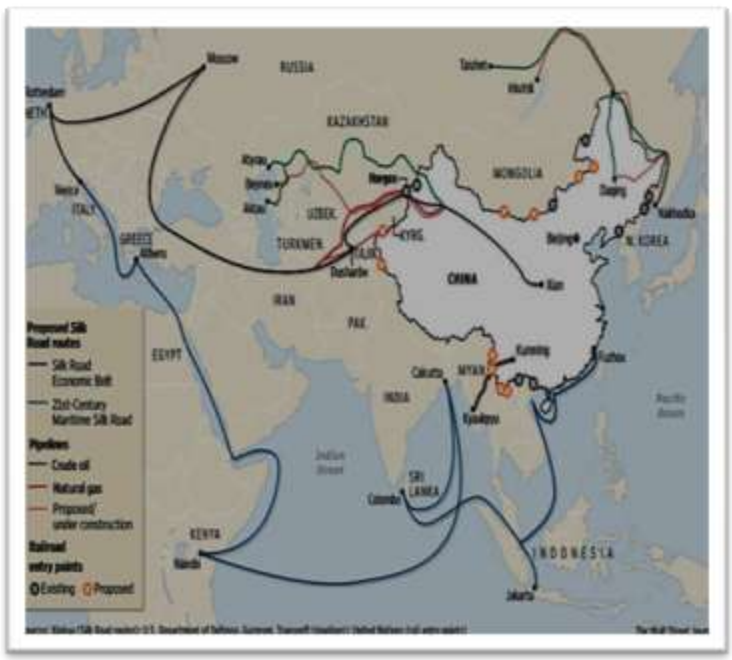
CPEC: A Corridor of Opportunities

Twenty-first century economies are increasingly interlinked and there exists an ongoing shift in global economic activity from developed to developing countries. These linkages need to be strengthened by facilitating economic clusters around important transport corridors that link global production networks, otherwise called "economic corridors" – one of the important means to facilitate economic activity and trade. Economic corridors connect economic agents along a defined geography and their role in regional economic development can be comprehended only in terms of the network effects that they induce.

In 2013, China's President, Xi Jinping, proposed establishing economic corridors linking China with Central Asia, West Asia and parts of South Asia called the "One Belt One Road (OBOR)" initiative[1].Part of the OBOR initiative is the China Pakistan Economic Corridor (CPEC), a project valued at nearly $51 billion[2], which aims to facilitate trade along an overland route that connects Kashgar and Gwadar through construction of a network of highways, railways and pipelines. This paper has a dual purpose; one to demonstrate the significant projects that are part of the CPEC and the resultant opportunities which will arise for the common man. Second, it seeks to highlight the current research gaps which would otherwise help economic activity to flourish.

One Belt One Road: China'sVision



More than 2000 years ago, China's imperial envoy Zhang Qian helped to establish the Silk Road, a network of trade routes that linked China to Central Asia and the Arab world[3]. In the 21st Century the Chinese President, Xi Jinping, announced an ambitious plan to re-establish the old Silk Road to connect China with close to 64 countries in 3 continents. These countries proposed under the OBOR, comprise a combined GDP of $21 trillion[4]. Given the large outlay of funds and numerous economies involved, the OBOR has potential to support economic growth to all the countries who are part of the plan.

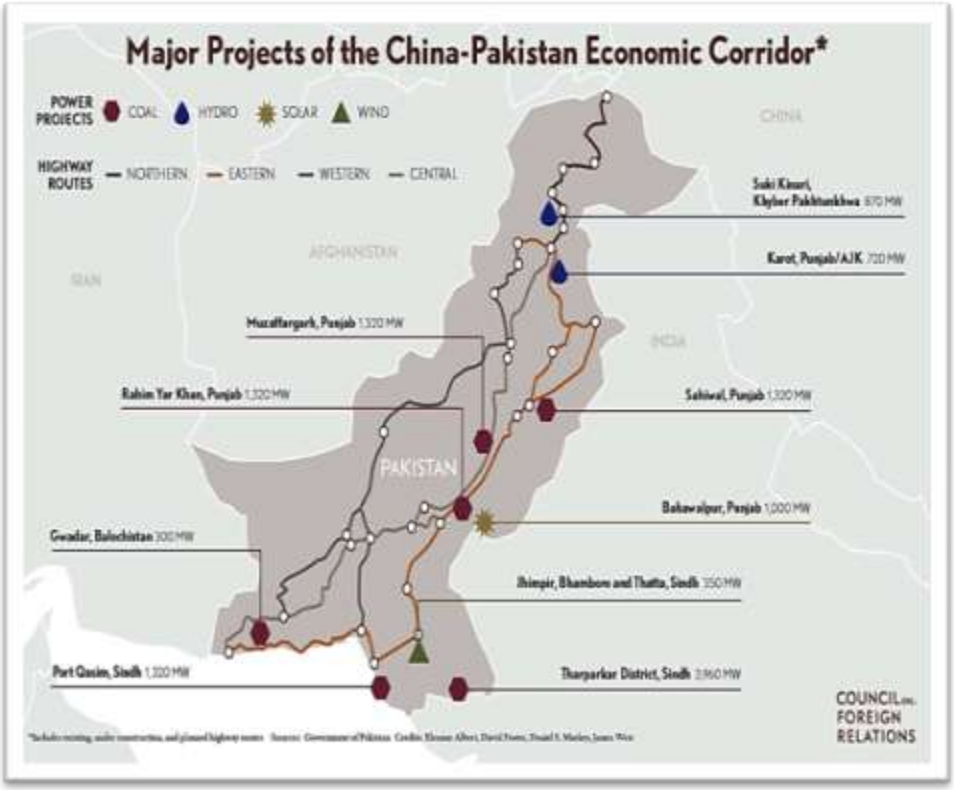
In addition to political objectives, OBOR brings a strategic approach which encourages Chinese firms to go abroad in search of new markets or investment opportunities. The initiative is led from the Chinese government and the push for this initiative is backed by substantial financial investments, with the government launching a $50 billion Silk Road Fund that will directly support the project[5]. Under OBOR, China Pakistan Economic

[1] http://www.globalinfrastructureinitiative.com/article/%E2%80%98one-belt-and-one-road%E2%80%99-connecting-china-and-world
[2] http://www.dawn.com/news/1287040
[3] http://www.globalinfrastructureinitiative.com/article/%E2%80%98one-belt-and-one-road%E2%80%99-connecting-china-and-world
[4] http://www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/one-belt-and-one-road-connecting-china-and-the-world
[5] http://www.eiu.com/public/topical_report.aspx?campaignid=OneBeltOneRoad

Corridor (CPEC) is part of the larger umbrella and aims to provide a new corridor of trade for China and Pakistan and is expected to benefit the whole of South Asian region.

CPEC: An Overview

CPEC, a $51 billion project, is an economic corridor comprising an eclectic setof projects in energy, road, railway and fiber optics. It is considered an extension of China's ambitious One Belt One Road initiative and will open doors to economic opportunities not only to Pakistan but will physically connect China to its markets in Asia, Europe and beyond. Almost 80 perecent of China's oil is currently transported from Strait of Malacca to Shanghai, distance being close to 16,000 km, but with Gwadar becoming operational the distance would reduce to less than 5,000 km.



The project is expected to add 2 to 2.5 percent to the annual economic growth of Pakistan[6]. Also, it is forecasted to add 2 million direct and indirect jobs to Pakistan's economy between 2015-2030[7]. Of the total outlay of the project $34 billion will be invested in energy projects, $16 billion in infrastructure (roads and railways) projects, $793 million in Gwadar Port and nearly $44 million in other projects[8].

There is a fair division of projects between the four provinces of Pakistan: 16 in Baluchistan, 8 in KPK, 13 in Sindh and 12 in Punjab. Out of the total projects, 16 are currently in process of incipient development, all part of the early harvest plan which are projects stipulated to be completed between 2016-2020[9].

Three routes have been earmarked for CPEC, the western, central and eastern routes [give reference to the Figure above here]. The distribution of the corridor along three routes allows for access through all the four provinces. The Western route originating from Gwadar will pass through Turbat, Panjgur, Naag, Basima, Sohrab, Kalat, Quetta, Qila Saifullah, Zhob, DIK, Mianwali, Hasanabdal and Islamabad. Also, the central route will originate from Gwadar, Quetta and reach DI Khan via Basima, Khuzdar, Sukkar, Rajanpur, Liya, Muzaffargarh, Bhakkar. Lastly, the eastern route will include Gwadar, Basima, Khuzdar, Sukkur, Rahim Yar Khan, Bahawalpur, Lahore, Islamabad and Mansehra. This geographical spread of the corridor will provide economic benefits to all provinces with direct and indirect job creation possibilities arising.

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[6] https://www2.deloitte.com/content/dam/Deloitte/pk/Documents/risk/pak-china-eco-corridor-deloittepk-noexp.pdf
[7] http://pakobserver.net/cpec-to-boost-pak-economy/
[8] http://www.sbconsulting.com.pk/wp-content/uploads/2016/10/Presentation-on-CPEC-by-Safdar-Sohail-PC.pdf
[9] http://www.app.com.pk/16-cpec-projects-in-balochistan-8-in-kpk-chinese-embassy/

Expectant Benefits for Pakistan: Energy, Roads, Railway and other Opportunities

Pakistan's economy has tremendous strategic development potential, as it is located at the crossroads of South Asia, Central Asia, China and the Middle East and thus can serve at the fulcrum of a regional market with a vast population, large and diverse resources, and untapped potential for trade.

The major obstacles faced by Pakistan's economy include persistent industrial losses due to energy crisis, low foreign direct investment (FDI), lack of infrastructure development, losses due to war on terror and low exports and high imports[10]. The average shortfall in the power sector is 4,500 megawatts, and nearly two billion cubic feet per day (BCFD) in the natural gas sector. This chronic power shortage, in the form of load-shedding and power outages, cost the Pakistan economy PKR 1,439 Billion (7 percent of GDP) in 2015[11]. Major industries have seen a downward slump in business because of being curtailed by energy shortages. Under CPEC, a grand total of 21 energy projects have been planned. Altogether, these projects would eventually produce 16,400 megawatts of power, roughly the same as Pakistan's current capacity. Also, 14 Chinese constructed energy projects in Pakistan tied to the CPEC are expected to provide an additional 10,400 megawatts of electricity by March 2018 – more than sufficient to make up for Pakistan's 2015 energy shortfall of 4,500 megawatts[12].

One of CPEC's primary objective is to look to address pressing infrastructural requirements of Pakistan. With nearly $11 billion earmarked for infrastructure development the road and railway network will greatly benefit Pakistan's economy. The road infrastructure will see development along Khuzdar-Basima Highway, Karakoram Highway II, Karachi Lahore Motorway and other projects. These development projects will enhance the connectivity between all four provinces and allow for ease of access of goods. Pakistan Railways is set to attract up to $5 billion investment for the purpose of upgrading and deployment of new railways infrastructure across Pakistan. To enhance connectivity and improve transportation facilities upgradation of 1,872 kilometers track from Karachi to Peshawar will be carried out. Other projects for the railway infrastructure includes 1,254 km of railway track from Kotri to Attock city that will be upgraded.

Opportunities for the Common Man

A. Special Economic Zones

Special Economic Zones (SEZ) are specialized zones with specific types of enterprises operating in a well-defined geographic area where certain economic activities are promoted by a set of policy. Successful SEZs offer immediate access to high quality infrastructure, uninterrupted power supply, public facilities and support services. Under CPEC, 27 such SEZ's will be setup in different cities of Pakistan, which will give a helping hand to Pakistan's struggling economy. The SEZ's are not just centralized in just one province, instead there are more SEZ's planned in provinces in pre-development stage. Khyber Pakhtunkhwa will have the highest number of economic zones, eight, compared to three in Sindh. Baluchistan and Punjab will have seven such economic zones respectively[13].

The first special economic zone has been set-up by the Khyber Pakhtunkhwa government at Hattar with the aim to attract close to Rs 300 bn of investment inflows over the period 2016-2021[14]. The special economic zones

[10] http://www.dawn.com/news/1275116
[11] http://www.dawn.com/news/1275116
[12] http://thediplomat.com/2016/01/china-powers-up-pakistan-the-energy-component-of-the-cpec/
[13] http://iicr.org.pk/wp-content/uploads/2016/09/IICR-Special-Report-on-CPEC.pdf
[14] http://www.dawn.com/news/1228970

are targeting sectors like food, pharmaceuticals, engineering, auto and food packaging[15]. In Baluchistan the special economic zones are planned to be set-up in Gwadar, Lasbela Industrial Estate, Turbat Industrial Estate, Dera Murad Jamali Industrial Estate, Winder Industrial and Trading Estate, Mini Industrial Estate and Bostan Industrial Estate. The three SEZ in Sindh would include an exclusive Chinese Industrial Estate near Karachi, Textile City near Port Qasim and Marble City Karachi[16].

Once implemented, these SEZ's will be able to enhance the country's productive capacity, expand its export base and help in import substitution; and provide a major impetus for economic and social development through their backward and forward linkages with the rest of the domestic economy. These SEZ's have the potential to be a turning point for the industrial sector in the country, as economic zones have played a key role in the industrial development in many Asian countries. Previously, Pakistan has been lagging behind other South Asian countries in utilizing SEZ benefits.

B. Enhanced energy supply

Over 140 million Pakistanis either have no access to the existing power grid network or suffer from 12 hours of load shedding daily[17]. Pakistanis who do not have access to the grid are often poorer than those on the grid. Meanwhile, household electricity consumption has grown at an annual growth rate of 10 percent yearly. Up to 500,000 households are impacted with unemployment as businesses have been forced to shut down due to energy shortages. Nearly PKR 30 billion is the approximate expenditure by Pakistani households on UPS and battery charges alone[18].

Given this context nearly $34 billion of investments under CPEC in the energy sector are expected to be constructed by private consortia to help alleviate Pakistan's chronic energy shortages, which regularly amount to over 4500 MW and have shed an estimated 2-2.5% off Pakistan's annual gross domestic product. These investments include the Quaid-e-Azam Solar Park in Bahawalpur, Jhimper Wind Energy Park, Suki Kinari Hydropower project and Kohala Hydropower project.

C. Activity in the realty sector

Pakistan's real estate market has posted a 118 percent growth in the last 5 years[19]. The high growth rate can be attributed to robust demand from seasonal investors, genuine buyers and an overwhelmingly better security situation. This trend has been supported by the developments under CPEC with property prices rising by nearly 70% in Gwadar[20]. Also, Baluchistan's government has also introduced modern housing schemes to stir up real estate activity in the area. With the project taking shape in years to come property prices are expected to increase especially along the three routes: Western, Central and Eastern[21]. This will create further activity in the real estate market and build investor confidence which would result in economic activity.

D. Growth potential in stock exchange

Investment led growth in Gross Domestic Product would augment volumes and earnings of Cement and Steel companies while higher income levels and improved energy availability would help the manufacturing sector through higher demand and cheaper and secure energy supplies. This should help improve feasibility of

[15] http://www.dawn.com/news/1228970
[16] http://www.dawn.com/news/1235803
[17] http://www.dawn.com/news/1275116
[18] http://www.dawn.com/news/1275116
[19] http://tribune.com.pk/story/1064657/trending-pakistans-valiant-real-estate-market/
[20] http://tribune.com.pk/story/1064657/trending-pakistans-valiant-real-estate-market/
[21] http:/issi.org.pk/wp-content/uploads/2016/02/Final-Issue-brief-Mir-Sherbaz-Khetran-dated-15-2-2016.pdf

expansions, expand margins and accelerate earnings growth. Banks would witness accelerated balance sheet growth and a higher share of lending in the asset mix which will likely augment New Issue Market(NIM). Consumer stocks would also benefit from the higher demand and income levels.

E. Reinforce export of fruits

The region of Gilgit-Baltistan is known for its fresh fruit exports, like cherries, apricot and apples, CPEC will be a game changer by opening business opportunities for the region's traders. With an estimated production of 4,000 tonnes of cherries and up to 20,000 tons of apples every year, the region has potential to tap into the Chinese market. This will provide local traders with an advantage and help them increase their sales by tremendous saving in cost of transportation. Presently, fruits are being exported through air-cargo via Dubai it would be faster and cheaper if the same could be sent by road to China via Xinjiang. Selling fruits to China would be more profitable as cherries are more popular there[22]. This is also because currently fruits have to be sent to Dubai through air cargo, but it would be faster and cheaper if producers export it to China via Xinjiang as a one year border pass is accessible within the border.

F. Establish foothold in manufacturing sector

The Chinese consumer market is in the midst of a transformation, which offers new opportunities for Pakistan's businesses. Three forces are ushering in the transformation: rise of upper middle class, a generation of free spenders and increasingly powerful role of e-commerce[23]. It is expected that with growing income Chinese society will get more consumer centric. The burgeoning Chinese middle-class demand for wide range of products at affordable prices is expected to increase. It is a projected that in the near future China will make a move up the value chain in manufacturing sector, so while cornering the high-tech manufacturing services like pharmaceuticals, air and space craft and technology for itself, it will outsource medium to low-technology manufacturing activities like food, textile, paper and leather to cheap labor centric countries. With CPEC under development, Pakistan will have the opportunity to be a beneficiary of China's largesse. China plans to shift parts of its $300 billion textile to Pakistan for which industrial zones are being identified by both countries[24]. If adequate government level attention is given to Chinese interest than these opportunities would support Pakistan's manufacturing sector.

Possible Challenges

The CPEC project faces a variety of challenges that seek to undermine its beneficial impact for all. With Chinese investment coming in, Pakistan is looking to guarantee stability and safety to ensure the timely completion of the project. Moreover, it is important to keep in mind that challenges confronted by CPEC are still unsettled. It is facing internal and external obstruction which could derail the multifaceted project.

A lack of domestic consensus on the project is a potential stumbling block for CPEC. When CPEC was initially introduced, mainstream political parties put their weight behind the project but enthusiasm was challenged by reservations from smaller provinces like KPK and Baluchistan. The debate between these political representatives about CPEC forced China to put out a statement to urge all stakeholders to overcome their differences.

Also, the security atmosphere inside Pakistan especially Baluchistan poses difficulties for CPEC. Starting from Kashgar, the project will pass through Gilgit-Baltistan and KPK, followed by Baluchistan. To counter the danger the government has decided to raise a 10,000-strong army unit under the command of a major general, whose primary responsibility would be to safeguard Chinese engineers.

[22] https://www.thethirdpole.net/2016/01/28/the-china-pakistan-economic-corridor-winds-through-gilgit-baltistan/
[23] https://www.weforum.org/agenda/2016/01/3-great-forces-changing-chinas-consumer-market/
[24] http://nation.com.pk/business/10-Apr-2015/china-plans-to-shift-part-of-300b-textiles-to-pakistan

Moreover, locals especially in Gwadar have voiced their opinion that only China will benefit from the project. Currently there is only one 12-bed hospital and a college with 13 classrooms in Gwadar. Given the abject/deploring conditions of the basic infrastructure in Baluchistan, it is essential that CPEC is tailored to provide maximum economic and social prospects to the people of the province in order to ensure fair and equitable distribution of resources.

Research Gaps

This document has been prepared by collecting data from various industry and government publications, newspapers, and online journals. The existing research data around the overall details of projects under CPEC is extensive with both Chinese and Pakistani governments explaining in detail the type of projects being undertaken and in which province[25]. Although basic outlooks on impact of CPEC on Pakistan's economy were available, how it would affect Pakistan's common man was inadequate. Also, what are specific industry outlooks, possible specific projections on job creation and risks to CPEC were insufficient. Moreover, contribution of CPEC to respective industries and businesses is so far not available.

There are, however, current research gaps relating to the project, for example to understand and assess challenges such as how:

- Investors be given prior information on Special Economic Zones and work conditions so that they can plan their investments accordingly?

- Energy projects under CPEC will impact different industries and how much production would increase in different sectors as a result of the energy projects?

- What are the factors influencing price in real estate along the CPEC route and which cities will have greater scope for growth in coming years in terms of return on investment?

- Projected increase in stock market shape up; what is the percentage increase in cement and steel sectors expected in coming years?

- Pakistani manufacturers plan their move to capture Chinese textile business?

Conclusion

CPEC is a multibillion dollar initiative which aims to facilitate trade along an overland route that connects Kashgar and Gwadar, through construction of a network of highways, railways and pipelines. It is considered an extension of China's ambitious One Belt One Road initiative. Pakistani officials predict that the project will result in job creation of up to 2 million direct and indirect opportunities between 2016-2030. Also, keen interest by both the Chinese and Pakistani governments to fast track the project means that work is expected to be completed as per a strict timeline. Also, investments in infrastructure and energy sector has given confidence to local businessmen that frequent power outages which had become a norm since the past decade would be addressed[26].

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[25] http://www.cpecinfo.com/specia-economic-zones.php
[26] http://www.brecorder.com/business-and-economy/189:pakistan/1209357:investors-confidence--increase-in-investment-a-sign-of-improvement--pbit

As the CPEC investment is seen integral to Pakistan's growth, the abovementioned challenges are important to reap benefits for the common man. Furthermore, wider research coverage will give local businesses insight into which sectors to invest in and what returns to expect.