

CPEC: THE WAY FORWARD

Pakistan-China Institute



What is CPEC?

- **62 billion USD, "1+ 4" project (including energy, industrial cooperation, Gwadar, and infrastructure)**
- **According to a World Bank Report (2020), Pakistan's GDP will increase by up to 6.43 percent till 2030 "courtesy the steady pace of CPEC."**

Socioeconomic Impact of CPEC

- China has provided a 1 billion USD grant to the Joint Working Group on socioeconomic development of CPEC to carry out projects in six key sectors including; agriculture, health, education, drinking water supply, poverty alleviation, vocational and technical education.
- CPEC projects have helped generate around 80,000 jobs in Pakistan.
- Vocational training institutes and sewing institutes have been inaugurated in Thar and Gwadar.
- The greater people to people connectivity due to CPEC has resulted in over 23,000 Pakistani students obtaining an education in China.
- CPEC consortium of universities was founded in 2017 to increase academic exchanges between Pakistani and Chinese universities to ensure the high-quality development of CPEC.



Regional Connectivity

- **As a landlocked but resource rich region, Central Asian countries have always looked to access regional markets, including Pakistan, China, India, and the countries of West Asia.**
- **CPEC could serve as a strategic opportunity for Turkmenistan, Uzbekistan, Kyrgyzstan, and Tajikistan to transport their goods and market them more competitively to regional and global markets.**
- **The linkages formed under CPEC will enhance connectivity and encompass Afghanistan, Iran, and the Central Asian Republics.**

Comparison of Trade Routes

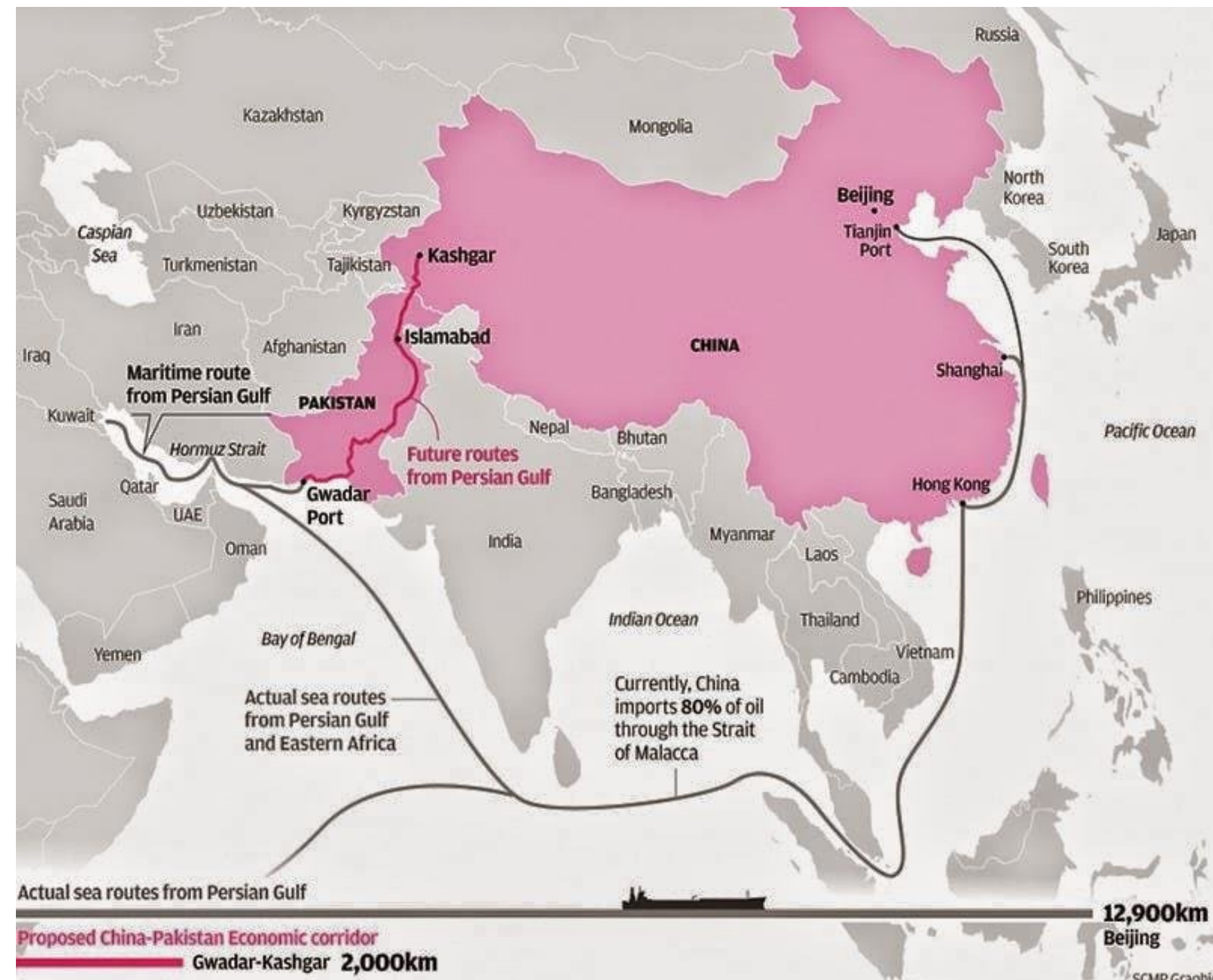


Figure 1: The Strait of Malacca Route Compared to the CPEC Route to China

Source: Zahid et al. 2018

Foreign Direct Investment under CPEC

- According to the World Investment Report published by the United Nations in 2020, China was the biggest contributor of FDI to Pakistan, primarily through CPEC.
- Pakistan has received over 25 billion USD of FDI under CPEC.
- After the launch of CPEC, the power sector of Pakistan received the largest share of FDI in all but one year, 2018-19, upto 2021. China has completed 10 energy projects in Pakistan which have resulted in generation of over 5,000 MW of electricity.
- Chinese investment in the country's energy sector has transformed it from an energy deficient to an energy surplus nation.

Prospects of Trade through CPEC

- The China-Pakistan Economic Corridor will link the city of Kashgar in Western China and the Gwadar Port in Pakistan.
- CPEC is expected to reduce trade costs by 28%. Travel time is also expected to decrease by 54%. This automatically means that CPEC will be a preferred medium of trade for all states in Central Asia, thus inviting huge volumes of exports from the region.
- CPEC will reduce the trade distance from Kashgar, China to destination ports in the Middle East and Europe by **11,000 km** to 14,000 km.
- Gwadar is the converging point of the Silk Road Economic Belt and the 21st century Maritime Silk Road.

The export rate of Pakistan is expected to increase by 14% annually due to CPEC.

Benefits to the Local Industry

- China promises to promote local products of Pakistan. The local industry is expected to see a growth in business through export to China.
- Joint ventures between established Chinese Enterprises and local businesses in Pakistan can promote efficiency and quality.
- Pakistan can increase its exports by \$1 billion in short term and the export of these items will likely reach \$4-5 billion in the medium term after setting up new industries

Benefits of CPEC to China

- China can save \$71 billion dollars on all the imports and exports through CPEC.
- CPEC will enable China to bypass the South China Sea for its trade. It will give China a strategic and geopolitical advantage.
- China will be able to save an average of 21 days in travel time to the Middle East and Europe via the CPEC route. This will give it a competitive edge in the market.



Products to be Traded between Pakistan & China

- China is extending 313 tariff lines which will enable Pakistan to trade its major export products like leather, sports equipment, rice, and sugar.

- The footwear industry can enter joint ventures with China in SEZs, which will boost the already 54% export of textile goods to China

- China is also allowing additional \$US 1 billion of potatoes, onions, wheats, and cherries, to enter the country

How to get SEZs right?

- **Special Economic Zones, under the second phase of CPEC, can promote exports, generate employment, and encourage import substitution, and strengthen Pakistan's economy.**
- **Since the nuanced expertise required to run SEZs is lacking in Pakistan, due to lack of prior experience, it should solicit assistance from Chinese or Singaporean experts and/or companies with extensive experience in launching and running SEZs**
- **SEZ regulators should have a result-oriented and performance based approach that centres around Key Performance Indicators, instead of roadshows and investment conferences that focus on MoU signings and media publicity but have little to show for maturing actual projects.**
- **Rather than merely accepting proposals from foreign investors, the SEZ authorities should identify, persuade, and market Pakistan's SEZ opportunity to the investors.**

How to get SEZs right

- **Three critical SEZs under CPEC include Rashakai in KPK province, Allama Iqbal Industrial Zone in Punjab province, and Dhabeji in Sindh province.**
- **It is important that the regulatory regime and incentives that are offered to the aforementioned SEZs are competitive and attractive for prospective investors, including but not limited to Chinese investors.**
- **These zones have the potential to encourage Chinese manufacturers to relocate Pakistan, which offers decreased costs of production and a geographical vantage point for exporting their products to Central Asia, Middle East, and the rest of South Asia.**

The Myth of the Chinese Debt Trap

- An article published in the *Atlantic* (2021) rebuts the claim that China finances infrastructural development in underdeveloped nations with the ambition of taking over their assets when they default on their loan repayments.
- It should be noted that Pakistan's total debt is 120 billion USD, out of which a mere 6 billion USD (or 5 percent) is owed to China.
- Contrary to what is publicized in the media, CPEC is a fusion of grants, investments, soft loans and some commercial loans.

Rebranding of Pakistan due to CPEC



- CPEC has helped rebrand Pakistan in the region.
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- It is an infusion of connectivity projects comprising of infrastructure, energy, ports, railways, and people-to-people projects, which significantly enhance Pakistan's trade connectivity, export potential, and geopolitical relevance

A large purple geometric shape, resembling a stylized arrow or a large 'L' rotated 45 degrees, is positioned in the upper right corner of the image. It has a sharp point pointing towards the top-left.

Thank You