DEVELOPMENT ADVOCATE PAKISTAN

Volume 6, Issue 4

Regional Connectivity & Corridors

DEVELOPMENT ADVOCATE
PAKISTAN

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Development Advocate Pakistan provides a platform for the exchange of ideas on key development issues and challenges in Pakistan. Focusing on a specific development theme in each edition, this quarterly publication fosters public discourse and presents varying perspectives from civil society, academia, government and development partners. The publication makes an explicit effort to include the voices of women and youth in the ongoing discourse. A combination of analysis and public opinion articles promote and inform debate on development ideas while presenting up-to-date information.

DEVELOPMENT ADVOCATE PAKISTAN

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ISBN: 978-969-8736-29-9

December 2019

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Connectivity through Corridors

Improving physical access and communication between different parts of the world has gained importance as the corner stone of global and regional integration and economic growth in recent years. However, its foundations were laid decades ago in 1776, when Adam Smith, the famous economist, penned down his thoughts in simple words:

“Good roads, canals, and navigable rivers, by diminishing the expense of carriage, put the remote parts of the country more nearly upon a level with those of the neighborhood of the town. They are upon that, the greatest of all improvements.”

The quote highlights the benefits of connectivity; efficient and cost-effective mobility and trade, which leads to improved access to opportunities such as labour and food markets etc., and facilities such as health, energy, and education, amongst others. Consequently, it helps in reducing inequality within and between countries. Sustainable and planned connectivity-global or regional, is thus, one of the major factors in growth and sustainability in developed states.

Enhanced regional connectivity and corridors can have a significant positive impact on Pakistan's economy, by linking different markets, goods, ideas, technology, energy, and people. These will boost trade, tourism and attract investments, in turn generating more employment opportunities and national income. Considering the geostrategic location of Pakistan, this connectivity can enable Pakistan in becoming a significant trade and transit hub, translating into more sustainable and inclusive growth.

The construction of Karakoram Highway (KKH), completed in 1974, was a major milestone in Pakistan's quest to improve regional connectivity. More recent efforts include the China Pakistan Economic Corridor (CPEC) and Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project. Both these projects have insurmountable potential to be the bedrock for future regional development, open new trade routes giving access to landlocked Asian countries and create new livelihood opportunities for the local population. Additionally, these interventions, if implemented appropriately, will directly impact upon the achievement of the SDGs, including, decent work and economic growth (SDG 8), affordable and clean energy for all (SDG 7), sustainable cities and communities (SDG 11), no poverty (SDG 1), zero hunger (SDG 2), and industry, innovation and infrastructure (SDG 9), to name a few.

In the wake of the recent out-break of novel COVID-19 in late 2019, both regional and global connectivity have been adversely affected. To contain the spread of this deadly virus, governments around the world have adopted immediate restrictive measures including closed-border policy, restriction on mobility (air/road etc.) and social distancing. All of these restrict different means of connectivity. Resultantly, global trade, an outcome of this connectivity, is expected to drop from USD 18.89 trillion to USD 16.4 trillion (in the best-case scenario), and to USD 12.84 trillion (in the worst-case scenario), in 2020.

Retuning back to normal will take time. Or there could be a new normal that will require rethinking our economic models with an emphasis on producing and consuming locally. COVID-19 provides an opportunity to rethink our unsustainable world. In this context, there must be a push towards more sustainable production and consumption, re-strategizing trade and adapting to the “build back better” approach.

The important role the digital realm will now play in ensuring regional connectivity is undeniable. For instance, while telemedicine was a pre-pandemic practice, it has certainly gained a lot more momentum and technology has enabled it to go beyond being just simple consultations. Same is the case with distance learning: schools and universities have now gone online in full force to ensure education is not disrupted. The world, as we know it, has transformed from physical corridors to digital connectivity.

The benefits of digital connectivity can be reaped tremendously. For example, increase in digital regional connectivity will enable SMEs and firms from developing countries to increase their share in global trade; due to their competitive edge of pre-existing lower production costs and prices. According to WTO predictions, this reduction can especially benefit SMEs and firms from developing countries, increasing their share in global trade from 46 percent to 57 percent.

The pandemic provides an opportunity for Pakistan to rethink and adapt short-term strategies that involve improving the digital ecosystem, producing and buying locally, and making businesses transition to the digital realm efficiently. In the long-term, the existing potential of regional corridors such as CPEC and TAPI, is unquestionable. The building up of these regional corridors is not only going to help Pakistan economically, but also help generate livelihood opportunities for the local population, as well as aid in achieving a number of sustainable development goals.

Analysis

Regional Connectivity and Corridors

Note: The main analysis has been conducted by Dr. Vaqar Ahmed[1] -Sustainable Development Policy Institute (SDPI).

Introduction

Corridors can help developing economies achieve economic growth and welfare related objectives. Most developing economies perceive the infrastructure uplift as a measure which can lend quick job creation gains along with decline in poverty levels. The gains in terms of job creation are sustained over longer periods of time if economic corridors result in growth which has outward-orientation and bring about increase in exports of goods and services, particularly for sectors which employ youth and idle work force.

The evidence from literature however varies when it comes to impact of economic corridors on environment and social justice-the two key pillars of the sustainable development framework (apart from inclusive growth).[2]

This analysis explores existing efforts by Pakistan to build such corridors, the challenges it faces and how the state aims to address them. Additionally, it also sheds light on how improved infrastructure and economic corridors in Pakistan could support achievement of the sustainable development goals (SDGs).

Regional Connectivity, Growth and Welfare

The drive towards regional connectivity gained momentum once counties and regions embarked on plans backed by strong funding arrangements to build bridges between markets and value chains.[3] The Belt and Road Initiative (BRI), Europe Asia Connectivity Strategy, and Central Asia Regional Economic Cooperation (CAREC) are recent examples. Such initiatives start with realizing integrated trade and transport corridors with the aim to diversify routes. These could then link travel and logistics networks and in turn reduce both transit time and customs procedures faced by agriculture and industrial output. Ultimately such efforts have proven to reduce the transaction costs faced by exporters and importers. Such reductions in the cost of doing trade proportionally favour smaller trading nations as opposed to mature economies.

Studies have suggested that the effect of regional economic corridors on developing countries could be through two channels: trade and foreign direct investment (FDI) (Table 1). For example, studies suggest that the trade-effect of BRI transport projects will improve Gross Domestic Product (GDP) of low income countries by almost four percent.[4] Estimates suggest that the FDI effect of BRI transport projects will improve GDP of low income countries by almost 0.35

Table 1: Economic Corridors: Challenges and Opportunities

Opportunities	Challenges
Improving cross-border infrastructure and their management	Ensuring that investment is efficient; not directing investment to politically motivated or just 'look good' projects with 'demonstration impact'
Reducing trade costs, improving trade rules, boosting trade flows and Global Value Chain participation	Coordinating large scale infrastructure investments
Improving investment climate and boosting cross-border investment	Ensuring transparency of data and information. Transparency in public procurement remains a key challenge
Improving growth, employment and poverty reduction	Managing social, environmental, and governance risks
Developing lagging and isolated regions	Sustaining public debt; finding innovative financing to complete projects on time

Source: Modified by author from Freund (2018).[5]

1. Dr. Vaqar Ahmed is an Economist and former civil servant. He is author of 'Pakistan's Agenda for Economic Reforms' published by the Oxford University Press. Dr. Ahmed is currently associated with Sustainable Development Policy Institute (SDPI). Views expressed by the author are his own and do not necessarily reflect SDPI's official stance.
2. Ahmed, V., Suleri, A. Q., & Javed, A. (2015). Strengthening South Asia Value Chain: Prospects and Challenges. South Asia Economic Journal, 16(2_suppl), 55S-74S. https://doi.org/10.1177/1391561415594900.
3. Ahmed, V., Suleri, A. Q., & Javed, A. (2015). Strengthening South Asia Value Chain: Prospects and Challenges. South Asia Economic Journal, 16(2_suppl), 55S-74S. https://doi.org/10.1177/1391561415594900.
4. De Soyres, F., A. Mulabdic, S. Murray, N. Rocha, and M. Ruta. 2018. "How Much Will the Belt and Road Initiative Reduce Trade Costs?" Policy Research Working Paper WPS 8614, World Bank, Washington, DC.
5. Freund, C. (2018) The Economics of the Belt and Road Initiative. Presentation by World Bank Group. Presentation at the 20th Sustainable Development Conference in Islamabad, December 2018.

percent.[6]

Regional connectivity can be enhanced through multiple types of corridors. These include transport, trade, economic, energy, digital and others. A few are discussed below:

Transport Corridors

The development of transport corridors is now being seen in terms of the shared value these could provide. Such value could come in the form of inclusive mobility, resource efficiency, transport infrastructure, safety and security.[7] The usual way of looking in to spending on improvements in the transport sector were centred around the provision of affordable public commute or extending freight transport to underserved areas. Countries are now striving for innovative transportation solutions which could be cost-effective in terms of both movement of people and goods.[8]

Sustainability is a key consideration of such solutions. Smart transport technologies are in high demand which could help in reduction of congestion seen in the case of freight movements via road, sea, rivers, canals, and railways. The sustainability angle is incomplete without considering the optimization of the performance of trucks, buses and other vehicle fleets.

Likewise, enhancing the resilience of transport infrastructure needs to be seen through the various risks posed by climate change, natural or man-made disasters and cyber-attacks. The cyber security risks could compromise the efficiency of connected vehicles and put the safety of people and handling of cargo in danger. Ultimately, the success of these transport corridors in supporting developing economies achieve higher levels of competitiveness and exports, will depend upon complimentary reforms which are aimed at improving the procedures and process of transit, immigration, customs, and handling at ports and airports.

Trade Corridors

Such corridors have facilitation of exports and imports at the core of their business model. Regional trade corridors could result in harmonization of procedures and standards required to trade between countries and regions, efficient coordination between border authorities, electronic data exchange to check informal and illegal trade, reforms to improve logistics at border points, and reduction in number of export and import documents. Ultimately it helps bring down trade costs if regions as a whole move towards paperless trade.[9] This not only increases predictability and timeliness in trade of goods but allows increasing share of imports and exports. Ultimately it becomes easier for countries to integrate into global value chains. Efficient trade corridors also demand that countries address non-tariff barriers which could hinder regional and global trade flows.[10]

The World Trade Organization's (WTO) Trade Facilitation Agreement has allowed countries to better envisage development of trade corridors. WTO also encourages not to have a myopic view of trade corridors but to also support trade of services e.g. information technology related services.

Energy Corridors

As energy needs of developing countries remain high, it will be critical to see how regions can bring fuels and electricity from energy surplus to deficit regions. In doing so, most countries wish to remain responsible and focus more on developing of green energy corridors which are climate friendly. The SDG-7 and Sustainable Energy for All (SEforALL) initiative emphasizes on ensuring use of cleaner fuels to reduce greenhouse gas emissions while also supporting health, air quality, and economic growth-related goals. This emphasis is part of corridor building such as the Clean Energy Corridors programme in Africa to meet the electricity requirements through renewable energy and cross-border trade of renewable power.

In Central and South Asia, governments have committed to ending energy poverty through transboundary initiatives such as the CASA-1000 electricity transmission line, and Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline, among other initiatives underway. While political, procedural and funding constrains could pose delays it is encouraging to see favourable scientific evidence suggesting improved outcomes of the energy corridors for the poor and vulnerable.[11]

Digital Corridors

Digital connectivity across borders provides high speed and reliable data services along with protection of users of web services. However, digital divides across regions, countries and often times within countries continue to persist. This prevents the growth of digital economy. As a result, e-commerce growth remains subdued in several developing states. It is, however, important to see how digital corridors could eventually help the pursuit of e-government, e-learning, and e-work initiatives. This could also bring down the cost of knowledge and technology acquisition.

E-banking initiatives across countries, for example, to settle trade-related payments could lessen the reliance on traditional financial institutions. In September 2019, The UN Secretary-General's Task Force on Digital Financing of the SDGs offered actionable recommendations towards harnessing the digital revolution to advance the SDGs. The report identified clear possibilities for fintech which could shift “the centre of gravity of the financial system towards the citizen”.[12]

Pakistan's Quest for Regional Connectivity

Pakistan's most recent efforts towards regional connectivity and building an economic corridor have culminated into the completion of CPEC's early harvest programme. However, the quest to regionally integrate with neighbours and have more efficient trade goes back to the days when Karakoram Highway (KKH) was completed in 1974. In the late 1990s, a National Trade Corridor initiative was launched. However, it could not meet much success due to budgetary constraints and gaps in federal-provincial and inter-provincial coordination. Later during the visit of the Chinese Premier to Pakistan in May 2013, the concept of the China Pakistan Economic Corridor (CPEC) was agreed upon by both countries. Subsequently, a Memorandum of Understanding

6. Chen, M., and C. Lin. 2018. “Foreign Investment across the Belt and Road: Patterns, Determinants and Effects.” Policy Research Working Paper 8607, World Bank, Washington, DC.
7. See for example, “SDG Industry Matrix for Transportation”. Study by UN Global Compact and KPMG. Available at https://home.kpmg/content/dam/kpmg/xx/pdf/2017/05/sdg-transportation.pdf.
8. De, P. and Iyengar, K. Developing economic corridors in South Asia. Mandaluyong City, Philippines: Asian Development Bank, 2014.
9. Prabir De (2018) Trade Facilitation Measures for Landlocked Countries. Presentation at UN ESCAP Bangkok. Available at https://www.unescap.org/sites/default/files/S12_Prabir%20De%20ESCAP%20TF%202018%2B.pdf.
10. Ahmed, V., Suleri, A. Q., & Javed, A. (2015). Strengthening South Asia Value Chain: Prospects and Challenges. South Asia Economic Journal, 16(2_suppl), 55S-74S. https://doi.org/10.1177/1391561415594900 and Toru, S. K., and V. Ahmed (2020) Addressing global systemic concerns while implementing SDGs at country level. Southern Voice. Accessed via web: https://www.slideshare.net/vahmed/sdgs-global-systemic-concerns-230813618, accessed on April 2, 2020.
11. Ahmed, V. (2014) A case for energy diplomacy. The News. July 20, 2014. Accessed via web: https://www.thenews.com.pk/tns/detail/556707-case-energy-diplomacy, accessed on: February 27, 2020.
12. “Task Force Analyzes Role of Fintech in Accelerating SDGs”. SDG Knowledge Hub. Available at https://sdg.iisd.org/news/task-force-analyzes-role-of-fintech-in-accelerating-sdgs.

Table 2: Initiatives under CPEC

Sectors	Current Status and Progress
Energy	Out of 17 planned projects as priority, 8 are completed and 9 are under construction. The completed projects have added 4,918 MW to Pakistani national grid.
Agriculture	Includes better management of water resources, livestock and fisheries development.
Road sector	Karakorum Highway Phase-II (Havelian to Thakot) (118 km) - In progress Peshawar-Karachi Motorway (Multan-Sukkur Section) (392 km) - Completed Khuzdar-Basima road (110 km) - In progress Dera Ismail Khan (Yarik) – Zhob connection (210 km) - In progress Thakot – Raikot connection (136 km) - In progress
Trade	In Gwadar, new quay cranes have been set up along with additional storage yard, a seawater desalination plant, sewage disposal systems and cargo handling equipment.
Science and Technology	A "China-Pakistan Joint Cotton Bio-Tech Laboratory" will be established, along with "China-Pakistan Joint Marine Research Centre", "Pakistan-China Science, Technology, Commerce and Logistic Park". The "Pakistan-China Fibre Optic Project" has already been completed. Pilot project of Digital Terrestrial Multimedia Broadcast (DTMB) has been completed.
Railway	Construction of railway track from Karachi to Shahdara completed Work on ML-1 railway line is soon expected to begin Havelian dry port to be established to meet the demand of containerized freight traffic
Skills development	China Fund for Peace and Development has built schools called "Chinese Pakistan Friendship schools". These are a consortium of top Pakistani and Chinese business schools estbalished with the Higher Education Commission (HEC) taking lead.

Source: Author's compilation

(MoU) between both countries was signed. CPEC's Long Term Plan and Action Plan was agreed upon and signed on 5th July 2013 during Prime Minister Nawaz Sharif's visit to China.[13] Following these developments, several projects were initiated (table-2).

The popular discourse in Pakistan has focused largely around the road-based routes to be constructed or rehabilitated under CPEC, also known as the western and eastern routes. However, the initial phase of CPEC initiatives largely focused on the energy sector. Apart from this, there was decent development of the port sector in which ports in Karachi and Gwadar received attention. Today, Gwadar not only serves commercial traffic for Pakistan's own use, but also as a transit trade bound for Afghanistan. Tajikistan has also requested access to Gwadar for its food supplies.

A key result of CPEC's early harvest interventions was improved energy supplies to Pakistan's residential and industrial users. Constraints remain in transmission and distribution of power which will be a key focus for the future phase of CPEC. The overall supply chain in the energy sector will also require improvements to meet the needs of nine special economic zones.

Improved digital connectivity has been an important goal of Pakistan's corridor building efforts. In this regard, construction of fibre optic cable was completed between China and Pakistan. This is expected to pave way for long-distance and high-performance data networking. A higher bandwidth with cyber security arrangements allows greater efficiency and security in web-based communications. Such improvements are also expected to boost Pakistan's e-commerce potential.[14]

There are challenges which Pakistan will need to overcome to embark swiftly towards the next set of projects planned under the CPEC. These challenges could be grouped into: a) macroeconomic, b) legal and regulatory, c) rule of law, and d) coordination issues.

Macroeconomic Challenges

Pakistan's ability to finance economic corridors through indigenous resources is constrained due to low levels of domestic resource mobilization. The capacity to raise taxes at federal and provincial levels remains low due to policy and administrative gaps which are now being addressed under the 'Pakistan Raises Revenue' program. The provincial government's capacity to increase taxes given that progressive tax bases such as land, urban property, agriculture, and services now fall under their domain, is also limited. Pakistan has committed under the International Monetary Fund's (IMF) Extended Fund Facility, to support capacity of federal and provincial tax administration and improve audit capacities, whilst alongside strengthening efforts to better document the economy.

Raising government revenues through tax or non-tax sources is usually not easy when a country is witnessing low economic growth. With real GDP growth is projected to remain under three percent for the fiscal year 2019-20, it has become difficult to even achieve the revenue target agreed by the government with IMF at the start of the fund programme. It is, therefore, important now to look towards private financing.

The local private sector has indicated strong intent to invest in transport, oil and gas exploration, and information technology-all sectors are critical to raising an economic corridor. However, many have also informed regarding the need to expedite 'ease of doing business' reforms. Furthermore, initiatives which could strengthen public-private partnerships

13. CPEC Secretariat. 2017. Long Term Plan For China-Pakistan Economic Corridor (2017-2030). http://cpec.gov.pk/brain/public/uploads/documents/CPEC-LTP.pdf.
14. Ahmed Qadir and V. Ahmed (2019) E-commerce Regulations in Pakistan. Trade Insight, Vol. 15, No. 1-2, 2019.

could go a long way in signalling the resolve of the government.

When it comes to innovative financing, the role of development partners will remain critical. However, most donors would like to see strengthening of macroeconomic fundamentals and improved fiscal discipline. While the government has recently passed the Public Finance law, however, its implementation will be important to demonstrate that Pakistan's budgetary spending is fair and transparent.

Legal and Regulatory Issues

Several legal and regulatory issues prevent Pakistan to host large scale investments. This has prompted the government to initiate Pakistan Regulatory Modernisation Initiative (PRMI). This is also aimed at addressing opacity in the federal and provincial tax regime. Accessing tax benefits allowed to Special Economic Zones (SEZs) (table 3) could also take several months due to delays in approvals by regulatory bodies. Additionally, even in the mature industrial estates it is a time-consuming process and can take upto 8 to 12 months for materialization of applications for utility connections.

There remains a need to also conduct for key economic sectors, a regulatory impact analysis (RIA). For example, currently businesses complain regarding absence of one-window solution when it comes to compliance with environmental, labour, municipal, and sector-specific regulatory bodies.[15] Furthermore, if you wish to operate in more than one province of Pakistan, different sector-specific

Table 3: Status and Sectors Proposed for Special Economic Zones (SEZs)

SEZs	Location/Area	Status	Focused Sectors
Rashakai Economic Zone	Located on 1000 acres of land, of which 702 acres are to be used for industrial development.	Feasibility studies of SEZs are shared with Chinese side. The MoU and Engagement Agreement was signed in January 2018. Presently, the two parties are in the end stages of finalizing and signing the Agreement.	Key sectors include garments and textiles manufacturing, steel, electronic appliances and other manufactured consumer goods.
Economic Zone at Dhabeji	Located in Dhabeji in Sindh province at a distance of around 35 km from Karachi Airport covering 1530 acres of land.	Feasibility studies of SEZs are shared with Chinese side. Interest to apply for land has been received from private sector representatives.	Key sectors include storage, warehousing, technical and vocational training and medical facilities.
Bostan Industrial Zone	Located in Balochistan Province on 1000 acres of land.	Feasibility studies of SEZs are shared with Chinese side and 200 acres have been developed.	Key sectors include fruit processing, agricultural manufacturing, and pharmaceutical.
Allama Iqbal Industrial City, Faisalabad	Covers approximately 3000 acres of land in Faisalabad, Punjab.	Purchase of land by private sector representatives underway. Prime Minister performed ground-breaking on 03-01-2019.	Key sectors include textiles, pharmaceuticals, steel, light engineering and chemicals industries.
Islamabad Capital Territory (ICT) Model Zone, Islamabad	Covering approximately 500 acres of land.	Land acquisition process underway. Feasibility studies of SEZs is shared with Chinese side.	Key sectors include IT equipment, ICT enabled services, steel, food processing and chemical industries.
Industrial Park in Karachi	Situated at Port Qasim (Karachi) on 1500 acres of land.	Feasibility studies of SEZs are shared with Chinese side.	Key sectors include steel, garments, automobile, auto parts, and manufacturing industries.
Special Economic Zone at Mirpur	Covering 1078 acres in Azad Jammu and Kashmir.	Feasibility studies of SEZs are shared with Chinese side.	Will feature mixed industries.
Mohmand Marble City	Situated in the erstwhile Federally Administered Tribal Areas.	The project awaits land allocation.	Industries will be similar to those being proposed for Rashakai.
Moqpondass SEZ Gilgit-Baltistan	Covers 250 acres of land.	Feasibility studies of SEZs are shared with Chinese side.	Key sectors include marble, granite, leather, food processing, steel and iron ore processing industries.

Source: Author's compilation

15. For example, if operating in the food sector of Punjab, compliance with Punjab Food Authority regulations is necessary. These could be different from Sindh province or national level regulations.

regulations and product standards can make it difficult for new businesses to expand.

Coordination Gaps

The issue of overlapping roles and responsibilities of various institutions continue to pose a challenge for timely completion of public sector projects. Likewise, difficulties related to land acquisition, licenses and permits required by businesses, royalties of provincial governments, double taxation on some economic activities by both federal and provincial governments lead to reduced interest in SEZs. This was also true for other CPEC-related projects which require a coordinated effort from federal, provincial, and local administrations.

The Prime Minister, therefore, constituted National Development Council and CPEC Authority. However, in general, public infrastructure uplift requires institutions such as the Council of Common Interests (CCI) and National Economic Council (NEC) to function in a manner which encourages trade and other forms of economic activity which may or may not fall in the purview of the CPEC Authority.

Likewise, it is important to demonstrate to non-China investors that their assets and profits are also secure, and attention will be given in case of any business dispute. While CPEC Authority could act as a one-window for the Chinese projects, Pakistan's Board of Investment (BOI) will need to assume that a similar level of entitlement is in place for non-China investors.

Rule of Law

Foreign investors aiming to enter into a certain economy for medium to longer term look at governance and rule of law indicators carefully. While security of assets and profits remains a key concern, an equally important consideration is related to respect for property rights and enforcement of business contracts. Countries who have managed to maintain an investor friendly milieu over the longer run usually work continuously towards improving several different dimensions of the rule of law. These include civil justice, criminal justice, informal justice, fundamental rights, order and security, regulatory enforcement, check on powers of the governments, and 'open government' systems to demonstrate transparency in budgeting and procurements.

Now that the threat of militancy and insurgency is on the decline, potential investors wish to see improved working climate in key industrial and business hubs and urban areas. For example, to provide confidence to Chinese state-owned enterprises who continue to work in Pakistan and implement CPEC projects, Pakistan raised a dedicated security unit. While this may not be possible for other non-CPEC projects given the already rising costs of law and order, however a general sense of improved rule of law will go a long way in exhibiting a positive image of Pakistan as a business and transit hub. Several embassies in Islamabad have yet to offer a favourable travel advisory for their nationals.

Policy Actions for Developing Corridors

This section offers some policy recommendation in the light of recent researches.[16] These recommendations may not only help in the pursuit of an economic corridor but can also position the trade, transport, energy and other forms of productive activities to support national level efforts to achieve the SDGs.

An effort to reimagine the way Pakistan wishes to host and manage various corridors has to start with a clear thinking on the specific roles of state and markets. For raising basic infrastructure, public sector institutions alone cannot play the role of funding, execution, and monitoring of initiatives. The state institutions, therefore, should focus on creating enabling policies and regulations and then allow the private sector to come forward to execute and manage such initiatives. Of course, the state can still intervene in sectors and regions where markets fail.

This aspect is closely linked to revisiting the Government of Pakistan's Rules of Business 1973 and see which economic activities can be better performed by the private sector, non-profit entities, social enterprises, and perhaps in some cases, community-based organisations. A complimentary effort will then have to focus on reform of the public administration. The civil service at the federal, provincial, and local level, while capable of improving public service delivery, faces numerous operational challenges. These continue to adversely affect the ability of the civil service to deliver on execution of projects. We have seen in recent public expenditure reviews that most development projects are marred with time delays and cost overruns.

Government's initiative to set up the Public-Private Partnership (PPP) Authority by virtue of PPP Act, 2017 is a step in the right direction. However, many have argued that for this Authority to function and deliver, it is important that it should not be under the administrative control of the Ministry of Finance (MoF). A clear mandate to regulate Public-private partnership (PPP) transactions and to assist federal institutions in developing large infrastructure projects requires autonomy on the lines as allowed to the State Bank of Pakistan.

For private sector to participate in economic corridor building, the government will need to demonstrate ease of doing business. In this regard, it is important that all provinces agree on a national level regulatory impact assessment, based on which regulations which hinder business and trade, may be considered for automation, rationalization, or elimination. The compliance with all forms of business regulations needs to be online, including payment of any fee. This will eventually reduce the human interface and incidence of rent seeking.

The trade and transport corridors carry immense potential for boosting Pakistan's future export competitiveness. In this regard, initiatives under CPEC and CAREC will complement the Free Trade Agreement (FTA) with neighbouring and regional economies. Pakistan should also aim to negotiate a new FTA on services with China. This should then open doors for vast number of IT, engineering, medical, and education sector service providers to integrate with the Chinese markets. Pakistan was recently ranked fourth in the global gig economy on the back of large educated English speaking and technology savvy youth.[17]

The transboundary flow of resources including energy, will require strengthened cross border security arrangements. In this regard, it will be important to not only augment the capacities of inland security institutions, but also build partnerships with counterparts in neighbouring and regional countries so that a shared vision for a peaceful Central and South Asia accentuates gains from the corridor building efforts. It is important to highlight the narrative that national and sub-regional efforts to build such corridors should not be seen as competing with each other and rather help foster cooperation.[18]

While many have seen cross-border energy trade with scepticism in South Asia, it is

16. Ahmed, V. (2018) "Pakistan's Agenda for Economic Reforms". Oxford University Press, Karachi and Abdul Qadir and V. Ahmed (2018) Building the Economy of Tomorrow: A project synthesis report. Friedrich Ebert Stiftung.

17. Available at https://www.msn.com/en-xl/asia/pakistan/pakistan-ranks-4th-in-global-gig-economy/ar-AAGhrLo

18. See Ahmed, V., and Y. Arshad (2018) Corridors for Competition or Cooperation? Perspectives from Southern Asia. Criterion Quarterly, Vol 13 No. 3 and Manzoor, R., Maken, A., Syed, S. and Ahmed, V. (2019), "Trading with India: some current impediments for Pakistan", Journal of International Trade Law and Policy, Vol. 18 No. 1, pp. 39-55. https://doi.org/10.1108/JITLP-04-2018-0017.

essential to note that most of the economies in the region have projections which indicate a large future demand for power and gas to sustain economic growth and maintain employment levels. It is, therefore, important that countries rise above political differences and create a regional energy market. This will smoothen the seasonal disruptions in power and gas seen across the region.[19]

The social and environmental safeguards in building economic corridors need to be more appreciated at policy and regulatory levels. At times, in the race to win participation in regional corridors, considerations related to gender, social inclusion, environment, and disaster risk reduction are not given a priority. In this regard, Pakistan also has a global and regional commitment towards abiding by environmental, human rights, and labour conventions. Such considerations should be carefully monitored during various stages of project execution. Efforts under CAREC and CPEC could alleviate most concerns of the local business communities and labour groups if employment opportunities for maximum number of local populations are ensured.[20] The CPEC Long Term Plan offers cooperation in the areas of clean technologies, renewable energy, water resource management, green construction, and energy conservation. However, the progress on these themes is slower than anticipated. Such interventions which help sustainable development will also give a more human face to economic growth.

Recently, in some countries including Sri Lanka and Pakistan, there have been concerns that economic corridors, if supported through foreign assistance, could lead to ballooning of debt and force developing economies to run high debt servicing levels. This in turn could impact macroeconomic fundamentals and exert adverse pressures on exchange rate and inflation. In the case of Pakistan, most projects under CPEC are on a revenue-sharing arrangement which does not give rise to debt obligations unless projects default. This, however, does not mean that there is no loan component under CPEC.

According to some estimates this loan component comes to 11 percent and carries an average annual interest rate of approximately three percent to be paid over a decade and a half.[21] Recent reports suggest that Pakistan may not be able to enter into any further loan based arrangements with China until the time balance of payments difficulties are resolved and both current account and fiscal balance are in manageable limits. This understanding is part of the agreement with IMF and most analysts see this as a decent step that will ensure fiscal consolidation.[22]

Lasting gains of an economic corridor are achieved once countries offer dividends of arrangements such as CPEC to neighbours. In this regard, it is important that political tensions should not impact business-to-business relations. Afghanistan and Iran have appreciated China-Pakistan cooperation in BRI, both have expressed the desire to join various initiatives of CPEC. Development partners have also advocated that India and Pakistan have a large potential of bilateral trade and investment. Initiatives such as CAREC and CPEC can help both countries to realize this potential once political tensions subside.

Global powers also need to play a role in reducing tensions in the region which constrain progress towards building economic corridors and achieving SDGs. The role of China, Russia and US in bringing India and Pakistan closer and normalizing political and people to people relations, will go a long way in strengthening gains from investments in trade, energy, and logistics.[23] A sincere effort by all member countries is also required to commit themselves to the promises in regional forums including Shanghai Cooperation Organization (SCO), Economic Cooperation Organization (ECO) and South Asian Association for Regional Cooperation (SAARC).[24]

Aligning Economic Corridor with Pursuit of SDGs

It is important to recognize a two-way relationship between efforts to build an economic corridor and achievement of SDGs. For example, having an educated and skilled workforce (SDG-4) is a prerequisite to host and manage economic corridors. National funding dedicated to, for example projects under CPEC, have a linkage with SDGs.

As Pakistan moves towards the 'decade of action' for SDGs, it is important to highlight that decent progress has been achieved in aligning policies, plans, and resource allocation to the 2030 Agenda. In this regard, active Parliamentary Task Forces at federal and provincial levels are supported by Advisory Councils, Technical Committees, and District SDG Committees. Several parliamentarians in the SDGs taskforce also serve on CPEC's Parliamentary Committee which helps in bridging any information gaps.

The targets envisioned in national and provincial SDGs frameworks have also found their way into provincial growth strategies and sectoral strategies (e.g. provincial industrial policies). This is in turn helping in aligning financial flows to SDGs and also enabling the federal and provincial governments to avoid any duplicity of programmes in SDGs and CPEC portfolios. The tracking of financial flows to SDGs has been initiated in collaboration with the office of Controller General of Accounts. In the coming days, there are proposals in place for innovative financing of SDGs. These include financing the 10 billion tree tsunami initiative through debt swap and promotion of green investments through Green Sukuk. As CPEC Authority and Federal SDG Support Units are housed in

> "CPEC is missing from debates on SDGs framework in Pakistan. CPEC can contribute to multiple SDG targets, including but not limited to, local, national and regional connectivity, Foreign Direct Investment (FDI) inflows, innovation and skills development, decent work, increased employment opportunities, infrastructure development, energy supply and economic growth. In the second phase of CPEC, investments must be aligned towards clearly identified SDGs targets including vibrant manufacturing sector (SDG-9), quality jobs, improved work environment (SDG-8), productivity and international competitiveness".[25]

19. Ahmed, V. (2014) A case for energy diplomacy. The News. July 20, 2014. Accessed via web: https://www.thenews.com.pk/tns/detail/556707-case-energy-diplomacy, accessed on: February 27, 2020.
20. Ahmed, V. (2018) "Pakistan's Agenda for Economic Reforms". Oxford University Press, Karachi.
21. Aslam, H., V. Ahmed, S. Ahmed (2019) Analysis of China Pakistan Economic Corridor. Trade Insight Vol. 15, No. 3, 2019.
22. A related commentary on Pakistan's financial choices may be seen in Suleri, A. Q. and V. Ahmed (2018) Contours of a programme with IMF: Choosing between approaching or not approaching IMF. Policy Review by Sustainable Development Policy Institute.
23. A more explanatory version of this argument may be seen in Ahmed, V., and Y. Arshad (2018) Corridors for Competition or Cooperation? Perspectives from Southern Asia. Criterion Quarterly, Vol 13 No. 3.
24. See also, Ahmed, V., Suleri, A. Q., & Javed, A. (2015). Strengthening South Asia Value Chain: Prospects and Challenges. South Asia Economic Journal, 16(2_suppl), 55S-74S. https://doi.org/10.1177/1391561415594900.
25. Amin, S. J. (2020) Integrating Sustainable Development Goals into Economic Policy Making: SDGs-in-All and All-in-SDGs approach. Working paper (forthcoming). Sustainable Development Policy Series.

Table 4: Complimentary Reform Actions

Reform Areas	Actions Required
Integration and corridor development	• Reduce trade policy barriers • Promote trade facilitation reforms • Ensure soundness of project selection and planning • Achieve inter-operability of transport infrastructure
Ensuring private sector's interest and participation	• Strengthen legal protection of investment • Design public investment to avoid crowding out the private sector • Support the reform of the regulatory environment and planning of special economic zones (SEZs)
Interventions to ensure inclusiveness	• Put in place social security and labour policies that mitigate adjustment costs faced by the poor as a result of competition from outside • Improve attractiveness of territories that are not a direct beneficiary of corridors • Investing in urban development and transport where population influx is expected
Manage fiscal risks	• Publicly disclose the terms and conditions if assistance arriving from outside • Use debt sustainability analysis to guide borrowing volumes and terms • Have a debt restructuring framework in place • Proper reporting of government operations, adequate monitoring and management of fiscal risks and budgets • Refrain from taking on loans collateralized through unrelated asset or revenue streams • Improve regulatory frameworks for public-private partnership and procurement processes
Manage governance risks	• Ensure that projects are awarded through open national competition • Make use of trade agreements, including the WTO Government Procurement Agreement • Increase transparency by enhancing disclosure of data at all stages of the contracting process • Make use of both supply-side interventions (integrity pacts) and demand-side mechanisms (community monitoring) to tackle corruption
Manage environmental and social risks	• Conduct strategic social and environment assessment at the corridor level, in addition to standard assessments at the project level • Move toward internationally accepted good practices to address social risks due to land acquisition and resettlement; risks to indigenous peoples; risks from work camps with a large influx of outsiders; and risks to community health and safety around construction sites.

Source: Adapted and abridged from World Bank (2019)

the same ministry, therefore, it is expected that there will be alignment in the monitoring and reporting on national level development targets.

Pakistan Bureau of Statistics has aligned some of its survey tools to SDGs and more efforts are required in the coming months to increase the number of reported variables beyond the current 26 SDG indicators. There remain missing capacities when it comes to monitoring, evaluation, and learning from current progress on SDGs. For example, there is a need to augment capacities in the planning departments, enabling them to update and use SDG Pulse online dashboard, compute human development, welfare, and poverty related indices on a regular basis and report to the relevant authority so that policy responses may be designed. This task will also bring under one roof, the socio, economic, and environmental impact of CPEC, CAREC and related connectivity projects.

It is important to highlight that infrastructure development on its own may not result in trade or FDI gains. There are several complementary reforms needed at the national level (see table 4).[26]

Conclusion

Pakistan's recent efforts to implement projects under CPEC have met with decent success. The already completed energy projects contributed to additional capacities, particularly in the power and industrial sector. On the back of improved energy supplies, Pakistan's economic growth rate crossed five percent during fiscal year 2015-16 after almost a decade of depressed output. The increased growth seen in the large-scale manufacturing sector attracted investment from abroad. Some CPEC interventions also focused on the agriculture sector. These included provision of technology and skills to help enhance crop yields. China offered duty free access for farmers in the Gilgit-Baltistan region. This has opened new opportunities for farmers in cereals, dairy, meat, tobacco, fruits, honey and related sectors.[27]

Efforts related to physical connectivity can

26. World Bank. 2019. Belt and Road Economics: Opportunities and Risks of Transport Corridors. Washington, DC: World Bank. License: Creative Commons Attribution CC BY 3.0 IGO.

27. State Bank of Pakistan (2018). Retrieved from http://www.sbp.org.pk/reports/annual/arFY18/Special-Section-1.pdf

offer enhanced dividends if complimented with initiatives to negotiate market access for Pakistani exports and expedite trade facilitation reforms including, liberal visa policies, improved border area management and sharing of trade and transport data. However, not all segments of the population gain equally in the process of implementing large infrastructure projects. It is, therefore, important to build social and environmental safeguards for those who would bear the adjustment costs of any adverse economic outcomes or increased competition from abroad.

Opinion

Economic Corridors: Impact upon Poverty, Development and Regional Integration

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Introduction

Pakistan needs to develop economic corridors to link its economy with the regional and global economic corridors that would be brought by the Belt Road Initiative (BRI) of the People's Republic of China (PRC), the Central Asia Regional Economic Cooperation (CAREC) program sponsored by the Asian Development Bank (ADB) and others. By doing so, Pakistan's economy will be better connected to the global production networks and value chains, giving more chance to significantly expand its product market, increase export, total output and overall productivity.

The economic corridor development (ECD) is also to close the existing provincial and district development gaps, reduce poverty and increase regional integration. It can be expected to bring development across the board, including to far flung areas that have been relatively neglected in previous and current development strategies. ECD will help in connecting the less-developed districts with the developed ones, addressing the structural poverty that has a strong link with the district development disparity. Moreover, ECD can help the country to integrate with other countries in the region, which is currently among the least connected in the world. All these will help the country to achieve the Sustainable Development Goals (SDGs) in many fronts including to strengthen the country's resilience toward climate change and other shocks.

Background and Rationale

i. Key Challenges of the Pakistan Economy

Pakistan has not been able to fully realize its economic potential as the economy is growing below its full capacity and still far from its growth aspiration of at least 7 percent per year.[2] The growth is needed to absorb the increasing number of labour force in the economy of three percent per year, to create two million additional jobs annually. The higher growth rate is also needed to increase the overall per capita income and productivity to reach the high-income level. In the 1960s, per capita growth in Pakistan used to be among the top in Asia, higher than People's Republic of China, India, Indonesia, and Malaysia, but it is now among the bottom as they have all bypassed Pakistan.

ii. Current Situation

Pakistan's growth rate was 5.1 percent during 2001–2007, but it weakened to 3.8 percent during 2008–2015, lower than its regional peers.[3] The situation has subsequently improved as the economy has become a 'pick star', being re-admitted to the emerging market index and gearing up towards continued growth. Pakistan successfully completed the three-year IMF program in September 2016, making it the first ever completed IMF program in Pakistan, after 21 times of IMF programs since 1958. Pakistan's growth had been steadily inching up over the past few years, before common structural problems again derailed the progress that forced the government to return to the IMF program in 2019. In a nutshell, Pakistan's economy continues to exhibit an episodic pattern of growth characterized by 'boom and bust' due to lack of fundamental growth dynamics needed for sustainable and inclusive economic development. The main roots of the cycles are very significant saving, investment gap and limited productive capacity. Consequently, as the domestic demand grows above the economy's capacity, it builds up fiscal and external imbalances leading to twin deficits of fiscal and current accounts, which will ultimately cause the economy to overheat.

iii. Key Problems

Key problems that have been hindering progress are energy crisis and infrastructural bottlenecks, low and cumbersome taxation systems, low saving and investment, declining exports and worsening competitiveness. All are in addition to the overall security and macroeconomic stability issues that keep lingering from time to time. The energy crisis and infrastructural problems alone have been costing more than 5 percent of GDP annually, the taxation rate is not even a half of its potential, saving and investment rates only around 10 percent of GDP or about one third of Asia's average, and the continued declining export value and share in the global market is of serious concern.[4] The country actually has its growth potential through its increasing working age population that explains 64 percent of the potential growth in Pakistan while many other countries have experienced a declining rate, but this demographic dividend will fade away once the population starts aging. Moreover, the structural change in PRC from an export led to a consumption-driven economy has changed the country's import structure into more consumer products, and the rise in wages has moved some activities to lower-cost economies. All these could benefit Pakistan, in addition to its rapidly growing large and mid-size cities with an increasing number of middle class, and its dynamic population with a relatively

1. The views expressed here are personal.
2. This growth rate was achieved in the fiscal years 1963-67 and 2004-07.
3. World Economic Forum (2015), "Global Competitiveness Report 2015–2016.". Geneva.
4. Pakistan's economy is driven by a resilient services sector, representing more than 50 percent of GDP. Pakistan also draws its strength from the resilience of its informal economy, including subsistence farming. From the outside, remittances have been a significant source of foreign exchange and income, amounting to about 6 percent of GDP.

significant number of skilled labour force.

iv. Solutions

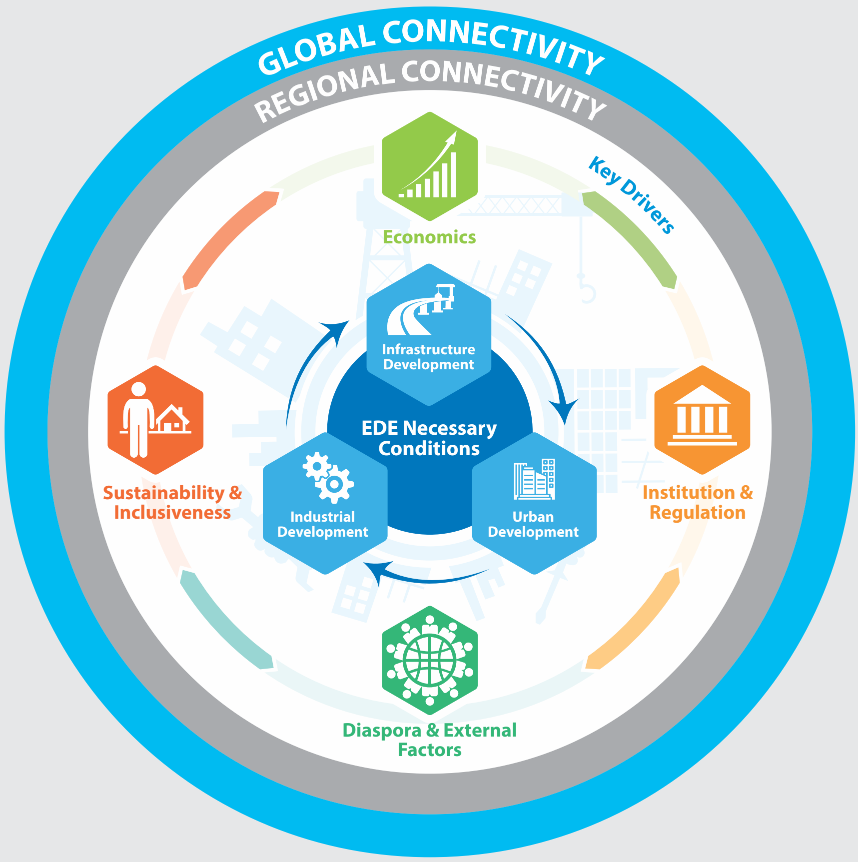
Given the key challenges in the Pakistan economy and the current developments of economic corridors under CPEC and in the neighboring countries in Central and West Asian region, i.e. through the CAREC program, the most plausible solution for Pakistan is therefore to develop economic corridors to connect with CPEC and CAREC corridors. By doing so, the Pakistani economy is expected to link with global production networks and value chains, moving the country into a higher growth trajectory by having a bigger and better-connected market. Pakistan should maximize its strategic position, including from being the neighbour of the fastest growing economies in the world. The challenge is now to stimulate economic development along these newly built corridors by developing their complementary economic facilities, such as special economic zones and industrial parks, and implementing appropriate policy responses, to transform them into true economic corridors. Hence, the economic corridor development.

ECD in Pakistan

ECD is a well-proven growth instrument. It has been empirically proven across countries to have the potential to move a country into a higher growth trajectory.[5] It refers to the spatial organization of economic activities across the region and increasing their density to promote connectivity, spatial transformation, agglomeration, and economic diversification.

ECD includes creating efficient multimodal transport networks within a defined geographic area supported by good infrastructure, logistics, and a policy framework to facilitate business and distribution networks that are linked with production centers, urban clusters, and international gateways. Therefore, it has three main core components of trade and transport, industrial production clusters, and urban centers, which serve as major markets, as well as sources for labour, technology, knowledge, and innovation. The three ECD cores should be driven by economics, institution and regulation, external factors and aspects of sustainability and inclusiveness. Finally, ECD must be put in the context of regional and global economic corridors to increase the overall connectivity. Figure 1 summarizes the ECD framework highlighting the connections of ECD cores and enabling factors under the context of regional and global connectivity.

Figure 1: ECD Framework based on global best practice and local knowledge



Source: Developing ECD Framework. Pakistan ADB-DFID (forthcoming)

To develop a robust ECD, some basic policy principles must be considered by the government such as:

- ECD is not just about infrastructure development but covers the developments of markets for capital, factors and goods and services;
- It should have very clear measurable objectives such as increased employment, more economic activity, enhanced exports and growth with their corresponding time-line for each that can be used to assess its performance. This is very important as many ECDs require some sort of incentives from the government that must be justified by the progress;
- The incentive provided by the government must be in the form of foregone revenue and not in the fresh money transfer from the government to the key players in ECD;
- Government should act more as a regulator to address market and/or institutional failures. Any government investment must not crowd out private capital as private investment is the key for a successful ECD;
- Public-private partnership (PPP) must be developed to help ECD, for the amount needed is huge while the government's capacity is limited. PPP is to address infrastructure bottlenecks and stimulate growth to increase economic activity and enhance cost recovery prospects of the investments;
- Policies and regulations in investment, industry and trade must be conducive for ECD, which should also be seen as a poverty reduction measure to reduce provincial and district development gaps; and,
- ECD requires a multi-agency's commitment and coordination, and it is imperative to steer its process from the top and implement it through robust corporate entities with private sector talent, fully autonomous and accountable to the government. Malaysia's ECD provides a good example in which the Prime Minister chairs the central planning and the Chief Ministers act as co-chairs, while each corridor has its own implementing authority (e.g. the Northern Corridor Implementing Authority and the East Coast Economic Region Development Council). Similarly, in

5. Asian Development Bank (2016), "Scaling New Heights: Vizag–Chennai Industrial Corridor, India's First Coastal Corridor." Manila.

India, the Delhi–Mumbai Industrial Corridor is developed under a multi-tiered structure but with a steering authority headed by the Minister of Finance with concerned central ministers and chief ministers of respective states as members.

ECD can be seen as a structured framework covering planning and implementation, where the planning must be done through a master plan considering economic growth prospects of the region concerned, and linking it with corridor infrastructure development, industrial development and social sector development, and the implementation should cover both hard and soft infrastructure developments.[6]

ECD under CPEC, CAREC and Others

CPEC is an extension of PRC's proposed 21st Century Silk Road initiative, the biggest overseas investment by the country. Announced in July 2013, the USD 62 billion project is PRC's 'flagship project' of the One Belt One Road (OBOR) which was then renamed into the Belt Road Initiative (BRI) to promote PRC's exports and better international relations with a total investment of about USD 900 billion. It is also to boost integrated economic growth along Eurasia through mega infrastructure projects by developing six corridors under two roads: the New Silk Road Economic Belt running west towards Europe through Russia and Central Asian, and the 21st Century Maritime Road focuses on reaching Europe through South Asia and Southwest Asia.[7] All of this can be a game changer for Pakistan and its surrounding region given the scale and magnitude. This investment is more than 20 percent of Pakistan's GDP, bigger than the country's annual exports of only less than 15 percent of GDP. Moreover, to put in perspective further, Pakistan spent less than five percent of GDP for infrastructure in the last four decades, while the need is more than eight percent of GDP.[8] Better still, about 61 percent of the CPEC investment will be allocated to the energy sector to improve its capacity, transmission and distribution, that all have been costing the economy 2 to 2.5 percent of the GDP annually.[9] The big remaining 36 percent will be for infrastructure, transport and communication, whose bottlenecks have been costing the economy four to six percent of the GDP annually. Therefore, one would expect that the whole CPEC project could potentially bring a significant increase in Pakistan's economy and GDP. A successful CPEC will undoubtedly spur economic growth in Pakistan and beyond.

Moreover, CPEC is not a standalone project but it is in line with other ECDs in the regions in South and Central Asia. ECD is also a key development agenda in India and in Central Asia, through the CAREC program of a regional partnership of 11 countries covering transport, trade facilitation, energy and trade policy. In addition, India is currently developing five economic corridors at the national level. Other neighbouring proposed corridors include regional corridors of Colombo-Trincomalee Economic Corridor in Sri Lanka and the Southwest Economic Corridor in Bangladesh.

Pakistan's experience with economic corridors goes beyond CPEC and CAREC. The country history and the spatial development patterns indicate the emergence of organically grown economic corridors in the country, such as along the centuries-old Grand Trunk Road. Therefore, the history and current circumstances conspire to provide a golden opportunity for Pakistan. God does not shower blessings, he showers opportunities. It is up to us how to convert the opportunities into blessings. The golden opportunity is really in yourself!

6. JICA: Corridor Development Approach – Revitalize the Region Inclusively and Bring Strong Sustainable Economic Growth for the People. Available at: https://www.jica.go.jp/english/publications/brochures/c8h0vm0000avs7w2-att/japan_brand_07.pdf
7. The project aims to connect PRC with more than 60 countries, facilitating potential trade with a further 4.4 billion people. The estimated economic implications are enormous, valued at USD 21 trillion that is expected to boost China's GDP by 25 percent. This should help China to reach its 6.8 percent projected growth rate. The 6 corridors are: China-Mongolia-Russia Economic Corridor (CMREC); New Eurasian Land Bridge (NELB); China-Central and West Asia Economic Corridor (CCWAEC); China-Indo-China Peninsula Economic Corridor (CICPEC); China-Pakistan Economic Corridor (CPEC); and Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC). Other planned corridors are to connect PRC to the Middle East countries to give direct access to the Arabian Sea and the energy-rich Persian Gulf markets, as well as closing a distance by at least 10,000 km.
8. ADB (2017), "Meeting Asia's infrastructure needs." Manila.
9. About 2 percent to 2.5 percent of GDP annually: "Pakistan's Interminable Energy Crisis: Is There Any Way Out?" Wilson Center.

CPEC and Socio-Economic Development

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Introduction: The Potential of CPEC

The China Pakistan Economic Corridor (CPEC), is the key component of the six corridors under China's "Belt and Road Initiative" (BRI), which was launched in 2013. The BRI plan touches 138 countries with a combined Gross Domestic Product (GDP) of USD 29 trillion, and some 4.6 billion people (61 percent of the world's population).[1]

CPEC mainly comprises infrastructure development, energy production, industrialization and social and economic development. With a length of around 2900 km, it will link Gwadar to Kashgar in China's northwestern region of Xinjiang and provide connectivity to major cities of Pakistan through a network of highways, railways and pipelines. It constitutes the kernel of BRI and will enable Pakistan to fully harness the demographic and natural endowment of the country, by expanding and optimizing its agro-industrial capacity, addressing regional disparities, augmenting people's livelihoods and incomes, and achieving domestic stability.

It is estimated that CPEC could generate as much as three or four times the initial USD 62 billion investment and will create a number of opportunities for the country to pursue inclusive and equitable growth via multiple channels.

First, within the country, it will connect the far flung but well-endowed production areas to the main markets in Peshawar, Quetta, Lahore, Karachi and Gwadar seaports through a network of road and railways. Second, externally it will decrease illegal activity across border trade costs. Third, it will open up avenues of economic cooperation and trade with China. Fourth, it will link the country to BRI's other corridors and give direct access to the Global Production Networks (GPNs), Global Value Chains (GVCs) and markets of Middle East, Central Asia and Europe, especially to members of the Economic Cooperation Organization (ECO) and Eurasian Economic Union (EAEU).

Other associated benefits include, reduced costs of transportation and travel time, diversification of external economic linkages, frequent people to people contact, cultural assimilation, higher volume of trade and businesses and a well-connected, integrated region of shared destiny, harmony and development.

Pakistan has been experiencing considerable social and economic stress, especially over recent years. Slow GDP growth rate, severe balance of payment crises, along with large twin fiscal and current account deficits, low exports, dwindling foreign exchange reserves, high inflation, unemployment and rising incidence of poverty, characterize the country's economic landscape. CPEC holds the power to simulate a much needed socio-economic uplift of Pakistan (Figure 1) through the provision of employment opportunities, overcoming the energy shortage problem, the construction of new industries, the eradication of poverty, and improving living standards.

Current Status of CPEC

The first stage of CPEC has been successfully completed with a main focus on energy and infrastructural projects. Prior to CPEC, Pakistan was experiencing losses worth USD 4-5 billion every year due to energy shortages, and 3.5 percent of GDP due to poor transportation infrastructure.[2] Under the first phase of CPEC, transportation infrastructure has been improved through integrated road networks and up gradation of railways, which has also addressed the energy shortage.

As CPEC enters the second phase, the focus is shifted to socio-economic development, industrial cooperation, development of Special Economic Zones (SEZs), agricultural cooperation and construction of Gwadar port. The joint cooperation committee (JCC) of CPEC has identified 27 projects in six sectors including agriculture, health, education, drinking water and supply, poverty alleviation, and vocational and technical education.

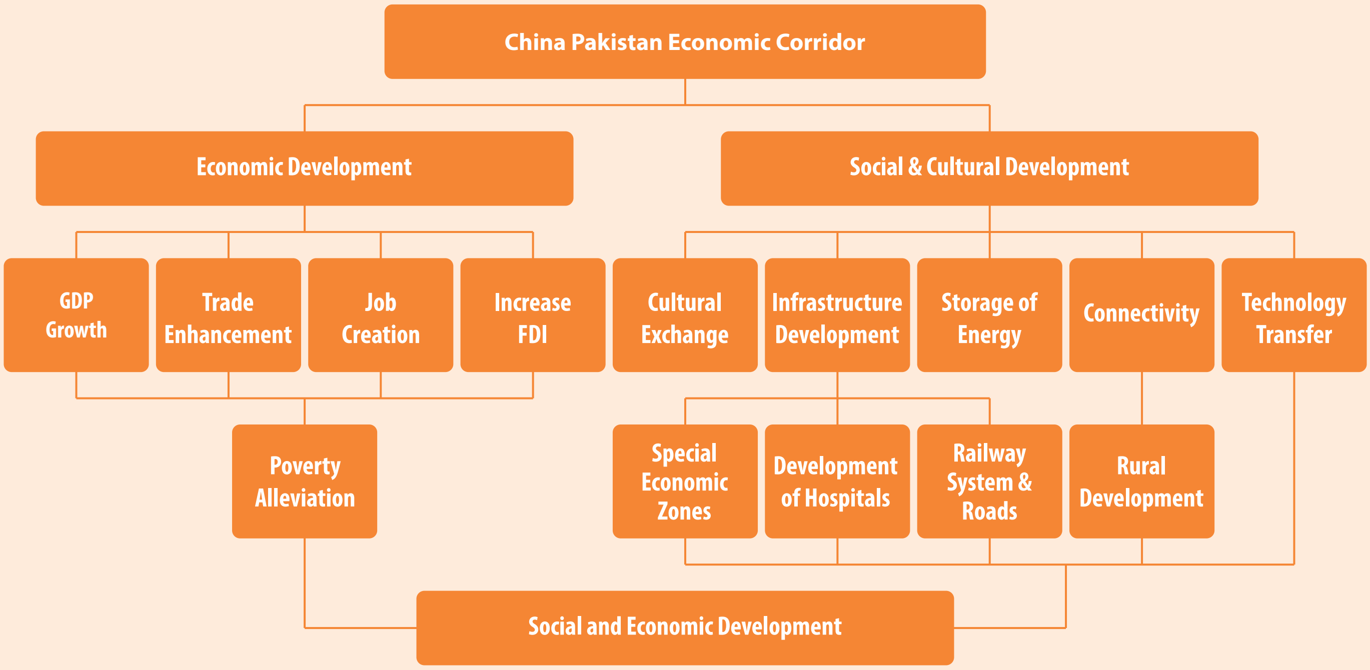
These projects will directly contribute to the achievement of the sustainable development goals (Especially Goal 7: Access to affordable, reliable, sustainable and modern energy for all; Goal 8: Promoting sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all; and, Goal 9: Building resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation).[3]

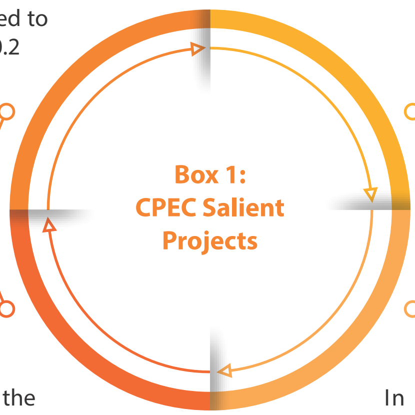
Cultural Exchange between China and Pakistan

The CPEC has the potential for transfer of cultures between the two countries. For instance, the cross-border fiber optic cable project will establish fast and reliable connectivity routed through China. It will facilitate terrestrial distribution of broadcast television thereby bringing Chinese culture into Pakistani homes.

1. China Power: Unpacking the Complexity of China's Rise. "How will the Belt and Road Initiative advance China's interests". Available at https://chinapower.csis.org/china-belt-and-road-initiative/
2. The Express Tribune; Shakeel Ahmad Ramay (2019), "CPEC's second phase can put Pakistan's economy back on track." Available at https://tribune.com.pk/story/2052518/2-cpecs-second-phase-can-put-pakistans-economy-back-track/
3. Akhter Rania (2019), "Building Regional Connectivity for Pakistan", Friedrich Ebert Stiftung.

Figure 1: Social and Economic Development Process through CPEC





Energy

Pakistan was experiencing a severe energy shortage of more than 10,000 MW during 2010, which resulted in the closure of industrial units and factories leading to an increase in unemployment and decline in exports. In the first phase of CPEC, nine projects were completed and 5320 MW of electricity has been added to the national grid costing USD 7,899 million. Eight projects are under construction to provide an additional 4,470 MW to cost USD 9,549.927 million. Four projects are planned to provide 2,544 MW at the cost of USD 4,470.2 million.[4]

Infrastructure

The CPEC aims at an extensive refurbishment of the existing transportation infrastructure in Pakistan and laying out of new routes for the facilitation of transit trade and enhancement of market accessibility. Infrastructure projects include five road and three rail projects. 1544 km has been constructed and 1456 km is under construction.

Gwadar

Gwadar Port is the lynchpin for the success of the CPEC program. A huge USD 4.8 billion investment will be made to upgrade the town, making it a modern port city at par with international standards, and South Asia's busiest trading hub by 2023. 50,000 professional jobs are expected in the future, that will drive the regional economy in terms of goods, services and development.[5] During the first phase, 10 projects in infrastructure and social development have either been completed or are at an advanced stage of completion, with an estimated cost of USD 1377.32 million.[6] Ongoing Gwadar projects include, dredging of the approach channel, an expressway linking Gwadar to the Makran Coastal Highway, a new international airport, and a desalination plant. These are to be supplemented with major investments.

Special Economic Zones (SEZs)

In order to accelerate industrialization and economic growth, CPEC provides nine SEZs that include; Moqpondass SEZ, Gilgit-Baltistan; Mirpur Industrial Zone, Azad Jammu and Kashmir; ICT Model Industrial Zone, Islamabad; Punjab - China Economic Zone, M-2 District Sheikhupura Punjab; Rashakai Economic Zone on M-1, Khyber-Pakhtunkhwa; Mohmand Marble City, FATA; Bostan Industrial Zone, Balochistan; Special Economic Zone Dhabeji, Sindh; and, Port Qasim Special Economic Zone, Sindh. Three SEZs (Rashakai, Dhabeji and Faisalabad) have been designated as high priority. The static benefits of SEZs include, foreign exchange earnings, foreign direct investment, employment generation, government revenue and export growth, while the dynamic benefits of SEZs include, skills upgrading, technology transfer, demonstration effect, export diversification, enhancing trade, efficiency of domestic firms, formation of industry clusters, integration into global value chain and, testing field for wider economic reforms.

4. The News International (2019), "CPEC projects picking up pace: ministry." Available at https://www.thenews.com.pk/print/529044-cpec-projects-picking-up-pace-ministry)
5. China-Pak Investment Corporation. Available at https://www.cpicglobal.com/pakistan-overview/cpec/
6. Ibid

Moreover, the increase in the number of Chinese workers in Pakistan will bring in more technical and soft skills while also improving the local skill set.

While these facets of skill and cultural exchanges appear as positives, they can certainly cause negative impacts in the country and hence, must be carefully monitored. Furthermore, skills dissemination should be made a necessary component of the CPEC project.

Bilateral and Regional Trade through CPEC

While CPEC projects will directly or indirectly enhance trade between Pakistan and China as well as the rest of South Asia, transport and infrastructure projects in particular can provide strategic leverage for phenomenally increasing trade through reducing shipping costs, transit time and augment trade competitiveness etc.

A major volume of Chinese trade takes place from Kashgar (western China) to European ports (Hamburg, Le-Havre and Rotterdam) and Middle Eastern ports (Jeddah, Kuwait and Oman) to fulfill Chinese energy requirements. The shipping cost alone will drop drastically with CPEC development by 36 percent for European ports, 50 percent for Jeddah and Kuwait, and 68 percent for Oman.

Moreover, transit time will decrease by 10-11 days for European ports, 11-13 days for Jeddah, 15-18 days for Kuwait and 10 days for Oman. This essentially means that perishable products which were a challenge to transport previously, will also increase in exports for both countries.

Finally, it will also aid Pakistan in becoming a part of global value chains through China. A number of Chinese Companies are showing increasing interest in establishing industries in SEZs under the CPEC, particularly because of the advantage of location and lower transportation costs in exporting their produce.

Challenges

CPEC offers the potential of transforming Pakistan's economic outlook if it sparks a wave of foreign investment from other countries, boosts agro-industrial export and creates jobs. These investments alone will not yield the required results unless supporting policy changes are made to facilitate export-oriented agriculture, investments in manufacturing to support export of value-added products, demand-based skills development, investment in research and innovation, and concrete Public Private Partnership (PPP) linkages.

The other major challenge is the need to build a strong political consensus to be able to orient CPEC's priority towards inclusive growth and sustainable human development in Pakistan. With the country's highly polarized domestic politics along with the propaganda unleashed against CPEC in the international arena, several international countries have shown apprehensions and reservations regarding the overall CPEC model.

On the domestic front, security challenges on the CPEC routes are of considerable proportion. There is a need to establish and subsequently maintain peace and security to gain investors' confidence.

Several analyses also predict that CPEC may have implications on foreign debt. Preliminary projections on CPEC's disbursements and debt liabilities estimate that the debt burden from energy and infrastructure projects would be of the order of USD 3.5 billion per year (about seven percent of current total foreign exchange earnings) over a 15-20 years repayment period. However, energy projects are likely to save about USD 1 billion a year in foreign exchange from imported fuel costs.[7]

Finally, the individual and combined implementation capacities of Pakistan and China, for a huge undertaking of this kind, are going to be a key challenge. Special implementation arrangements will have to be thought through and put in place to ensure sustainability of the projects.

Policy Recommendations and Way Forward

To address these issues and challenges, the following recommendations are made:

1. Pakistan needs to develop a clear strategy at the national level which guarantees transparency and openness to ensure domestic support to the project e.g. joint ventures, loan conditionalities and other allied developments.

2. Grievance redressal and participatory mechanisms have to be put in place to win public trust and allow for space for grassroot engagement of beneficiaries.

3. The CPEC's narrative needs to be depoliticized. It must be viewed as a 'national undertaking'. The responsibility for project selection and design should see equal participation from all stake holders rather than solely driven by politicians.

4. Reorientation of Pakistan's exports that are sensitive to the GPNs and value chains needs to be a priority. This effort should be facilitated via CPEC's connectivity for an export driven agro-economy that caters to the needs to markets in Central Asia, Middle East and Western China.

5. Peace and security must be ensured and maintained in the region.

6. Major policy documents and plans also need to focus on social sectors. For instance, the education and labour policy needs to be 'skills driven' to ensure that it can support the export driven agro-economic activity around CPEC routes and economic programs.

7. The ownership of individual projects should rest with concerned provincial and local agencies. They should be responsible for project design, implementation and financial obligations. Along with this, independent monitoring and evaluation mechanisms have to be instituted for CPEC projects. This effort will generate trust and ownership amongst the beneficiaries.

7. DAWN Newspaper, Ishrat Husain (2017), "Financing Burden of CPEC." Available at https://www.dawn.com/news/1313992

Local Integration via Corridors

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Pakistan stands at a crucial crossroads where its population has been growing rapidly for the past several years and its economic performance has seen consistent cycles of boom and busts. The economy sees an upturn pattern fueled by consumption led growth that forces the country into a stabilization phase every few years owing to erratic macroeconomic indicators.

Over the last 70 years or so, the country has only grown at four percent per annum. Moreover, the growth has been characterized by an imbalanced regional pattern, where certain regions have done really well while others have performed poorly and are significantly more deprived. This unbalanced development has echoed itself into the national development system resulting in an uneven spread of infrastructure and connectivity.

Evidence shows that development and economic activity is strongly linked to the availability of road and transport connectivity. It is in this scenario that economic corridors play a significant role by ensuring the provision of significant linkages between economic intersections or hubs that are usually around urban areas.[1] Local corridors within Pakistan include the following:[2]

- National Highway
- Indus Highway
- Karakoram Highway
- Railway networks
- Motorways

Figure 1: Map of National Highway Network

Socio-Economic Impact of Local Corridors in Pakistan

The local road networks in Pakistan play a significant role in developing the economy (See Figure 1). Due to the connectivity they provide between provinces and cities, they contribute substantially to the Gross Domestic Product (GDP). The agriculture base is concentrated in Punjab mostly i.e. the production of sugarcane, potatoes, rice, wheat and cotton. These corridors have facilitated in the transportation of this produce from rural areas to urban areas so that they can be sold fresh in markets.

The motorways have also contributed significantly by facilitating intercity travel through reducing travel times. The time taken to commute from Northern Punjab to Southern through the M4 (Multan-Lahore) and M5 (Multan-Sukkur) motorway line is significantly less as opposed to previously, when these networks did not exist.

1. Hans-Peter, Brunner (2013), "What Is Economic Corridor Development and What Can It Achieve in Asia's Subregions?" Asian Development Bank, Economics Working Paper Series 117.
2. National Highways Authority, "National Highways Authority – Committed To Excellence". Available at http://nha.gov.pk/en/

While the Grand Trunk Road is the oldest national corridor linking to the M2 motorway, the motorways have provided a clean and fast route for buses, trains and cars etc. Impact of these corridors can be seen in the night light data-the economic activity clearly follows the road network linkages (Figure 2).

Similarly, the development of such corridors in Northern Pakistan has led to a rise in tourism and integration between various cultures. Fruits, herbs and minerals present up north have become more accessible to the population in Southern Pakistan through improved road networks. The Indus Highway is still the shortest route from Karachi to Peshawar and passes through the rural areas, thereby, providing integration and mobility.

Despite the fact that these road networks provide economic prosperity to their respective regions, the way these decisions are taken impact the society significantly and can result in deprivation of certain segments, resulting in income segmentation.

For example, in Pakistan, these corridors are built from development funds invested by the federal and provincial governments. Unfortunately, post the Junejo regime in the 80s, development spending has become a victim to the 'pork barrel approach'-most investment decisions are highly politicized and thus over the years have influenced the development of certain regions at the cost of others. This deprivation is now clear in terms of regional differences in the Human Development Index (HDI), Multi-Dimensional Poverty Index (MPI) and the quality plus quantity of economic opportunities.

Moreover, lack of appropriate planning also impacts ethnic clusters, leading to social conflict in urban areas. Other negative spillovers as a result of new transport and trade routes being developed usurp living spaces for the poor in cities and crop harvesting spaces for agro based rural families. This prompts a rise in 'urban sprawl', with many rural based families then relocating to urban centers in search of economic opportunities. Pakistan has the highest rate of urbanization in South Asia. According to the 2017 Population Census, 36.4 percent of the population lives in urban areas.[3]

Figure 2: Night Light Data

Excessive road networks also lead to massive deforestation. In South Asia, Pakistan is subjected to the highest rate of deforestation and further investment in road systems could aggravate this. There is also severe air pollution, which has led to excessive smog in recent years, ranking Lahore as the second most polluted city worldwide.[4]

Global Examples of Successful Local Corridors in Developing Nations

Local development corridors aim to encourage domestic trade and economic growth along the corridor.[5] To evaluate the objectives of economic corridors, certain factors are taken into consideration. The average time and costs incurred for transport should be reduced, along with their variability. Trade and other facets of the domestic economy should be enhanced. If these objectives are achieved, only then are the objectives of a corridor maximized.[6] Pakistan can benefit from various successful examples and case studies of local corridors all around the world.

Case Study 1: The Dhaka-Chittagong Corridor, Bangladesh

The Dhaka-Chittagong corridor in Bangladesh is a successful model of a transport corridor. It contributes almost 50 percent to the GDP of the country, alongside handling around 85 percent of international maritime traffic.[7] This highway is one of the most significant corridors when it comes to freight and passenger transport. 92 percent of Bangladesh's imports and exports, as well as 81 percent of the domestic ready-made garments, are carried through this road.[8]

Case Study 2: The Golden Quadrilateral Highway, India

The Golden Quadrilateral (GQ) highway in India, linking the four main cosmopolitan cities of the country (Delhi, Chennai, Kolkata and Mumbai), contributes extravagantly to its economic activity. The upgrade of this highway greatly increased activity in the manufacturing sector of the economy. The largest growth came from the districts located within 0-10 km of the highway, accounting for 34 percent of the initial stages.[9] The highway ensures

3. UNDP Pakistan, Development Advocate Pakistan (2019), "Sustainable Urbanization." Volume 5, Issue 4. Available at http://www.pk.undp.org/content/pakistan/en/home/library/development_policy/dap-vol5-iss4-sustainable-urbanization.html
4. Sánchez-Triana, Ernesto, Javaid Afzal, Dan Biller, and Sohail Malik (2013), "Greening growth in Pakistan through transport sector reforms: A strategic environmental, poverty, and social assessment." The World Bank.
5. Arnold, John, G. Olivier, and Jean François Arvis (2005), "Best practices in corridor management." The World Bank.
6. Kunaka, Charles, and Robin Carruthers (2014), "Trade and transport corridor management toolkit." The World Bank.
7. Quium, A. S. M (2019), "Transport Corridors for Wider Socio–Economic Development."
8. Uddin, Md Zia, and Takeshi Mizunoya (2019), "An economic analysis of the proposed Dhaka–Chittagong Expressway in Bangladesh with the viewpoint of GHG emission reduction." Asia-Pacific Journal of Regional Science, 1-3.
9. Supra 7

provision of rapid transport systems between big cities and ports and smoother production and people movement within the region. It provides access to India's major agricultural, commercial and cultural centers. It allows industrialization and creation of jobs via significant exposure to diverse markets in smaller towns.[10]

Case Study 3: National Highway, India

Referring to India yet again, the effects of the National Highway (NH2) were also assessed.[11] Keeping a survey as the baseline, it was seen that overall literacy saw a six percent boost, female literacy in particular went up by 12 percent, along with the school enrolment rate which increased by seven percent (out of which 12 percent of the children were females). There was also an increase in the people who now had access to hospitals and improved medical facilities (seven percent). An increase in women's engagement in the labour force (nine percent) and employment in non-agrarian projects (seven percent) was significantly witnessed. Income per capita also rose by INR 243.

Case Study 4: NH-5 Highway Corridor, Vietnam

Likewise, output impacts were achieved through the NH-5 highway corridor in Vietnam. It produced significant positive effects for the region it was constructed in.

As the outcome of a spillover effect of this corridor, Vietnam's poverty rate decreased by 27 percent. Households residing in poverty significantly decreased by 35 percent during 1995 and 2000. It also encouraged job creation and investment. 83,453 jobs in the province of Hung Yen and 134,846 jobs in Hai Duong were created in 2006.[12]

Case Study 5: The Asian Highway Network Route, Thailand

The Asian Highway network route (AH18) in the Songkhla province of Thailand has also proven to be effective in terms of poverty reduction in the region and the average family income differed based on location.[13]

Case Study 6: The National Express Network, China

In China, studies conducted on road investments discovered a tradeoff between reducing poverty and achieving growth. The greatest returns in terms of economic growth through these investments were seen in eastern and central China, however the impact of poverty reduction was significantly witnessed in western China.[14] The National Express Network in China greatly boosted real incomes in districts nearby by almost four percent, real wages decreased in many districts in the rural and urban sectors.[15]

All the case studies depict that while the importance of local corridors or regional development is immense, however, it requires appropriate planning and financing.

Lessons for Pakistan

In the case of Pakistan, providing access through corridors to remote underdeveloped areas would offer immense benefits. For instance, transport linkages within the province of Balochistan could connect different areas with the thriving economic arteries of the province, and the country. Likewise, other ignored areas that could offer immense potential if fully reaped, such as northern areas in erstwhile FATA and Khyber Pakhtunkhwa (KP), can also boost revenue and economic activity for the country.

Investment in local connectivity can be a significant policy tool for the purpose of job creation and may also play an important role in reducing regional inequality. However, overall income distribution may be impacted in a notably negative manner. For example, the NH-5 corridor in Vietnam has not only created jobs in the region, but also reduced poverty significantly and boosted earnings. What Pakistan can learn from this is that, if transport development coexists with suitable complementary interventions, then the economy can be substantially modified in a positive way.

Taking the high-speed railway system in China as an example for reducing geographical economic disparity and encouraging geographical economic convergence, Pakistan can learn a lot. The ML-1 Railways project being implemented under the CPEC is an ideal example of this. This refers to the upgradation and rehabilitation of the existing railway networks in Pakistan- this is important to fuel industrial activity in the KP province.

In order to ensure more comprehensive development, it is imperative to interpret the diffusion of impacts across clusters of residents, as well as across geographical regions. Considering all the exemplary corridors mentioned above, it can be gauged that the diffusion of impacts can be uneven across geographical regions.

In the context of Pakistan, extensive research would be needed to evaluate the diffusion of impacts across various divisions of the population for each development result, and in various circumstances. Taking the provinces of Punjab and Balochistan into consideration, a difference can be seen in their demographics. Population in Balochistan is more scattered with a rough terrain, however in Punjab it is more concentrated making it easier to implement and design projects because of the land structure.

Conclusion

Economic corridors provide connectivity and integration on local and international levels. The existing local corridors in Pakistan have their pros and cons. Corridors foster intercity accessibility and interprovince integration, however political instability and the environmental impacts are a major setback for the country in terms of developing these networks. Several examples of existing corridors taken from developing nations such as Bangladesh, India, Vietnam, Thailand, Ethiopia, Kenya, China and Uganda are useful for Pakistan in developing its infrastructure. CPEC will be a game changer for the economy, if it is able to induce cultural and regional integration.

10. Asian Development Bank; Department for International Development; Japan International Cooperation Agency; World Bank (2018), "The WEB of Transport Corridors in South Asia." World Bank, ISBN 978-1-4548-1216-3.
11. Asian Institute of Transport Development (2011), "Socioeconomic Impact of National Highway on Rural Population." Asian Institute of Transport Development: New Delhi, India.
12. Supra 10
13. Neupane, H.S; Calkins, P (2012), "Poverty, Income Inequality and Livelihood Diversification: A case of Asia Highway in Songkhla Province of Thailand. In Asian Economic Reconstruction and Development under New Challenges;" Huang, W. Leeahtam, P, Eds.; CMSE Press: Chiang Mai, Thailand.
14. Fan, Shenggen, and Connie Chan-Kang (2008), "Regional road development, rural and urban poverty: Evidence from China." Transport Policy 15, no. 5: 305-314.
15. Lall, Somik V., Elizabeth Schroeder, and Emily Schmidt (2014), "Identifying spatial efficiency–equity trade-offs in territorial development policies: Evidence from Uganda." The Journal of Development Studies 50, no. 12: 1717-1733.

Trade and Commerce Development

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A Global Perspective: Regional Connectivity and Trade

Every country, given their resources and capabilities, has a comparative advantage in producing certain goods and services over others. Countries utilizing this comparative advantage through trade and commerce can substantially boost their economy. Regional connectivity through corridors can serve as the catalyst for enhancing trade and commerce development, if utilized appropriately.

For instance, the Greater Mekong Sub-Region (based in China, Cambodia, Thailand, Viet Nam, and Myanmar) and TRACECA (Consists of European Union and 12 other countries including Central Asian republics and The Caucasus) are the ultimate examples of economic corridors providing regional connectivity, serving as gateways of trade and commerce for the whole region.

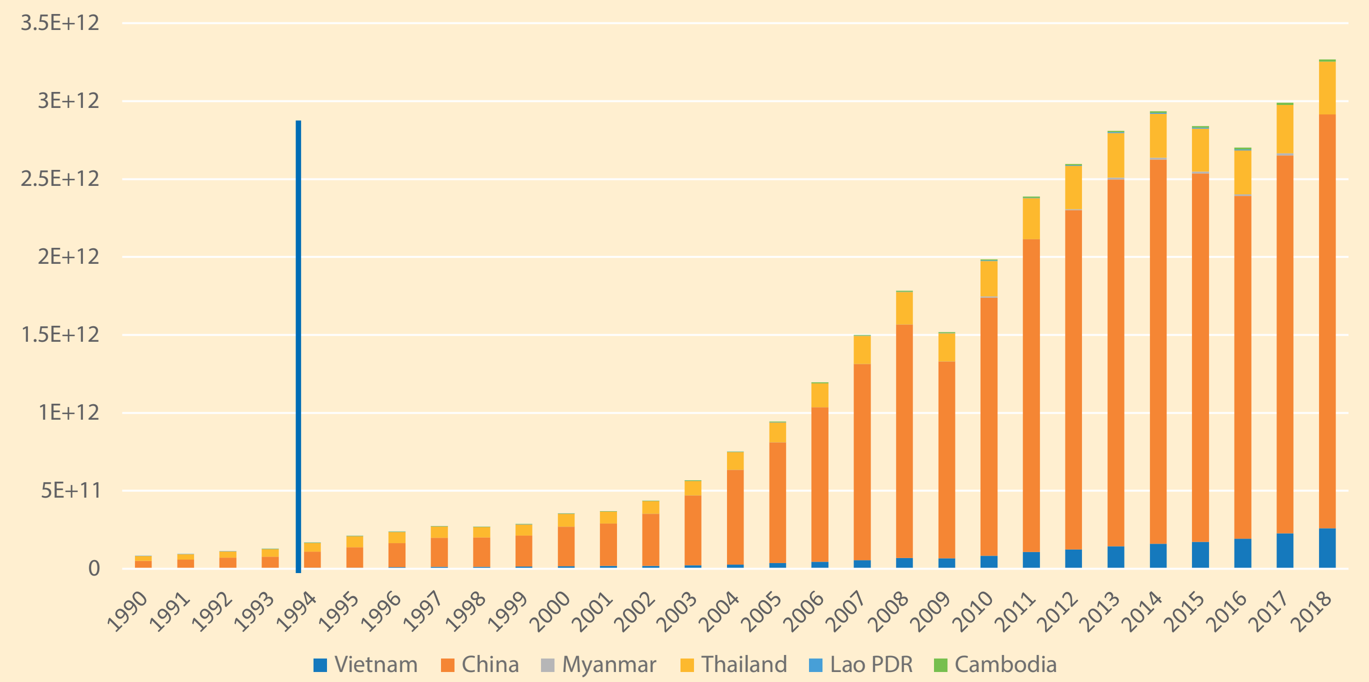
The Greater Mekong Economic Program was established in 1992 to improve economic relationships between those six countries that share the Mekong River. The major objectives were to promote industry, trade, economic wellbeing, tourism and environmental protection etc. within the region. Figure 1 reveals the massive improvement in trade (Exports) of these six countries beyond 1992.

TRACECA, is also an inspiring example of a significant transport corridor within the European region. A noticeable increase in trade was witnessed after the TRACECA agreement in 1994 (Figure 2). TRACECA has played its vital role in shrinking the distance between nations in supplying products for trade purposes. The Logistics Performance Index also depicts improved performance of countries following the signing of TRACECA (Figure 3).

These global examples imply that economic integration through regional corridors increases trade between regional markets. Other benefits of regional connectivity include; development of regional value chains, infrastructure, institutional and social capital and exchange of knowledge through people, culture and communication etc.

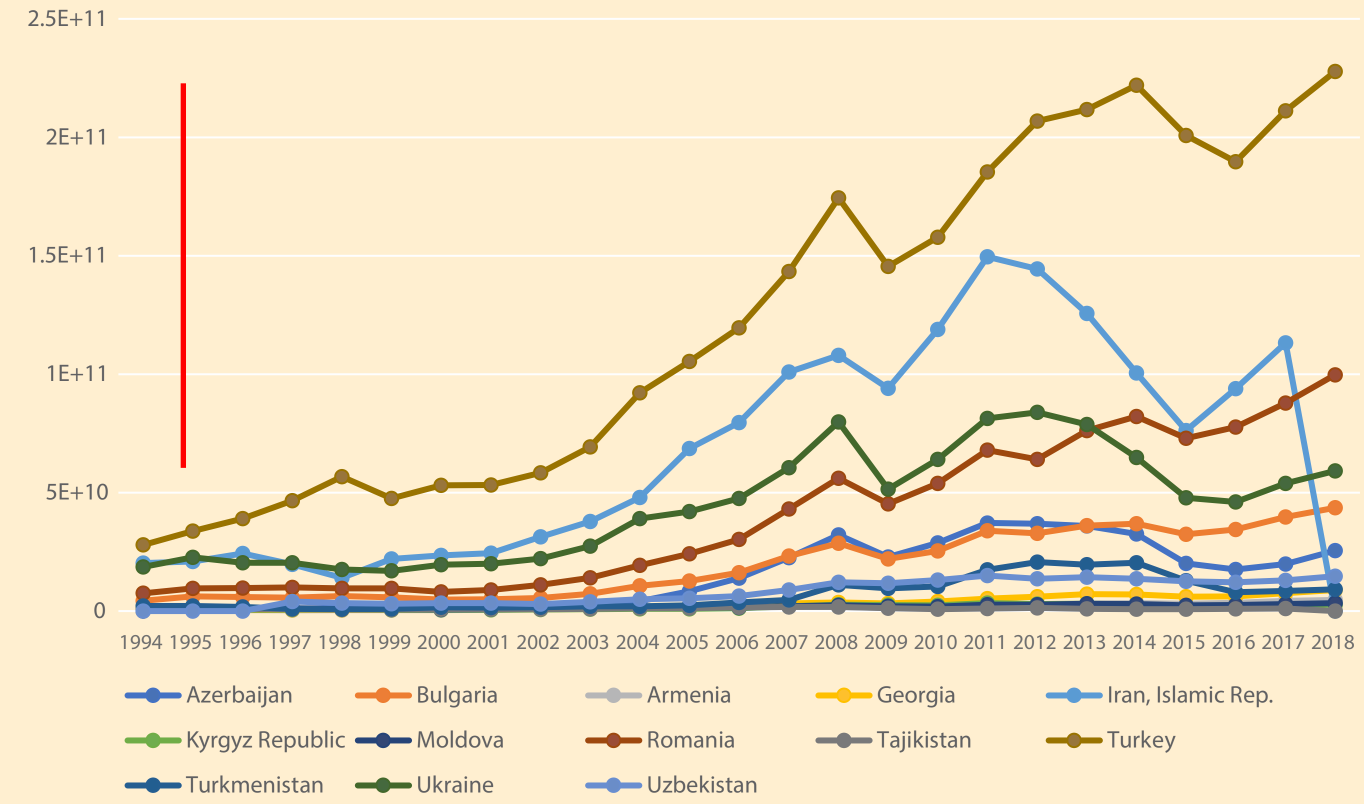
There are multiple ways through which trade and commerce can be boosted through regional connectivity. For instance, countries usually enter into free-trade area agreements that eliminate or reduce tariffs and quota restrictions between its member countries under the arrangements of economic corridors. However, each country retains previous tariffs and quota

Figure 1: Exports of The Greater Mekong (USD)



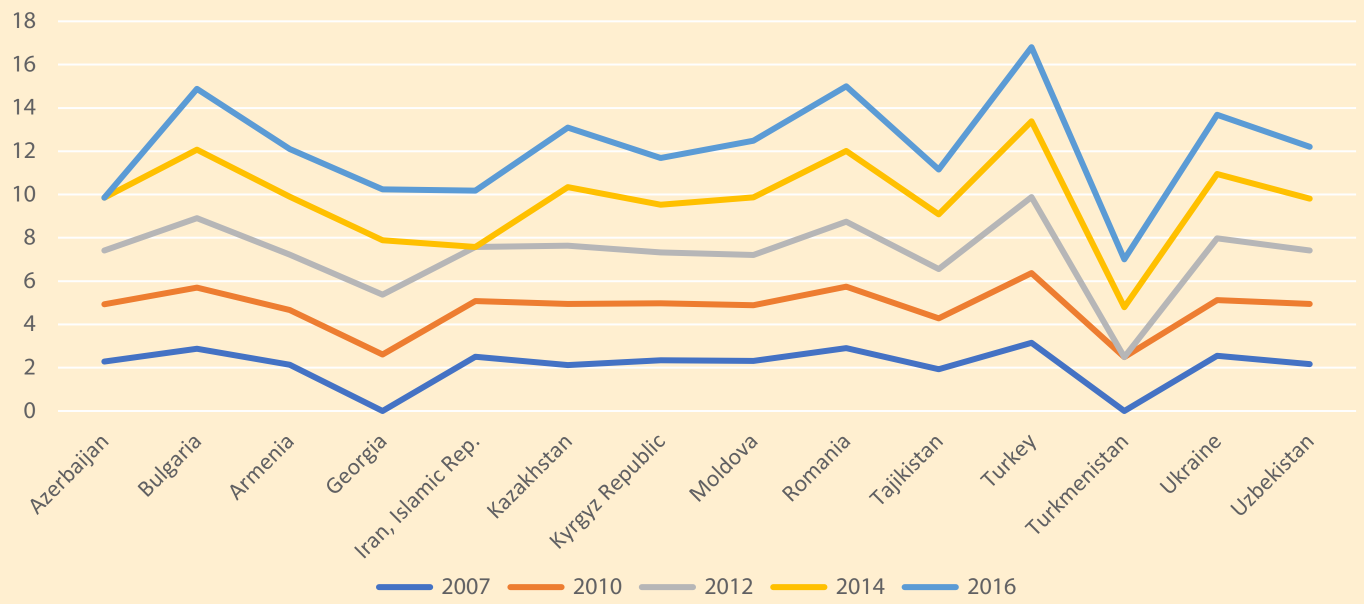
Data Source: The World Bank, WDI 2020

Figure 2: Exports of TRACECA Countries (USD)



Data Source: The World Bank, WDI 2020

Figure 3: Logistics Performance Index: (1=Low, 5=High)



Data Source: Logistics Performance Index by World Bank

restrictions for non-member countries. The formation of custom union is another way to enhance regional integration and increase trade; under which trade tariffs amongst member states of custom union get abolished, while, a uniform tariff rate for non-member states is maintained.

Another form of regional integration is economic and currency union. This union necessitates a high degree of political accord between member states. It aims at full economic integration through steps like a common currency, a common economic policy, and the elimination of all barriers (tariff and non-tariff).[1] Whereas, a common market adds to all these arrangements by allowing free movement of capital and labour.

The Transport and Trade Facilitation Action Program between The Greater Mekong Sub-Region (GMS) has streamlined custom procedures by introducing the one window

1. Moon, Chung-in. (2016). "Economic Regionalism." Encyclopedia Britannica. Available at http://www.britannica.com/topic/economic-regionalism#ref751099 accessed 25/10/2017

system between capital cities of its member countries. It has tremendously boosted trade between the countries by enhancing the production sector.

The Central Asia Regional Economic Cooperation (CAREC) is another example of regional connectivity, which includes the development of six multimodal corridors to improve regional cooperation in central Asia. The development of these corridors follows the Transport and Trade Facilitation strategy 2020. Since inception, the cross-border clearance time in the CAREC region enormously decreased by 6.1 percent in 2015 and average border costs also decreased from USD 172 to USD 161 in 2014. Empirical findings suggest that a 10 percent time reduction on the importer's side has a parallel gain of at least three percent intraregional trade in the CAREC region.

The border cooperation center between Khorgos, China and Kazakhstan is another example of regional cooperation and trade. It includes visa free entry of business partners along with a third partner of any other country for 30 days, for discussion and negotiation of business deals and commodity transactions. It is soothing out China's trade relations with other CAREC countries and enhancing its future prospects with the European Union (EU).

Regional connectivity, however, comes with its challenges. These include security risks, land acquisitions, human trafficking, smuggling etc. While addressing them is pertinent, these vary from region to region as per the social and cultural context. These require strong political will from all partners to address such diversified bottlenecks.

The above examples prove the positive impacts of regional connectivity by the favourable increase in trade and economic prosperity. These are the great examples for Pakistan to learn and implement for enhancing its trade and overcoming the ever-increasing trade and current account deficits.

National Perspective: Regional Connectivity and Trade in Pakistan

Recent developments in Pakistan to enhance regional connectivity such as the China-Pakistan Economic Corridor (CPEC) can also serve in boosting the economy through trade and commerce.

The Belt and Road Initiative (BRI) with its soul of economic connectivity, is the actual master plan behind the CPEC. This economic corridor intends to open new avenues by building transport infrastructure, energy resources and development of the Gwadar Port.

For instance, under the CPEC, special economic zones (SEZs) are being setup in Pakistan, which will provide a favourable environment for industries to flourish and enable them to specialize in goods and services as per their comparative advantage. These SEZs through the CPEC, can serve in enhancing trade and commerce for Pakistan.

It is estimated that this corridor will not only contribute towards employment generation in both countries, but also ultimately benefit them through enhanced trade and commerce activities. The development of Gawadar port would bring China closer to Middle East by an average distance of 6500 km; thus, reducing the transportation cost and time massively, from 45 days to 10 days. On average 45 days are required for shipping goods from the Middle East and Africa to reach Chinese ports, this includes the local in-land transportation as well. The construction of CPEC, will thus, reduce the transportation time to a record low of 10 days through Gawadar Port. Data analysis of other regions especially in South East Asia, depicts that multiple ports operations lead to trade volume expansion.

For reaping the benefits of this economic corridor, it is essential to have strict monitoring of expected passenger traffic to ensure implementation of duty- and tax-free regimes, and avoid any smuggling/pilferage of Chinese goods. Moreover, for establishing export processing zones/special economic zones, Pakistan requires door-step Customs facilitation to ensure swift clearances of goods without any pilferages.

Financing and Management of China-Pakistan Economic Corridor

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Introduction

Economic corridor development involves huge infrastructure projects that require considerable resources and investments with strategic considerations. The world is witnessing a remarkable investment gap in infrastructure, especially in energy and transport sectors. As per McKinsey, the investment gap is 3.3 trillion USD per annum or will be as high as 14.9 trillion USD until 2030 when the achievement of sustainable development goals (SDGs) is also measured. Multi-lateral banks are working hard to close this gap.

The Belt and Road Initiative (BRI) that pledges to invest over USD 1 trillion along six corridors covering more than 65 countries, is a step to spur unprecedent development, and enhance trade and cooperation. The key aspect of the BRI is infrastructure development in both transport and energy sectors. Within the USD 1 trillion investment under the banner of BRI, USD 46 billion was earmarked for the China Pakistan Economic Corridor (CPEC).

The CPEC project was officially launched in the year 2015 during the visit of the Chinese President, Mr. Xi Jinping, to Pakistan. Projects under CPEC were divided into three phases with focus on transport infrastructure and energy sector projects in the early harvest/first phase (2015-2020) in order to remove economic bottlenecks. The second phase (2020-2025) aims to kickstart industrialization and modernize agriculture for socio-economic uplift, whereas the third phase (2025-2030) is designed to consolidate gains made in the first two phases.

CPEC Projects' Financing Modes

To fund CPEC projects, multiple modes of financing are available. Projects in the energy sector are being carried out in the IPP mode under the Power Policy 2015, except for hydro power projects which are being implemented under the Power Policy 2002. Moreover, all the energy power projects under CPEC are private sector investments and are being executed in Built, Own, Operate and Transfer (BOOT), with a lease period of 25-30 years depending on the project. For infrastructure projects, the financing is through either Government Concessionary loans (GCL), preferential buyer credit or simply credit. In addition, some of the infrastructure projects are being funded through the Public Sector Development Program (PSDP).

As of now, 5.8 billion USD is GCL and approximately 1.2 billion USD are grant projects. In the GCL mode, notable projects are the Multan-Sukkar Motorway (392 km), Thakot-Havelian road project (118km) and Orange line Lahore Projects. Eastbay Expressway Project at Gwadar is a government interest free loan project with an approximate cost of USD 179 million. New Gwadar International Airport (NGIA) project (USD 230 million) and Gwadar Master Plan Project (USD 4 million), in addition to the 27 projects under the socio-economic development framework worth 1 billion USD, are being executed in grant mode. Regarding infrastructure projects on the western alignment including Hakla-DI Khan, DI. Khan-Zhob and onward to Quetta and beyond, as well as the M8 motorway connecting Ratodero in Sindh to Gwadar, are all funded through the PSDP.

Moreover, projects under industrial cooperation are being carried out under Public Private Partnership mode. For instance, China Road and Bridge Corporation (CRBC) is the concessionaire for Rashakai Special Economic Zone (SEZ). Dhabeji SEZ in Thatta is in international bidding and the Sindh Economic Zone Management Company (SEZMC) is looking for a developer as a private partner for zone development and management. As for the Allama Iqbal SEZ in Faisalabad, FIEDMC is exclusively developing the economic zone.

CPEC: Memorandum of Understanding (MoUs), Agreements and their Viability

To carry out CPEC projects, MoUs and other agreements (exchange of notes, protocols and framework agreements) were signed between the two countries. Initially, 51 agreements were signed, however, further were added overtime. Of the 51 initially signed agreements, approximately two-third were project specific agreements and other general purpose MoUs and agreements for cooperation in diverse areas including energy, infrastructure, communication and finance, as well as between educational/research institutions for capacity building and exchange of knowledge, culture and ideas.

The success of these agreements is evident today as majority of the agreements have achieved their milestones. Of the project specific MoUs and agreements, two-third have materialized, and the projects are running on ground. Projects of one-quarter agreements are under implementation.

In short, the progress under CPEC is thus far remarkable. The timely completion of many projects in CPEC can be attributed to the commitment made on both sides to implement the CPEC cooperation framework in true letter and spirit. The provision of mechanisms to redefine the scope of the cooperation under the Joint Working Group on Planning and Expert group further substantiates the commitment of the two countries made for

1. OECD (2018), "China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape." Available at https://www.oecd.org/finance/Chinas-Belt-and-Road-Initiative-in-the-global-trade-investment-and-finance-landscape.pdf
2. Global Infrastructure Outlook 2017—Infrastructure Investment Needs.

pushing the agenda of cooperation in the context of CPEC.

Corridor Beyond Hard Infrastructure

The success of corridors cannot simply be measured through infrastructure development, but it can be gauged against the intended purpose for which the corridor is conceived. Any corridor's ultimate purpose is to promote trade, investment and economic development in and among the areas within the sphere of the corridor. This requires careful planning, monitoring and control over the life of the corridor. While CPEC projects are being planned and monitored diligently with institutional mechanisms in place, a separate strategic plan must be spelled out to maximize the dividends of the corridor by delineating a clear roadmap to attract investors. The strategic plan should include interventions to enhance the efficiency and effectiveness of the corridor. That could involve trade facilitation, security measures, complementing transport corridor with logistic services etc.

I. Trade Facilitation Measures
Measures needed to facilitate trade include simplification and harmonization of custom clearance procedures, bringing transparency in trade regulations, ratifying agreements including free trade agreements and mutual recognition agreements between corridor hosting countries etc.

For CPEC to be effective on this front would require a trade facilitation framework with China in addition to the already signed Free Trade Agreement (FTA) Phase II. The objective is to ensure competitive, efficient, and seamless movement of goods through improved monitoring mechanisms, and by minimizing the impact of non-tariff barriers, engaging with stakeholders particularly private sector, and improving the institutional quality for implementation of the framework. Trade with China suffers mainly because of non-tariff barriers, particularly SPS and TBT, reported to be the major obstacles to trade.

ii. Logistic Services
Provision of logistic services is a critical component for any economic corridor to be successful. The logistics system is superimposed over a transport corridor to make it a logistic corridor. Services include warehouses, multi-modal integration, facilitation centers for transporters and seamless coordination among institutions such as customs, immigration, quarantine, anti-narcotics and highway police forces etc.

However, the logistics industry in Pakistan suffers from a number of inefficiencies caused by outdated processes and a lack of regulatory frameworks. In fact, the sector has not even been formally recognized as an industry in Pakistan. Lack of strategies to develop this sector would negatively affect future corridor efficiency which is expected to serve Western China, Central Asian Republic and Afghanistan, to say the least.

iii. Security
Reliable security creates the pre-conditions for viable economic corridor development. Nevertheless, the prevailing hostile situation in and around the region poses threat to the security of CPEC development and operations. Multiple measures have been taken to counter the threat. For instance, special security division (SSD) comprising of 9000 Pakistani Army Soldiers and 6,000 para-military force, have been raised and entrusted to protect Chinese workers, enterprises and project sites all along the corridor. Moreover, a joint working group on security (JWG) has also been established to oversee the security of the CPEC project. However, challenges lie ahead to ensure stable and reliable security with less inconvenience for the people and investors alike.

iv. Policy
Last but not the least, strategic plan interventions should include "soft complimentary infrastructure". Government interventions are needed to improve the overall investment climate by focusing more on the legal and regulatory frameworks, policies, and enhance the quality of institutions that govern the economic system. In this scenario, overall benefits can be reaped of the corridor and the intended purpose can be achieved.

In short, simply improving the physical infrastructure would not suffice in order to earn maximum benefit out of the economic corridor until and unless complimentary services, be it trade facilitation, logistic services, security situation or policy measures, are not aligned with the overall objectives of the economic corridor.

Lessons Learnt

- Economic corridor does not simply attribute to infrastructure development but in fact, it refers to a cooperation platform, influenced largely by public policies, that focuses on economic integration through increased trade, foreign direct investment and human migration. For this integration to take place, an overarching strategy must be developed to leverage the 'hard-soft infrastructure nexus' to better respond to market demand.

- The role of the corridor should be extended beyond immediate outcomes such as travel time and cost efficiency, as was previously expected from transport corridors. They are meant to generate economic activities by attracting investment on the foundations of an efficient transportation system. For this to happen, interventions are required all along the corridor to exploit the resource base of the regions it passes through, in order to make them attractive for investment.

- Developing growth poles as was customary in the past goes against the essence of an economic corridor. The emergence of global value chains (GVC) supported by a fast and reliable transportation system in the broader framework of an economic corridor, has challenged several dimensions of the growth pole concept. Economic corridor promotes GVCs that ultimately lead to economic prosperity. However, the importance of clusters and growth poles cannot be rejected outright. Trade-off between the two concepts and the role of economic corridor in the process must be figured out under the CPEC framework.

- Rush to develop huge infrastructure without adequate consideration for involving local communities in the development process would not make development sustainable. Space and time should be provided to develop their capacity to make development sustainable. In CPEC, the focus is there but needs to be enhanced.

- Lastly, developing a balanced framework to frame policy options for enhanced institutional quality, logistics and transportation system, economic zones development with defined backward and forward linkages as well as their spillover, is requisite for CPEC to flourish and prosper.

say that again

"...Promoting the construction of connectivity can help different countries break the bottleneck of development and remove barriers to connectivity."

Yao Jing

Chinese Ambassador to Pakistan

In your opinion, what impact will regional connectivity and corridors in Pakistan have on economic development, social and cultural integration etc.?

With the development of global economic integration, regional connectivity has become an important way to promote economic globalization, free trade, open economy, and cross-border cooperation. Promoting the construction of connectivity can help different countries break the bottleneck of development and remove barriers to connectivity. It also serves as the driving force for development for achieving higher levels of openness and building a global connectivity partnership. Infrastructure connectivity also promotes soft connectivity through interpersonal interactions. For instance, it facilitates people-to-people exchanges which enhances mutual understanding and cooperation between countries. It thus, plays an important role in promoting regional peace and Pakistan has been an important pivot of the Silk Road project since ancient times. It has played a significant role in connecting the ocean with the Eurasia Continent, and linking East and West. Developing the economy and improving people's livelihood are the top priorities of the current Pakistani government, and they are also the call of the Pakistani people to build a "Naya Pakistan". Reaching out for regional connectivity could create more space for Pakistan's economic development. Achieving better economic connection with regional partners has become an inherent demand for the development of Pakistan's economy.

The China-Pakistan Economic Corridor (CPEC) is the main platform for connectivity between China and Pakistan. Since its inception in 2013, CPEC has played an important role in promoting national development. 12 power generation projects have either started construction or have been in commercial operation under CPEC energy cooperation, with a total investment of about 12.4 billion USD. Among them, there are nine Commercial Operation Date (COD) projects, with a total installed capacity of 5,320 MW. Power generation of CPEC projects reached 17.73 billion kWh, 14.5 percent of the total output in the National Transmission and Despatch Company (NTDC) system, which could supply over 33 million people on per capita power use basis.

Of the two main transportation projects, Peshawar-Karachi Motorway Project (Sukkur-Multan Section) is complete and Karakoram Highway Phase-II (Havelian- Thakot) will be completed this year. These are high-speed and convenient arteries across Pakistan which facilitate flow of people and goods and reduce the imbalance in Pakistan's domestic development. At the same time, CPEC also played an important role in social development. For example, in the Thar Coal Fire Power Plant, the Chinese company has trained more than 40 local women, some of them became truck drivers and their income increased significantly. I believe that with the joint efforts of both sides, CPEC will bring more positive changes in Pakistan.

As one of the six corridors of the Belt and Road Initiative (BRI), CPEC is becoming increasingly attractive to other countries. Gwadar Port has started handling transit cargo to and from Afghanistan. Whereas, Iran has shown interest in CPEC cooperation, calling for the common development of Chabahar and Gwadar ports. Central Asian countries have also expressed their wish to use CPEC as a corridor for regional connectivity. Few interested countries call for full implementation of "Quadrilateral Agreement for Traffic in Transit among Pakistan, China, Kazakhstan and Kyrgyzstan". We are also in discussion with the British, German, Japanese and other Ambassadors to Pakistan for exploring possibilities of industrial cooperation under the CPEC framework. We are certain that CPEC will play a greater role in promoting regional economic integration.

How can the different corridors be optimally utilized for national achievement of the Sustainable Development Goals? How can suitable interventions be identified? Describe with global examples.

The 2030 Agenda for Sustainable Development (Sustainable Development Goals-SDGs) has ushered a new chapter of global cooperation in development and raised higher criteria for global governance and coordinated economic, environmental and social progress. Nowadays, globalization is deepening, and the interdependence of the world economy is increasing. However, it is interrupted by increasing unilateralism, protectionism and de-globalization, which has brought several challenges to the achievement of SDGs.

The Belt and Road Initiative (BRI) stands firm for globalization, mutual benefit and win-win cooperation. It fits the actual needs and historical trends of development and cooperation of participating countries. The BRI makes considerable contribution to international poverty reduction, global economic integration and economic and trade cooperation among participating countries, that altogether contributes to achieving SDGs. The World Bank's report entitled "Belt and Road Economics: Opportunities and Risks of Transport Corridors" states that the BRI can accelerate economic development and poverty reduction in dozens of developing countries. According to this report, the implementation of BRI projects can help lift 32 million people from moderate poverty (those earning less than USD 3.20 a day). Whereas, trade can grow by 6.2 percent for the world and 9.7 percent for participating economies. The global income can grow by 2.9 percent. China, thus, will continue to promote the BRI for achieving common, coordinated sustainable development, and to jointly promote a community of shared future for mankind.

What role can different stakeholders such as the government, civil society and development partners play in strengthening the efficacy of these regional corridors and reaping maximum benefits?

CPEC has received massive support from all walks of life in Pakistan. At present, CPEC is at a new stage of enrichment and expansion. China is willing to work with different sectors of society to further summarize experiences, make plans for the future, build consensuses, and effectively promote CPEC cooperation towards high-quality development.

Firstly, at government level, we should strengthen coordination. There is a mature cooperation mechanism from top to bottom in CPEC cooperation. The aim of the two governments is to determine the medium and long-term direction of cooperation, identify major projects through institutionalized mechanisms, enhance consensus through policy coordination, maintain policy coherence, solve issues in business cooperation, and create more favourable policy space.

Second, at the business level, we should encourage engagement and cooperation among the business community. The Chinese government encourages Chinese companies to strengthen industrial relocation and technology transfer to Pakistan, and in setting up more joint ventures to achieve common development. We hope that the Pakistani business community can utilize this opportunity provided by CPEC and participate proactively with each other and the Chinese business community.

Third, as development partners, we need to keep an inclusive approach to development, especially focusing on the less privileged, to ensure they can benefit from CPEC as well. For instance, we have set up a CPEC joint working group on social economic development. The joint working group has finalized 17 social projects covering agriculture, poverty alleviation, water supply, sanitation, education, and vocational training, which will be launched this year. These projects are focused on addressing the most urgent requirements of Pakistan's backward areas and bringing more benefit to the local people. At the same time, media and think tanks should create a positive atmosphere for cooperation around CPEC. We welcome suggestions and criticism in good faith but oppose malicious slander.

Fourth, development partners like us, should expand partnerships for reaping maximum benefits from CPEC. CPEC has a good potential of seeking complementarities from bilateral and multilateral cooperation. We not only welcome third parties' participation in CPEC but also are willing to promote the extension of CPEC to neighbouring countries. We encourage all parties to participate and invest in CPEC to achieve mutual benefit and win-win cooperation to building a wider and closer partnership.

Moving forward, what local policies or interventions need to be implemented to facilitate socio-economic development through enhanced regional connectivity?

China proposes that the BRI should be implemented through a "Five-pronged Approach". In my opinion, this approach meets the actual needs of regional connectivity and has universal applicability.

First is strengthening policy coordination. It is necessary to vigorously strengthen policy coordination at the inter-country level and conduct extensive exchanges on economic development strategies and policies. This should include formulating plans and measures to promote regional cooperation by seeking common ground while shelving differences and giving a green light to policy on regional economic integration.

Second is strengthening infrastructure connectivity to gradually build a high-level transportation network to facilitate economic development and personnel exchanges in regional countries. For instance, we are actively working to improve cross-border transportation infrastructure and strengthen construction of key transportation projects.

Third is promoting unimpeded trade. There is a need to explore trade and investment facilitation measures, make appropriate arrangements to eliminate trade barriers, reduce trade and investment costs, improve the speed and quality of regional economic cycles, and create a favourable business environment for mutual benefits and win-win cooperation.

Fourth is creating financial integration. It is essential to explore co-construction of an open investment and financing system. This can be achieved by enhancing financing support for infrastructure connectivity, trade and investment, capacity building, further elevating facilitation levels of cross-border trade, investment and financial service, and guiding flow of financial resources for real economy to grow.

Fifth is to strengthen people to people ties. For this, we must carry out extensive and in-depth cultural exchanges and cooperation, strengthen friendly exchanges by enhancing mutual understanding and traditional friendship, promoting the realization of value recognition, cultural tolerance and mutual respect in different countries, which will win popular support and lay a solid social foundation for regional cooperation.

Interview

say that again

"...Sustained commitment is necessary since economic corridor development typically requires public and private investments and completing projects will take substantial time and resources.."

Xiaohong Yang

Country Director
Asian Development Bank (ADB), Pakistan

In your opinion, what impact will regional connectivity and corridors have on Pakistan's economic development, and social and cultural integration?

Regional connectivity and corridors have a significant impact in Pakistan by linking markets, goods, energy, ideas and people. Better regional connectivity with neighbouring countries and beyond will enhance trade and tourism and attract investments that will create jobs. This will drive regional integration, leveraging Pakistan's geostrategic location to become a trade and transit hub, and encourage more sustainable and inclusive growth in Pakistan.

Pakistan is a member of the Central Asia Regional Economic Cooperation (CAREC) Program, a partnership of 11 countries and development partners. ADB serves as the Secretariat. CAREC supports regional cooperation and integration through the establishment of multimodal transportation networks, increased energy trade and security, laying the groundwork for economic corridor development, providing a policy dialogue platform to improve economic and financial stability, promoting regional tourism development and enhancing people-to-people and business-to-business contact.

Through CAREC, stronger ties with neighbors to the north will enable Pakistan to import energy to make up for its shortages in electricity supplies. In return, Pakistan will offer its mostly landlocked CAREC partners, access to its warm water ports on the Arabian Sea, giving them the prospect of greater trade with the Middle East.

In 2019, CAREC countries including Pakistan, worked together to launch the new Transport Strategy 2030 and Energy Strategy 2030. The Transport Strategy has two core objectives of connectivity and sustainability. The sustainability agenda will receive maximum attention given the strong demand to convert transport infrastructure investments into sustainable economic and social development. Particular attention will be given to reducing cross-border trade and logistics barriers: in order to support the growth of free trade and economic development within the CAREC region. The importance of improved financing and management of road and railway assets for more sustainable transport infrastructure investment will be a key focus of CAREC knowledge products and institutional capacity development activities. Contemporary road safety principles and practices will be further integrated into transport infrastructure and operations. This will be achieved through consistent implementation of priority actions under the CAREC Road Safety Strategy 2030.

The CAREC Energy Strategy 2030 outlines a set of initiative and policy recommendations to be implemented over the next decade based on regional cooperation, energy market reforms, and green technology. The member governments and multi-lateral development banks, by working together, will create a new regional governance system to manage transmission systems centrally. Elevating the grid and pipeline planning from national to regional level will lead to a larger, more integrated energy market equipped to cover seasonal variability and uneven distribution of energy across the region.

ADB's new country partnership strategy 2020-2024 for Pakistan is currently under preparation. It aims to attach great importance to regional cooperation and integration as a crosscutting theme.

How can the different corridors be optimally utilized for national achievement of the SDGs? How can suitable interventions be identified? Describe with global examples.

Economic corridors help spur economic growth, which paves the way for advancement of the SDGs including affordable and clean energy (7), sustainable cities and communities (11), and ultimately, no poverty (1) and zero hunger (2).

For example, ADB, together with Department for International Development (DFID) and Asian Infrastructure Investment Bank (AIIB), co-financed the M-4, a greenfield motorway which is an integral part of CAREC Corridors 5 and 6. Sections of the motorway opened to the public last year. The completed four-lane access-controlled motorway provides a faster, safer, more cost-effective alternative to the existing narrow and congested national highways, improving north–south connectivity and quality and efficiency of road transport services.

M-4 is part of the 1,800 km north-south corridor from the port city of Karachi in the south, to Torkham on the northern border with Afghanistan. The corridor connects the key centers of economic activity in the country, directly serving the economy of an area that accounts for 80–85 percent of Pakistan's gross domestic product (GDP).

Furthermore, the ports of Gwadar and Karachi are among the nearest ports for Central Asian countries and these countries are keen to take advantage of this proximity to transport their goods to and through Pakistan to other countries of the world.

Another example is the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline. When fully operational, the TAPI pipeline will transport up to 33 billion cubic meters of natural gas per year from

Turkmenistan to Afghanistan, Pakistan, and India over a commercial operations period of 30 years.

TAPI will enable Pakistan, India and Afghanistan to benefit from enhanced and longer-term energy security while enabling Turkmenistan to diversify its gas export markets. The TAPI pipeline will have a transformational impact on regional cooperation and boost other initiatives aimed at bringing peace and economic stability to the region.

In your opinion, what challenges exist in the creation and maintenance of regional corridors in Pakistan, especially with relevance to CPEC?

Pakistan is facing macroeconomic challenges that need to be addressed through macroeconomic and structural reforms; including improving revenue collection; improving energy and water sector management; revitalizing public sector enterprises; improving business environment and private sector investments; improving institutions, social sector and human capital; and leveraging improved security for better regional trade and cooperation benefits.

The CPEC consists of a mix of investments in energy, transport, and port development, potentially totaling to about USD 62 billion (22 percent of FY 2018 GDP). CPEC will benefit Pakistan provided that the country can transform the predominantly road corridors into true economic corridors, so that Pakistan's economy can be part of global production networks and value chains.

ADB is willing to support Pakistan in developing economic corridors within the framework of CAREC and ADB's country partnership strategy, as well as to maximize the benefits of projects under CPEC.

Pakistan stands to benefit from improved trade with Central Asian countries, as it has been hampered by poor connectivity, trade related barriers, and geopolitical considerations. But as these barriers are overcome and connectivity improves along with an improved security situation, Pakistan should stand ready to take advantage of positive market movements.

What role can different stakeholders such as the government, civil society and development partners play in strengthening the efficacy of these regional corridors and reaping maximum benefits?

In Pakistan, about USD 1.5 billion has been invested in eight projects through CAREC as of September 2019. Pakistan's road network is connected to CAREC Corridor 5, which opens a vital trading link between landlocked Central Asian nations and the country's warm water ports of Gwadar and Karachi on the Arabian Sea.

It is important that government, civil society, and development partners work together to ensure that regional corridors are effective. Governments must be willing to enact necessary policy and institutional reforms. Development partners' funding and expertise are crucial in ensuring that economic corridors developments are in accordance with the highest international standards. The inputs from civil society and investments by the private sector are essential in supporting the growth of urban clusters, trade and energy market integration, and linking them with rural areas for inclusive development.

Sustained commitment is necessary since economic corridor development typically requires public and private investments and completing projects will take substantial time and resources.

Moving forward, what local policies or interventions need to be implemented to facilitate socio-economic development through enhanced regional connectivity?

Regional cooperation and integration is one of the seven operational priorities of ADB's Strategy 2030. As mentioned earlier, it is also one of the key crosscutting themes in ADB's forthcoming Country Partnership Strategy (CPS) 2020–2024 for Pakistan (under preparation), which is anchored on fostering economic competitiveness.

Going forward, Pakistan first needs to build a consensus internally and externally with all key stakeholders to, (i) build on constructive regional relations to support economic competitiveness and growth; (ii) liberalize trade, improve transport, logistics, and cross border management; and, (iii) build resilient institutions. At the same time, mitigation measures to avoid negative impacts, also need to be placed.

The Government of Pakistan has planned the Integrated Transit and Trade Management System (ITTMS) under the ADB financed CAREC Regional Improving Border Services (CAREC-RIBS) project, to update the infrastructure at three key border crossing points, in the context of CAREC corridors for trade, to support a modern supply chain. The project also includes the development of Information Communication Technology (ICT) based systems and procedures. The ITTMS is a good mechanism to reach consensus among all concerned ministries and agencies in Pakistan for moving forward with project implementation.

For example, the additional wear and tear on road infrastructure that may be imposed by trucks operating on international routes, can be offset by stringent, fair and enforceable policies against overloading. Some countries also opt to apply charges to heavy-goods vehicles, commensurate with their weight. Revenues from such charges can be recycled back into road maintenance.

It is promising to see that the government has been demonstrating its strong commitment to enhance regional cooperation and integration. For example, it has recently initiated bilateral trade talks, expanding e-visa travel arrangements. Pakistan recently proposed introducing a single-entry tourist visa for the CAREC member countries. Such initiatives could go a long way in building trust for creating a region where countries interact with each other and with the rest of the world.

ADB in partnership with Pakistan's Securities and Exchange Commission (SECP) and other local partners, brought together capital market regulators of the CAREC countries in Islamabad from 29 to 30 August 2019, for the first time. The First Capital Market Regulator Forum was a vital pioneering step to improve capital market linkages and enhance access to finance to spur private sector development and regional economic integration.

ADB, with support from the United Kingdom's Department for International Development, has been supporting the government for the work of economic corridor development. ADB will help develop a knowledge hub to facilitate cross-country knowledge sharing to better inform Pakistan's development policy priorities. This knowledge hub initiative will comprise of national and global think tanks to undertake research and analysis and promote knowledge sharing on regional economic connectivity and integration of relevant topics such as special economic zones.

Interview

say that again

"...Optimizing benefits from regional corridors warrants each stakeholder such as government, civil society, and development partners plating their due roles. "

Arif Ahmed Khan

Chief Executive

Trade Development Authority of Pakistan

In your opinion, what impact will regional connectivity and corridors have on Pakistan's economic development, and social and cultural integration?

The ease of physical communication between different regions of the world has historically been the most important factor in bringing the world closer to each other.

Transport, energy and telecommunication networks are being developed at a fast pace across the globe, which is contributing to basic infrastructure for regional connectivity. From Pakistan's perspective, improved connectivity for economic and social interactions will not only promote economic development in the country, but will also bring about greater social and cultural integration among people living in different provinces, cities districts, and villages. This can be achieved by bringing them closer to each other through improved communications and access to amenities and opportunities.

Investments made in various projects associated with economic corridors would contribute to upgradation of transport, energy, telecommunications, and industrial infrastructure. This in turn would result in better opportunities for education and skills development. Simultaneously, it would promote employment generation along with increased interaction, productivity, competition, and market opportunities emanating from lowering of production, transport and logistics costs between the centers connected through the corridors. Completion of power generation and transmission infrastructure projects and setting up of special economic zones under the CPEC, in particular, are expected to enhance production and promote fast track technology transfer, skills development, and productivity improvements that could have a major impact on the national economy, through promoting exports from Pakistan.

How can the different corridors be optimally utilized for national achievement of the SDGs? How can suitable interventions be identified? Describe with global examples.

From an international perspective, six land corridors being developed under China's "Belt and Road Initiative (BRI)" would connect more than sixty countries. It has been estimated that the extent of benefits or impacts accruing to the participating countries and their economic centers from the economic corridors, would largely depend on the scope of their connectivity to the corridors. The scope of connectivity would in turn depend on their geographical location in relation to the corridors, and individual efforts of respective countries to leverage their roles in relation to the corridors through special measures, policy initiatives, and interventions.

For optimal utilization of the corridors, maximizing benefits of association, and achievement of Sustainable Development Goals (SDGs), a country needs to undertake interventions directed at leveraging its position through enhancement of both intra-regional as well as inter-regional connectivity. Accordingly, besides optimization of the benefit-cost ratio of investments, a key consideration for prioritization of interventions should be focused on existing gaps or weakest links in the infrastructure networks in the context of intra- and inter-regional connectivity. This consideration is based on the premise that impact of the economic corridors will ultimately depend on the degree of integration of the connected regions and locations. Strengthening of the weakest links, thus, in the infrastructure networks would have the highest priority.

As an example, in the global scenario China, ASEAN region, and the European Union (EU) already have a high degree of intra-regional connectivity. Accordingly, in their cases, greater attention needs to be paid to interventions focusing on enhancing inter-regional connectivity. Whereas for developing countries like Pakistan, focus has to be on interventions directed at improving intra-regional connectivity through strengthening of core networks. Once the core networks are in place, private sector could also join in to play its role by providing services in demand based needs of the markets and their commercial dynamics.

In your opinion, what challenges exist in the creation and maintenance of regional corridors in Pakistan, especially with relevance to CPEC?

The foremost challenges are speedy completion and operationalization of on-going infrastructure projects within allocated budgets, and development of relevant policies, institutional frameworks, and support systems for their smooth and sustainable operation on a long-term basis for achievement of laid out objectives.

With the first phase of the CPEC nearing completion, the main challenge now in hand is formulation and implementation of projects planned in the second phase. The second phase emphasizes on industrial and agricultural development; enhancement of production and productivity; promotion of trade in goods and services through improved market access and product and market diversification; and attracting Foreign Direct Investment (FDI).

Additional challenges pertaining to the second stage of the CPEC are much more complex due to their specialized nature, wider scope and the need for their intra- and inter-regional integration. Improving ease of doing business and reducing the cost of doing business are among the foremost challenges at hand. These need to be addressed to achieve development of envisaged value chains, investments, efficiencies, productivities, and capacities. Besides creation of requisite infrastructure, the challenges at this stage require development of appropriate policies, rules, regulations, systems, procedures and frameworks for sustainable operation. Thus, involving national and international level facilities allowing participation of private sector for provision of services along with an effective framework for regulation of competition between service providers, is important. Furthermore, provision of cross-border services in the context of international corridors, requires harmonized systems across borders. This must include effective and efficient border controls, open access to infrastructure, measures to allow uninterrupted services such as harmonizing vehicle weight limits in road transport, addressing railway gauge differences, setting cross-border payment systems, etc.

What role can different stakeholders such as the government, civil society and development partners play in strengthening the efficacy of these regional corridors and reaping maximum benefits?

Optimizing benefits from regional corridors warrants each stakeholder such as government, civil society, and development partners plating their due roles. In the first place the government has to act as the prime mover by coming up with long- and short-term plans, policies, and overall designs. This must include financing plans for establishment of regional corridors keeping in view national and international dynamics, country's development needs and upcoming trends in international trade and global economies.

Governments, with their regulatory and facilitative roles coupled with their operational and budgetary constraints, can design and implement such mega initiatives with active participation and support of civil society and development partners. With the core infrastructure made available by the government, either on its own, or in partnership with the private sector and development partners, private sector has to come forward to play its role as investor and provider of services for the citizens based on commercial arrangements. Additionally, the government as well as the civil society have to play their due roles towards regulation and monitoring of private sector's service delivery to ensure competition, quality assurance, efficiencies, and promotion of market mechanisms.

Development partners or international financial and development agencies play a very important role in such interventions through provision of technical assistance and consulting services, sharing of international experiences and best practices, promoting cross-border integration through harmonization of regional and global initiatives and development of synergies among similar or complementary initiatives. Additionally, development partners in collaboration with international agencies also play the role of international monitoring and evaluation of the interventions planned and implemented under economic corridors. They can achieve this through provision of international frameworks for independent monitoring of international conventions, protocols, standards, compliances, and norms in collaboration with civil society.

Moving forward, what local policies or interventions need to be implemented to facilitate socio-economic development through enhanced regional connectivity?

An important objective of achieving enhanced regional connectivity through improved regional integration is promotion of trade and enhancing exports from Pakistan. With TDAP's core mandate of trade development, I would like to throw some light on the multifaceted interventions being envisaged in this area.

The existing expected production and productivity improvements, enhanced market opportunities, improved communications and savings in transport and logistics costs resulting from enhanced regional connectivity, will have a significant positive impact on the development of Pakistan's exports. However, additional interventions could facilitate achievement of socio-economic development at a faster pace. An important area in this context is improving market access for our exports. A major step in this connection has recently been completed through implementation of the second phase of the China-Pakistan Free Trade Agreement (CPFTA). This has resulted in immediate duty-free access for Pakistan's exports to China on 313 tariff lines where Pakistan has good export potential in the Chinese market. Similar arrangements with other countries could further promote Pakistan's exports. Various avenues in this context are being explored.

Setting of Special economic zones (SEZs) as part of the CPEC initiative is under an advanced stage of implementation. The first SEZ being established at Faisalabad, has recently been inaugurated by the Prime Minister. Whereas, two others being established in Sindh and KPK are expected to be inaugurated within the current financial year. Properly planned and equipped SEZs supported by appropriate incentives and policies, need to be adopted and pursued at a fast pace. These can, thereby, play a significant role in promoting industrialization, attracting FDI and enhancing exports.

Similarly, interventions are needed for promoting market and product diversifications in Pakistan's exports. In this context, new markets are being explored by the TDAP in collaboration with the Ministry of Commerce. Africa and South America have been identified as important potential markets for Pakistan's exports. Accordingly, a Pakistan-Africa Trade Development Conference was recently organized by Pakistan at Nairobi, Kenya on 30-31 January 2020, as a major trade development initiative. Tariff rationalization is also being pursued to reduce duties on imported raw materials and inputs to support development of value chains besides formulation of conducive policies to reduce the cost of doing business and improve ease of doing business.

Interview

Sher Ali Arbab

Member, National Assembly of Pakistan
Chairman, Parliamentary Committee on CPEC

say that again

"...We need to have this sense of urgency to explore, invest, and create a facilitating environment in the SEZ for all stakeholders especially business community and foreign investors."

In your opinion, what impact will regional connectivity and corridors have on Pakistan's economic development, and social and cultural integration?

In today's World, the primary reason why countries are showing interest in partnering with Pakistan or for that matter with other countries, is because of economic viability, available investment opportunities, and value addition a country brings to the global table. Regional connectivity and corridors are, thus, central to economic development. In addition, regional connectivity can also strengthen social and cultural integration, given appropriate policy interventions are taken.

How can the different corridors be optimally utilized for national achievement of the SDGs? How can suitable interventions be identified? Describe with global examples.

Promoting economic development through regional corridors can help countries achieve the SDGs. Pakistan can benefit by promoting trade and commerce with neighbouring countries, for example Afghanistan, Iran, and China, and even Central Asia and the Middle East. In doing so, Pakistan can promote local economic development, which would inevitably help in achieving the SDGs. As seen in other developed countries and regions such as China and Europe, export-led growth has paved the way for development of local economy and in achieving the SDGs.

In your opinion, what challenges exist in the creation and maintenance of regional corridors in Pakistan, especially with relevance to CPEC?

Pakistan faces both external and internal challenges in the creation and maintenance of regional corridors, due to its geo-political positioning.

Internally, Pakistan lacks pro-activeness in creating a facilitating space for businesses and trade to flourish. As a result, it lacks comparative advantage to trade with its neighbours. Pakistan needs to invest substantially in building skills and human capital, if it were to use an export led growth model for development.

Externally speaking, bi-lateral relations with other countries can influence and serve as a challenge in the creation and maintenance of regional corridors. For example, Pakistan is increasing its alignment more with China to build CPEC, however, some other countries might not be in favour of this alignment due to their personal political and foreign agendas. Second, lack of peace in the region is another external challenge hindering regional corridor development. For example, the lack of peace and stability in Afghanistan, hinders Pakistan's trade potential with Afghanistan. Restoration of peace in Afghanistan can do leaps and bounds in reducing security challenges in Pakistan along the Durand line, thus, boosting trade between the two and enabling them to reap the benefits of regional connectivity.

What role can different stakeholders such as the government, civil society and development partners play in strengthening the efficacy of these regional corridors and reaping maximum benefits?

All stakeholders need to play a proactive role if maximum benefits are to be taken out of this window of opportunity-CPEC. Government needs to be proactive. We need to have this sense of urgency to explore, invest and create a facilitating environment in the SEZ for all stakeholders, especially the business community and foreign investors.

Civil society needs to ensure partnership and involvement of the local people in the development of CPEC. For example, if the Gwadar port is to be established into a port city, similar to international counterparts like Dubai, then civil society needs to ensure that the local population is not only fully involved in it, but also benefits from it.

In addition, development partners need to step-up to fill in the gaps left by the government and civil society, either due to lack of resources or limited capacity. This could come both in the form of development assistance, or through enhancing technical capacities in adopting global best practices and policies.

Even the media has a role to play, in representing the positive image of Pakistan as well, rather than only focusing on controversial issues which might create unrest amongst different stakeholders.

Moving forward, what local policies or interventions need to be implemented to facilitate socio-economic development through enhanced regional connectivity?

Although currently Pakistan is focusing on one corridor-CPEC-there exists potential to have many more. Potential corridors can include the Iran-Turkey corridor which could lead into European markets; Pakistan-Afghanistan-Central Asia and Russia Corridor, and even a Pakistan-India-Nepal-Bangladesh corridor. Appropriate policies need to be crafted on these lines.

Additionally, the government needs to create a facilitating environment for the private sector to invest and flourish, for boosting an export-led growth in Pakistan. Simultaneously, rather than importing tangible goods, Pakistan must focus on importing technology to upgrade production and efficacies of businesses.

Promoting tourism in Pakistan is yet another set of policies and interventions that can enable the country to reap maximum benefits from regional connectivity. Pakistan has recently become one of the most attractive tourist destinations in the world. Thus, public-private partnerships can build on this added advantage to promote cultural exchange and simultaneously, cater to local population needs via regional connectivity.

Youth Voices

How can regional connectivity be achieved via corridors?

Salman Arif

Digital Marketing

“Corridors hold the key to opening a world of opportunities, if utilized smartly. They can not only enhance the economic potential of the country, but also provide employment opportunities and cultural exchanges.”

“The transfer of knowledge I feel is the most important facet of regional corridors. Why? Because give a man a fish, feed him for a day, but teach a man to fish, and feed him for life. Hence, infusion and transfer of knowledge via these corridors is in my opinion, a very integral aspect of regional corridors.”

Alia Nur Buksh

Engineer

Haris Afzal Malik

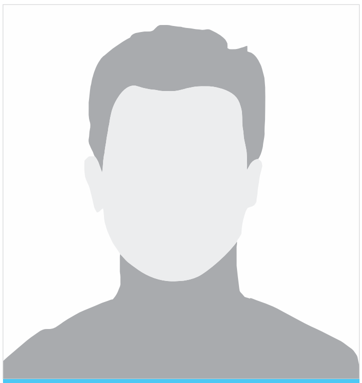
O/A Level Teacher

“With the CPEC gaining momentum, I am looking forward to seeing the benefits that have been 'claimed'. I think this will provide Pakistan a good learning case study for future corridor development.”

Corridors are essentially the routes which connect countries. It might be easy to construct a road but it is difficult to maintain, to monitor, to sustain that road. One must understand that while these corridors may offer power, they also present an equal amount of challenges. Planning in advance is mandatory to address these bottlenecks.

Kinza Tauqeer

Researcher



Faisal Farooq

Media Planning

Pakistan, bearing a great geographical location, is in one of the best positions to utilize corridors. It can do so via different routes, including sea, land and even air. The question really is about capacity and monitoring.

Peace is something the world lacks, but should work towards. While corridors offer immense potential and benefit in several socio-economic facets, I think there should also be some focus on the fact that corridors can help enhance friendships between religions, between cultures and between people. The power of physical interaction holds no parallel.

Hina Ali

Artist

DEVELOPMENT ADVOCATE

PAKISTAN