80% to non-farm labor. Yet, they do not play an effective role in boosting sustainable economic growth of Pakistan, being at rudimentary stages of development.

Stimulating SMEs development to utilize them as engine of growth could lead to sustainable and equitable development especially employment generation and poverty alleviation. SMEs in Pakistan also hold immense potential to become part of the global production networks and value chains. The major issues to be addressed for the purpose include: accessing technology and finance; training and skills development; a setting right the policy, legislative and enabling frameworks; and ensuring the ease of doing business to increase competitiveness[12]. The special economic zones, industrial estates, and clusters should become the nodes for these interventions.

The CPEC framework already envisages establishment of nine Special Economic Zones (SEZs), three of which will be implemented in first phase (Detail Annex V), while the Federal Government has also announced six different Special Economic Zones (details at VI). In addition, there are already four export oriented provincial clusters in manufacturing sector i.e. Surgical Instruments, Auto Parts, Readymade Garments and Leather Footwear.

FIGURE 5.3

Spatial Dimension of Chinese Economy

Source: BIPP Team configuration based on the work of Technology Exchange & Coordination (PVT) Ltd.

It should also be noted that the economic and industrial activity in China is mostly concentrated on the east coast and in the provinces of Beijing, Shandong, Jiangsu, Shanghai, Zhe Jiang, Quangdong (see Figure 5.3).

Given the spatial dimension of China's development, there are two important considerations which, in the context of CPEC, unleash a plethora of opportunities for Pakistan to optimize the economic benefits. Firstly, the Chinese government is focusing on addressing the issue of regional disparity especially to uplift the least developed areas of Xinjiang and Tibet, which are also food insecure. The agro-food sectors of Pakistan because of close proximity, could access markets of these regions to meet rising food and agricultural needs. Secondly, China is in the process of restructuring its economy with more emphasis on high-tech and industrial manufacturing e.g. automobiles, ship building, petro-chemicals, and electronic appliances. Further, rise in the labor costs has prompted China to relocate or contract out etc. The traditional low-tech sectors to other countries. Pakistan is uniquely positioned to attract investment in the traditional manufacturing and restructuring and to create conducive environment for relocation of industry from China to Pakistan. It can also upgrade existing SMEs and establish new SME units through joint ventures involving potential and real investors and entrepreneurs from China. The win-win projects based on local raw material could supply the products required in China to other countries and also to local markets.

Briefly thus the major sectors which hold enormous potential include: food processing, horticulture, chemicals, pharmaceuticals, engineering, textile, garments, electronic appliances, and SME energy projects. Some of these have already been reflected in the SEZs and CPEC and other economic zones and clusters envisaged by the government (please see Annex VII).

In order to, however, realize the full benefits associated with the SMEs development, the following sets of interventions are proposed:

Transfer of know-how: knowledge corridor

The Government should encourage the top universities dealing with technology and knowledge generation to establish knowledge shops in the selected large scale SEZs along the CPEC routes. This would not only facilitate much needed linkage of the university system with the industry but will also help address the technology and innovation related issues faced by small and medium enterprises. In due course, twinning arrangements could be forged with the Chinese universities to ensure knowledge and technology transfer. Ultimately, Chinese universities could be incentivized to open their off-shore campuses in Pakistan to cater for the expanding techno-professional skills requirements.

In addition, Pakistan within the CPEC framework should accelerate the process of acquiring know-how for indigenization of Chinese technology with emphasis on import substitution. China has successfully implemented models and programs like SPARK, TOUTCH, 863 for rural industrialization, which Pakistan needs to benefit from.

At the same time,the technical and vocational training centers could be suitably deployed along the CPEC routes to provide technical skills training based on the skill-sets demand of the industrial workers.

SMEs, China and G-20 triangle

This could be facilitated to affect five-level linkages of Pakistan SMEs (exports, joint ventures, technology transfer, on the job training, and energy sector) through Public Private Partnership and joint ventures for setting up SEZs with China/G20 investors whereby land is provided by the local partners, and development work undertaken by the foreign investors/expatriates.

SMEs access to finance

The lack of access to finance by SMEs is one of the perennial problems. At its peak in December 2007, SME financing was PKR 437 billion i.e. 15% of the total private sector credit. By 2013, this number was down to 5.6%, compared to 15% in India; 25% in Bangladesh; and over 30% in Korea, Thailand and Turkey. By 2016, SME loans were 7% of the total private sector lending[13]. Under National Financial Inclusion Strategy (NFIS) and strategic direction of SBP, SME sector has been identified as one of the key priority areas. The key benchmarks to be achieved by 2020 are to increase:(i) SMEs share from existing 8% of private sector credit to 17% and (ii) the number of borrowers from existing 174,000 to 500,000[14].

Despite a conducive policy framework, SMEs continue to be faced with major impediments including low access to financial resources. SMEs are perceived as high risk ventures and as such Banks tend to give less strategic focus on SMEs lending in terms of fewer financing products/options for SMEs, absence of SMEs R&D centers in banks.

Most of these impediments could be conveniently addressed in view of SBP's vigilant role, its policy framework, and other initiatives (as enumerated in the preceding paragraphs) if banks are obliged to open their outfits in large SEZs.

Youth deployment with SME for job creation with CPEC framework

The on-going Prime Minister's Youth Program (PMYP) primarily aims at combating unemployment in the country. It has a broad range of components (loan schemes for businesses and entrepreneurial workup to Rs 2 million, fee reimbursement, training and skills development up to Rs 15,000 per month, lap top distribution) to enable the youth and poor segments to avail employment opportunities, secure economic empowerment, acquire skills for gainful employment, and access On the Job training (OJT) and higher education and IT tools. Around 1.1 million youth have benefited from this program. The previous government announced a substantial allocation of Rs 20 billion for the program.

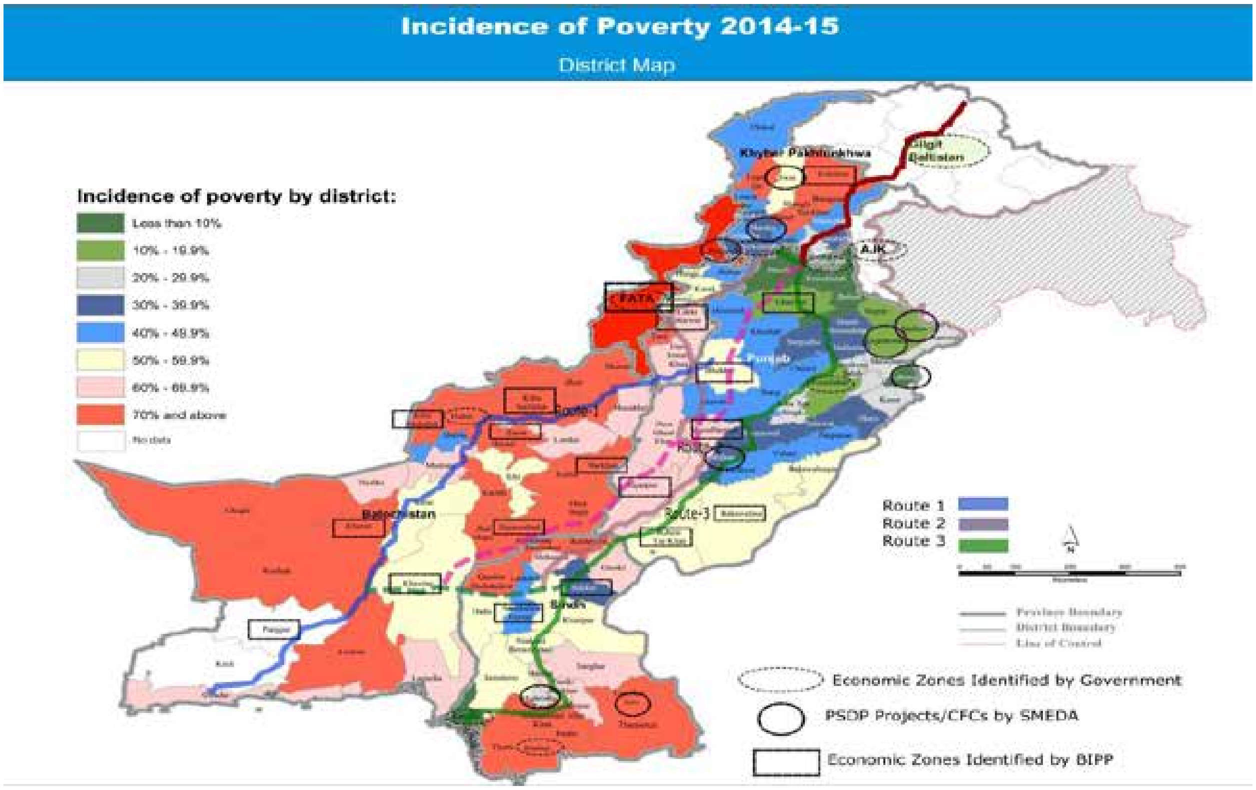
There are around more than 3.4 million SMEs in the country and around 4 million unemployed youth. PMYP could be tailored to deploy educated and skilled unemployed youth with SMEs to, inter alia, assist them to identify the potential for business expansion and also to indicate the areas of deficit for improvements to achieve productivity and efficiency gains (e.g. need for technological upgrade, business process improvement for productivity gains, identification of local and export markets, potential for joint ventures, access to clean energy and green technology etc.). This deployment with a suitable stipend of Rs 10,000 to 15,000 per month and of six to nine-month duration could, with the appropriate assistance of SMEDA and Federal and Provincial Boards of Investment, concretize into long term job creation/absorption to turn around the economy on a sustainable basis.

Endowment based mainstreaming of the least developed poverty stricken areas along CPEC routes

The economic zones and industrial estates envisaged by the government, even the ones on the CPEC routes, provide little direct access to some of the worst poverty stricken areas. There is also clearly a planning and coordination deficit within the

FIGURE 5.4

Proposed Economic Hubs and Clusters



Source: BIPP Team Configuration based on Multi-dimensional Poverty in Pakistan, UNDP Report 2016

state apparatus, both at the federal and provincial levels, which has led to a proliferation of different types of SEZs and industrial zones. There is a great likelihood of wastage and duplicity. There is also a possibility of lack of sectoral and spatial synergies and of adequate attention to the local endowment base to be able to achieve enhanced development impact for the economy as a whole.

It is, therefore, imperative to establish new economic sub-zones or clusters and/or relocate the existing ones in order to benefit the poverty stricken areas especially those in close proximity to the three CPEC routes and integrate them with the mainstream national development effort. For the purpose, BIPP team carried out a rigorous analysis based to identify the sites and prescribe specific interventions based, inter alai, on the following:

- Mapping the incidence and intensity of poverty as per the Planning Commission Report on multi-dimensional poverty;
- The local endowment and production systems and the associated comparative and potential competitive advantage based on historical economic activities trends. The national and provincial agriculture and livestock statistics were used for the purpose;
- The district socio-economic profiles through provincial websites;
- Market connectivity and highway-links with the CPEC routes based on the National Highways Authority website;
- Consultations with SMEDA, BoI and Provincial Agriculture and Livestock Departments;
- Extensive consultation in particular with SME policy, SMEDA feasibility studies, State Bank Reports and Policy for SMEs, TEVTA programs

etc.

In all, 15 specific sites have been identified to be included in the CPEC framework for a set of interventions, particularly by the Federal Government, Board of Investment, SMEDA, CPEC Cells in Planning Commission and the Provincial Governments, to develop economic sub-zones or clusters or special institutional focus to transform the existing subsistence economy in these areas to commercial, profitable and sustainable economy. The associated employment and income earning opportunities will uplift the people from poverty and deprivation and ultimately emancipate them from a deep sense of gross social, political, and economic alienation. Annex VII gives the intervention model showing the location, the type of economic activity, and the set of measures required to bring about the transformative change.

Figure 5.4 captures succinctly the incidence of poverty, the three CPEC routes alignment and location of CPEC SEZs, SMEDAs facilitation centers, and BIPP's proposed economic hubs and clusters.

Conclusion

The CPEC project holds immense potential to: (i) mainstream the existing backward areas into the national development effort; (ii) allow access of the poor and deprived areas to market centers; (iii) spur sustainable and commercially viable economic activity; (iv) generate income and employment opportunities; and (v) bring about a transformative change in the life and living standards of the people in the region.

There is little, if any, beyond the mere statement of intent or political rhetoric so far to make use of the CPEC framework as a vehicle for sustainable development and poverty alleviation. The major thrust has been on the energy and mega infrastructure projects. Socio-economic and productive sectors like agriculture, industry etc. do find expression in the CPEC Long-Term Plan, but lack of program of work and of budget for poverty alleviation, income generation, and employment creation in itself speaks of the low priority having been accorded to these sectors. The PTI government, it appears, is committed to recalibrating the CPEC framework and orientating it towards poverty alleviation, employment generation, and income enhancement of the poor.

The Ministry of Planning, Development Reform has to take the lead to give poverty oriented dimension to CPEC. For the purpose, it is important that equity, distributive justice, and poverty alleviation should become an integral part of all the sub-components and the projects there-under of CPEC program.

The Board of Investment, while implementing the nine Special Economic Zones under CPEC, has to bring on board the relevant provincial governments to ensure early completion of the physical infrastructure work on SEZs and to address the coordination dysfunction which seems to delay the SEZs establishment.

At the same time, it is important for BoI, which is responsible for SEZs, to create policy, institutional, operational and sectoral synergy among the motley of SEZs, industrial estates, and clusters spread all over the country to maximize the development impact with special focus on equitable and inclusive business development and economic activity.

As pointed out earlier, the existing SEZs etc. do not seem to directly address the poverty and regional disparity issues. The 15 economic subzones and clusters proposed by BIPP are uniquely distinctive in that they specifically: (1) are located in the poverty stricken areas; (2) connect remotely situated areas with major input and output markets; (3) attempt to transform the areas of comparative advantage to competitive advantage for making the economic activity profitable; (4) aim at income enhancement, employment generation and poverty alleviation. The major features are:

- Exploiting endowment system based comparative and competitive advantage of the backward areas particularly in agriculture;
- Promoting export oriented agriculture development to access Chinese and external markets;
- Developing the SMEs sector especially through SEZs involving access to finance, support for technological upgrade, training and skills development especially of youth for their deployment with SMEs, and linking to external production networks and value chains;
- Facilitating setting up of SEZs through joint ventures by local/expatriate/foreign investors from China/G20 countries.

The government need to prudently manage the CPEC to ensure that it not only creates wealth and economic development but also is fully harnessed to generate employment for the youth, income for the poor and marginalized and opportunities for the inhabitants of the far flung poverty afflicted areas to exercise and expand their social, economic and development choices freely and to ultimately reduce poverty and deprivation. The government must also ensure that the CPEC is not reduced to merely a transit trade-like arrangement with huge implications for other economic sectors.

Chapter

6 Agriculture and Trade Policies under CPEC with Focus on China

Agriculture and Trade Policies under CPEC with Focus on China

Dr. Mahmood ahmad And
Mahira Khan

Introduction

Agriculture comprises a significantly largeportionof Pakistan's economy. Majority of Pakistan's population relies on this sector either implicitly or explicitly. According to Pakistan's Statistical Bureau, the agriculture sector employs 43% of the labor force, contributes more than 70% of the export earnings,andadds 24% to the national Gross Domestic Product (GDP).

Despite being the largest contributor to the foreign exchange, the earnings from the agriculture sector lag behind its potential. This is due to a lack of competitiveness and low productivity in the international market. Pakistan Business Council's (PBC) report in early 2018 stated, "Pakistan's agricultural productivity ranges between 29% and 52%, far lower than the world's best averages for major commodities" (SB, 2018).Pakistan's global competitive index stands at 107 in 2018. Any holistic development strategy must seek to enhance productivity and competitiveness of Pakistan's agriculture sector in the global market.

During a recent visit of the prime minister Imran Khan to China, agriculture and trade under the CPEC were specifically discussed. The outcome highlighted Chinese'interestin exploring areas such as cotton productivity, efficient irrigation, and post-harvest infrastructure along the CPEC route, which is considered a gateway to enhanced agriculture exports to China. However, Pakistan's agricultural priorities vis-à-vis CPEC remain unclear, especially regarding the trade with China. Information regarding thetype of agricultural economic cooperation underCPEC, as well as operational implementation plans for the projects being selected is not fully available.Although the government has identified nine special economic zones including Dhabeji, Faisalabad and Hattar as key areas of development, it remains to be determined whether all nine are to be included in China's overall strategic plan.

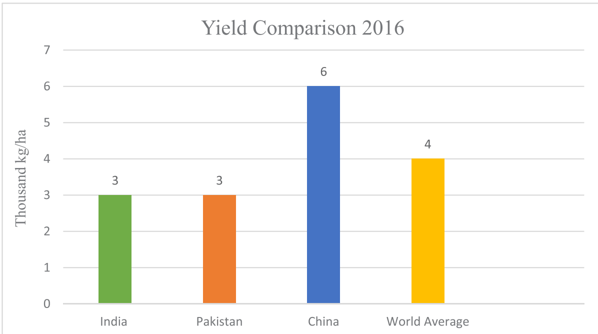
The CPEC has the potential to significantly contribute to ensuring inclusive agricultural development, specifically targeting socio-economic development, of the less-developed areas of the country. Insofar as that, there is a need to asses show the CPEC can contribute to enhancing the productivity and competitiveness of Pakistan's agriculture sector.

Unlocking the Agriculture Potential: Opportunity Provided by China Pakistan Economic Corridor

Agricultural development is one of the seven areas of cooperation under CPEC, wherein China has expressed interest in exploring areas such as cotton

FIGURE 6.1

Yield Comparison 2016



Source: Fao Stat

productivity, efficient irrigation, and post-harvest infrastructure along the CPEC route. The plan also aims to facilitate a market entry for firms in sectors such as textiles, construction, and agricultural technology. Aconsiderable challenge faced by the agriculture sector is that of new economic opportunities provided by the CPEC, which is being planned without profound research or facts. It remains to be identified which sectors or sub sectors have the potential to provide better returns on investments and address the problems regarding poverty alleviation, as well as improved livelihood for large sections of population living in the rural and backward areas.

Under the CPEC, a proposal is to develop agriculture and agro-based industry through the identification of potential areas and adopting a cluster approach. In order to make this happen, among other measures, the productivity of the agriculture sector (Figure 6.1) needs to be increased, along with enhancing water productivity.

Successful agriculture and rural development growth models show four common features worldwide (Ahmad,2017).

Firstly, the countries/regions have to possess a natural comparative advantage with regard to land and soils, appropriate climatic conditions, and a reliable supply of water. In Pakistan the four provinces, together, provide a natural resource base which can support a diversified production base withaseasonal window of opportunity. Secondly, access to agriculture-supporting infrastructure linking farm and non-farm sector to markets through agriculture or feeder roads and, in drier climates like Pakistan, irrigation powered by reliable energy sources (grid electricity) at competitive prices is necessary. The case is made that sizable investment has been made on mega projects for developing backbone infrastructure (ports, motorways, mega power plants), but investment on last mile infrastructure (feeder roads, irrigation management) has to be given priority it deserves. It has been reported by experts that one of the main bottlenecks in developing economic zones is the lack of access to water. For example, in Gwadar the access to drinking water has become a costly option with the cost of a water tankerat Rs 22,000 compared to Rs 4000 to 8000 in Karachi and RS 3000 in the Punjab. Box 6.1 highlights problems and possible solutions for provinces like Baluchistan.

Furthermore, translating the above comparative into a competitive advantage requires developing clusters of commercially viable farming and processing as well as establishing service firms located in specific geographical areas. By achieving economies of scale, clusters can aid in reducing production and marketing costs for all actors in the value chain. As mentioned above, rural economies have a significant comparative advantage in producing high value commodities (see Table 6.2). However, this comparative advantage has not been fully transformed into a competitive advantage due to subpar farming and marketing practices, which fall below international standards. To address these issues, innovative approaches are necessary to develop appropriate infrastructure and it's financing for spurring rural growth.Finally, there is need for a clear and specific government policy dedicated to actively supporting sustainable agriculture and recognizing the important role the private sector has to play

BOX 6.1

Water and CPEC: Case of Baluchistan

Whereas infrastructure is given much significance under CPEC, water is one sector which was completely overlooked. The case of Quetta city in Baluchistan is one such example.

The port of Gwadar is being developed under CPEC as its flagship project. However, it is becoming apparent that water scarcity is presenting itself as a major constrain for the port and projects. It is becoming clear that , CPEC cannot progress as planned, unless feasible and cost-effective solutions are included. Not only is water necessary to support the Gwadar sea port and other economic zonesbeing developed, not to mentions is instrumental in expanding agriculture and meeting the domestic and badly needed exports..

Possible Solutions:

- Small Solar Driven plants for coastal belt for economic growth and tourism
- Small Hybrid Plants for Desalinations blending solar, oil, and wind energy
- Canals to transfer Indus basin share of water through feasible options
- Water transfer through innovative means (solar plus wind energy)

Details of some innovative solutions are:

The current waste water treatment plant in Quetta requires immediate amendment to provide agriculture quality water up to 10 to 20 km in the surrounding areas. Consequently, the strain on underground reservoirs will be reduced as with decreasing usage of tube wells.

Installation of solar desalination plants along the coast line for the production of 100 million gallons per day is recommended. Solar energy can be employed to heat a brine solution to 1000 – 1200 degrees Celsius for the generation of steam power. Desalinated water can be transported throughout the Pakistan via wind power from corridor cities such as Panjgur and Turbat.

Furthermore, incorporating aerial seeding for tree plantation along storm water channels using aircrafts from the plant protection department. In the ensuing year, flood water speeds will be reduced and water is taken underground; significantly impacting the water table.

Currently, the same corridor as the Tapi Gas Pipeline route can be adopted to pump water from the Indus river near Taunsa or DG Khan to Quetta for meeting Baluchistan's requirements. This can be achieved via a 56-inch pipe run on solar and wind energy. Baluchistan's abundant land mass can not only provide food security within Pakistan, as well as generate surplus commodities for export to China.

Source: Interview with Mohsin Syed, 2018 (advisor to Govt of Baluchistan on CPEC)

in implementing such a policy. New agriculture and water policies have been developed at provincial levels that promote a sustainable and competitive sector as well as private–public partnership.

Agricultural policies must be reviewed with respect to CPEC within a framework, as outlined above, that would work on improving on and off-farm productivity via introduction and dissemination of global best practices along with technological innovations. It should also include improving global competitiveness of Pakistan's agriculturethrough investing in capacity building and skill development. More specifically, it should have a focus on strengthening linkages across the agriculture and food value chain with an objective of reducing spoilage, value addition and cold chain development, and farmer incomes.

In short, under CPEC the government needs to focus on commodities which (1) have comparative advantage with respect to Pakistan's varied ecological zones, (2) are competitive and, (3) pose a growth trajectory in an expanding Chinese market. China and Pakistan had agreed to strengtheningcomparative and competitive advantage by bolstering agricultural infrastructure and agro-based industry. The extent of their cooperation includes such key areas as biological breeding, production, processing, storage and transportation, infrastructure construction, disease prevention and control, water resource utilization, conservation and production, land development and remediation, ICT-enabled agriculture, and marketing of agricultural products to promote the systematic, large-scale, standardized and intensified construction of the agricultural industry. A private/ public partnership modality can go a long way in developing a competitive agriculture.

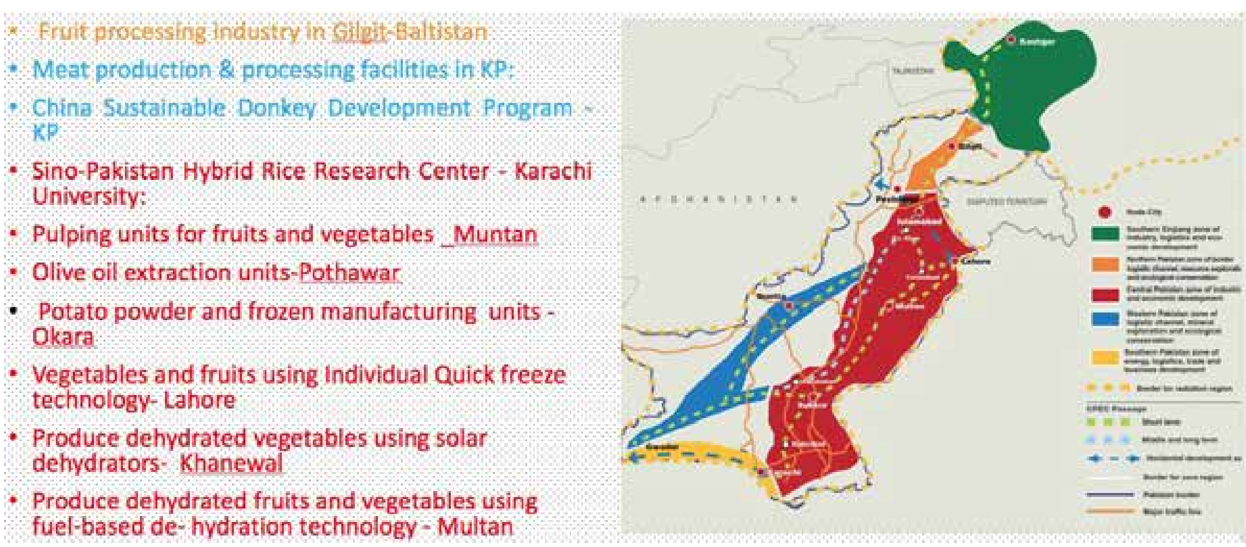
Figure 6.2 indicates the potential and opportunity for transferring our comparative advantage (diversified cropping zones Indusbasin) into a competitive advantage by providing better access to domestic and regional markets by means of CPEC. The highlighted projects in each potential zone envisage employing better varieties of agricultural crops, along with inviting Chinese experience and cooperation to enhance the country's agricultural production. The agricultural products can be subsequently exported, among other countries, to China as its demand for agricultural products is increasing.

The Ministry of National Food Security and Research has suggested to the government to push for agreements with Chinese companies for investment in value added agro-industry. Such an investment-modality is expected to provide value addition prior to exportation via canning, pureeing or pickling. Further, such value addition will ensure accommodation of Pakistan ilabor on the Chinese owned or operated farms and infrastructural projects such as post-harvest storage which is likely to generate employment opportunities for Pakistani farmers and laborers.

Table 6.1 identifies various types of value-added agricultural commodities that can be produced in different Agro-Climate Zones of Pakistan and hold the potential to be exported to China and other countries in the region. It also provides a very diversified

FIGURE 6.2

The Identified Agriculture Zones with Potential Projects



Source: State Bank of Pakistan Annual Report 2017-18 and BIPP Annual Report 2017 list of commodities that fits well with what China's more affluent classes and young population are demanding. Pakistan can utilize this as an opportunity by producing high value crops for exportation.

Table 6.1

Types of Value-Added Agricultural Commodities in Different Agro-Climate Zones of Pakistan

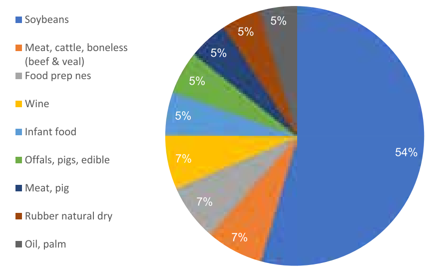
Sr. No	Agro-Commodities
1	Livestock/Sheep Goat Fattening and Dairy Products
2	Aquaculture and Marine Fishing
3	Cereal Products
4	Vegetable: Fresh and Processed
5	Poultry/Feed
6	Fruits Fresh: Dried and Processed
7	Sugar, Gur, Molasses
8	Cut Floor Production
9	Herbs and Spices
10	Animal Feed and Fodder
11	Tobacco Industry
12	Animal Skin Processing
13	Seed Production
14	Pulses
15	Cotton Processing
16	Wool Cleaning and Processing
17	Plants, Nursery, and Products
18	Vegetable Oil, Essential Oil etc.
19	Olive Production & Processing
20	Honey

Unlocking the Trade Potential China's Import Trends

Demand for food in China stands at $1 trillion annually and is projected to increase by another $500 billion in the next 10 years. The sheer size of China's population (1.3 billion),along with recent dynamic changes in its social and economic structure, has resulted in greater consumer demand for higher value products. As China presents a significant opportunity for Pakistan regarding agricultural exports. Figure 6.3 identifies ten major agricultural food and agriculture imports of China. An analysis of the Table 6.2 suggests significant mismatch between Chinese import commodities and Pakistani agricultural and food exports, where in majority of Pakistan's exports are not considered top imports by China. Therefore, it is recommended that Pakistan must match its export to the consumption requirement of China. China's leading suppliers of agricultural imports include United States, Brazil, Australia, Canada, New Zealand, and Argentina. Pakistan's current share in Chinese imports is negligible. Further more, it has been declining over the past few years. Pakistan's market share in exports to China was 0.12, 0.10 and 0.08% in 2015, 2016 and 2017 respectively.

FIGURE 6.3

China's Imports of Food and Agricultural Products



Source:FAO Stat 2018

Regarding agriculture, Pakistan's share is only around 0.37 percent (roughly US$ 0.4 billion) out of US$ 99.6 billion Chinese food imports. Table 6.2 identifies China's top 20 imports and Pakistan's top 20 exports, in the years 2006 and 2016 respectively. Among these commodities, rice, meat, and cotton indicate the potential which provides room for ex-

TABLE 6.2

Trade Profile:
Pakistan's Exports and China's Imports (US$ '000s)

China				Pakistan			
2016				2016		2006	
Items	Values	Items	Values (Per Million US$)	Items	Values	Items	Values (Per Million US$)
Soybeans	8136606	Soybeans	35023564	Rice - total (Rice milled equivalent)	1703048	Rice - total (Rice milled equivalent)	1150103
Cotton lint	5307414	Meat, cattle, boneless (beef & veal)	4535143	Flour, wheat	172887	Flour, wheat	97216
Rubber natural dry	2929235	Food prep nes	4469199	Tangerines, mandarins, clementine's, satsumas	157970	Cotton lint	67683
Oil, palm	2403044	Wine	4232133	Meat, cattle	155170	Crude materials	52355
Hides, cattle, wet salted	1628547	Infant food	3436932	Sugar refined	123078	Cotton waste	43491
Food prep nes	1422001	Offals, pigs, edible	3316277		102596	Molasses	43339
Wool, greasy	1212659	Meat, pig	3091754	Potatoes	78187	Tangerines, mandarins, clementines, satsumas	39233
Crude materials	1196481	Rubber natural dry	3061458	Sugar confectionery	76918	Mangoes, mangosteens, guavas	32299

Cigarettes	1100307	Oil, palm	3023679	Crude materials	67279	Dates	32201
Meat, chicken	1069125	Meat, chicken	2597465	Mangoes, mangosteens, guavas	65835	Sugar confectionery	28167
Beverages, distilled alcoholic	972706	Milk, whole dried	2540529	Spices, nes	64230	Sugar refined	26866
Oil, soybean	841554	Crude materials	2452895	Fruit, dried nes	59283	Chick peas	25057
Maize	783928	Beverages, distilled alcoholic	2177237	Cake, linseed	58530	Beverages, non-alcoholic	14788
Sugar raw centrifugal	634786	Rice - total (Rice milled equivalent)	1936428	Cotton waste	46599	Milk, whole fresh cow	14082
Cassava dried	620458	Hides, cattle, wet salted	1885791	Cotton lint	40882	Spices, nes	13335
Tobacco, unmanufactured	507412	Cigarettes	1868886	Glucose and dextrose	39114	Beans, dry	10979
Rice - total (Rice milled equivalent)	497977	Cotton lint	1777015	Vegetables, fresh nes	37515	Fruit, fresh nes	10702
Meat, cattle, boneless (beef & veal)	489672	Rapeseed	1490499	Sesame seed	32539	Cotton, carded, combed	10269
Barley	427970	Sorghum	1449921	Milk, whole fresh cow	28117	Vegetables, fresh nes	9844
Milk, whole dried	390048	Maize	1428104	Meat, sheep	27198	Food prep nes	8776

Source: FAO Stat, 2018

porting larger quantities from Pakistan. There are a number of factors that are instrumental to obtaining a larger shareof China's imports.

- China's ever-increasing population requires high quality goods which presents a unique opportunity. Taking advantage of Pakistan's unique geographical location and predominantly agrarian economy, could allow for a significant increase in exports. However, it needs to produce goods that are high in quality and carry value addition to fetch value per unit of export.
- Due to a shortage of arable land and freshwater resources in China, thereisaneedtoimport land-extensive crops (such as wheat, rice livestock) to feed its population. Along with a rising standard of living in China, the demand for agricultural imports is growing as well.

Competitive Matrix for Selected Commodities

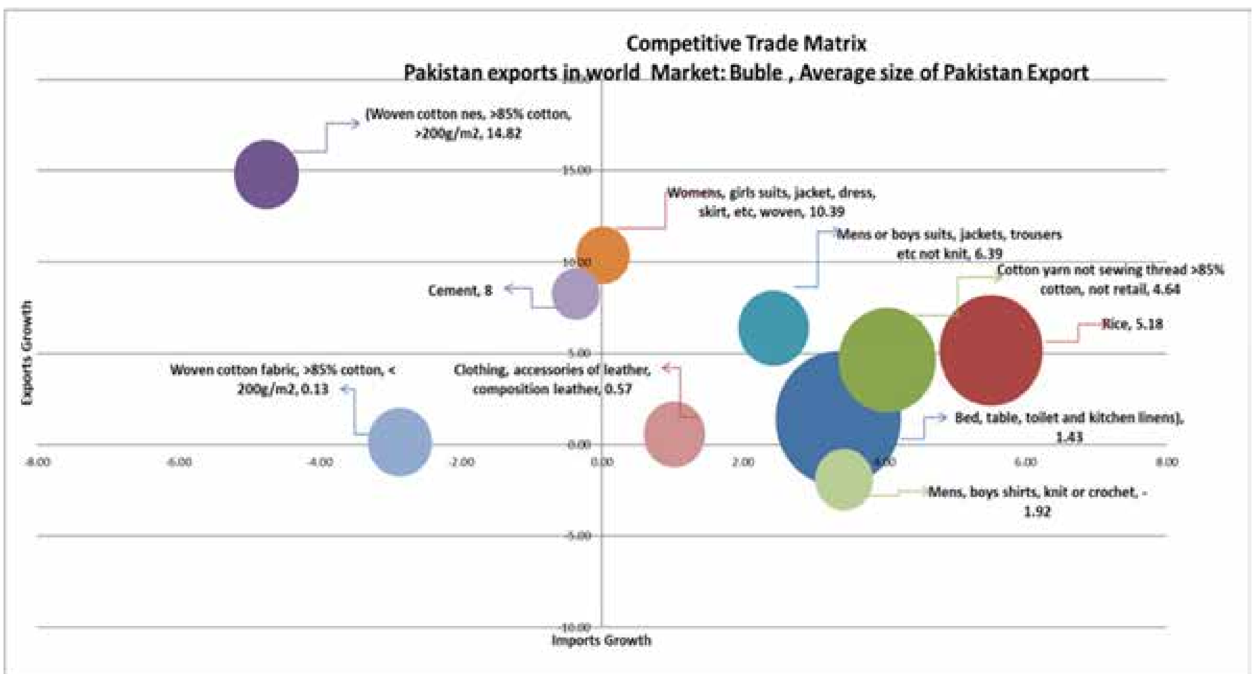
A comprehensive trade analysis and its associated competitivematrixis outside the scope of this chapter. However, an attempt has been made to present a competitive matrix for selected commodities.

Figure 6.4 provides an insight into the competitiveness of Pakistan's top ten exports. Bed sheets, table clothes, toilet and kitchen linens are among the top exports interms of value, indicating a clear case where Pakistan's export growth in these commodities is not at par with the growth in the world markets. Rice, the second most important commodity, is performing well as growth in export is more than the world average; however, its share of the world market is on the decline. Additionally, cotton yarn is also doing well with slight growth in its share of the world market.

Sets of commodities (woven cotton, suits and jackets for men and women) that are growing well in the world market, their exports from Pakistan are

FIGURE 6.4

Pakistan Exports in World Market



Source:FAO Stat 2018

showing either a decline or a lower rate. Commodities such as women's cotton fabric, are growing in a declining world market where as the product of men'shirts is declining in growing markets. Our analysis indicates that Pakistan is trading in low value agriculture commodities in precarious markets; majority of our competitors are out performing the country on the grounds of quality and price.

The competitive matrix analysis (Figure 6.5) for five selected agricultural commodities (rice, cotton, wheat, veal beef, and cattle) depicts growth in both exports from Pakistan as well as growth of imports by China over the past 10 years in so far that rice presents the largest volume among exports to China. Pakistan's export growth is modest at 2.73%; it is far removed from China's import growth of 15.75% per annum. Whereas, the performance of cotton is less impressive, Pakistan's export of cotton to China is growing (5.11 %) in a declining import market of China. There is a considerable room to absorb imports from Pakistan considering the large volume required by China. It should be noted that Pakistan remained the top supplier of cotton yarn to China until 2015. Given the massive devaluation, Pakistan can be more competitive andin a good position to take larger share from Thailand and also from Vietnam. Veal/Beef and cattle, though carry low volumes, offer huge potential for exporting to a growing market. Wheat exports to China are not promising, as quality of our wheat might not meet the local requirements of the processing industry.

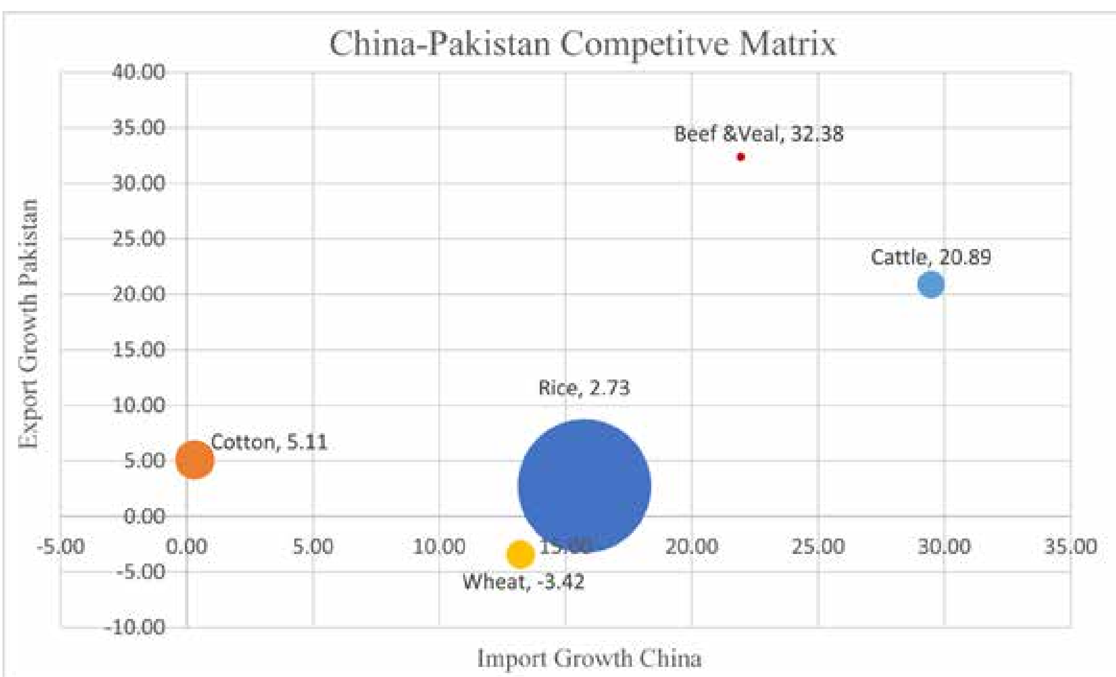
There is a need to undertake a comprehensive analysis involving a large number of commodities, traditional and non-traditional, holding greater export potential not only for China but also for other countries/regions.

Strategic Moves

The main concern with China is of trade balance,

FIGURE 6.5

Pakistan Growth in Key Agriculture Products from each CPEC Zone– Competitive Trade Matrix



Source:FAO Stat 2018

which is in its favor and continues to mount. CPFTA (China Pakistan Favorable Trade Agreement) was expected to providea n important strategic link between the two countries as an opportunity to exploit the Chinese markets, as it addresses tariff/non-tariff barriers and augments comparative value of exports (SDP, 2017).However, Pakistan has not benefited from CPFTA as reflected by low volume of trade being undertaken with China compared to other countries in the region. On a positive note, this indicates the existence of significantly untapped trade potential for both the countries which can be enhanced by means of three key policy actions:(1) getting a better deal from China in the second phase of CPFTA containing lower tariffs and rationalization of trade procedures, (2) increasing competition by seeking the same level of tariff concessions on exports to China as enjoyed by competitors from East Asian countries on their products, and (3) taking safeguard measures (as allowed under WTO rules) canalso be pursued in favor of Pakistan's non-competitive industry (e.g. ceramics, footwear, leather goods, sports goods, fan industry, plastic and tire etc.) using mutually agreed time lines.This could help bolster thelocal industry to build-up enough capabilities over time to compete with Chinese products.

Pakistan is still a long way from improvingits competitiveness to fully exploit the market potential that China and other countries offer in the region. Too much time has been taken to incentivize in setting Special Economic Zones under the CPEC that are expected to provide tremendous opportunities to develop and upgrade Pakistan's SME sectors, which have high export potential, such as agriculture, food processing, marble & mining, light engineering, textile, garments & made-ups, and logistics sector (SBP, 2017). Pakistan's exports to China remain centered on exports of raw material and intermediate products, such as cotton yarn, woven fabric, grey fabric etc. Value-added products still need to find greater market share despite the fact that some of these products, like garments, were included in the concessionary regime.

As mentioned above, bilateral trade balance remains in favor of China. On the other hand, Pakistan can also reduce its overall trade deficit by diverting exports from traditional destinations to China,which is a market of more than one billion consumers. This can be done by encouraging Pakistan's private sector to modernize its business processes, invest in research and development, improve human capital, and seek international certifications while meeting quality standards as expected by the consumers. Moreover, Pakistan's private sector will benefit from ease of doing business by reduction on supply-side bottlenecks, improved macroeconomic outlook, setting up of planned Special Economic Zones under the CPEC arrangements, and the expected relocation of labor-intensive industries in the backdrop of continued restructuring in the Chinese economy.

On one hand, the imports from China have benefitted Pakistan's economy by fixing the supply-side constraints, which have been affecting the country's productive potential severely. In this regard, the contribution of imports of machinery and raw material is worth mentioning due to its positive spillover on growth-induced activities. On the other hand, the production of local industry with low competitive advantage has been affected, as the CPFTA provided the Chinese goods with an equal opportunity to compete with their Pakistani counterparts in the country's local market (State Bank Report, 2017).

The biggest opportunity which Pakistan canpursue with China is to relocate some of the global value chains in Pakistan, as the Chinese economy is undergoing restructuring due to the increasing cost of Chinese labor. Under the CPEC, Pakistan can also seek relocating Chinese low value-added industries to Pakistan. In this manner, continuity and consistency for investment and industrial policies will play an important role in attracting FDI to export-oriented sectors. As reported in the BIPP report of 2017, there are two possibilities: First, Pakistan could be part of the existing Chinese global value chains with greater intensity. Secondly, emphasis should be placed on seeking concessions in areas where the strengths of the two countries complement each other thereby encouraging intra-industry trade.

Moreover, Pakistan could make a case with China to consider relocation of export oriented Chinese industries to Pakistan like garments, solar panels, mobile phones, electrical equipment, electronics and food processing. The CPEC cells created at the provincial level can undertake studies to bench mark cost comparisons for commodities that are feasible from China's perspective to relocate to Pakistan. The selling point may be the low cost of Pakistani labor, which would provide Chinese companies an opportunity to expand their operation.It is known that concessions are being requested in Chinese "Sunset" industrial sectors, which would incentivize Chinese investors to relocate their production facilities in Pakistan.

Relocating of Chinese industries to Pakistan will not only lead to the much needed diversification but also to the enhancement of efficiency of low-skilled labor-intensive industry. It will also be instrumental in transferring technology, channelizing the economies of scale, and adding value to the production chains in sectors like agriculture, industry, and information technology. Above all, it will provide a window to enhance Pakistan's exports.

At the national level, the government's primary role should be to remove tariff and non-tariff barriers regarding agricultural trade with China. The CPEC has set the stage to renegotiate Pak-China Free Trade Agreement and Ministry of Commerce should demand better tariffs for its agricultural exports. The private sector and agriculture entrepreneurs should explore viable market opportunities and partnerships in the Chinese market and with international firms. Most importantly, a modern agricultural policy crafted at provincial levels needs to be formulated to work in tandem with the CPEC and support the rights of the local farmers.

Conclusions

1. The CPEC has the potential to significantly contribute to ensuring inclusive development, specifically targeting socio-economic development of the less-developed areas of the country. The government has identified nine special economic zones, including Dhabeji, Faisalabad and Hattar, as key areas of development. Yet it remains to be assessed whether all nine are to be included in China's plan requiring a push from the government.
2. A case is being made for developing agriculture and agro-based industry through identification of potential areas and adopting a cluster approach.. To make this happen, among other measures, productivity of the agriculture sector needs to be increased with the priority to enhance water productivity. If we look at successful agriculture and rural development growth models, four common features are discussed in the paper that need to be taken into consideration during planning and policy formulation stage of the CPEC.
3. The chapter also noted "water" being the main constraint not only in developing the backbone infrastructure but also in developing the supporting infrastructure. The case of Gwadar is highlighted where access to drinking water for increasing growth has become a costly option. A tanker is selling water at a price of Rs 22,000, which in comparison in Karachi ranges from Rs 4000 to 8000 and in rural markets in Punjab Rs 3000.
4. The expected investment from Chinese companies should be made in a modality that not only it

creates value addition but, more importantly, leads to creating job opportunities for Pakistani farmers and laborers alike.

5. China's ever-increasing population requires high quality goods, which presents a unique opportunity for agriculture exports from Pakistan. Among the products, rice, meat, and cotton indicate the potential room for exporting larger quantities from Pakistan.

6. Pakistan has not benefited as much as reflected in the low volume of trade being undertaken with China as compared to other countries of the region. On a positive note, this indicates the existence of huge untapped trade potential for both the countries, which can be enhanced through three key policy actions: (1) get a better deal from China in the second phase of CPFTA, which further lowers the tariffs and normalizes the trade procedures, (2) compete better, seek the same level of tariff concessions on its exports to China as enjoyed by its competitors from East Asian countries on their products, and (3) seek safeguard measures (as allowed under WTO rules) in favor of Pakistan's non-competitive industry (e.g. ceramics, footwear, leather goods, sports goods, fan industry, plastic, tire etc.) with mutually agreed timelines.

7. Pakistan to make a case with China to consider relocation of export oriented Chinese industries to Pakistan like garments, solar panels, mobile phones, electrical equipment, electronics, and food processing. Relocating of Chinese industries to Pakistan will not only lead to the much needed diversification but also to the enhancement of efficiency of the low-skilled labor-intensive industry. It will also be instrumental in transferring technology, channelizing the economies of scale, and adding value to the production chains in sectors like agriculture, industry and information technology. Above all, it will provide a window to enhancing our exports.

Chapter

7 CPEC's External Linkages with the Regional Economic Blocs

CPEC's External Linkages with the Regional Economic Blocs

Khalid Sherdil and Mirza Mubashir Baig

This Chapter analyzes the linkages of China Pakistan Economic Corridor (CPEC) with other neighboring regional economic blocs and key trading countries of West Asia, Central Asia, and South Asia regions. As shown in Figure 7.1, Pakistan not only belongs to all these three regions but lies at the cross roads of each region. Paradoxically, at the political arena, Pakistan has conflicting foreign policy interests with countries in each of these three regions. Hence, our Foreign Office has the difficult task of balancing our options on a tight rope for each region. Economically, Pakistan has failed to materialize any meaningful trade with any of these three regions. The result is the widening trade gap (Figure 7.2).

Whereas several knee jerk reactions have been taken to narrow this trade gap, such as a mini-budget by the newly elected government and an abrupt devaluation of currency, the Ministry of Commerce has embarked upon medium to long term Trade Re-

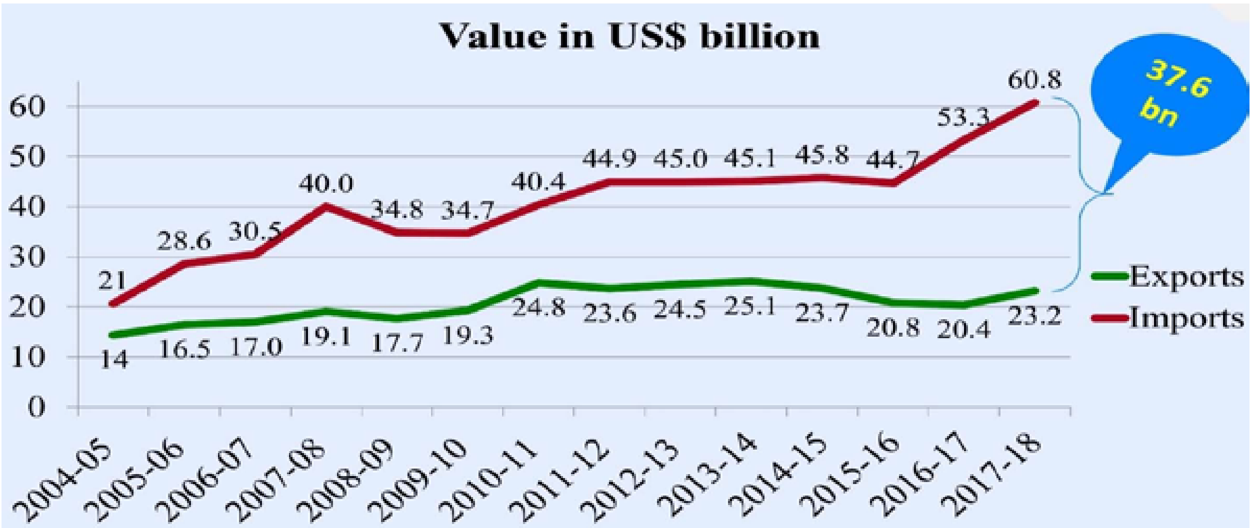
FIGURE 7.1

Pakistan at Crossroads of Three Regions

Source: Authors' Configuration

FIGURE 7.2

Trade Gap of Pakistan



Source: PBS as quoted by MoC

lated Investment Policy (2018-28), National Tariff Policy (2018-23), and Strategic Trade Policy Framework (2018-23).

Global Trade

Let us first look at the entire global trade scenario, before we go into the details of each region and its blocs.

The world has become a global village and there is a lot of interdependence amongst countries to fulfill their requirements. Under World Trade Organization (WTO) regime, the theory of comparative advantage has benefitted some countries. The trade across the globe has three dimensions: trade with global partners, trade within the region or intra-regional trade, and bilateral trade. It also has two components: trade in goods and trade in services.

Limiting the scope of the study to trade in goods only, it is important to know how much share Pakistan has in global trade, who are the major trading partners, which are our export markets, in which commodities Pakistan has comparative advantage, and what is the volume of the intra-regional and bilateral trade? Does Pakistan need to focus on regional trade and diversification in export markets and

TABLE 7.1

Global Merchandise Exports		
Sector	**Percentage share**	**Percentage increase since 2006**
Manufacturing Goods	73	37
Agriculture Products	10	67
Fuel And Mining Products	13	10
Other/Non Specifies	04	–

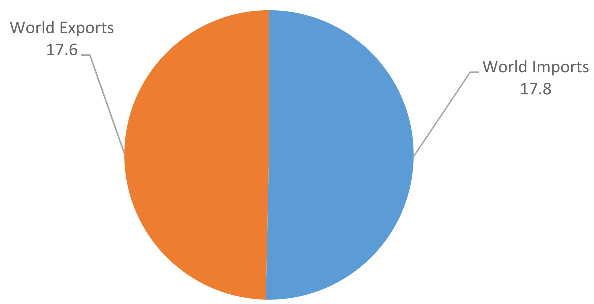
Source: World Trade Organization (WTO)

commodities, and what arrangements Pakistan has in global trading regime, regional trading regime and bilateral trading regimes?

As per statistical data of the World Trade Organization WTO, the volume of the global merchandise export in 2017 was $17.3 trillion as compared to $ 16.03 trillion during 2016. Major sectors and their share during 2016 are as under[1]:

FIGURE 7.3

Global Trade in 2017 (USD Million)



Source: World Trade Organization (WTO)

Intra-regional trade constitutes most of the global trade volumes and as per statistics released by WTO, trade within EU constituted 63% of the total world merchandise export in 2015. The share of regional trade was: 50% in NAFTA, 24% in ASEAN, 18% in SADC, and 14% in MERCOSUR[2]. India in 2015 it was the 9th largest exporter of agricultural products in the world after EU making it is the biggest partner in South Asia. India was 8th in the export of iron and steel, and 8th in chemicals with its trading partners not in the region. Pakistan has also trading partners outside the region in USA, EU, UAE, Saudi Arabia and China. Looking at the volume of intra-regional trade, trade within SAFTA is very minimal as compared to other regional trading blocs. Pakistan and India, being the largest countries in the region (and among top five in the world), have very limited bilateral trade. In 2017 the total Pakistan-India trade was $ 2.03 billion, which constitutes less than 3% of its total trade,with$1.70 billion imports from India to Pakistan and $0.33 billion exports to India from Pakistan (figures 3 and 4). Thus, there was a trade imbalance of $1.36billion in favor of India[3].

FIGURE 7.4

Indian Global Trade & Pak - Indo Trade in USD Million

Source: World Trade Organization (WTO)

Not only the volume of trade within South Asia is minimal as compared to the other regional blocs, but the cost of trade is also disproportionately high. According to World Bank study, the average cost of trade within South Asia is 20% higher than in Association of South Asian Nations (ASEAN) and three times higher than the corresponding cost in NAFTA countries[4].

We will now look at each region, along with its major economic blocs. These include: (i) Belt Road Initiative (BRI), also known as OBOR (One Belt One Road), of which CPEC is a subset, (ii) EAEU (EurAsian Economic Union), (iii) ECO (Economic Cooperation Organization), (iv) Iran, (v) CASA (Central Asia – South Asia), (vi) Afghanistan, (vii) China, (viii) SAARC/SAFTA (South Asian Association for Regional Cooperation, South Asian Free Trade Area), and (ix) India, etc.

Belt Road Initiative (BRI)

Formerly known as OBOR, the Silk Road Economic Belt and the 21st Century Maritime Silk Road (called the Belt & Road) is China's attempt for land-based commerce with Asia and Europe, covering around 65 countries with a GDP of $21 trillion and population of over 4.4 billion[5].

The initiative has the following three key infrastructural ingredients:

- Three land based corridors, (i) the China-Mongolia-Russia corridor, (ii) the China-Central Asia-West Asia corridor, and the (iii) China-Indochina peninsula. The lynchpin of these is the 12,000 km rail system, connecting Shanghai to Berlin, Budapest, and Belgrade.
- Two ocean-going corridors (Maritime Silk Roads linking to sea) are: (i) the China-Pakistan Economic Corridor (CPEC, which provides access to the Arabian sea), and (ii) the Bangladesh-China-India-Myanmar economic corridor (which provides access to Bay of Bengal).
- The maritime silk road, with the development of ports and coastal infrastructure.

The main vehicle for foreign investment in such projects is likely to be the Asia Infrastructure Investment Bank (AIIB). In part, the BRI proposal was an expression of frustration at the fact that countries including the US and Japan were blocking China's efforts to increase its influence in traditional international financial institutions including the Asian Development Bank (ADB). The AIIB, with $100 billion in capital, was also designed to cater to a real need for more investment in infrastructure in Asia, which the ADB alone could not meet. Many Western powers (with the notable exception of the US) are members of the AIIB, which gives it an air of respectability and international buy-in for the projects it funds..

The CPEC forms the shortest but the most strategic leg Kashgar, Xinjiang to Gwadar) of the BRI. This part of the silk route mainly links Pakistan to Central Asia.

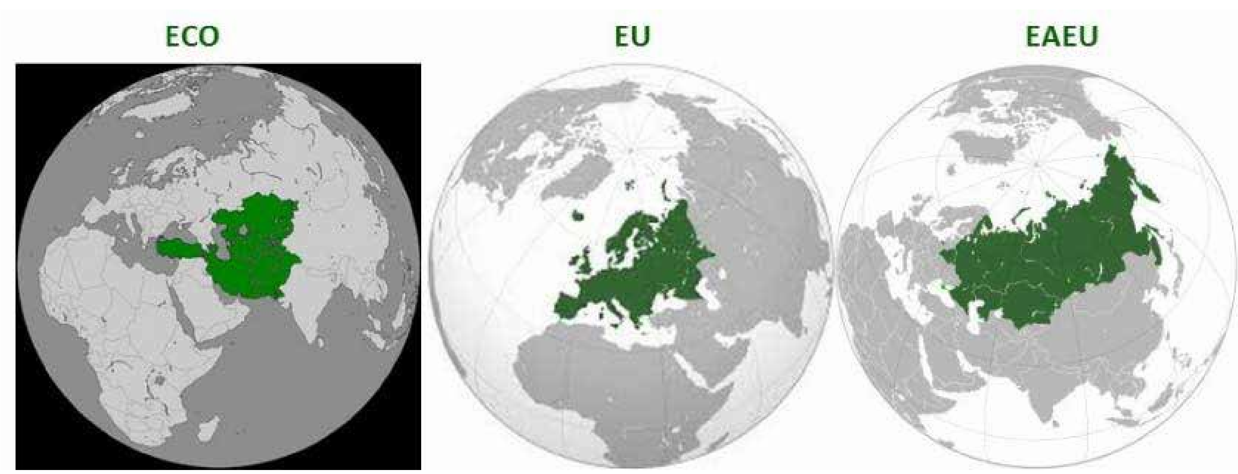
Economic Cooperation Organization (ECO) and Central Asia-South Asia (CASA)

ECO is a continuation of the Regional Cooperation for Development (RCD 1964-9), involving Pakistan, Turkey, and Iran. After the breakup of soviet empire in 1991, it expanded to include the Central Asian Republics (CARs) and Afghanistan.

But not many people realize that ECO's real potential is in linking Pakistan with EAEU, one of the world's largest blocs of energy, natural resources and power.

FIGURE 7.5

Geographical Comparison of ECO, EU, and EAEU



A geographical comparison of ECO and Eurasian Economic Union (EAEU) with the European Union (EU) is given in Figure 7.5. Highlights of ECO are given in Box 7.1 while those of EAEU are given in Box 7.2. Together, ECO and EAEU can form a very large and significant bloc, neighboring the EU. Whereas there is a decline in the western multilateralism, as signified by Brexit and the USA's renegotiation of NAFTA (North American Free Trade Agreement), we see a gradual and steady rise in the eastern multilateralism. Ideal economic unions comprise the four freedoms signified by free movement of goods, services, capital and work force. In addition to economic multilateralism, we also see political multilateralism such as in the form of Shanghai Cooperation Organization (SCO), whose eight full members account for almost half of the world's population, a quarter of the world's GDP and about 80% of Eurasia's landmass. Amongst other items, SCO deals with international financing, countering terrorism, and various security related issues. The land mass of ECO has access to six seas: Mediterranean, Persian Gulf, Arabian, Black, Caspian and Aral. Hence, it provides an opportunity for multi-modal land and sea based trading such as that including a combination of railway and ships. In case of oil, it can include a combination of pipeline with ships. The secretariat of ECO facilitates its member states to sign bilateral agreements and arbitration mechanisms. These include the following Free Trade Agreements (FTAs):

- Kazakhstan-Kyrgyzstan (under EAEU ambit)
- Iran-Turkey (currently preferential agreement)
- Pakistan-Iran (signed, under implementation)
- Pakistan-Turkey (expected 2018)
- Pakistan-Afghanistan (signed)
- Afghanistan-Pakistan Transit Trade Agreement (India-Afghanistan and Central Asia to Pakistan)

The East-West trade within ECO (Turkey to Pakistan) is along the old RCD route. The railway cargo from Turkey to Pakistan continues along this

BOX 7.1

Highlights of ECO

Economic Cooperation Organization

Countries: Pakistan, Iran, Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz, Tajikistan, Tajikistan, Uzbekistan and Turkey

Founded in 1985 to provide a platform to discuss ways to improve development and promote trade and investment opportunities

Development of transport & communications infrastructure linking the member states with each other and with the outside world

The current framework of ECO expresses itself in the form of bilateral agreements and arbitration mechanisms between individual and fully sovereign member states.

Free trade agreements between the industrial nations of Iran and Turkey are due to be signed. The Turkey-Pakistan Free Trade Agreement is under negotiation. The FTA negotiations began in Ankara in October 2015. During negotiations held between August 29–31 in Islamabad, both countries agreed to eliminate 85% of tariffs. The free trade agreement between the two countries was expected to be signed soon route, though the cargo bogies have to be changed due to different widths of the tracks. Trade with neighboring Iran is dealt with in the next section. The North-South trade forms the CASA trading market, which is linked to CAREC (Central Asia Regional Economic Cooperation). CASA conceptualizes trading of energy from north to south and commodities from south to north. A subset of this is the CASAREM (CASA Regional Electricity Market), in which electricity from Kyrgyzstan is planned to be exported to Afghanistan and Pakistan via Tajikistan, under the CASA-1000 project. Russia also has long term goals to pump power in this project. CASA is a subset of the larger Ashgabat agreement (joined by Pakistan in 2016) for transport between Central Asia and the Middle East (Kazakhstan to Oman) or the even larger International North-South Transport Corridor (INSTC), which is a 7, 200 km route linking India with the entire Middle East and Europe.

The six Central Asian Countries (CARs) can be divided into three energy rich-countries, which border the Caspian sea (Kazakhstan, Azerbaijan, Turkmenistan), and three not energy-rich countries (Uzbekistan, Tajikistan, Kyrgyzstan). Of the latter three, Tajikistan and Kyrgyzstan have extremely low populations (6-8 million), making 'trading in volumes' unrealistic. Per capita GDP and population (shown in Table 7.2) reveal that there is better potential in trading with the three richer countries. However, of these three, Azerbaijan has better access to warm waters through Iran, whereas Turkmenistan is harsh on granting visas to Pakistani traders. This leaves us with Kazakhstan, the largest of the six CARs. Unfortunately, access to Kazakhstan is only possible through a maze of other countries, making land based commerce expensive. A detailed analysis of Pakistan's trading possibilities with Kazakhstan, even extending to Moscow and Belarus, is given in the next section on EAEU.

The transit trade from Pakistan to Central Asia cannot stop, because it reciprocates the Afghan transit trade with India. In fact, other than brief periods such as immediately after Soviet withdrawal from Afghanistan or during the short reign of Taliban, Indian friendly Afghan governments have prevailed, yet the Central Asia to Pakistan trade has continued unhindered. Of course this trade has inefficiencies

TABLE 7.2

GDP, Population and Trade of ECO

	Nominal GDP (in billions of USD)	Ease of doing business rank	Per capita GDP	Total population (in thousand)	Import (millions of USD)	Export (millions of USD)
Iran	483	124	5,383	81,000	68,319	130,544
Pakistan	304	144	1,629	2,07,774	46,998	20,534
Turkey	794	69	10,788	79,415	198,618	142,530
Afghanistan	21	183	572	34,656	6,534	596
Azerbaijan	39	57	4097	17987	25175	36775
	4,097	9,876	9,211	11,327		
Kazakhstan	156	36	8,585	17,987	25,175	36,775
Kyrgyzstan	7	77	1,139	6,019	3,884	1,423
Tajikistan	7	123	3,146	8,734	266	291
Turkmenistan	42	NA	7,654	5,662	1,786	2,506
Uzbekistan	68	74	2,154	32,979	12,500	13,320

because of the multiple transshipment modes. Typically, goods have to be carried by four different trucks, including two different trucks each within the Central Asian countries of Uzbekistan and Tajikistan. This is hardly surprising because even within Pakistan, at times, two different trucks are required because certain trucks which can ply through Chaman or Torkham are not allowed to cross the Attock Bridge by the Punjab agencies. Similarly, within China, Pakistani trucks are stopped at Tashkurgan, instead of being allowed to travel to Kashgar.

Iran

Within ECO and RCD, the largest neighbor of Pakistan is Iran. Trade with Iran should have been exemplary. Iran was the first country to recognize Pakistan, has a common religion, and has similar culture since several Persian empires included parts of the Indus Valley, west of river Indus. In the Iran-Iraq war of the 1980s, the Irani ports were bombed or effectively blockaded. At that time, one third of the Karachi port was exclusively designated for cargo diverted to Iran. Similar situation may arise again now that the USA sanctions on Iran are tightening. However, these sanctions have hurt bilateral trade because under the UN sanctions, Pakistani companies couldn't trade with Iran. The Iran-Pakistan Pipeline was also a victim of these sanctions. The PML-N government had been too closely allied to Saudi Arabia to open up trade with Iran, even where there were loop holes in the US sanctions regime.

When Donald Trump administration unilaterally cancelled the Joint Comprehensive Plan of Action (JCPOA), which actually was a UN Security Council backed agreement with the status of International Law, deadline of November 2018 was given to all countries and companies to terminate trading with Iran. However, in November 2018, India was again given a waiver by OFAC, not only for trading in Oil and other commodities, but also for the construction of railway tracks inside Iran. Pakistan was discriminately refused any such waiver. Pakistan and Iran have signed Preferential Trade Agreement (PTA) whereby the Tariffs on Pakistani products are 10% lower than those on other countries, such as India. However, because Pakistani traders cannot officially trade with Iran, they have to purchase dollars from the open market, which normally cost them up to 30% above the official rate. This gives the Indian traders a 20% advantage over Pakistani firms. This margin is so huge that the entire sale of Pakistani rice to Iran was eliminated and captured by Indian traders. Smaller level trade of Citrus and other fruits/vegetables, not involving opening of LC, is routinely done, but since this is without bank guarantees, there are often complaints of Irani traders not honoring the cash commitment upon receipt of goods.

TABLE 7.3

GDP, Population and Trade of EAEU

	Nominal GDP (in billions of dollars)	Ease of doing business rank	Per capita GDP	Total population (in Million))	Import	Export
Armenia	11	47	3,595	2.9	3,218	1,808
Belarus	53	38	5,585	9.4	27,610	23,537
Kazakhstan	156	36	8,585	17.9	25,175	36,775
Kyrgyzstan	7	77	1,139	6.0	3,884	1,423
Russia	1,469	35	10,248	144.4	182,257	285, 491

BOX 7.2

Eurasian Economic Union

Countries: The republic Armenia, Belarus, Kazakhstan, Kyrgyz and Russia

The Eurasian Economic Union is an international organization for regional economic integration. It has international legal personality and is established by the Treaty on the Eurasian Economic Union

Russian is driving this initiative and the direction of this vast free trade zone

Established with the purpose of boosting economic development and well being

Serves 170 million; 1.5% of the world's population, 15% of the world's land, 20% of the world's gas resources

Industry: agriculture, energy and transport

Criticism: Russia perceived as using it as a foreign policy tool

Gap in intention and outcome

Russia reasserting state sovereignty

Preceded by Partial Customs Union in 2010 that allowed for no internal customs borders. To this was added, single economic space agenda.

Successive drafts emphasize on multi-vector agreements. Kazakhstan, for example, signed an agreement with EU after the signing of the EAEU treaty

In 2014, unilateral sanction-Ruble crisis due to reduction in price of oil (oil being 50% of Russia's exports) and the international sanctions imposed on Russia following Russia's annexation of Crimea and the military intervention in Ukraine.

Eurasian economic union has deviated from its original objective.

Request made by member states for weakening the policy making role of the commission.

In 2025, the union aims to achieve supranational financial integration

The Eursian Economic Union (EAEU)

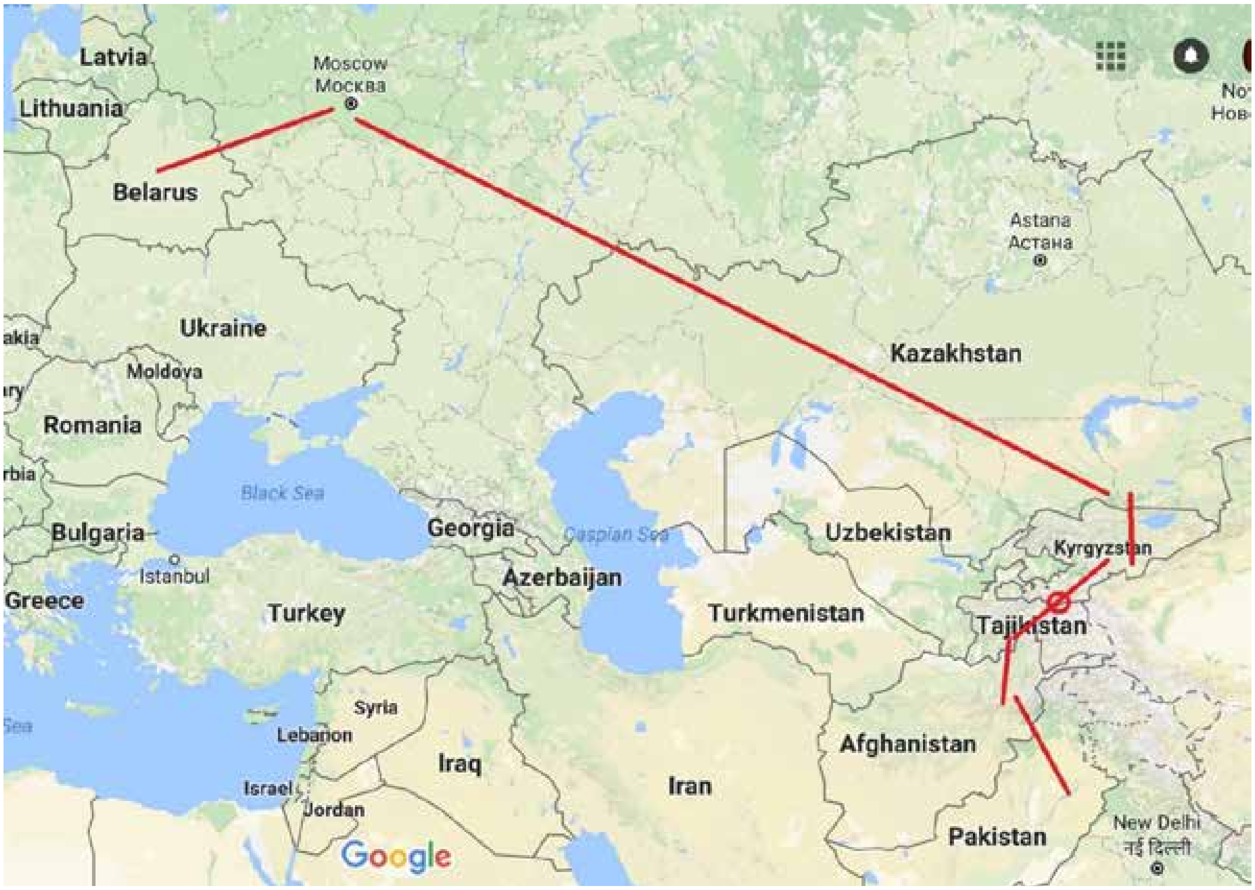
The Eurasian Economic Union (EAEU), created in 2015 by Russia, Kazakhstan, Kyrgyz¬stan, Belarus, and Armenia, claims to be the first successful post-Soviet initiative to overcome trade barriers and promote integration in a fragmented, under-developed region. With a GDP of $4 trillion (Table 3), this bloc has 15% of the world's land mass, 9% of the world's wheat, and significant shares of energy and natural resources.

The EAEU Resources by share of global production, and global rank can be summarized as: gas (20.9%), oil(14.6%), electric power (11.2%), mineral fertilizers(10.8%), coal (5.8%), iron (4.5%), steel (4.5%) and machinery 3.7%).

Pakistan can gain a lot from EAEU. Currently, Pakistan is trading with Uzbekistan and Tajikistan through truck based containers. The geographical distance from Islamabad to Sher Khan Bandar, the Afghan-Tajik border port, is shorter than that be-

FIGURE 7.6

Trade Routes from Pakistan to EAEU



Source: Authors' Configuration

tween Islamabad and Karachi. Truck drivers departing Torkham at dawn can arrive at Sher Khan Bandar by sunset. Currently, grapes and coal are brought from North to South, whereas potatoes and kinnows (oranges) are transported the other way. However, this trade is seasonal and not a guaranteed two way permanent trade. This means that often the trucks have to return empty handed, causing inefficiencies in trade. Further, the transshipment policies require change of up to four different trucks for a single journey and three different tariffs (Tajikistan, Afghanistan and Pakistan). Recently, President Ashraf Ghani banned Pakistani trucks from entering Afghanistan, in lieu of Pakistani strong stance on Afghan Pakistan Transit Trade Agreement (APTTA). Pakistanis see Indian influence behind this move, aimed at hurting Pakistan's trade with Central Asia. Due to multiple (up to four) transshipments, simple transfer of coal from Tajikistan to Punjab can cost over $100 per ton, making it more feasible for coal from South Africa or Indonesia to be utilized in Punjab. At times, due to political issues and cross border fire, Afghanistan or Pakistan abruptly close off the border. But such closures are typically resolved within a couple of weeks, due to mutual necessities. Once the borders are open, trading is smooth. The conspiracy theories about Taliban disrupting the trade are exaggerated because each War

FIGURE 7.7

Pakistan China FTA

Source: World Bank Report Provided by MoC

Lord is already part of the system, collecting their own share from the overall Tariff.

When the Customs Union between Russia, Kazakhstan, and Belarus emerged in 2011-2012, there were serious hopes and concerns (depending on the point of view) as to the evolving of competing jurisdictions. Experts talked about thousands of small and medium-sized companies that would move, for example, from Russia to Kazakhstan to enjoy lower taxes. There were grounds to believe that this would work. The countries' foreign policies were unified very quickly. Techcal, sanitary, and other regulations within the Eurasian Economic Union (EAEU) are gradually being harmonized. However, financial, tax and administrative issues continue to be governed by national legislations.

The Customs Union that has zeroed custom duties and introduced a single external customs tariff has been on the stage for six years. Armenia and the Kyrgyz Republic joined it in 2015 after accession to the Eurasian Economic Union. If to compare tax burdens in, for example, Russia and Kazakhstan, we see a significant difference of 47% and 24% of commercial profits, respectively (according to the World Bank). The VAT rate, which is of key importance to businesses, is also higher: 18% in Russia vs. 12% in Kazakhstan.

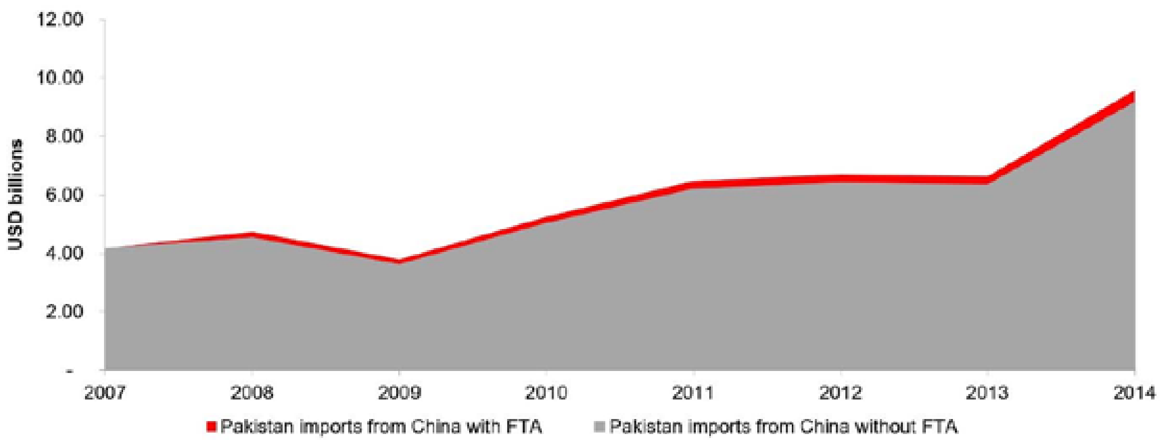
However, this is where theory ends and practice begins. Despite the considerable difference between the tax burdens in the EAEU countries, there has been no significant flow of businesses between them. Mutual investments in the EAEU are substantial. Russia, for example, has accumulated US $7.1 billion of FDI in Kazakhstan (according to EDB). However, there was no extensive movement of companies between the jurisdictions.

China

All data in this section is taken from the Ministry of Commerce, which had asked the World Bank to conduct an evaluation study of the Free Trade Agreement (FTA) with China. Detailed interview was conducted with Joint Secretary MoC Mr. Muhammad Ashraf, who shed light on behind the scene backward industrial linkages, which otherwise are not visible from the charts of the spreadsheets. The data shows that the trade gap with both India and China has increased, in favor of them. Since the signing of FTA with China, the gap has increased

FIGURE 7.8

FTA Component in Total Imports from China



Source: World Bank Report Provided by MoC

in absolute terms (Figure 7.7), but the growth in exports for Pakistan was 17.7% while that of China was 10.8% to 12%.This inconsistency in numbers between 10.8% and 12% is because of the difference in the reporting of Chinese imports which are $3.6 billion higher than the figures of exports reported by Pakistan.This is because several Pakistani traders under-invoice their products while some exports from Pakistan cross the border without being documented. Similarly, several Chinese exporters over-invoice their products to obtain higher export subsidies offered by China. In the same period, when Chinese exports to Pakistan grew by 10.8%, China's exports to Bangladesh grew by 17% despite no FTA. In the same period, China's imports from Pakistan (12%) grew at a higher rate than China's imports from India (1%), Thailand (7%), and the world (9%).

This 10.8% of annual increase in imports from China led to a total increase of 68% since FTA was signed in 2007. However, what is interesting is that if we look at only those items which were included in the FTA, then Chinese exports growth of 68% included only 4.6% (or $400 million) of FTA items (Figure 7.8). This 68% growth included that of machinery (41%), base metals (16%) and chemicals (16%). Machinery growth is investment related and, hence, good for economy. The other two are more of raw materials used in production of value addition products. A value chain analysis shows that these targeted tariff concessions have led to an increase in value added exports from Pakistan due to cheaper imported machinery and raw material inputs. In the hypothetical scenario, if the FTA was further liberalized to complete end of tariffs (0%), then the imports of FTA related items would increase from 4.6% to 12%. Larger trade weighted concessions were granted to raw materials or intermediates, as compared to final goods (with the exception of textiles)[6].

Considering the growth in export from Pakistan (18%), if we look at only the FTA based items, then Pakistani exports to China grew by only 3.6% ($544 million, mainly in cotton yarn and woven fabric, bed linen, leather, marble, and surgical instruments). During the same period, the growth to the rest of the world was merely 3.4%. It is noteworthy that since

2007, China's increase in imports of cotton yarn alone was $5 billion. There is a theory that if China gives more favorable terms to ASEAN, it makes Pakistani products uncompetitive. Modeling shows that if Pakistan were given the same concessions as ASEAN, the exports would increase by another 4%. And in case of complete liberalization (0% tariffs on all tariff lines), the exports would increase up to 7.3% ($544 million).

Key Pakistani exports to China do not get any concessions under the FTA. While China has granted concession on tariff lines amounting to 83% of the total exports, the reality is that about 70% of these exports are in tariff lines that either get no concession or get less than 50% concession (such as rice, cotton yarn, garments, leather and nuts).

This is why renegotiations on FTA with China have started already, with China being considerate enough to renegotiate because it realizes that Pakistani policy makers might have conceded too much to China in the hastily drawn FTA during the Shaukat Aziz era. As is the case with Pakistan in other policy matters, the negotiations were primarily done by FBR team and Finance Ministry officials, as opposed to other stake holders from Ministry of Commerce or the Chambers.

Similarly, India has imposed so many non-tariff barriers that the effects of MFN status are practically nullified. Further, politically India is at odds with Pakistan, and hence the trade can wait until some political settlement or détente is reached. Those who give examples of German-French trade fail to point out that it wasn't trade which led to the political settlement but vice-versa. In case of China, there is good political homogeneity. However, even the countries far away from China, such as Brazil, are scared of FTA with it, so it's surprising how a country like Pakistan, located so close to China, ended up signing one without due diligence. For example, garments and livestock were not allowed to be exported from Pakistan to China despite the FTA, which were our primary strengths. Just like President Trump made it an election slogan to renegotiate NAFTA, the newly elected Brazilian President Jair Bolsonaro called for renegotiation of the BRICS. His concern was that ever since free trade started within BRICS, India and China increased trade gap by dumping goods in Brazil. For him, BRICS states are competitors and not collaborators

.

Afghanistan

Pakistani trade with Afghanistan through Torkham and Chaman borders is highly undocumented. Tens of trucks per minute cross the Chaman border, where Pakistani Customs merely have token presence because it is the paramilitary border forces such as the Frontier Constabulary which have the defacto control of the border posts and the non-formal trade. Under their nose, the Irani oil is smuggled in Pakistan under the false pretext that it's an official policy of Pakistan to allow such import, which is akin to USA's waiver to India to smuggle Irani oil officially, right under the nose of USA's naval fleet in the Persian Gulf. The first proper check-post of Pakistan Customs is at the outskirts of Quetta, Smungli Airport at Kuchlak, some three hours of truck drive from Chaman.With both Iran and Afghanistan, the trade is conducted without the proper mechanism of LCs (Letters of Credit). Hence, it is the Pathan transporters who receive potatoes at Debalpur (Punjab) and deliver them to Tajikistan border post of Sher Khan Bandar, where the agents of two parties exchange cash, all without involvement of any bank. Amongst other items, the Afghan coal is a hot selling product, which has high calorific content. If global coal prices rose a bit further, then the coal from Tajikistan and Uzbekistan would also become economically viable to be imported in Pakistan, compared to the sea based import from South

Africa or Indonesia. As Pakistan operationalizes its next coal fired power plants, this demand will grow further. But for now, the documented bilateral Af-Pak trade is very low, and what can interest us more is the transit trade.

The Transport Internationaux Routiers (TIR) convention, a multilateral treaty,concluded at Geneva on November 14, 1975 to simplify and harmonize the administrative formalities of international road transport; it was signed by Pakistan in August 2015. As many as 69 countries including Afghanistan have acceded to the TIR convention so far. Despite signing the TIR Convention, Pakistan has not so far fully implemented it. FBR has already notified the rules to give effect to the Convention vide SRO 1066(I)/2017 dated 20th October, 2017. The implementation is beneficial as exports from Pakistan for Central Asian States through Afghanistan would not be subjected to checking and no guarantee would be required by Afghan Government. It will also ensure uninterrupted flow of trucks across the Pak-Afghan border. However, Afghanistan demands the same facility for India from the Wahga land route, and recently they have asked to at least provide transit facility to India for 138 items which are importable into Pakistan from India through land route. Security and political issues are involved, and yet it has to be decided whether to allow this facility or not. In recently published news in Afghanistan Times, it has been reported that Pakistan has not agreed to allow transit facility to India through Wahga by road to use its territory for exports to Afghanistan.

Transit facility is, however, being extended to Afghanistan for exports to India using this route. In a recent development, Pakistan formally started exports under TIR in October 2018, and TCS has started to export under this arrangement to Central Asian Republics through Afghanistan.

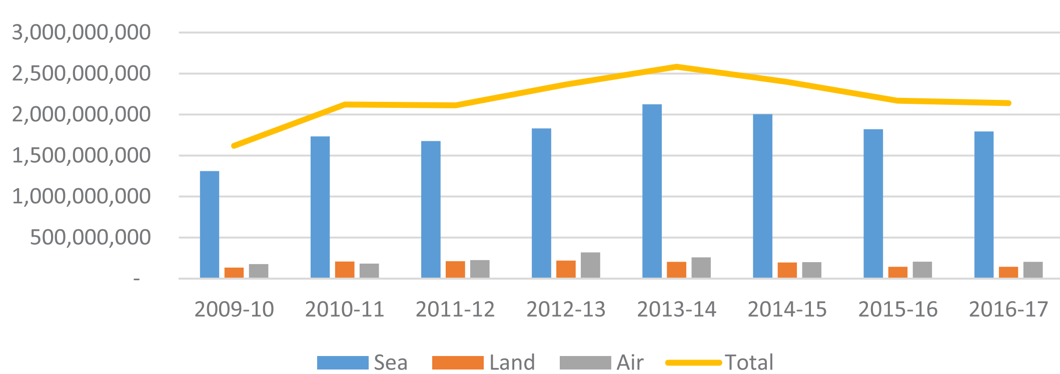
The South Asia Free Trade Agreement (SAFTA)

Pakistan and India are also members of the South Asia Free Trade Agreement (SAFTA), under which they accord preferential tariff (between 5% and 8%) treatment to each other. However, in spite of SAFTA, the products placed on the negative list cannot be imported from India.

Out of the 614 tariff lines included in India's sensitive list under SAFTA, 182 pertain to textile and clothing while 139 relate to agriculture sector. Since, textile, clothing, and agriculture are the mainstay of Pakistan's exports, several products of ex-

FIGURE 7.9

EXPORT VIA SEA, LAND AND AIR ROUTES SINCE 2009-10



Source: Pakistan Bureau of Statistics

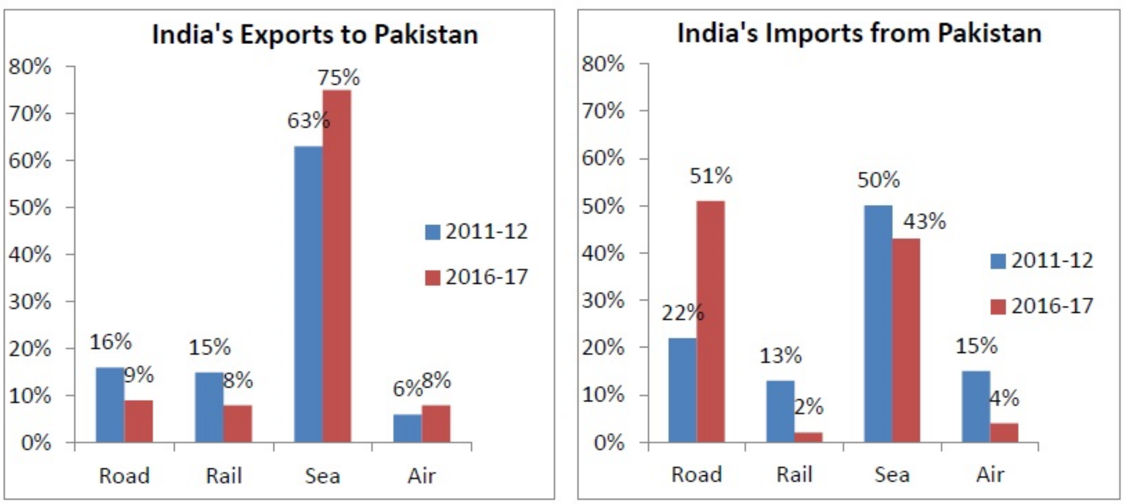
port interest to Pakistan face MFN tariffs in India, which are on the higher side. For instance, on textile and clothing, India applies compound (both ad valorem and specific) tariffs, which in some cases are in excess of 100%. On leather products, fruits and vegetables, and cereals, maximum Indian-applied tariffs are 70%, 100% ,and 150% respectively. The sensitive list of Pakistan consists of 936 items at six digits code[7].

India

Trade with India should not only be considered in light of the regional South Asian (or SAARC) trade, but also a continuation of the CPEC trade. Just like there is Afghan Transit Trade, there can be transit trade to Central Asian countries. Already Indian light weight but expensive goods (such as medicines) are going by air to the CARs. Heavier goods (such as agricultural commodities) can use the CPEC route to go to West China or to the CARs.

FIGURE 7.10

Mode-wise Export and Import Share of India-Pakistan Trade



Source: DGCIS, Ministry of Commerce and Industry, Government of India

Historical Perspective

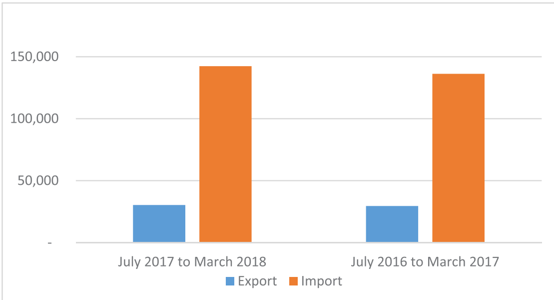
Between 1948 and 1965, Pakistan and India used a number ofland routes for bilateral trade. These included eight customs stationsin Punjab province at Wahga, TakiaGhawindi, Khem Karan, GandaSingh Wala, Mughalpura Railway Station, Lahore Railway Station,Haripur Bund on River Chenab, and the Macleod Ganj Road RailwayStation. There were three custom check-posts in Sindh at Khokrapar,Gadro, and Chhor[8].

In 1995-96, trade through rail route contributed around 63% of the total trade between the two countries, 33% by the sea route and 4% by air. Trade between the two countries remained suspended after 1965 and 1971 wars and resumed in the year 1976. However, cross border movement of import trucksstarted in August 2007, and Pakistan started its exports to India through trucks in October 2010 (Figure 7.9).

With the amendment of the maritime protocol and opening of the road route at Wahga-Attari in

FIGURE 7.11

Comparision of Import & Export Value with India



Source: Pakistan Bureau of Statistics

2005, the shares of trade by sea and road in total India-Pakistan trade saw a massive rise. The sea became the dominant mode accounting for 65 percent of the total bilateral trade between India and Pakistan in 2014-15, while the share of the road in the total trade has seen a rise from nil in 1995-96 to 23 percent in 2014-15[9].

This was followed by a sharp decline in the share of trade through rail which accounted for only 8 percent of the total bilateral trade in 2014-15. During 2011-12 and 2014-15, the share of rail declined to a mere 5 percent while that of road increased from 22 percent to 38 percent.Separate graphs for imports and exports through different modes are given in Figure 7.10, for the years 2011-12 and 2016-17.

There is also informal trade through third countries, notably Dubai. India's exports to Pakistan are estimated to be USD 3.99 billion and imports from Pakistan USD 0.72 billion. The main informal export items are jewelry, textiles, machinery and machine parts, electronic appliances, chemicals, paper, betel leaves, and tires. India's informal imports from Pakistan mainly consist of textiles, dry fruits, cement, and spices. The route not only makes trading inconvenient and un-competitive due to escalating time and cost of trade, but the circumvention is not accounted for in the formal bilateral trade statistics either.

In 2004 "Composite Dialogue" was initiated between India and Pakistan, and trade was part of this composite dialogue. Four rounds were held between 2004 and 2007. After negotiations, a meeting was held at Wahga between the delegations of the two countries and a joint statement was singed on 20thAugust, 2007 which ultimately led to trade facilitation measures by both the countries.

Joint statement dated August 20, 2007

The technical-level meeting between Pakistan and India to work out the modalities to allow cross border movement of trucks, up to the designated point at Wahga /Attari, for unloading / reloading of Cargo was held at Wahga on August 20, 2007. The system was to be put in place by October 1, 2007. Following are some of the main points agreed upon:

- Trucks from one side would be allowed to go to the designated points on the other side at the Wahga/Attari border for unloading of the cargo.
- A hotline would be established between the two customsauthorities at Wahga/Attari Border.
- In case of forcemajeure, the customs authorities of the two sides at Wahga/Attari border would establish hotline contact to work out the modalities of further action.
- Two sides would open a dedicated cargo gate towards south-east of the existing Pakistan Customs House and south-west of the existing Indian Customs House. A fenced path would connect the two Customs Houses through this gate.
- Upon completion of the dedicated cargo gate, all cargo traffic would pass through it.

To give effects to the agreements reached through joint statement, a procedure was formulated and issued in the form of a Standard Operating Procedure on September 28, 2007 by the Collectorate of Customs, Lahore.

There are conflicting opinions regarding the bilateral trade with India (Figure 7.11). The argument in favor of increasing trade with India is that India is a very large market, and Pakistan has a comparative advantage regarding certain items and will benefit from it if trade is liberalized on reciprocal basis. The opposite argument is that trade balance is already heavily tilted in India's favor, and liberalization would further put pressure on our industry and manufacturing sector and would have damaging effect.

Although 138 items are importable from India by road, as per Appendix G-1 of the Import Policy Order, and there is no restriction on the exports to India from Pakistan except items banned, restricted, or linked to some procedural requirements, practically the number of items traded across the border through land route is very limited.

MFN status to India

MFN treatment is the basic principle and one of the general provisions and obligations under General Agreement on Tariffs and Trade (GATT) and WTO. The general principle of this provision is that a member state of the GATT/WTO will accord the MFN treatment to all other member countries and will adopt no discrimination against any other. Thus, every other member state of GATT/WTO will be the "most favored nation" on equal, non-discriminatory principle. MFN is a misnomer as it suggests some special treatment, but actually it means non-discrimination-treating virtually everyone equally and giving national treatment to imports from other countries. India granted MFN status to Pakistan in 1996. Pakistan decided to grant MFN status to India in 2012. The mistrust is not limited to the state level, but the ultimate stakeholder i.e. the private sector, which is the main driver in bilateral trade,is also apprehensive. This perception is more pronounced on Pakistan side and needs to be addressed to encourage bilateral trade.

Tariff regime of India

India follows a protectionist policy, especially on agriculture, textile and clothing. The average protection is around 9.6% to 16.2% for textiles and 10% to 25.7% for clothing. Average tariff protection for agriculture products in 2010-11 was 33.2%. About 57% of agricultural goods bear tariff of 30%. India's tariff regime is structured in a way that tariff is more on finished goods and lower on intermediate goods. There fore, export of finished goods is not a very viable option. However, the export of intermediate goods in some sectors, e.g.surgical instruments, may have a chance. For India, 30% of sensitive list items relate to agricultural items and 34% to textile products whereas for Pakistan the sensitive list is 4% and 24% respectively. India has the most protective tariff regime for Pakistan in the SAARC region, whereas it has FTA with Nepal, Bhutan, and Sri Lanka. Bangladesh also gets preferential treatment under SAFTA[10].

Non-Tariff barriers

The Indian side of argument is that Pakistan did not reciprocate India by granting her MFN status which India had given to Pakistan in 1996; hence, India maintained certain leverage in the form of non-tariff barriers (NTBs) against imports from Pakistan. Furthermore, Pakistan maintained a 'positive list' of importable items from India rather than a negative list applicable to all other countries, This changed in 2012 when Pakistan replaced the' positive list' with the current negative list of 1209 items[11]. Pakistan's business community on the other hand claims that India has placed certain technical barriers to trade (TBT) and sanitary and phyto-sanitary measures which act as deterrents in enhancing bilateral trade with India. There were also some sector specific grievances . Pharmaceutical industry's

TABLE 7.4

Trade and Investment Flows Following India-Pakistan Trade Liberalization

<table>
<tr><th></th><th>Trade Volume</th><th colspan="2">Investments Flows into Pakistan</th></tr>
<tr><td></td><td></td><td>By Pakistanis</td><td>By Indians</td></tr>
<tr><td>Short-term</td><td>$1-5 billion</td><td rowspan="3">Substantial Increase</td><td rowspan="3">Sustained increase of more than $1 billion a year</td></tr>
<tr><td>Medium-term</td><td>$10-20 billion</td></tr>
<tr><td>Long-term</td><td>$15-50 billion</td></tr>
</table>

Source: Ijaz Nabi, Pakistan's Trade with India: Thinking Strategically

main concern was that India has economy of scale and producesess ential raw material for drugs at a very low cost. The low cost of production and distribution may force the competing Pakistani products out of market. Moreover, quality control measures in Pakistan are not stringent and Indian drugs of dubious quality at low prices may push Pakistani products out of market.

Goods and Services Tax in India

There are reservations by some sectors in trade liberalization while others are quite optimistic, especially of the long-term impact as the flow of investment and trade volume would increase substantially. Some joint ventures are also possible especially in IT sector. Pakistan Business Council (PBC), Regional Trade Group (comprising of businessmen, academia and civil servants) conducted a survey of perception within the group which is tabulated in Table 7.4[12].

Conclusion

This chapter shows that CPEC as a component of BRI has vast potential of external linkages with EAEU and ECO. Our policy makers should devise commerce, trade and energy policies to capitalize on these prospects. Just like China is betting on OBOR, Pakistan should hedge on the land-based commerce prospects with EAEU and ECO. This covers our northern and western frontiers. This land based commerce can integrate well with the southern maritime commerce through Indian Ocean, considering that the northern member states of ECO and western China are land locked. The eastern zone comprises India or the SAARC region, which is likely to remain dormant in the immediate future due to political issues. However, the post-tsunami and post-civil war Sri Lanka is one country within SAARC which has friendly relations with Pakistan. Sri Lanka's GDP is continuously increasing, and it soon will have a significant middle class, which could consume Pakistani goods. This chapter also shows that negligence in devising policies, or hastiness in FTAs, will cause more harm than good.

Despite all the factors which hamper bilateral trade between India and Pakistan, it is still widely belived that increased regional trade isto the benefit of both the countries and Pakistan should foucus on the sectors where Pakistan has compartive advantage.In the export sector, it is estimated that the current trade between India and Pakistan can increase substantionally, andthe potential of export is at least 10 times more. Pakistan has a compartive advantage in number of sectors i.e. textile & clothing, agriculture (fresh furits and ethonal), cement, light engineering goods (such as fans, washing machines), surgical & sports goods, leather products, cutlery, plastic goods, and certains chemicals. Major share of the global trade is amongst the regional trading blocs with EU intra regional trade constituting around 63% of the global trade. However, intra regional trade within South Asia is minimimal as compared to trade outside the region. There is scope for trade enhancement between regional partners especially India and Pakistan. At least the informal trade taking place between the two countries can be brought to formal channels if some trade liberalization takes place and the restriction of 138 items tradable through the Wagha land route is treated at par with other routes i.e by sea or railways and applying same negative list of 1209 items across all the trade routes. Despite fluctuation in bilateral trade and decrease in the bilateral trade by sea route and railways, the exports through land route wagha by road has increased from 22% to 51% (Figures 7.10). Hence, bottlenecks need to be removed, infrastructure improved, procedures simplified, and facilitation by all agencies increased.

India is a very large economy as compared to Pakistan, and bilateral trade is not so important for India. It is rather looking for a bigger role and wants access to Central Asian Republics through Wagha and transiting through Afghanistan. Granting transit facility to India through Pakistan territory to access the Central Asian markets was probably the only leverage Pakistan had viz a viz India as far as trade in the region is concerned, but it has been neutralized by the development of Chahbahar port in Iran.

Chapter

8 Summary and Recommendations

Summary and Recommendations

Dr. Daud Ahmad

Key Finding	Recommendation
Pakistan is currently facing an "economic emergency" due to fiscal deficit and balance of payment problems. The various dimensions and manifestations of the economic problems, the associated causes, and the possible solutions have been the subject of intense debate in the country; there is no dearth of recommendations on how to address the problems.	The new government needs to focus on fixing sources of fiscal along with the external imbalance and on ongoing efforts for temporary external grants and financing to avert growth collapse. This will requiresustainable revenue increases mainly through domestic resource mobilization and reform of tax system, both policy and administration. It will also require addressing the keyconstraints to export growth—energy cost and availability, tax policy and administration, exchange rate policy, and transport and warehouse problems.
In the present-day context, four developments deserve to be analyzed: 1. The 2018 elections have brought about fundamental changes in the structure of politics in Pakistan characterized by social and demographic changes, a distinct departure from the traditional politics and overwhelming participation of the youth and middle class in the political process. Nearly 50% of the country's population comprises youth under 25 years age. 2. Pakistan lives in a volatile neighborhood. Afghanistan and India are open adversaries. China and Iran, our friendly allies, are being challenged by the USA. Pakistan's longstanding relations with the USA have also become rocky. 3.The world seems to be abandoning the system that resulted from continuing efforts at institutional building that lasted over seven decades, from 1945 to2016.. In the new changing world where nationalist assertions, populism, economic uncertainty and technological advancement are on the rise, Pakistan has to make necessary adjustments to be	The new government, in its social and development planning efforts, needs to focuses on meeting the aspirations of the youth and its supporters. For the purpose, it has to shift the CPEC major thrust away from energy and infrastructure to social and agricultural development to alleviate poverty. To harness the full potential of trade and exports, it needs to focus on building the exports based on agriculture, livestock and modern services. The changing world context and external developments must be factored in prudently to give the CPEC a different dimension, redefining the scope of the Chinese program with the state playing a greater role. PTI government needs to orchestrate, manage, and balance the complexity of external relationships in a manner that it does not totally ally with or fall into the orbit of one rival to the alienation of the other. Eventually, It needs to draw full advantage of inter-regional connectivity, bringing in India into the regional transport framework.

able to to cope with the external environment.

4. While Pakistan historically had very cordial relations with China, its increasing presence in Pakistan especially the CPEC initiative and the associated trading window and advancement of geo-strategic interests have given a new dimension to Sino-Pakistan relationship. In the wake of growing rivalry between China and the United States, latter's choice of India as a reliable partner poses a difficult proposition for Pakistan in the event acold war breaks out.The needs and aspirations of this group will have to be addressed.

The four key challenges facing the new government are thus: balance of payment, fiscal deficit, aspirations and needs of the youth, and the changing external environments.

Chapter 4 of the report reports attempts to provide a progress update on CPEC implementation .The CPEC program is in the 3rd year of implementation. For a program of this scale and importance, the available implementation status reporting is very limited. The government's CPEC web site provides limited basic information. No information on performance targets, percentage completion, or disbursements is available. So far, 55 projects totaling ~ S42.6 billion are listed in the CPEC portfolio. Thirty "early harvest" projects were identified of which 7 ($4.6 b) are completed and 12 ($ 16.7 b) are under construction. Most of these projects are in the energy sector. Only three infrastructure and two Gwadar projects are reported under implementation. Projects under other sectors – industry (SEZs), agriculture, social development etc. are all at planning stages. To date, nearly 62% of the allocated CPEC funding is for energy, 36% for infrastructure, and 2% for Gwadar Port area. No funding allocation is made yet for industry, agriculture, other social sectors and the Western Route. At the moment, most infrastructure investments in the CPEC program support the Eastern Route.

To ensure successful implementation of CPEC, the government needs to:

1.Put in place a robust framework of due diligence wherein efficient and effective project selection, design and implementation is assured. We need to recognize that whereas China has $60 billion to lend to Pakistan, it may not have the capacity to ensure optimal investments. Pakistan will have to look out for itself on this front.

2. Periodically review the project scope and composition to ensure maximum social and economic benefits. The two risks that need to be avoided are: i) we may end up with a Pakistan-China "Energy Corridor" instead of the envisaged Economic Corridor, and ii) we may end up with Kashgar to Karachi Corridor instead of the planned Kashgar to Gwadar Corridor.

3. The CPEC program needs to be made transparent and inclusive, with due participation of the provinces and other stakeholders. The CPEC management needs to be de-politicized and due role should be assigned to the professionals.

4. Create institutional capacity to watch for developments of CPEC; currently BIPP, on its own, is working on developing this capacity.

The PTI government has pronounced to modify the CPEC program to give priority to social development and poverty alleviation in the less developed areas of the country. Chapter 5 of this report provides an overview of current CPEC plans for poverty related activities and the potential for further improvements. Little, if any, investments have been provided in the on-going CPEC program directly for poverty alleviation, regional disparity reduction, and sustainable development. Socio-economic and productive sectors like agriculture, industry etc. do find expression of interest in CPEC Long- Term Plan. The lack of program of work and of budget for poverty alleviation, income generation, and employment creation in itself speaks of the low priority having been accorded to these sectors.	This is a complex challenge, which will require a balance in focus between "wealth generation" vs "poverty alleviation" objectives. This will require careful selection of activities and locations. This will also warrant expedition of the projects in agriculture, industry etc. The Ministry of Planning, Development and Reform should take the lead to give poverty oriented dimension to CPEC. The Board of Investment, while implementing the nine Special Economic Zones under CPEC, has to bring on board the relevant provincial governments to ensure early completion of the physical infrastructure work on SEZs and to address the coordination dysfunction to ensure timely establishment of SEZs.
Chapter 6 of the report provides an analysis of potential for enhancing impact of CPEC through Agriculture and trade. The demand for food in China is huge—$1 trillion annually, expected to increase to 1.5 trillion in the next 10 years. Pakistan's market share in China's food imports is minuscule and declining. There is a clear mismatch in Pakistan's agriculture exports and China's import needs	There is a need to review how CPEC can contribute to enhancing productivity and competitiveness. This will require a focus on commodities which : i) have comparative advantage with respect to Pakistan's varied ecological zones, ii) are competitive, and iii) pose a growth trajectory in expanding China markets. A number of such potential commodities are identified in the report. Pakistan needs to: i) work on the loop-sided overall trade balance with China in the next round of Trade Agreement and ii) focus on producing commodities which have growing demand in China, for instance processed foods and livestock products. The report lists a number of such commodities.
The main thrust of the CPEC program, at the moment, is on the development of an "east-west" corridor linking western China with the Indian Ocean ports. Chapter 7 of this report provides in depth analysis of the potential to expand the "north-south" linkages with Iran, Afghanistan, Central Asian countries, and India to the south.	The government needs to keep this huge potential in mind and gradually work on exploiting it in due course. This will require political initiatives and long-term solutions.

Annexure

Annex I
Status Overview of CPEC Project
Energy Projects

A. Completed Energy Projects(Acronyms at the end of the table)

Project Name/ Description/ Location	Size/ Capacity/ Technology	Cost: $ m / Financing	Executing Agencies	Status/ Remarks
Sahiwal Coal-fired Power Plant	2x 660MW Super critical Imported coal from Indonesia/ S. Africa	$ 1,912 m IPP Investors: 20 % ICBC: 80 %	EA: HuangnengShan-dong&ShandongRui 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
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 % stake ; Power Construction CO has 51%; GoP committed tariff: 8.12 C/ KWH
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 %) design capacity. Project being investigated. Being privatized as well. Cost Plus Tariff; initial tariff: Rs. 14 /KWH
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

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
Sachal Wind Farm, Jhimpir, Sindh.	50 MW	$ 134 m	EA: SEDLP S.A:	F.C: December 2015 Project completed: April 2017; Operational
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
Total	**2,840MW**	**$4,687.0 m**		

B. Ongoing Energy Projects				
Project Name/ Description/ Location	**Size/ Capacity/ Technology**	**Cost: $ m / Financing**	**Executing Agencies**	**Status/ Remarks**
Engro Thermal Coal Thar Block, Sindh	4x 330 MW Local Coal Super Critical	2,000 IPP	EA: Engro Power Gen. / China Machinery Eng. Co.	F.C: April 2016 Project ongoing CD: June 2019
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 CD: December 2018
Coal -fired Power Plant Hub Baluchistan	2x 660 MW Imported Coal Super Critical	1912.2 IPP	EA: China Power Hub Co. S.A: PPIB R.A:	Ground Breaking: June 2017 CD: August, 2019

Korat Hydro Power Jehlum River, AJK	4x190 MW Rock-fill 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. CD: December 2021 Land acquisition award made. Ancillary facilities construction ongoing. Committed Tariff: 7.57 C/ KWH
SukhiKinari Hydro Power Kunhar River KPK	870 MW Concrete-face Rock-fill Dam. 54 m high.	1,956 BOT 75% 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 ongoingCD: December 2022 Committed Tarif: 8.81 C/ KWH
Mitari- Lahore Transmission	878 km 660 K Transmission Line	1,658 ITC	EA: S.A: NTDC R.A:	F.S completed, land acquisition ongoing. NEPRA Tariff determined CD: March 2021
Mitari- Faisalabad Transmission	878 km 660 K Transmission Line	1,500 ITC	EA: CET / SGCC S.A: NDTC R.A:	FS completed, land acquisition ongoing. NEPRA Tariff determined CD: March 2021 In mid term
Total		12,198.2		

C. Under Consideration Energy Projects				
Project Name/ Description/ Location	**Size/ Capacity/ Technology**	**Cost: $ m / Financing**	**Executing Agencies**	**Status/ Remarks**
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.

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
SSRL Thar Coal Block 1	6.5 MT/Y	1,300	EA: S.A:	F.C: 2017 CD: 2019
Thar Mine Mouth Oracle Power Plant and Surface Mine Project	1320 MW	N.A	EA: Oracle Coal Field &Yanzhou Coal	F.S ongoing
Kohala Hydel Project AJK	1110 MW	2355	EA: China Three Gorges Group S.A: AEDB	Stage I F.S completed; FC: October 2018 NEPRA Tariff determined Land acquisition ongoing; CD: 2025
PhanderHydro Power Gilgit- Balistan				Under study
GilgitKIU Hydro Power	100 MW			Under study
Cacho Wind Power	50 MW		EA: Cacho Wind Energy Pvt. Ltd. S.A: AEDB	LoI Stage
Western Energy Wind Power Project	50 MW		EA: Western Energy S.A: AEDB	LoI stage
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.
Total		9,655		

Annex II

A. Infrastructure Projects

Project Name/ Description/ Location	Size/ Capacity/ Technology	Cost: $ m / Financing	Executing Agencies	Status/ Remarks
KKH Phase II (Tha-kot-Haveliansection, KPK	118 km	1,366 m GoCL	EA: China Comm. Const. Co. SA: NHA	LoI stage
Quid- e-Azam Solar Power Plant	600 MW Phase II: 600 MW (be-ing tendered)	1,100		Construction started: September 2016 Contractor mobilized CD: March 2020
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 CD: August 2019
Khuzdar – Basima Road N-30 Baluchistan	110 km	80 m	RA: MoC EA: NHA	Feasibility study completed. Letter of Intent forwarded to Chinese
DI Khan (Yarik) – Zhob N-50 Upgradation. KPK/ Baluchistan	210 km	195 m	RA: MoC SA: MoC EA: NHA	Early preparation stages. PC-1 approved; land acquisition underway Framework agreement being worked
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
KHI-LHE- Peshawar Rail line, Rehabil-itation/ 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.

Hevellian Dry Port, KPK	450 m	65		Feasibility Completed
Capacity Development of MoR				Planning stages
Orange Line, Lahore	27.6 km	1,600		Ongoing Project, partially completed
Karachi Circular Rail				Very old project, F.S completed
Peshawar mass Transit				F.S under process
Quetta Mass Transit				F.S under process
Cross Border Optical Fibre Cable	835 km	44 GoCL	Special communication organization, (SCO)	Works started: 2015 Project completed: July 2018
Total		13,622		

B. Gwadar Port Projects				
Project Name/ Description/ Location	**Size/ Capacity/ Technology**	**Cost: $ m / Financing**	**Executing Agencies**	**Status/ Remarks**
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. CD: October 2020.
New 26 km east of Gwadar City Gwadar International Airport		230 m GoC grants	RA: SA: EA: CAA	Agreement signed; design works underway

Construction of Breakwaters Gwadar		123 m GOCL / grants.	RA: GPA SA: MoPS	Planning stages; feasibility study being completed.
Dredging of berthing areas & channels Gwadar' Baluchistan		27 m GoCL	RA: GPA SA: MoPS EA:	Planning , review stages
Free Zone Development - Gwadar Port Free zone - GIEDA Industrial Zone - EPZA Export Processing Gwadar	6,280 acres for 3 zones	32 m GoCL.	RA: SA: P&D, GoB EA:	Ground breaking done. Phase I completion: December 2017.
Faculties for water supply/ sewage treatment, Gwadar		130 m Grants	RA: GPA SA: EA:	Preparation stages; feasibility completed. Framework agreement being finalized.
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
Gwadar Technical and Vocational Institute		10 m Grant	RA: SA: MoPS	Preparation stages
Gwadar Smart Port City Master Plan				
Total		792		

C. CPEC Industry Project				
Project Name/ Description/ Location	**Size/ Capacity/ Technology**	**Cost: $ m / Financing**	**Executing Agencies**	**Status/ Remarks**

Rashakai Economic Zone on M1 Nowshera, KPK	1,000 acres Fruits/ Food Packaging, Textile Stitching/ Knitting			Land acquired; FS Shared with Chinese
Special Economic Zone Dhabeji, Sindh	1,000 acres Usages: TBD			FS initiated
BostanIndustrial Zone, Baluchistan	1,000 acres Fruit Processing, Ag. Machinery, Electric, Pharma-ceutical, Ceramics, Cooking Oil, etc.			FS shared with Chinese. 200 acres have been developed
ICT ModelIndustrial Zone Islamabad	200- 500 acres Food Processing, Pharmaceutical, Chemicals, Print-ing & Packaging.			FS shared with Chinese Land being identified
Mohmand Marble City FATA				FS shared
Industrial Park at Port Qasim Karachi, Sindh	1,500 acres Steel, Auto, Chemical, Phar-maceuticals.			FS shared with Chinese Land earmarked; being transferred.
Moqpondass SEZ Gilgit- Baltistan	250 acres Marble, Granite, Iron Ore, Fruit Processing, Leather etc.			FS shared with Chinese

Allama Iqbal Industrial City Faisalabad, Punjab	~ 3,000 acres Textile, Steel, Pharmaceutical, Chemicals, Plastics, Agriculture Implants etc.			FS shared with Chinese
Special Economic Zone Mirpur, AJK	1078 acres Mix Industries			FS shared with Chinese

Annex III

Other Sectors CPEC Projects

Project Name/ Description/ Location	**Size/ Capacity/ Technology**	**Cost: $ m / Financing**	**Executing Agencies**	**Status/ Remarks**
Quetta Water Supply Scheme from Pat Feeder Canal, Baluchistan				Feasibility stage
People to People Exchange				
Transfer of Knowledge in Different Sectors				
Pilot Project of Digital Terrestrial Multi-Media Broadcast (DTMB)		2		Completed. Demonstrative Project with Chinese is being processed.

Annex IV

CPEC Projects with Potential for Poverty Alleviation

Name of Project	Location/ District (s)	Population	Poverty Incidence	CPEC Route	Category	Status/ Expected Date of Completion	Cost
Surab-Hoshab -N85-Balochistan- 449 Km	Surab, Basima, Naag,Panjgur, Hoshab	(200,752), (176,206), (34,269), (316,385), (51,446)	50-59.9% 70% above 70% above	Route 1 Route 1 Route 1 Route 1 Route 1	Infrastructure	Completed	Rs.17.97 Billion
KKH Phase II (Thakot -Havelian Section)	Havelian, Mansehra, Thakot	(351,322), (1,556,460) (476,612)	30-39.9% 40.7% 70% above	Route 1 Route 1 Route 1	Infrastructure	Expected to be completed by March 2020	
KetiBunder Sea Port Development Project	Thatta, Sindh	(979,817)	70% above	Route 3	CPEC New Provincial Projects	Further studies and consultations to be initiated. Projects referred to concerned JWGs for consideration	
Necessary facilities of fresh water treatment, water supply, and distribution	Gwadar	(263,514)	60.8%	Route 1	CPEC Gwadar Projects	The project is aimed at implementing water supply, distribution system, desalination plant, sewerage collection system, and treatment plant as planned in the Master Plan of Gwadar as a mega port city in the medium-term (2030) and long-term (2050)	US$130 Million

Pak China Friendship Hospital	Gwadar	(263,514)	60.8%	Route 1		This project is proposed for implementation of Phase-II of a 50-bed hospital constructed under GDA Business Plan Federal PSDP)	US$100 Million
Pak-China Technical and Vocational Institute at Gwadar	Gwadar	(263,514)	60.8%	Route 1	CPEC Gwadar Projects	This project will aim at creating state-of-the-art vocational and technical training institute in the port city of Gwadar.	US$10 Million
Khairpur, SEZ,Sindh (140 Acres)	Sindh		50-59.9%	Route 3	SEZs	LOI Stage	Yet to be determined
Bin Qasim SEZ, Pakistan Steel Mill, Karachi	Karachi	(16,051,521)	Less than 10%	Route 3	SEZs		
Korangi Creek SEZ, Sindh (240 Acres)	Karachi	(16,051,521)	Less than 10%	Route 3	SEZs		
Hattar Phase-VII SEZ, Khyber Pukhtunkhwa (424 Acres)	Haripur	(1,003,031)	20-29.9%	Route 2	SEZs		
Quaid-e-Azam Apparel Park, Sheikhupura, Punjab (1,536 Acres)	Sheikhupura	(3,460,426)	20-29.9%	Route 3	SEZs		
M-3 Industrial City, Faisalabad, Punjab (4,356) Acres	Faisalabad	(7,873,910)	10-19.9%	Route 3	SEZs		

Value Addition City, Faisalabad, Punjab (225 Acres)	Faisalabad	(7,873,910)	10-19.9%	Route 3	SEZs		
Rashakai Economic Zone, M-1, Nowshera	Nowshera	(1,518,540)	30-39.9%	Route 1	SEZs	Feasibility studies of SEZs are shared with Chinese side.	
Moqpondass, Gilgit SEZ (250 Acres)	Gilgit, GB	(922,745)	43.2%	Route 1	SEZs	Feasibility studies of SEZs are shared with Chinese side. Land Allotted	
China Special Economic Zone Dhabeji, Thatta (1,000 Acres)	Thatta	(979,817)	70% above	Route 3	SEZs	Feasibility studies of SEZs are shared with Chinese side. Land earmarked	
Special Economic Zone at Mirpur (1088 Acres)	Mirpur, Azad Jammu and Kashmir	(1,505,876), (4,045,366)	60%-69.9%	Route 3	SEZs	Feasibility studies of SEZs are shared with Chinese side. Mix Industry	
Bostan/Pishin Industrial Zone (1,000 Acres)	Pishin District	(736,481)	70% above	Route 1	SEZs	Feasibility studies of SEZs are shared with Chinese side.	
Mohmand Marble City, FATA	Mohmand Agency	(466,984)	70% above	Route 1	SEZs	Feasibility studies of SEZs are shared with Chinese side	
ICT Model Industrial Zone, Islamabad (200-500 Acres)	Islamabad	(2,006,572)	Less than 10%	Route 2	SEZs	Feasibility studies of SEZs are shared with Chinese side. Identification of land under process	

*Motorways and Mass Transit Projects, not being directly relevant to poverty alleviation are not included.

Source: BIPP's team analysis by using various sources; Population census of Pakistan 2017, CPEC official Website (http://cpec.gov.pk/), Multidimensional Poverty in Pakistan: UNDP Report 2016

Annex V

Special Economic Zones under CPEC

Name of Economic Zone	Status
Rashakai Economic Zone , M-1, Nowshera	The Rashakai Economic Zone M-1, Nowshera, would be established near Motorway in Khyber Pakhtunkhwa at 1000 acres of land for fruit/food, packing, textile, and stitching/knitting. The feasibility study of this industrial zone has been completed. The industrial zone is 65 kilometer away from the airport and dry port and 25km away from the railway station.
China Special Economic Zone Dhabeji	The China Special Economic Zone,Dhabeji will be set up at 1,000 acres of land in Sindh. However, its feasibility is being prepared.
Bostan Industrial Zone	The Bostan Industrial Zone at 1000 acres of land would be established in Balochistan near Highway (N-50) for fruit processing, agriculture machinery, pharmaceutical, motor bikes assembly, chromate, cooking oil, ceramic industries, electric appliances, and halal food industry. It is 23km away from the airport and dry port.
AllamaIqbal Industrial City (M3), Faisalabad	The AllamaIqbal Industrial City, Faisalabad would be established at 3,000 acres of land for textile, steel, pharmaceutical, engineering, chemicals, food, processing, plastic, agriculture implements etc. It would be situated adjacent to existing SEZ of M-3 Industrial City, Faisalabad.
Islamabad Capital Territory (ICT) Model Industrial Zone, Islamabad	The ICT Model Industrial Zone at 200 to 500 acres of land would be established in Islamabad for hi-tech industry of food processing and beverages, pharmaceutical and chemicals, printing and packaging, light engineering etc. However, the land is not acquired for it so far. Identification of land is under process with Islamabad Capital Territory (ICT).
Development of Industrial Park on Pakistan Steel Mills Land at Port Qasimnear Karachi	The Bin Qasim Special Economic Zone (SEZ) at 930 acres of land in area of Pakistan Steel Mills, Sindh, for light engineering auto vendors, steel fabricating units, chemicals, food, pharmaceuticals, electrical and consumer goods, and furniture.
Special Economic Zone at Mirpur,AJK	The Special Economic Zone in Mirpur city of Azad Jammu and Kashmir will be set up at 1,078 acres of land. It is mixed industry and 22 km from main GT Road Dina-Jhelum and 130 km away from the airport.
Mohmand Marble City	The Mohmand Marble City at more than 350 acres of land would be established in erstwhile FATA. It is 29km away from Peshawar and 200 km away from Islamabad.

Moqpondass SEZ Gilgit-Baltistan	The Moqpondass Special Economic Zonewill be established at 250 acres of land in Gilgit-Baltistan for marble, granite, iron ore processing, and fruit processing. The feasibility study of this industrial zone has been completed.It is 35 kilometers away from GilgitAirport and 160 kilometers away from Skardu city.

Annex VI

Government Special Economic Zones

Name of Economic Zone	Status
KhairpurSEZ	The Khairpur Special Economic Zone will be set up on 140 acres of land in Sindh for agro-based industry and data processing.
Korangi Creek SEZ	Korangi Creek Special Economic will be set up on 240 acres of land in Sindh for consumer goods, food, pharmaceuticals, garments, value added textile, light engineering, packaging, printing, and warehouses/logistics.
Hattar Phase-VII SEZ	Hattar Phase-VII SEZ will be setup on 424 acres of land in Khyber Pakhtunkhwa for mining, marble, and fruit processing.
Quaid-e-Azam Apparel Park	Quaid-e-Azam Apparel Park will be set up on 1,536 acres of land in Sheikhupura, Punjab, for textile and cotton.
M-3 Industrial City	M-3 Industrial City will be set up on 4,356 acres of land in Faisalabad, Punjab, for textile, engineering and construction, chemicals, pharmaceuticals, electronics, food, beverages, and information technology.
Value Addition City, Faisalabad	Value Addition City, Faisalabad, will be set up on 225 acres of land in Punjab for textile, chemicals, pharmaceuticals, engineering, and information technology.

Source: BIPP's team analysisby using various sources:CPEC | China-Pakistan Economic Corridor (CPEC) Official Website ((http://cpec.gov.pk/), Business recorder (https://fp.brecorder.com/2018/09/20180907405334/)

In addition, it is estimated that there are potentially 46 sites along the CPEC corridor which could be developed as industrial-economic zones or hubs. These include17 in Khyber Pakhtunkhwa, 9 in Balochistan, 7 in Sindh, 4 in Punjab, 2 in Gilgit-Baltistan, 1 in erstwhile Federally Administered Tribal Areas (FATA), 4 in Azad Jammu and Kashmir (AJK), and 2 in Islamabad. The Joint Working Group of China and Pakistan is supposed to discuss the details about establishment of these zones.

The government has also announced an incentive package for investors for establishment of industrial zones including: (i) provision of land plot on installments (50 percent down payment and remaining 50 percent in four biannual installments)), (ii) markup support at 50 percent of the markup (to a maximum of five percent) to be provided by respective governments on the loans taken in Pakistani currency for financing the project, (iii) freight subsidy at 50 percent on the inland transportation of plant and machinery for installation in/development of any of the priority SEZs, (iv) one window operation, (v) the developer shall be allowed to purchase gas, electricity, and other utilities from utility providers in bulk and supply the same to the enterprises at rates that are duly notified by Special Economic Zone Authority (SEZA) in consultation with the stakeholders, and (vi) to reduce the cost of setting up, the developer would also be allowed to rent out sheds for industrial use.

Annex VII

Sectors	Proposed Areas for agro-industrial Cooperation
Horticulture	• Establishment of Cool Chain Facilities • Establishment of Value Added Processing Facilities
Food Processing Sector	• Processed Meat • Dairy Products • Juices & Beverages • Fruit & Vegetable Processing • Bakers& Confectionery • Spice Processing & Packaging • CerealBased Processed Foods
Dairy & Livestock	• Dairy Cooperative Program: Creating Scale with Establishment of Dairy Cooperatives • Training Institutes for Dairy and Live stock Farm Supervisors and Technicians Disease Free Zones (Quarantine, Vaccination and Feed Quality Control) • Organized/ Commercial Dairy Farming Zones • Genetic Improvement through High Quality Semen and • Embryos (Embryo Transfer Facilities) • Milk Collection & Dairy Processing Units,Especially Infant • Formula Milk (e.g. Meiji and Nido) • Corporate Farming (High Yield Breed Cows with Controlled Shed) • Cheese, Cream & Sweetener Production Units • Semen Production Units • Vaccine Production Units

Source: BIPP Team’s Analysis

Annex VIII

The New Economic Sub-Zones and Clusters Identified by BIPP	
1. Panjgur(Baluchistan)Sub-Economic Zone and Cluster	
Area	30 Acres
Type of Industry • Agro Processing Industry • Dates Processing • Packaging Clustering of Producers, Processors, Traders and Support Services for Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility and investment studies **Orgware:** Functional and efficient SMEDA advisory services, access to financial services and credit,extension services with focus on farmers' training for date orchards' cultivation **Hardware:** Model orchard farm, training facility, market connectivity (Gwadar for exports, Kalat, Quetta, DIK, Peshawar, Lahore) **Technoware:** Efficient orchard management practices,improved input technology (cultivars, harvesting etc.), IPM, ICT for Market Intelligence and Information System (MIIS)
Connectivity	• Right on Western Route • National Highway N-85 • Panjgur Airport • Gwadar Port • Quetta Dry Port (560 km)
2. Khuzdar(Baluchistan) Sub-Economic Zone and Cluster	
Area	30 Acres

Type of Industry • Agro Processing Industry: • Tomato Paste Processing Unit, • Vegetable Packaging,Cold Storage • Clustering of Producers, Processors, Traders and Support Services for Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility, and investment studies **Orgware:** Functional and efficient SMEDA Advisory Services; access to financial services and credit; extension services with focus on farmers' training for vegetable cultivation especially tomato, lady finger, bitter gourd **Hardware:** Market connectivity (Surab, Kalat, Quetta, andSukkar,eventually with long-term CPEC route) **Technoware:**Efficient crop management practices; improved input technology for vegetable cultivation especially tomato, lady finger, bitter gourd; IPM; ICT MIIS
Connectivity	• National Highway N-25 • Motorway M-7 • Khuzdar Airport, Quetta Air-Dry Ports (307 km)
3. Kharan(Baluchistan)sub-economic zone and cluster	
Area	25 Acres
Type of Industry • Agro Processing Industry • Wheat threshing, Flour Mills • Vegetables Packaging Clustering of Producers, Processors, Traders and Support Services for Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility, and investment studies **Orgware:** Functional and efficient SMEDA Advisory Services, access to financial services and credit,extension services with focus on farmers' training for wheat and vegetables cultivation **Hardware and Infrastructure:** Model wheat farm, training facility,market connectivity (Besima, Panjgur, Surab,Kalat, and Quetta) **Technoware:** Efficient crop management practices,improved input technology for wheat, IPM, ICT for MIIS
Connectivity	• National Highway N-85 (160 km) • Panjgur Airport (338 km)
4. KillaSaifullahSub-Economic Hub and Cluster	
Area	**30 Acres**

Type of Industry • Agro Processing Industry • AppleProcessing and Packaging • Cold storage • Model Orchard Farm Clustering of producers, Processors, Traders and Support Services for Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility and investment studies **Orgware:** Functional and efficient SMEDA advisory services, access to financial services and credit,extension services with focus on farmers' training for apple cultivation **Hardware:** Model apple orchards, training facility,market connectivity (Kalat, Quetta, Zhob, DI Khan, and Islamabad) **Technoware:** Efficient crop management practices,improved input technology for apple cultivation, IPM, ICT for MIIS
Connectivity	• Right on Western Route • Zohb Airport (147 km) • Quetta Dry and Airports (185 km)
5. Bhakkar Sub-Economic Zone and Cluster	
Area	25 Acres
Type of Industry • Agro Processing Industry • Bajra • KharifFodder Threshing Clustering of Producers Processors, Traders and Support Servicesfor Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility and investment studies **Orgware:** Functional and efficient SMEDA advisory services, access to financial services and credit, extension services with focus on farmers' training for wheat and vegetables cultivation **Technoware:** Efficient crop management practices, improved input technology for wheat,IPM, ICT for MIIS Industrial zone: Jhang Industrial Estate
Connectivity	M2 (Balkassar exit)
6. Rajanpur Sub-Economic Zone and Cluster	
Area	**25 Acres**

Type of Industry • Agro Processing Industry • Moong threshing and processing-Sesame processing • Rapeseeds, Onions, Vegetables Packaging Clustering of producers processors, traders and support servicesfor Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility and investment **Orgware:** : Functional and efficient SMEDA advisory services, access to financial services and credit,extension services with focus on farmers' training for wheat and vegetables cultivation **Hardware and Infrastructure:** Model wheat farm, training facility, market connectivity **Technoware:** Efficient crop management practices, improved input technology for IPM, ICT for MIIS **Industrial Zone:** Rahim Yar Khan Industrial Estate
Connectivity	National Highway N-5
7. LakkiMarwat(KPK)Sub-Economic Zone and Cluster	
Area	**25 Acres**
Type of Industry • Flour Mill • Food Packaging Clustering of Producers, Processors, Traders and Support Services for Training and Marketing	Software: Agri-business policy with specific incentives, SME policy, feasibility and investment studies Orgware: Functional and efficient SMEDA advisory services, access to financial services and credit,extension services with focus on farmers' training for wheat cultivation Hardware: Model farms, training facility, market connectivity (Bannu, Peshawar) Technoware: Efficient crop management practices,improved input technology,IPM, ICT for MIIS
Connectivity	• CPEC Route 2 • National Highway N-55 (14 km) • Bannu Airport (67 km) • Peshawar Dry Port (201 km)
8. Kohistan (KPK)Sub-Economic Zone and Cluster (KPK)	
Area	**25 Acres**

Type of Industry • Agro Processing Industry • Food Processing and Packaging Clustering of Producers, Processors, Traders and Support Services for Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility and investment studies **Orgware:** Functional and efficient SMEDA advisory services; access to financial services and credit,extension services with focus on farmers' training for wheat and maize cultivation **Hardware:** Model farms, training facility Market connectivity (Swat, Buner, Shangla, Mardan) **Technoware:** Efficient crops management practices,improved input technology; IPM; ICT for MIIS
Connectivity	• Karakoram Highway N-35 (6 km) • Saidu Sharif Airport (177 km) • Peshawar Dry Port (350 km)
9. Chakwal Sub-Economic Zone and Cluster	
Area	**30 Acres**
Type of Industry • Agro Processing Industry • Wheat threshing, Flour Mills • Rapeseeds, Vegetables Packaging Clustering of producers processors, traders and support servicesfor training and marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility and investment studies **Orgware:** Functional and efficient SMEDA advisory services, access to financial services and credit, extension services with focus on farmers' training for wheat and vegetable cultivation **Technoware:** Efficient crop management practices, improved input technology for wheat,IPM, ICT for MIIS **Industrial Zone:**Bhalwal Industrial Estate, PindDadan Khan Special, Economic Zone
Connectivity	M2 (Balkassar exit)
10. Rahim Yar Khan Sub-Economic Zone and Cluster	
Area	11,880 Km2

A population of five million located at the congruence of Sindh, Baluchistan and Punjab; one of the largest producer of cotton, wheat, and sugarcane and mango production **Type of Industry** • Cotton Ginning (already 150+) Pressing industry • Oil Mills (already 125+) • Spinning industry • Cotton Production Industry, • Flour mills (already 80+) • Sugar Mills (5 already) • Fertilizer and Pesticides • Seed Industry Clustering of Producers,Processors, Traders and Support Services for Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility and investment studies **Orgware:** Functional and efficient SMEDA advisory services, access to financial services and credit, extension services with focus on farmers' training for cotton cultivation **Technoware:** Efficient crop management practices improved input technology for ginning.
Connectivity	The National highway "GTR" by passes the town on western side at a distance of about 11 km
11. Sargodha: Potential and Opportunities	
Area	**5,854 km²**
Type of Industry • Wheat threshing, Flour Mills • Sugar Mills • Fruit Juices Industry • Agro Processing Industry Clustering of Producers,Processors, Traders and Support Services for Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility and investment studies **Orgware:** Functional and efficient SMEDA advisory services, access to financial services and credit, extension services with focus on farmers' training for cotton cultivation **Technoware:** Efficient crop management practices, improved input technology for ginning.
Connectivity	N-60
12. Killah Abdullah Sub-Economic Zone and Cluster	
Area	5,263 Km2

Type of Industry • Agro Processing Industry • Wheat threshing, Flour Mills • Rapeseeds, Fruits, Vegetables processing and Packaging • Cold storage Clustering of Producers,Processors, Traders and Support Services for Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility and investment studies **Orgware:** Functional and efficient SMEDA advisory services, access to financial services and credit,extension services with focus on farmers' training for wheat, fruit, and vegetable cultivation **Hardware and Infrastructure:** Model wheat farm, training facility, market connectivity **Technoware:** Efficient crop management practices, improved input technology, IPM, ICT for MIIS
Connectivity	Chaman Rd & N-25 (40.7 km)
13. Nasirabad Sub-Economic Zone and Cluster	
Area	3,387 km2
Type of Industry • Agro Processing Industry • Wheat threshing, Flour Mills • Rapeseeds, Fruit, VegetableProcessing and Packaging • Cold Storage Clustering of Producers,Processors, Traders and Support Services for Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility and investment studies **Orgware:** Functional and efficient SMEDA advisory services, access to financial services and credit,extension services with focus on farmers' training for wheat, fruit, and vegetable cultivation **Hardware and Infrastructure:** Model wheat farm, training facility, market connectivity **Technoware:** Efficient crop management practices, improved input technology, IPM, ICT for MIIS
Connectivity	National High Way N65
14. Ziarat Sub-Economic Zone and Cluster	
Area	1,487 Km2
Type of Industry • Agro Processing Industry • Wheat threshing, Flour Mills • Rapeseeds, Fruits, Vegetables processing and Packaging • Cold storage Clustering of Producers,Processors, Traders and Support Services for Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility and investment studies **Orgware:** Functional and efficient SMEDA advisory services, access to financial services and credit,extension services with focus on farmers' training for wheat, fruit, and vegetable cultivation **Hardware and Infrastructure:** Model wheat farm, training facility, market connectivity **Technoware:** Efficient crop management practices, improved input technology, IPM, ICT for MIIS
Connectivity	**National High Way N 50 (66 Km)**

15. **Bhawal pure Sub-Economic Zone and Cluster**	
Area	96 Km2
Type of Industry • Agro Processing Industry • Cotton Ginning & Pressing, • Wheat threshing, Flour Industry • Fruit Juices Industry • Ghee & Cooking Oil industries • Rapeseeds, Fruits, Vegetables processing and Packaging • Cold storage Clustering of Producers,Processors, Traders and Support Services for Training and Marketing	**Software:** Agri-business policy with specific incentives, SME policy, feasibility and investment studies **Orgware:** Functional and efficient SMEDA advisory services, access to financial services and credit,extension services with focus on farmers' training for wheat, fruit, and vegetable cultivation **Hardware and Infrastructure:** Model cotton, sugarcane, and wheat farm, training facility, market connectivity **Technoware:** Efficient crop management practices, improved input technology, IPM, ICT for MIIS

regional profiles by:
SMEDA(https://smeda.org/index.php?option=com_content&view=article&id=91&Itemid=189), Annual reports of Cluster Development Initiative (CDI),Official website of National Highway Authority, Google Maps.

Statistical Appendix
Key Indicators

Statistical Appendix
Key Indicators

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

	GDP Growth Rate (%)	Incremental Capital Output Ratio	Volatility of Growtha %	Extent of Balanced Growthb	**Growth Rate** of Labor 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	5.4	3.1	1.3	5.7	1.1
201718	5.8	2.9	1.4	5.7	1.1
Average	**4.5**	**4.4**	**0.2**	**6.6**	**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 toprevious 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	15.6	88.5	73.0	41.4
2016/17	16.1	74.5	69.0	43.3
2017/18	16.4	69.5	66.2	32.0
Average	**16.7**	**88.4**	**72.4**	**41.0**

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 Growtha	Change in Ratio 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	2.1	16.5	-0.1	31.0	3.1
2017/18	3.8	37.1	1.9	0.7	-0.3
Average	**2.5**	**42.1**	**-0.3**	**-0.7**	**1.5**

n.c. = not computed, n.a. = not available

Source: Pakistan Economic Survey (various issues)

aThe difference in the growth rate of agriculture during a year minus the trend growth rate (as approximated by the average growth rateduring the previous five years)

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

	Growth Rate (%)	Growth Rate of Export Oriented Industries (%)	Growth Rate of Import Substituting Industries (%)	Share of Growth in Large Scale Manufacturing (%)	Growth Rate of Manufacturing exports (%)
2000/01	9.3	27.6	4.6	76.3	21.3
2001/02	4.5	9.7	3.1	52	7.7
2002/03	6.9	4.3	7.6	68.2	21.3
2003/04	14	8	15.5	84.6	8.9
2004/05	15.5	26.5	12.7	87	21.7
2005/06	8.7	5.9	11.1	75.2	13.5
2006/07	9	9.9	7.5	74.3	3.5
2007/08	6.1	12.8	2.3	58.9	13.2
2008/09	-4.2	4.3	-2.4	n.c.	14.5
2009/10	1.4	6.5	14.8	24.9	12.8
2010/11	2.5	4.7	3.8	54.8	26.7
2011/12	2.1	0.5	4.5	44.5	1.2
2012/13	4.9	1.9	6.3	74.9	8.4
2013/14	5.7	n.a	n.a	78.3	11.3
2014/15	3.9	n.a	n.a	68.2	-8.4
2015/16	3.7	n.a	n.a	65.0	-5.3
2016/17	5.8	n.a	n.a	77.2	0.3
2017/18	6.2	n.a	n.a	78.4	-35.9
Average	**5.9**	**9.4**	**7.0**	**67.2**	**7.6**

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	7.0
2001/02	3.5	2.5	n.a	0.0	12.3
2002/03	3.1	2.8	n.a	3.7	13.3
2003/04	4.6	6.0	3.9	14.8	12.1
2004/05	9.3	12.5	8.8	10.4	10.3
2005/06	7.9	6.9	7.0	17.3	9.4
2006/07	7.8	10.3	6.9	7.6	13.8
2007/08	12.0	17.6	10.2	27.7	10.3
2008/09	17.0	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	11.0	11.0	10.6	21.8	9.8
2012/13	7.4	7.1	9.6	7.8	12.3
2013/14	8.6	9.0	8.3	4.3	8.5
2014/15	4.5	3.5	6.5	1.3	9.0
2015/16	2.9	2.1	4.2	-7.5	9.0
2016/17	4.1	3.9	5.2	-0.2	8.4
2017/18	3.8	2.0	5.4	5.1	3.9
Average	**7.5**	**8.6**	**7.7**	**10.1**	**10.0**

n.a = not available

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	Budget Balance d	Revenue Deficit/ Surplus e
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	12.6	-4	-0.5
2006/07	14.9	18.1	14.9	-4.1	-0.8
2007/08	14.1	21.4	17.4	-7.3	-3.3
2008/09	14	19.2	15.5	-5.2	-1.4
2009/10	14	20.2	16	-5.2	-2.1
2010/11	12.3	18.9	15.9	-6.5	-3.5
2011/12	12.8	21.6	17.3	-8.8	-4.5
2012/13	13.3	21.5	16.4	-8.2	-3
2013/14	14.5	20	15.9	-5.5	-1.5
2014/15	14.3	19.6	16.1	-5.3	-1.8
2015/16	15.3	19.9	16.1	-4.6	-0.8
2016/17	15.4	21.3	16.3	-5.8	-0.8
2017/18	17.2	21.3	15	-4.1	-1.8
Average	**14.22**	**19.35**	**14.18**	**-5.23**	**-1.69**

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)	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	-0.4	60.2	9.5	23.3
2014/15	-0.2	58.1	9.3	61.2
2015/16	-0.5	58.3	8.1	58.3
2016/17	-0.2	61.2	8.2	55.7
2017/18	-1.5	61.4	8.1	49.57
Average	**-0.92**	**60.89**	**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

aEstimated 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
Average	**4.57**	**9.27**	**4.14**	**12.11**	**9.86**

Source: 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

c Defined as the ratio of domestic interest payment to outstanding domestic debt

Table A-10
Monetary Policy

	Net Foreign Assets a (% Change of broad money) Income Tax (%)	Net Domestic Assets a (% Change of broad money) Customs Duty (%)	Private Credit Growth % Excise Duty (%)	Interest Rate on Six Month Treasury Bill (%) Sales Tax (%)	Broad Money Growth (%) Total FBR Taxes (%)	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
Average	**-3.2**	**7.3**	**12.5**	**8.5**	**14.5**	**7.7**

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

IMF Article 4 Consultation's Press Releases

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 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
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-12
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	12.2	n.a	n.a	17.3	-0.5	44.4
Average	6.8	0.8	0.2	11.7	-3.5	36.2

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-13 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 imports 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	-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	293.3	9890	2.2	4.9	-6.1
Average	**-1.8**	**226.9**	**10003.5**	**3.6**	**4.4**	**1.1**

Source: SBP, Annual Report (various issues)

IMF Article IV Consultation's Press Releases

Table A-14
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.

Table A-15
TREND IN REGIONAL INEQUALITY
Growth in Real Household Income by Province
(Annual Growth Rate, %)

	2001-02 to 2007-08	2005-06 to 2007-08	2007-08 to 2015-16	2001-02 to 2015-16
Overall				
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

References

Ahmad. M, Role of Agriculture and Agro Industry in CPEC, Business Recorder, Feb 2017

Ahmed, R & Mustafa U. Impact of CPEC Projects on Agriculture Sector of Pakistan:

Consortium for Development and Policy Research. (2018). Agriculture Opportunities in CPEC'S Context. International Growth Center, 1-75.

ShahidJavedBurki Institute of Public Policy. (2017). The State of the Economy: China Pakistan Economic Corridor Review and Analysis., 108-124.

Infrastructural and Agricultural Output Linkages. Pakistan Institute of Development Economics, 1-31.

State Bank of Pakistan. (2018). State of the Economy. Annual Report 2017 – 2018, 1-107.

Notes

Foreward

1. Anatol Lieven, Pakistan: A Hard Country, London: Penguin, 2011.
2. Niall Ferguson,Civilization: The West and the Rest, New York: Penguin, 2011.

Chapter 1

1. Ian Johnson, “A mammoth new airport shows China’s strengths (and weaknesses)” The New York Times, Novemberv25, 2018, p. 15.
2. Elections were held in 1977, 1985, 1988, 1990, 1993, 1997, 2002, 2008, and 2013.
3. AnatolLieven, Pakistan: A Hard Country, New York, Public Affairs, 2011.
4. See the book Calhoun coauthored with Robert C. Solomon, What is an Emotion?Oxford University Press, 1984
5. John Rawls, A Theory of Justice, Cambridge, Mass: Belknap Press of Harvard University Press, 1971.
6. Leslie Hook, “Populism vs. Paris,” Financial Times, December 2, 2018, p. 9.
7. FareedZakaria, Things don’t always work themselves out,” The Washington Post, November 9, 2018, p. A25.
8. Quoted in Edith Bradsher and Alan Rappeport, “Both Trump and Xi get to take a deep breadth,” The New York Times International Edition, December 5, 2018.

Chapter 2

1. See column by Khurram Husain, Dawn.com, December 6, 2018.

Chapter 3

1. Nicholas Kristof, “The peril of Trump and Xi,” The New York Times, November 18, 2018, p. 9.
2. David J. Lynch and Danielle Paquette, “New fear for U.S., China: A cold war of economies,” The Washington Post, September 19, 2018, pp. A1 and A12.
3. Glenn Thrush, “China’s weight fuels reversal by Trump on foreign aid,” The New York Times, Octberv15, 2018, pp. B1 and B3.
4. Peter Navarro, “Our economic security at risk,” The New York Times, October 5, 2018, p. A27. A18.
5. Peter Navarro, “Our economic security at risk,” The New York Times, October 5, 2018, p. A27.
6. Henry Kissinger, On China, New York, Penguin Books, 2012.

Chapter 4

1. Long Term Plan (LTP) China Pakistan Economic Corridor (CPEC 2017-2030), MOPDR and NDRC, PRC; www.cpec.gov.pk
2. Includes $ 1.6 billion for Lahore Metro, Orange Line.
3. ArifRafiq, “The China Pakistan Economic Corridor, Barriers and Impact”, US Institute of Peace (USIP), 2017.
4. According to latest Planning Commission report, 22 projects worth a total of USD 28 billion have been actualized over the past four years.
5. Pakistan Board of Investment web site
6. Only for those projects for which estimated costs are listed; cost information for a number of projects is not available.
7. Cost allocated to Lahore Metro Orange line assumed completed.
8. Includes Lahore Orange Line, recently included in CPEC—An ongoing project. Cost allocated under CPEC is not known.
9. Engineer Hussain Ahmad Siddiqui,“CPEC projects: Status, Cost and Benefits”,Dawn, July 13, 2015.
10. BIPP,“The State of the Economy, China Pakistan Economic Corridor, Review and Analysis”, BIPP

10th Annual Report, 2107.

Chapter 5

1. Multi-dimensional Poverty in Pakistan, www.ophi.org.uk/wp-content/Multidimensional-Poverty-in-Pakistan.pdf
2. MPI identifies the extent of poverty by considering the intensity of deprivation which the poor suffer from (A) as well as the percentage of population who are identified as poor (H). Mathematically, MPI combine two aspects of poverty: MPI= H x A. On a scale of 0-1, a deprived individual receive score 1 while non-deprived score 0.
3. cpec.gov.pk projects
4. BIPP's team analysis by using various sources; population census of Pakistan 2017, CPEC official Website (http://cpec.gov.pk/), Multidimensional Poverty in Pakistan: UNDP Report 2016
5. The Express Tribune of 9 Oct 2018
6. https://www.urdupoint.com/en/business/govt-committed-to-development-of-cpec-pover-422368.html
7. While doing so, the policy makers need to be cognizant of some limitations i.e., the state control of economic resources in China at the time of reforms, the power, political and institutional structure, the control of land resources in the poverty-stricken regions, high population growth in Pakistan, law and order and security situation.
8. www.hdr.undp.org/en/2018-update
9. http://www.sbp.org.pk/reports/annual/arFY18/Special-Section-1.pdf State Bank of Pakistan
10. CPEC LTP: Opportunities for Agricultural Advancement in Pakistan.
11. This section benefits from the excellent work done by Eng. Siddiq ur Rehman, Chief Executive, Technology Exchange & Coordination (Pvt.) Ltd.
12. Pakistan ranking on global competitiveness 138/176 and on Ease of doing business 144/189 (2016).
13. https://karandaaz.com.pk/media-center/news-events/karandaaz-launches-study-sme-financing-pakistan/.
14. State Bank of Pakistan "Policy for Promotion of SMEs Finance" December 2017.

Chapter 6

1. Competitive matrixis aiming at Pakistan position for selected commodities in world or China market. On X axis is import growth in world market and Y axis depicts growth of Pakistan ten top exports to world market. It distinguishes four types of competitive situations. Dynamic commodities are those – growing in a growing market (Rising Stars). Declining in a growing market (missed opportunities). Than we have stagnant commodities are those – rising in a declining market (Declining stars), and declining in declining indeclining markets (Retreats).

Chapter 7

1. World Trade Statistical Review 2017The North American Free Trade Agreement (NAFTA) is an agreement among the United States, Canada and Mexico designed to remove tariff barriers between the three countries.The Association of Southeast Asian Nations (ASEAN) was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand to promote political and economic cooperation and regional stability.The Southern African Development Community (SADC) is an inter-governmental organization headquartered in Gaborone, Botswana. Its goal is to further socio-economic cooperation and integration as well as political and security cooperation among 16 southern African states-MERCOSUR. The Mercado Comúndel Sur

(Southern Common Market) is an economic and commercial group of countries is South America comprising Argentina, Brazil, Paraguay, Uruguay and Venezuela with associate countries like Chile, Bolivia, Colombia, Ecuador and Peru.
2. Comtrade Data
3. Book, A glass half full, a promise of regional trade in South Asia by World Bank Group (Sanjay Kathuria Editor)
4. NDRC (National Development and Reform Commission), Ministry of Foreign Affairs, China.http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html accessed 17 December 2017.
5. CAGR: Compound Annual Growth Rate
6. Express Tribune, August 27th,2018
7. Zafar Mahmood, “What Needs To Be Done? What Does It Matter? Moving Toward Pakistan-India,Trade Normalization: An Overview”, Edited by:MichaelKugelman& Robert M. Hathaway.Wilson Center, 2013.
8. NishaTaneja, IshaDayal, Samridhi Bimal, “Facilitating India-Pakistan Trade through the Land Route”,May 2016.
9. Dr. Manzoor Ahmad World Trade Advisors, Geneva/Islamabad Normalization of Trade with India: Opportunities and Challenges for Pakistan Commissioned by TDAP.
10. “Managing India- Pakistan Trade Relations by Dr. Ishrat Hussain Pakistan-India Trade Relations: What Needs To Be Done? What Does It Matter?”, Edited by: Michael Kugelman and Robert M. Hathaway,Wilson Center, 2013.
11. “What Needs To Be Done? What Does It Matter? Moving Toward Pakistan-India, Trade Normalization: An Overview”, Edited by: Michael Kugelman and Robert M. Hathaway. Wilson Center, 2013.

The Shahid Javed Burki Institute of Public Policy at NetSol (BIPP) is an Independent, not for profit institution which aims at: promoting rights and evidence based policy making; filling the institutional void and stimulating institutional change to a sustainable paradigm; professionalizing the key public policy areas and serving as a knowledge hub for policy analysis, development and implementation. Netsol, one of the Global Leaders in IT services and enterprise solutions, is BIPP's integral part to bring IT and innovation at its service for sound analytical work. BIPP primary areas of focus encompass social, economics, environmental and political development and trade, foreign policy and security related issues in the national, regional and global context.

The Shahid Javed Burki
Institute of Public Policy at NetSol

138 Abubakar Block,
New Garden Town, Lahore | T: 042-35913304 | E: admin@sjbipp.org
W: www.sjbipp.org