

Report Part Title: Situation Analysis

Report Title: A Road Map to Implement Second Phase of China-Pakistan Economic Corridor

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1. Introduction

Six years of BRI and CPEC have paved the way for future cooperation and prosperity among the regional countries. Many studies concluded that BRI and CPEC have immense potential for future. It will help meet the required resources, infrastructure and livelihood opportunities on the one hand, and on the other complement the efforts of the United Nations under the umbrella of SDGs. It has many overlapping areas like infrastructure, jobs, trade, livelihood, etc. Therefore, the UN is also extending its support to BRI. UN Secretary General António Guterres has also attended various meetings of BRI. Besides having huge potential, sometimes it does not attract the required attention or people may misunderstand it. This study is an attempt to share relevant data and facts about the project.

2. Situation Analysis

In 2019, the World Bank produced a series of reports to analyze the potential impact of Belt & Road Initiative (BRI), including China-Pakistan Economic Corridor (CPEC). *Common Transport Infrastructure, A Quantitative Model and Estimates from the Belt and Road Initiative, The Belt and Road Initiative Economic, Poverty and Environmental Impacts, The Belt and Road Initiative Economic, Opportunities and Risks of Transport Corridors*, are the reports that produced substantial evidence about the potential impact of BRI and CPEC till 2030 (World Bank 2019). These reports used US\$ 575 billion investments to analyze and calculate the impact of BRI and CPEC. Therefore, we can assume that real benefits would be much more as investments related to BRI are over US\$ 8 trillion.

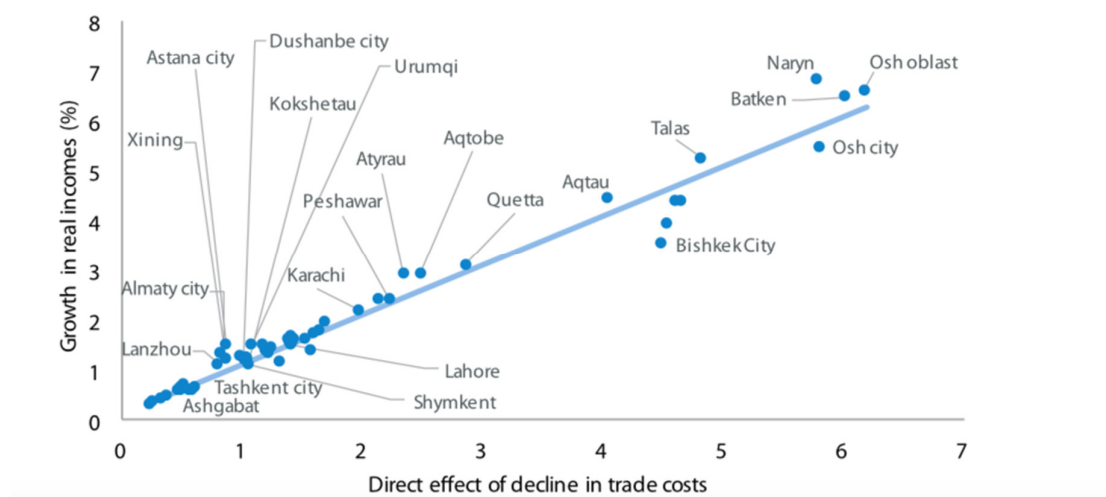
Reports highlighted that 71 countries along the BRI will benefit in terms of GDP increase, welfare effect, trade, FDI and factor return. The most interesting aspect is that the non-BRI countries will also benefit from the gains of BRI related investments. It has been estimated that BRI will reduce travel time by 12 per cent along BRI economies and three per cent in non-BRI economies. Trade will get a boost between 2.7-9.7 per cent and 1.7-6.2 per cent in BRI and non-BRI countries respectively (*de Soyres, F. Mulabdic A. Ruta, M. 2018*). Real income will observe a boost of 1.2-3.4 percent and 0.7-2.9 percent in BRI and non-BRI countries respectively. Further it was calculated that there will be 1 per cent increase in global real which will be equivalent to US\$ 930 billion in 2014's prices. An increase of 3.4 per cent and 2.6 per cent is expected in GDP of BRI and non-BRI economies till 2030.

BRI will not only contribute to economic indicators but it will also help tackle social and development issues. For example, it is expected that BRI investment will help lift 7.6 million people from extreme poverty (US\$ 1.90). Further, it will help lift 32 million people from moderate poverty (US\$ 3.20). Major beneficiaries would be developing countries (4.3 million, extreme poverty, 26.7 million moderate poverty). Return to factors of production will also increase and major beneficiaries would be labour (1.37 per cent) (*Maliszewska, M. van der Mensbrugghe D., 2019*).

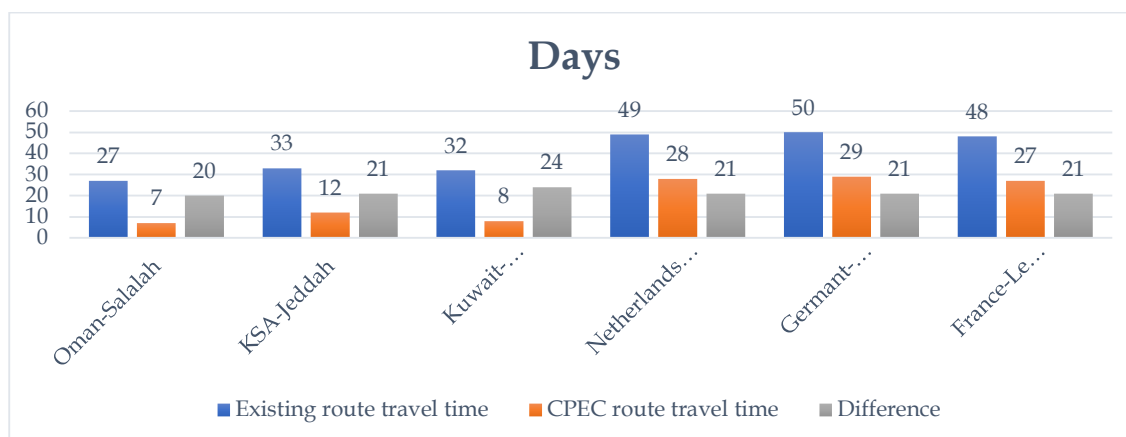
Reports further reveal that Pakistan would be the biggest beneficiary due to implementation of CPEC. Studies claim that Pakistan will get multi-dimensional benefits. First of all, Pakistan's GDP will increase by 6.43 per cent till 2030 as a result of infrastructure investment. Reforms in governance like tariffs, ease of doing business, and trade facilitation can push the increase to the level of 14.03 per cent. Welfare effect would be 5.18 per cent and reforms will give further impetus and total increase would be 10.51 per cent. It will also help lift 1.1 million people out of extreme poverty trap. It has also potential to boost the employment opportunities and it was pointed out that Pakistan can get four million jobs. Trade will also witness an increase of 9.8 per cent, if Pakistan implement the CPEC and support it by required reforms (WB 2019).

These projections can be qualified by the current status of gains of CPEC. Pakistan has already witnessed tremendous benefits from CPEC related interventions. Latest figures tell us that CPEC created 75,000 jobs for Pakistanis (China Embassy 2019). It means 75,000 families are benefited and it helped them to combat poverty. CPEC helped Pakistan to manage the load-shedding, which, in turn, contributed to control the annual loss of US\$ 4 to 5 billion (Vision 2025, 2015). Vision 2025 also pointed out that it was also undermining the GDP growth rate by two per cent. It also contributes to tackle issues of aging plants and infrastructure related to electricity.

Transport infrastructure is another sector, which contributed to overcome problems of connectivity. Pakistan was in dire need to rehabilitate and construct new infrastructure. Infrastructure plays a key role in setting the direction of industrial development and trade enhancement. It was highlighted that bad transport infrastructure caused a loss of 4 to 6 per cent to national GDP (Vision 2025, Pakistan). Small and Medium Enterprises (more than 100, CPEC Official Website) also benefited from the investments of CPEC. The contribution of CPEC to national GDP was almost two per cent. Owing to big push of CPEC, Pakistan touched the level of 5.8 per cent GDP growth rate in 2018 (Pakistan Economic Survey, 2018-19). World Bank reports further showed that the major beneficiaries in Pakistan in future would be Quetta, Peshawar, Karachi and Lahore respectively.

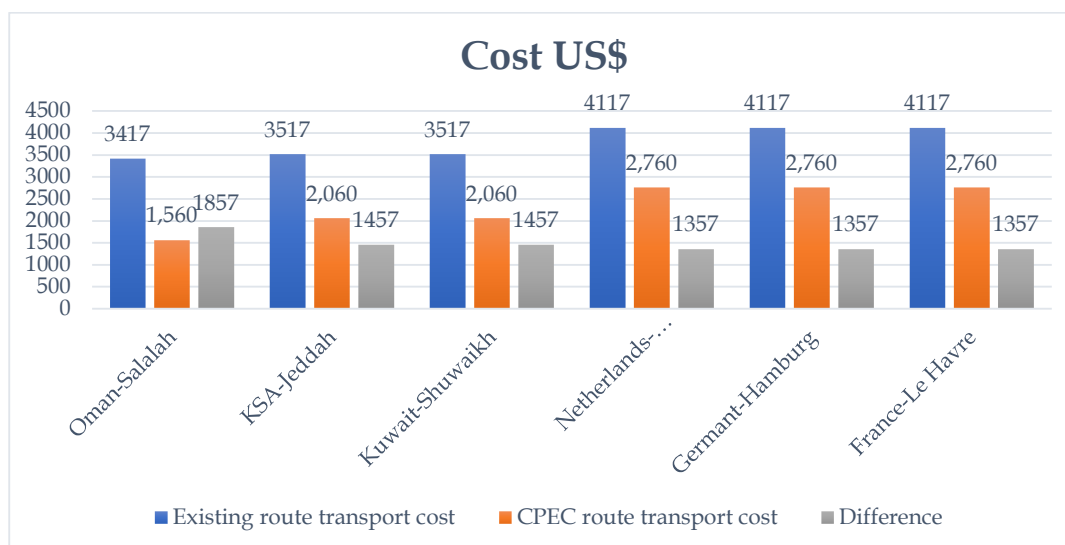


Another study published in Advanced Journal of Transportation (*Alam M.K., Li X., Baig S.*) showed that CPEC will also help Pakistan to be an active player in transit trade. CPEC's transport and Sea infrastructure will facilitate trade from Western China and will assist to reduce travel time and cost. According to the report it will assist to reduce travel time by 20 days for Oman, 21 days for KSA, 24 days for Kuwait, 2 days for Netherlands, 2 days for Germany and 21 days for France from China.



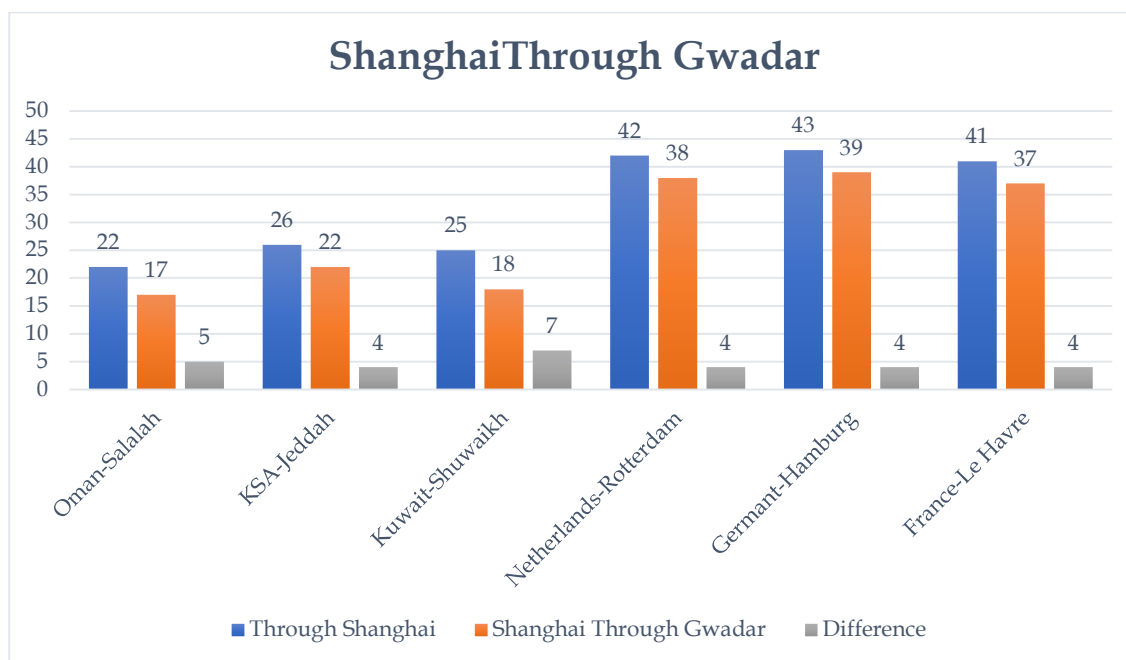
Source: Alam M.K., Li X., Baig S., 2019

In terms of cost per container in US\$, there would be a saving of 1857 for Oman, 1457 for KSA, 1457 for Kuwait, 1357 for Holland, 1357 for Germany and 1357 for France for China. China can accrue benefits of US\$ 70 billion due to CPEC route. Pakistan, being transit country, can also get benefits in terms of fees and other services.



Source: Alam M.K., Li X., Baig S. 2019

All these calculations were made by using trade data of 2016 and it was assumed that the average speed of container would be 40 km/h. Authors further expanded the scope to other parts of China. It was calculated that even exports from Shanghai region through CPEC will also introduce substantial benefits.



Source: Authors' calculations

It is anticipated that after the completion of all infrastructure, the efficiency will be increased further. The change of mode of transportation (container to railways) will introduce substantial benefits. Therefore, it is important to study, design and implement second phase in such a way that it helps to consolidate and enhance the benefits of first phase.

3. Second Phase of CPEC

CPEC has now entered second phase. It brings a new set of opportunities and chance to enhance benefit from the first phase. However, before any intervention, the government must have to develop a matrix of past experiences, mistakes and learnings. The future strategy must be developed on the basis of past learnings. For example, one of the learning is that the decisions must be made on the basis of economic efficiency and not on political preferences. It will help to maximize benefits of CPEC in the long run.

Our analysis of past intervention suggest that government should focus on following four areas:

- Special Economic Zones
- Governance and Structural Reforms
- Backward Linkages
- Human Capital

3.1. Special Economic Zones

Industrialization is the main pillar of second phase. It will provide required sources of economic growth and help generate employment. Employment is considered main factor for trickle down of economic benefit. Therefore, success or failure of industrialization will determine the fate and perceived benefits of CPEC. It is envisioned that for the implementation of industrialization policy and plan, Special Economic Zones (SEZs) will play pivotal role. SEZs would provide basic infrastructure and impetus for industrialization.